



# Annual Report 2007



Perbadanan Insurans Deposit Malaysia  
Malaysia Deposit Insurance Corporation

**Protecting Your Deposits.**





*"Always do your best. What you plant now, you will harvest later."  
Og Mandino, and our firm belief.*

Our Annual Report chronicles our past year's activities and achievements. It is a chapter on our journey towards achieving our Mission and Vision.

We capture this story in our design approach. The rope, securely tied to a tree, symbolises the Values and work that we have put into buttressing the organisation. The rope is also what we – the employees of PIDM – hold on to as we work towards making our organisation one that lives up to its Mission and Vision in fulfilling our mandate.

As a young organisation, this journey is not without difficulties. But with leadership, teamwork, focus and dedication, as you will note throughout this Report, we have achieved much progress.

We firmly believe (in the words of best selling author Og Mandino) in always doing our best in our service to our key stakeholders, the public – to protect your deposits.

Working cohesively, in line with our Values and our strategic direction, nothing is beyond our reach.

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

## •→ Our Vision

- To be recognised as the most effective deposit insurer in Southeast Asia by 2008.
- To be acknowledged as one of the leading deposit insurers in the world by 2010.

## •→ Our Mission

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

## •→ Our Corporate Plan 2008 to 2010

- Our published Corporate Plan sets out our strategic direction, initiatives and the supporting financial plan for 2008. This sets out our strategic focus and priorities based on our corporate-wide enterprise risk management framework, with the aim of fulfilling our Vision and Mission.

## •→ Our Strategic Thrusts

- Operational readiness – readiness in fulfilling our role as a deposit insurer.
- Sound business and financial practices – to demonstrate we are well governed and well managed, with a sound accountability framework and a strong disclosure and reporting regime.
- Effective public awareness – to explain the benefits and limitations of our system.
- Strong partnerships – to work effectively with our partners to help us achieve our mandate, as well as consulting with them.

## •→ Our Corporate Objectives

- Well governed and well managed organisation.
- Educated and informed stakeholders.
- Effective partnerships.
- Optimal use of resources.
- Operational excellence.
- Competent and knowledgeable workforce.
- Conducive corporate environment.

## •→ Our Corporate Values

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

### BUILDING ON OUR STRENGTHS

#### KEY ACTIVITIES IN 2007

##### Strengthening our relationships with key stakeholders and partners

- Established a base of strategic partners.
- Worked closely with the Ministry of Finance, Bank Negara Malaysia, member institutions, other financial regulators and government agencies.
- Implemented phase 1 of our multi-year Integrated Communications Plan.
- Focussed on activities to raise public awareness about deposit insurance and PIDM, including the Malaysia Financial Exhibition 2007 ("MYFex 2007") and the 6th International Association of Deposit Insurers ("IADI") Annual Conference.

##### Strengthening our processes and financial stewardship

- Implemented our Risk Assessment and Monitoring Framework.
- Developed phase 1 of our Intervention and Resolution Framework.
- Established frameworks for crisis communications management, enterprise risk management, internal control and the Differential Premium Systems.
- Issued five papers for public consultation (related to the Guidelines for the Criteria for Determining Insured Products, draft Regulations for the Provision of Information on Deposit Insurance, draft Regulations for the Differential Premium Systems, draft Regulations on Terms and Conditions of Membership and proposals with regard to the enforceability of close-out netting provisions in derivatives transactions).
- Established our Asset Liability Committee and our Information Technology Steering Committee.
- Implemented phase 2 of our IT Infrastructure Enhancement Plan.

##### Strengthening our people and fostering a conducive working environment

- Established the succession management frameworks for both the Board of Directors ("Board") and Management.
- Conducted four formal Board education sessions and an orientation for our new Director.
- Conducted an employee voice survey.
- Developed training and development programmes.

- Implemented a 360-degree feedback mechanism on Management.
- Established the policy on workplace harassment.
- Conducted workshops on corporate-wide values.
- Conducted PIDM's inaugural Family Day and Annual Dinner.
- Relocated our office to 1 Sentral, Kuala Lumpur Sentral.

#### ACHIEVEMENTS

- Achieved 98% of our key performance indicators ("KPIs") in our Corporate Plan 2007-2009 on time and within budget.
- Achieved employee satisfaction index of 79%, exceeding our target of 75%.
- Beyond our KPIs, we also implemented the following key programmes:
  - policy on Corporate Social Responsibility;
  - the MYFex 2007 for consumer education; and
  - a 360-degree feedback on management.

#### EXTERNAL RECOGNITION

- Our Annual Report 2006 received recognition with an award of the "Certificate of Merit" by the National Annual Corporate Report Awards.
- Our external auditors rated the Corporation "Very Good" (the top rating) following a management audit in 2007.
- Our 6th IADI Annual Conference drew the greatest number of delegates ever among all IADI conferences, with a total of 232 delegates from 43 countries.

#### GOING FORWARD

- Our new Corporate Plan 2008 - 2010 sets out our strategic direction and describes our initiatives towards achieving our Vision and Mission during this planning period.
- The plan focuses on developing a strong leadership team, enhancing our relationship management as well as building a strong corporate culture.
- We will also continue to build on our operational readiness through capacity building and knowledge management.

### FINANCIAL SUMMARY

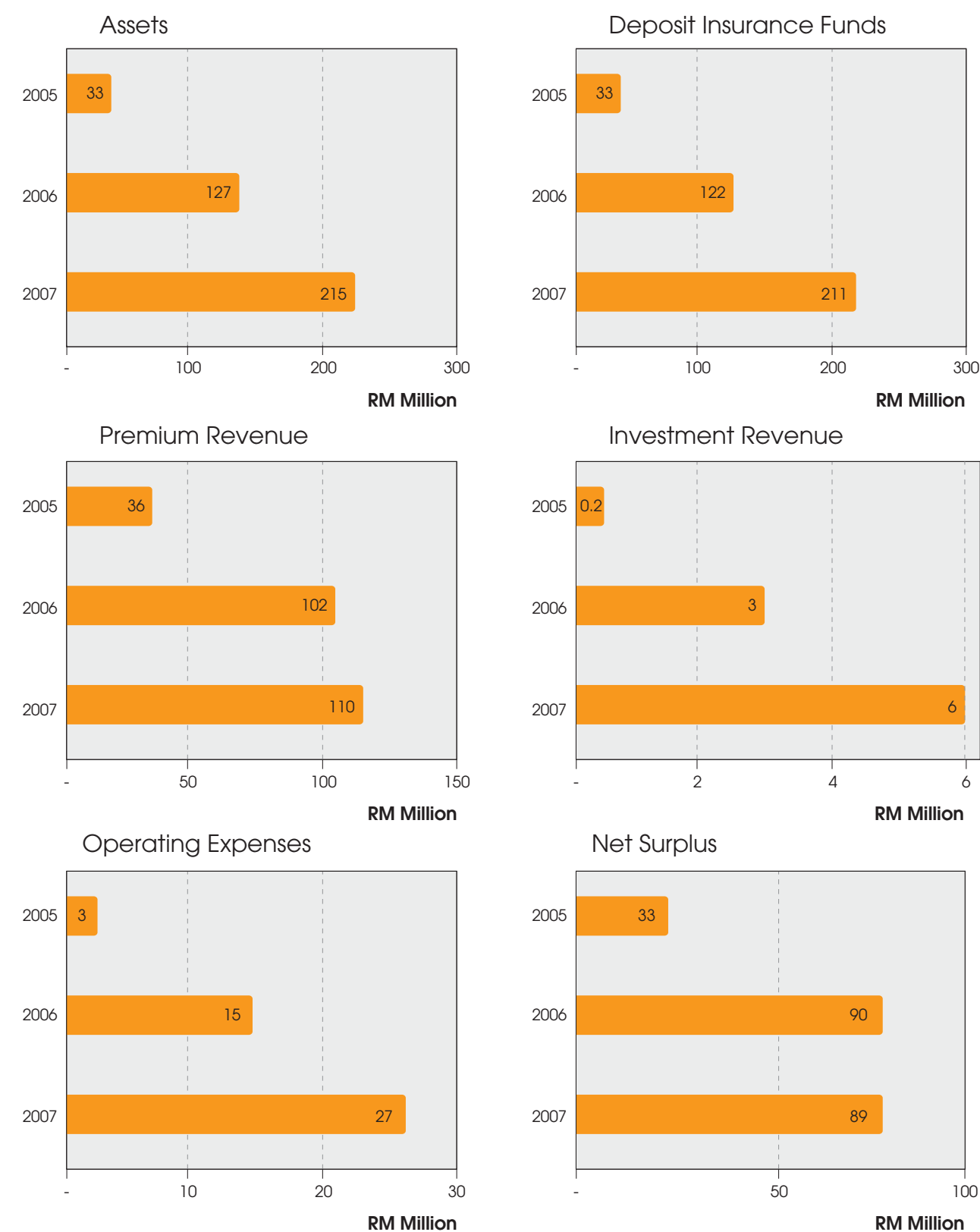
The financial highlights are shown below.

	2008 Budget RM	2007 RM	Movement from 2006	2006 RM	2005 RM
<b>Balance Sheet Items</b>					
<b>Total Assets</b>	<b>296,100,000</b>	<b>215,077,133</b>	<b>69%</b>	<b>127,020,219</b>	<b>33,176,484</b>
<b>Total Liabilities</b>	<b>3,900,000</b>	<b>3,754,586</b>	<b>-17%</b>	<b>4,545,838</b>	<b>634,443</b>
<b>Deposit Insurance Funds</b>	<b>292,200,000</b>	<b>211,322,547</b>	<b>73%</b>	<b>122,474,381</b>	<b>32,542,041</b>
Conventional	264,100,000	190,399,969	71%	111,218,891	29,527,976
Islamic	28,100,000	20,922,578	86%	11,255,490	3,014,065
<b>Income Statement Items</b>					
<b>Premium Revenue</b>	<b>120,000,000</b>	<b>110,155,613</b>	<b>8%</b>	<b>102,122,205</b>	<b>35,671,770</b>
Conventional	107,000,000	98,546,846	6%	92,719,007	32,368,754
Islamic	13,000,000	11,608,767	23%	9,403,198	3,303,016
<b>Investment Income</b>	<b>8,000,000</b>	<b>5,754,463</b>	<b>104%</b>	<b>2,815,560</b>	<b>204,692</b>
Conventional	7,200,000	5,203,432	102%	2,576,330	184,851
Islamic	800,000	551,031	130%	239,230	19,841
<b>Operating Expenses</b>	<b>45,000,000</b>	<b>27,100,910</b>	<b>81%</b>	<b>15,005,425</b>	<b>3,334,421</b>
<b>Net Surplus</b>	<b>83,000,000</b>	<b>88,848,166</b>	<b>-1%</b>	<b>89,932,340</b>	<b>32,542,041</b>



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## → MESSAGE FROM THE CHAIRMAN Tan Sri Dato' Abdul Aziz bin Haji Taha

### **BUILDING ON OUR STRENGTHS**

*"Our people are our greatest strengths. Building on our strengths would, therefore, require us to focus, most of all, on developing and harnessing the talents and strength of our people."*

After considerable efforts to build sound foundations, I am gratified to see, in 2007, independent confirmation of quality at Perbadanan Insurans Deposit Malaysia ("PIDM"). Not least among our achievements in 2007 was the receipt of a management audit rating of "Very Good" from the National Audit Department, and a Certificate of Merit at the National Annual Corporate Report Awards ("NACRA") sponsored by the Malaysian Institute of Accountants, Bursa Malaysia, Malaysian Institute of Management and Malaysian Institute of Certified Public Accountants for our Annual Report 2006. We also successfully showcased PIDM's and our country's capabilities internationally, as we hosted the 6th International Association of Deposit Insurers ("IADI") Annual General Meeting and Annual Conference in October last year.

The independent confirmations of the high standards at PIDM are significant acknowledgements indeed, given our young organisational age. Our 2007 report against our key performance indicators under the Corporate Plan 2007-2009 and our additional projects in 2007 highlights, again, considerable progress towards building an organisation with essential checks and balances while remaining efficient and effective.

All these achievements are, in my mind, a reflection of the calibre of our Board of Directors and our people, who have been working hard to build an organisation they can be proud of, and I am pleased to be associated with it.

Some of the key contributors to our continued success in 2007 include a strong organisational foundation, our steadfast alliance with Bank Negara Malaysia ("BNM") and other partners, and the commitment of the employees at PIDM.

### Building on our strengths

While we focussed in previous years on laying a strong organisational foundation, 2007 was a year for building on our strengths; developing our capacity and capabilities.

Strong management of risks, good controls and governance processes, as well as the regulatory ability to act quickly and effectively, are key to PIDM's success.

The focus of our attention in 2007, therefore, included developing talented, committed and motivated people; building on our relationship with our key partners; leveraging on our international networks for research, learning and development; and putting in place key risk management and internal control frameworks.

Going forward, we will continue to build on these strengths to deliver on our mandate and ensured preparedness in all respects to meet our responsibilities toward our stakeholders, in particular, the public.

### Our partners

Our unique partnership with BNM has also placed us in good stead in achieving our goals for 2007. We are grateful to have been able to leverage on our relationship with BNM, with whom we share common goals - to promote public confidence and reinforce sound risk management practices within the financial system. Last year, among many other initiatives, we worked in close cooperation with BNM, consulting on the development of our key policies and regulations. These included our Differential Premium Systems framework, the proposed regulations on terms and conditions of membership, and we also shared important information about member institutions. We have benefited much from BNM's strengths and resources, which it has generously shared.

As before, we also interact and work with member institutions, consulting them on significant policies and regulations, and we continue to build a base of key suppliers.

### Our people

The strength and success of any organisation lies not only upon a sound organisational structure, but the commitment and competence of its employees. Our core strength, without a doubt, is our people.

The organisation has placed much emphasis on its key resource, our human capital. PIDM strives to remain competitive within the job market and provides a conducive work environment, so as to attract and maintain the best talents. It is highly encouraging for me to see the results of the employee voice survey conducted in 2007, showing a satisfaction index of 79%. My personal observations, even before the results and from my interaction with individuals in the organisation, are that morale is high, the working environment is unsurpassable, and employees are committed and proud to be associated with PIDM.

### Concluding remarks

In light of all the above, I am able to say, with confidence, that PIDM has good beginnings. Our tasks ahead for PIDM will no doubt be increasingly challenging and we need to focus on improving our operational readiness and effectiveness, especially with regard to the handling of interventions and resolutions.

We need to continue building a competent and knowledgeable workforce with the ability to deal with matters such as crisis management, intervention and failure resolution of troubled banks, payout management systems and disaster recovery plans. For this, we need to be well prepared, and much work will go into training, competency building and development of a talented pool of employees.

Our discussions at the IADI conference in Kuala Lumpur on consumer protection have also been tremendously fruitful, with the Northern Rock crisis in the United Kingdom reminding us that we cannot take for granted the complexities of public confidence. We are keenly aware of the need to maintain confidence, and in this connection, we will continue our efforts to improve public awareness in Malaysia about the benefits and limitations of our deposit insurance system.

These initiatives should, however, not distract us from ensuring that the highest standards of governance culture are embraced and practised throughout the whole organisation. In our Annual Report 2006, we reported that the Board had complied with 10 of the 15 standards of our Board Governance Policy. In 2007, I am pleased to note that we have made significant progress with four other standards, and we have the remaining one - succession planning for key management - on the agenda for 2008.

From the governance perspective, I know my colleagues on the Board of Directors agree with me that PIDM has thus far adopted and implemented international best practices, and that each and every one of us are committed to continue along these lines.

### Note of thanks

For all these achievements, I would take a moment to record my indebtedness to my colleagues on the Board of Directors. They have shown themselves to be highly dedicated, accepting ownership and accountability for the business and affairs of the organisation. They have worked diligently with Management, despite their heavy schedules and other responsibilities. On behalf of the Board, I would also like to thank Tan Sri Dato' Sri Izzuddin bin Dali, who left at end February 2007, for his service to the Corporation and welcome his successor, Dato' Sri Dr Wan Abdul Aziz bin Wan Abdullah.

The contribution of each member of the Board has been invaluable and I look forward to continuing our work together.

I would also like to go on record to extend my sincere thanks and gratitude to Mr. Jean Pierre Sabourin, the Chief Executive Officer of PIDM, for his remarkable work. Apart from contributing his many years' of deposit insurance expertise and networks, from day one, he has had a clear Vision and a Mission, and has worked towards achieving challenging key performance indicators, and inspired his team towards the pursuit of professionalism and excellence. I believe the Corporation's results speak for themselves and I can do no more than commend Mr. Sabourin for his outstanding leadership.

Last but not least, our goals in 2007 would not have been achieved, without the extremely hard work of our employees and their engagement. Our achievements are a clear testament of their passion, commitment and abilities. On behalf of the Board of Directors, I wish to record our thanks and deepest appreciation.

As we continue our journey forward, I am confident that we have the foundations to steer PIDM to even higher levels of achievement and excellence in the years ahead. It is a matter of great pride for me, as the Chairman of PIDM, to lead an organisation whose people work relentlessly to build a world class deposit insurance system for the benefit of depositors and the country's financial system.



TAN SRI DATO' ABDUL AZIZ BIN HAJI TAHA  
18 February 2008





## → MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

### **Jean Pierre Sabourin**

2007 was another year of steady progress for PIDM and notable for many “firsts”. Both our Board of Directors and Management continued to work with a distinct sense of urgency, focusing on high priority initiatives as set out in our Corporate Plan. Among our key priorities included (1) developing policies and regulations by way of incentives for sound risk management; (2) developing our risk assessment system; (3) implementing initiatives to inform our consumers and to promote confidence in the financial system; (4) making ourselves known at the international level; and (5) continuing, as before, to develop and refine best governance and management practices, including our enterprise risk management framework. At the same time, we recognise our challenges of developing the skills set required to effectively manage a deposit insurance system in Malaysia, so we continued to work hard at attracting, developing and retaining a key ingredient to our success – our people.

All these initiatives are essential to our Mission – to effectively and efficiently protect depositors, administer the deposit insurance system, provide incentives for sound risk management, and promote the stability of the financial system, keeping in mind the interests of our stakeholders. Our continued achievements in 2007 have brought us that much closer to meeting our Vision of being one of the most effective deposit insurers in Southeast Asia.

It was a year of many “firsts”. To name a few –

- We developed our first differential premium systems (“DPS”) framework, its related regulations, and our terms and conditions of membership regulations, which are expected to come into force in 2008. These will promote greater sound risk management in the financial system, in line with the objects in our mandate.
- We held our first annual dialogue with our member institutions following the publication of our Annual Report 2006, so that member institutions may engage with our Board members and Management.
- We consulted extensively with member institutions and other stakeholders in the development of our regulations.

- The Malaysia Financial Exhibition 2007 ("MYFex 2007"), the most comprehensive financial exhibition of the year, was held at the Mid Valley Exhibition Centre. Together with our member institutions and other relevant bodies, this exhibition is one of many initiatives to contribute to greater consumer education on financial matters.
- Our first corporate outreach programme was held in October in Penang, allowing business and community leaders outside Kuala Lumpur to meet with our Board members and Management. We also held a public briefing session on deposit insurance and plan to hold outreach programmes in all major cities in Malaysia over time.
- At the end of October, we hosted the 6th International Association of Deposit Insurers ("IADI") Annual Conference, for the first time, in Kuala Lumpur. The conference was highly successful, drawing a record number of participants and thought leaders from all over the world.
- Our first employee voice survey was held, with a satisfaction index recorded at 79%, exceeding our set target.
- We received our first management audit rating of "Very Good", the top rating.
- We received our first "Certificate of Merit" at the National Annual Corporate Report Awards for our Annual Report 2006.
- We have also integrated our strategic and corporate planning processes with a comprehensive enterprise risk management ("ERM") process. Not only have we continued to implement a process that promotes efficiency, we have done so in a way that would make us more effective in anticipating and responding to changes.

### Our Financial Report

Our accountability framework demands that we provide timely, reliable and meaningful information to our stakeholders. Each year, we publish and distribute widely our Corporate Plan, which includes performance to key performance indicators, so that our stakeholders understand our plans and initiatives. We also submit our financial statements and Annual Report to the Minister of Finance, by 31 March each year, for tabling in Parliament as required by statute. Accordingly, our report covers both financial as well as performance information.

Conditions in the banking industry remained favourable and, during the year, our membership increased by one to 33 with the inclusion of the Asian Finance Bank Berhad. Our member institutions comprise 22 commercial banks and 11 Islamic banks as at 31 December 2007. With the growth in deposits held with members, the total insured deposits also grew from RM165 billion in 2006 to RM179 billion in 2007. Our premiums assessed totalled RM110.2 million in 2007, as compared to RM102.2 million in 2006. In line with our Board-approved investment policy and the law, we invested our surplus funds in highly liquid and safe instruments. Our income from investments of RM5.8 million made up 5% of our total revenues.

As at 31 December, we recorded total operating expenditures of RM27.1 million, RM6.9 million lower than budget and RM12.1 million higher than 2006. The main increase in operating expenditures in 2007 came from the implementation of our human capital and communications strategies, i.e. new hirings of employees, salaries and benefits, advertising and public relations.

We recorded a surplus of RM88.8 million as compared with RM89.9 million in 2006. As a result, the Conventional Deposit Insurance Fund stood at RM190.4 million and the Islamic Deposit Insurance Fund, RM20.9 million as at 31 December 2007.

With regards to our financial statements, the Auditor-General has again issued us an unqualified audit opinion, validating our efforts to have strong internal controls and reporting on the management of our funds.

### Promoting Effective Risk Management, Externally and Internally

As planned since our very first Corporate Plan 2006-2008, a major policy effort in 2007 was to have our DPS and regulations ready for implementation in 2008. The completion of this framework is not without significance, given our young age, and the fact that we are in a region where only one other country has a DPS, which is Taiwan. Under our conventional and Islamic DPS, member institutions will be assessed according to their risk profiles and placed into the corresponding risk categories and they will pay differential premiums. Not only are such systems more equitable, but more significantly, they will encourage member institutions to manage their risks more prudently. A second set of regulations, the Terms and Conditions of Membership Regulations, was also developed, with the aim of mitigating the risk exposures to the Deposit Insurance Funds. If breached, these regulations entail penalties including a potential premium surcharge under the Malaysia Deposit Insurance Corporation Act 2005.

Our "least cost" mandate also requires that we closely monitor and assess existing and emerging risks from our member institutions and this is a key function of our Insurance, Risk Assessment and Monitoring Division. In 2007, we developed a comprehensive risk assessment information technology system. Our automated system will extract information on member institutions from BNM's databases and reduce the amount of time our risk assessors would otherwise spend transcribing data, allowing them to use their time more productively analysing the information and producing management reports.

Not only do we promote sound risk management among our member institutions, but in 2007 we also completed the development of our own, best practice, ERM framework, on which we are proud to report, in page 79 of this Annual Report. In an industry with clearly unique risks to the financial system and where risk management is to be encouraged, we aim to demonstrate best practices in risk management in our organisation, as a matter of credibility and stature.

### Towards Greater Public Awareness

Intense discussions and conclusions from the IADI Annual Conference themed "Deposit Insurance and Consumer Protection" merely reinforce our belief that public awareness is *sine qua non* for an effective deposit insurance system.

Given our short history, a low level of awareness of deposit insurance in Malaysia is not unexpected. We are conscious that the general public should understand what deposit insurance is and how we contribute towards the stability of the financial system. Year 2007 marked the launching and implementation of our Integrated Communications Plan 2007-2011. In the first year of this plan, we carried out numerous initiatives to raise awareness of deposit insurance using many channels, including print and broadcast advertising, briefings, roadshows, exhibitions and media relations. In addition, as mentioned previously, we also contributed to enhancing financial awareness in Malaysia by organising MYFex 2007, the most comprehensive financial exhibition of the year, attracting over 5,000 visitors. These efforts have resulted in an increase in the level of overall awareness of deposit insurance from 13% (2006) to 15% (2007). While the general awareness level of 15% was below the target of 30%, the level of understanding of the features of the deposit insurance system among those who are aware showed a significant increase. Also, within certain



groups, our 30% target has been exceeded. In terms of professionals, managers and executives, the level of awareness has increased from 26% last year to 35%. For those who have degrees, masters, doctorates or professional qualifications, the awareness within that group has increased from 19% last year to 31%.

Going forward, our initiatives for the year 2008 will be based on a targeted approach which uses specific initiatives for different target audiences. We expect to substantially increase awareness in the next several years.

Depositor protection laws and processes were also developed including the Provision of Information on Deposit Insurance Regulations and Guidelines on the Criteria for Determining Insured Deposits. The purpose of the Provision of Information on Deposit Insurance Regulations is to ensure that depositors receive accurate and timely information to facilitate informed decision making. The Guidelines on the Criteria for Determining Insured Deposits, are aimed to provide clarity as to which deposit products are covered, so that PIDM can readily determine the extent of its obligations should it need to make a payout in the event of a bank failure, and to reduce uncertainty among the public and members on which deposit products are insured. As a result, the depositing public will be able to ascertain which products are insured and which are not.

The success of the 6th IADI Annual Conference which we hosted in 2007 was also a matter of personal satisfaction, as I completed my six-year term as President of the IADI and Chairman of its Executive Council since its inception. In September, as we neared the date of our conference, themed "Deposit Insurance and Consumer Protection", I was fascinated with the unravelling of events associated with the Northern Rock crisis in the United Kingdom. These series of events, although unfortunate for the U.K. public, provided the conference with a

practical case for analysis and lessons, and rigorous debate. It resulted in useful suggestions on communicating with the public about deposit insurance. The suggestions and conclusions arising from the conference, I believe, validate our choice of theme, and this event has elevated the importance of consumer protection among our international partners in this area.

Moreover, the results of this Conference reinforce the *raison d'être* of IADI, that is, to share deposit insurance expertise among deposit insurers and interested parties. Although I have retired as its President and Chairman of its Executive Council, PIDM and I will continue international engagement in this regard, so that deposit insurers internationally can share in our common objective of promoting financial stability worldwide and Malaysia may continue to play its part as a thought leader. We continue to be a member of the IADI's Guidance Group and hold the Chair of the Islamic Deposit Insurance Group.

### Readiness

Without a shadow of a doubt, our people are, and will continue to be, our greatest asset. We have put in tremendous efforts to recruit, develop and retain our talents, encouraging the right attitudes and ethics and worked to provide a conducive work environment. In line with our Human Capital strategic plan, we have recruited a talented team of young people, introduced a comprehensive compensation and benefits policy, a reward and recognition scheme, an employee assistance programme, and a health and safety programme. At the end of last year, we took stock of our initiatives and carried out our first employee voice survey to gauge the effectiveness of efforts to make PIDM an employer of choice. Our survey also aimed to allow our employees to voice their opinion in this regard, and to demonstrate to our employees our commitment to respect our employees' contributions of ideas, as well as

to determine areas for improvement. The results of our employee satisfaction index was 79% - clearly exceeding our already ambitious target of 75%! It was also heartening to note that all our employees understood how their key performance indicators are linked to the Corporate Plan and over 80% would recommend PIDM to others as a place to work.

Our people are also engaged in our corporate social responsibility ("CSR") efforts. In terms of CSR, this year we took the opportunity to get the "buy-in" of our employees and Board members, set up a cross-divisional CSR taskforce, and formalised our Corporate Social Responsibility Policy. Our overarching themes are these - employee welfare, community involvement and the environment. Each individual in the Corporation is required to support this policy under our ethics code, in recognition of our desire to participate as a corporate citizen and also to encourage employee involvement as part of their development. This report elaborates on our work to date, in the three aspects of these themes. In terms of the environment, we have just begun to operationalise our work towards greater efficiencies in terms of reduction of paper and recycling measures. Going forward, as part of our records management initiatives, we will also continue to look for greater efficiencies and the reduction of waste in our operations.

Having set the foundations in terms of governance and core operational structures as well as key regulations, we are now well positioned to work towards full achievement of one of our key corporate objectives, that is, readiness.

To quote the great strategist Sun Tzu, "To ... not prepare is the greatest of crimes; to be prepared beforehand for any contingency is the greatest of virtues."

In 2008 and onwards, we will see through many initiatives in the preparation for contingencies. Among others, we plan to carry out the development and implementation of the DPS, the completion of intervention and resolution framework, payout system and a crisis management system. We also have plans to leverage on technology to ensure the quality and effectiveness of our operations, especially in the areas of risk assessments, payouts and human resource operations. With regard to our capability and capacity, we shall continue to focus on the training and development of our people and other human capital initiatives as part of our Human Capital strategy.

### Conclusion

We are thoroughly pleased with our progress to date, and for this I would express my highest gratitude to our supportive Board, and each of our hardworking and dedicated employees including our invaluable Management team.

No doubt there are challenging times ahead. But with the guidance of our Board members, the continued support of our team and our strong partnership with BNM, we will achieve our objectives. I am thoroughly enthused and look forward to working with our team towards yet another year of rigorous work and resulting success.



JEAN PIERRE SABOURIN  
18 February 2008

## BOARD OF DIRECTORS





### **Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)**

Tan Sri Dato' Abdul Aziz bin Taha is the Chairman of PIDM. A Chartered Accountant by profession, he has had extensive experience in the industry and in the field of banking and finance. He had a 16-year career in Bank Negara Malaysia including as Governor from 1980 to 1985. During that period, he had served as Chairman of the Capital Issues Committee, as a member of Foreign Investment Committee, National Development Planning Council, the Investment Panels of Lembaga Tabung Angkatan Tentera and Lembaga Tabung Haji, and as Board member of Perbadanan Nasional Berhad and Malaysian Industrial Development Finance Berhad. After Bank Negara, he joined the partnership of Messrs Kassim Chan & Co/Deloitte Haskins & Sells Malaysia. After retiring from the firm in 1995, he has remained active in the private sector and in charities.

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

Dr. Zeti Akhtar Aziz was appointed Governor of Bank Negara Malaysia in May 2000. She has been with the Central Bank since 1985, in a career spanning several senior positions in monetary and financial policies, and reserve management. During the height of the Asian financial crisis, Dr. Zeti was appointed as Acting Governor on 1 September 1998, and managed the successful implementation of selective exchange controls to restore stability and promote economic recovery in Malaysia. In Bank Negara Malaysia, Dr. Zeti presided over the formulation of the Financial Sector Master Plan, a 10-year road map for the development of the Malaysian financial system. As Governor, Dr. Zeti oversaw the transformation of the financial system, which included wide-ranging financial reforms, the evolution of new financial institutions, strengthening of the financial markets and the rapid expansion of Islamic finance, and the transition to a managed float of the Ringgit exchange rate.

Dr. Zeti received her Bachelor of Economics (Honours) from the University of Malaya and her PhD from the University of Pennsylvania. As part of her dissertation, Dr. Zeti did pioneering work on

capital flows and the implications for policy. She has written extensively in the areas of monetary and financial economics, Islamic finance, capital flows, macroeconomic management, financial reform and restructuring. Prior to her career in the Bank, Dr. Zeti had served in the Southeast Asian Central Banks Research and Training Centre ("SEACEN") from 1979-1984, where she conducted research in the area of financial policies and reform in the Southeast Asian region. Dr. Zeti is actively involved in the development of Islamic finance and in regional financial cooperation.

### **Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah**

Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah is the Secretary General of Treasury, Ministry of Finance. He has over 30 years of experience in the public sector, most notably in the area of economic planning. He started his career at the Prime Minister's Department's Economic Planning Unit in 1975, serving in various capacities in the area of macro economy, human resource and energy. He also served as an Alternate Executive Director for the World Bank Group in Washington DC (1998-2001), where he represented several Asian countries. He then returned to Malaysia and served in the Ministry of Finance, until 2007, when he was appointed the Secretary General of Treasury. He presently holds membership in the Board of Directors for organisations such as the Federal Land Development Authority ("FELDA"), Malaysia Airlines System Berhad, PETRONAS, Malaysia International Shipping Corporation Berhad, Retirement Fund Incorporated ("KWAP"), Inland Revenue Board ("LHDN"), Multimedia Development Corporation Sdn. Bhd., Kuala Lumpur International Airport Berhad and Bank Negara Malaysia. Dr. Wan Abdul Aziz holds a PhD in Economics from the University of Leeds, United Kingdom.

### **Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin**

Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin is the Chairman of the Financial Mediation Bureau.

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

### **Dato' Sri Dr. Sulaiman bin Mahbob**

Dato' Sri Dr. Sulaiman bin Mahbob is the Director General of the Economic Planning Unit ("EPU") of the Prime Minister's Department.

He was previously the President of the Malaysian Institute of Integrity, an agency established to implement the National Integrity Plan. He is also an Adjunct Professor (Economics) at the University of Malaya, the Universiti Utara Malaysia (Public Management and Law), and the International Islamic University of Malaysia (Economics).

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 July 2004 in various capacities including as Secretary General of Ministry of Domestic Trade and Consumer Affairs, Under-Secretary (Economics) at Ministry of Finance, and Director in the EPU of the Prime Minister's Department. He was also the first Chairman of Companies Commission of Malaysia. He was once Executive Director of Malaysian Institute of Economic Research and Board Member of Malaysian Intellectual Property Corporation, Malaysia International Shipping Corporation Berhad and Padiberas Nasional Berhad.

During the last financial crisis in 1998, he was the Head of the Secretariat of the National Economic Action Council.

### **Datuk Dr. Abdul Samad bin Haji Alias**

Datuk Dr. Abdul Samad bin Haji Alias is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in auditing and accounting. He is currently Non-Executive Chairman of Ernst & Young Malaysia, Chairman of Malaysia Venture Capital Management Berhad, and Chairman of Malaysia Debt Venture Berhad. He is a Board Member of Lembaga Tabung Haji, Malaysian Communications and Multimedia Commission of Malaysia, Perbadanan Kemajuan Iktisad Negeri Kelantan, Felda Holdings Berhad and TH Plantations Berhad. He is also a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants. In 2006, Datuk Dr. Abdul Samad received global recognition through the Association of Chartered Certified Accountants' Award for Achievement in Asia.

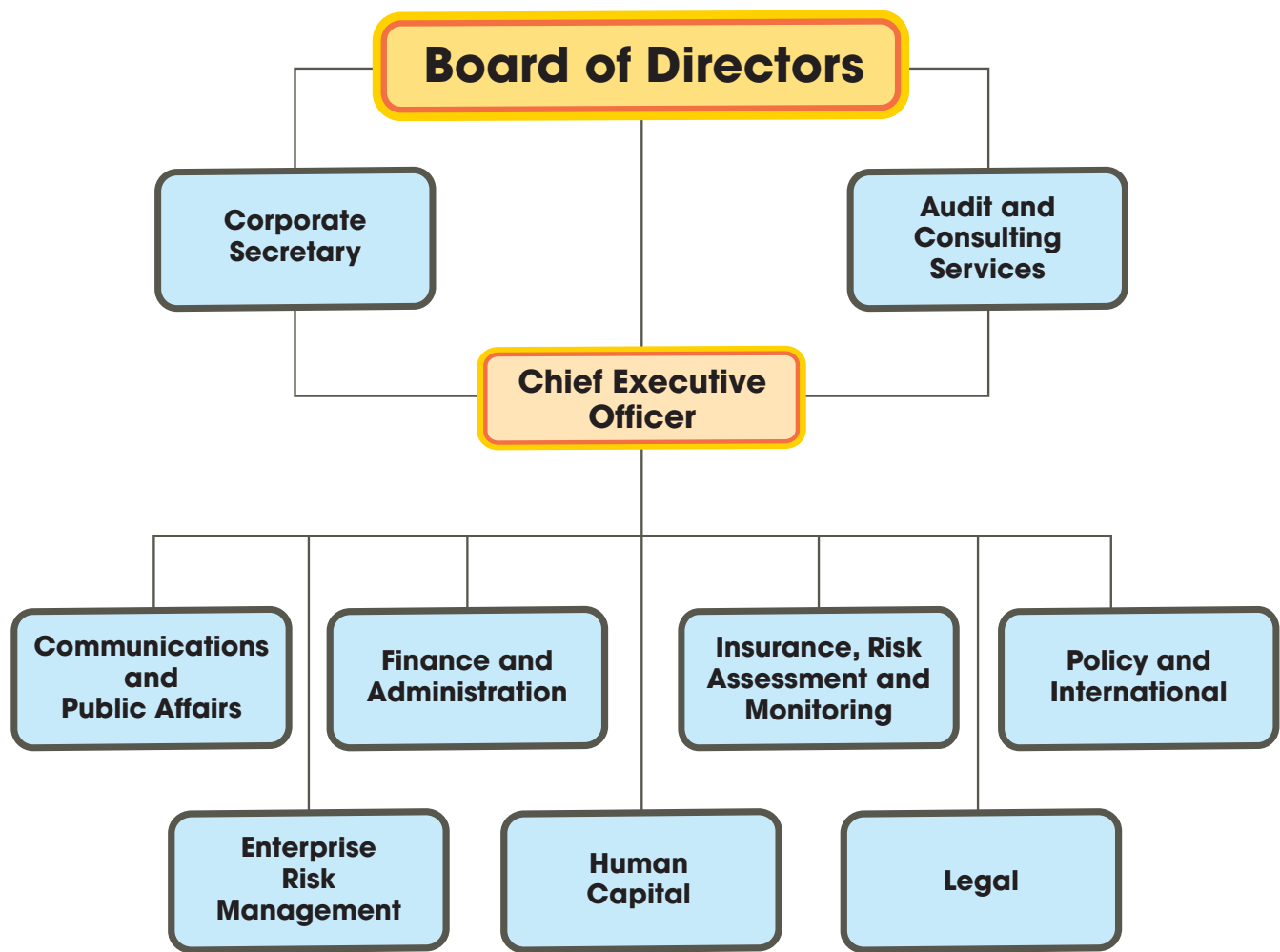
### **Mr. Michael Wong Kuan Lee**

Mr. Michael Wong Kuan Lee is a consultant to the legal firm, Messrs Shook Lin & Bok. He was a partner of the firm for 23 years, out of which he was for 19 years its Managing Partner. He retired in December 1991. He also holds directorships in several public listed companies.

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



# ORGANISATION CHART



# ORGANISATION CHART

## Executive Management Committee

<b>Jean Pierre Sabourin</b> Chief Executive Officer
<b>Lai Wai Keen</b> General Manager, Policy and International
<b>Lee Yee Ming</b> Chief Risk Officer and General Manager**, Enterprise Risk Management Division
<b>Lim Yam Poh*</b> General Counsel and Corporate Secretary
<b>Md. Khairuddin bin Haji Arshad*</b> General Manager, Insurance, Risk Assessment and Monitoring
<b>Noorida Baharuddin</b> Chief Internal Auditor and General Manager, Audit and Consulting Services
<b>S. Loganathan</b> General Manager, Communications and Public Affairs
<b>Siti Zubaidah Haron</b> General Manager, Human Capital
<b>Wan Ahmad Ikram bin Wan Ahmad Lotfi*</b> Chief Financial Officer and General Manager, Finance and Administration

\* Corporate officers appointed by the Board of Directors.  
\*\* Effective 1 January 2008.





## EXECUTIVE MANAGEMENT COMMITTEE (EMC)

1. Noorida Baharuddin
2. Md. Khairuddin bin Haji Arshad
3. Lim Yam Poh
4. Lai Wai Keen
5. Jean Pierre Sabourin
6. Siti Zubaidah Haron
7. Wan Ahmad Ikram bin Wan Ahmad Lotfi
8. Lee Yee Ming
9. S. Loganathan
10. Sherilin Mohd. Ali (non-EMC, Secretary to EMC)





# EXECUTIVE MANAGEMENT COMMITTEE

## MEMBERS AND PROFILES

### **JEAN PIERRE SABOURIN**

#### **Chief Executive Officer**

Jean Pierre Sabourin is the Chief Executive Officer of Perbadanan Insurans Deposit Malaysia ("PIDM"). He has unparalleled expertise in all aspects of deposit insurance and is very much in demand internationally. His assistance has been widely sought by other countries on establishing and improving their deposit insurance systems. Among many achievements was his chairmanship of the Financial Stability Forum's international study and working groups on deposit insurance and the first ever Asia-Pacific Economic Cooperation (APEC) Policy Dialogue on Deposit Insurance. In May 2002, he led the establishment of the International Association of Deposit Insurers and was elected the first Chair of its Executive Council and President, a position he held until the end of 2007. He was employed by Canada Deposit Insurance Corporation ("CDIC") from 1976, and held various positions within CDIC before becoming its President and CEO in 1990, until his retirement in 2005. Under his leadership, PIDM is building a best practice deposit insurer. He is also Chairman of the Advisory Committee of the International Centre for Leadership in Finance. He holds a Master of Business Administration (MBA) from the University of Toronto.

### **LAI WAI KEEN**

#### **General Manager, Policy and International**

Lai Wai Keen is the General Manager of Policy and International Division. She is responsible for PIDM's key policy areas and international

relations. She was a key member of the Deposit Insurance Task Force of Bank Negara Malaysia, which worked to establish the deposit insurance system. The Task Force was responsible for developing key policies, taking into consideration the specific needs of the Malaysian financial system and Malaysian depositors.

She has 20 years of regulatory experience with Bank Negara Malaysia, including in bank regulation, communications, international relations and negotiations. She holds a degree in Business Administration from the University of Malaya and a law degree from the University of London.

### **LEE YEE MING**

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

Lee Yee Ming is responsible for the implementation of PIDM's Enterprise Risk Management framework on an organisation-wide basis and to assist the Board in ensuring that PIDM's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on. She has nine years of consulting and banking experience in Enterprise Risk Management, Basel II, corporate governance and internal audit. She began her career with a financial institution in Illinois, USA and subsequently joined Ernst & Young Kuala Lumpur, Malaysia and Taipei, Taiwan offices. With regards to Enterprise Risk Management, she has advised 16 Malaysian public listed companies and a Korean organisation on the implementation of their respective Enterprise

Risk Management Framework. She has also assisted banks in Taiwan as the overall project manager in their Basel II system implementation and Basel II-related implementation projects. She holds a degree in Business Administration (Summa Cum Laude) and MBA in Finance from Western Michigan University, USA. She is also a Certified Internal Auditor. Effective 1 January 2008, she heads the division as the General Manager and Chief Risk Officer.

### **LIM YAM POH**

#### **General Counsel and Corporate Secretary**

Lim Yam Poh is the General Counsel and Corporate Secretary for PIDM, and is in charge of all legal advice relating to the business and affairs for the Corporation as well as corporate secretariat service. She was in legal practice for over seven years in a leading law firm in Kuala Lumpur carrying out legal, banking and corporate work. Prior to joining PIDM, she had had eight years' local and international regulatory experience, having worked at the Securities Commission, Malaysia between 1997 and 2000 in the product development division, and subsequently in Hong Kong for five years at the Hong Kong Securities and Futures Commission in the corporate finance and market supervision divisions. She holds an LLB (Hons.) degree from the University of Birmingham, England and has been called to the Bar of England and Wales and in Malaysia.

### **MD. KHAIRUDDIN BIN HAJI ARSHAD**

#### **General Manager, Insurance, Risk Assessment and Monitoring**

Md. Khairuddin bin Haji Arshad is the General Manager of Insurance, Risk Assessment and Monitoring Division. He is responsible for the analysis and monitoring of the risk level of PIDM member institutions as well as the intervention and failure resolutions of troubled member institutions. Prior to his current position, he served Bank Negara Malaysia for 15 years in Bank Regulation Department and Islamic Banking and Takaful Department. He has extensive experience in Islamic banking and finance and is currently a member of the Malaysian Accounting Standards Board working group on Islamic financial transactions. He also provided technical assistance to various countries in developing their Islamic banking industry as well as presented papers at domestic and international seminars. He holds an Accounting degree from the International Islamic University of Malaysia.

### **NOORIDA BAHARUDDIN**

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

Noorida Baharuddin is the Chief Internal Auditor and heads the Audit and Consulting Services Division. Her main responsibilities are to provide independent and objective assurance and consulting services, designed to improve the effectiveness and efficiency of PIDM's operations, and reliability and integrity of PIDM's financial reporting as well as compliance with





# EXECUTIVE MANAGEMENT COMMITTEE

## MEMBERS AND PROFILES

laws. Prior to joining PIDM, she had had 15 years' experience in auditing, risk management and policy development gained through her careers with an external audit firm, regulatory bodies and a public listed company, carrying out external and internal auditing as well as supervisory examination. At two regulatory bodies including the Securities Commission, she led examinations of capital market institutions and securities intermediaries, as well as offshore financial and insurance institutions. She was involved in the development and implementation of enterprise-wide risk management for the Labuan Offshore Financial Services Authority. She was also attached to the Islamic Financial Services Board where she assisted in the development of Guiding Principles of Risk Management for Institutions Offering Islamic Financial Services in 2004. She holds a Bachelor of Business Degree (Accounting) from the University of Tasmania, Australia and a Bachelor of Law Degree from the Universiti Institut Teknologi MARA, Malaysia. She is a Certified Practising Accountant (Australia) and a Certified Financial Planner with the Financial Planning Association of Malaysia.

### **S. LOGANATHAN**

#### **General Manager, Communications and Public Affairs**

S. Loganathan is the General Manager of Communications and Public Affairs Division. He is responsible for communications and public relations as well as managing PIDM's public awareness programmes. He has some 25 years of experience in the financial media and the securities industry. He started off his career as a

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

### **SITI ZUBAIDAH HARON**

#### **General Manager, Human Capital**

Siti Zubaidah Haron is in charge of the whole host of human capital matters in the Corporation, and in particular for its human capital strategy and related human capital policies, procedures and functions, as well as to ensure robust human capital development. She has approximately 17 years' experience in Human Resources across manufacturing, retail and hypermarket and global service centre across various cultures and over 10 years of experience managing the full spectrum of Human Resources at senior levels. Siti was the Head of Human Resources at Carrefour (Malaysia)/Magnificent Diagraph Sdn. Bhd.

between 2002 and 2005, and was Vice President - Human Resources, Learning & Development and Communications at HSBC Electronic Data Processing (M) Sdn. Bhd. (Group Service Centre, Malaysia) until she joined the Corporation. She holds a Bachelor in Business Administration (Honours) in Human Resources Management.

### **WAN AHMAD IKRAM BIN**

#### **WAN AHMAD LOTFI**

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

Wan Ahmad Ikram bin Wan Ahmad Lotfi is the Chief Financial Officer responsible for the overall financial and administrative affairs of PIDM. In particular, he is accountable for the direction, management and control of the accounting and treasury functions as well as functions related to information and technology system management, office administration, internal policies and controls and strategic planning. A Chartered Accountant, he is a member of the Institute of Chartered Accountants in Australia and the Malaysian Institute of Accountants. He started his profession with Telekom Malaysia Berhad before pursuing his professional accounting career with KPMG in Melbourne, Australia. Upon his return to Malaysia, he joined Tahan Insurance Malaysia Berhad as the Chief Internal Auditor and was later appointed as its Chief Financial Officer in March 2004. He holds a Bachelor of Commerce degree from the University of Melbourne, Australia.

### **SHERILIN MOHD. ALI**

#### **Senior Legal Counsel**

Sherilin Mohd. Ali is the Senior Legal Counsel of PIDM and is the Secretary to the Executive Management Committee. She has over 10 years' work experience in areas ranging from legal and secretarial practice, corporate banking to asset management. Prior to joining PIDM, she was a member of the legal team at Pengurusan Danaharta Nasional Berhad, Malaysia's first national asset management company. She holds an LLB (Hons.) degree from the University College of London, England and has been called to the Bar in Malaysia.



A photograph of three children pulling a thick rope on a grassy hill under a clear blue sky. The children are wearing orange vests with 'RDM' on them. The rope extends from the top left towards the bottom right.

## SECTION I: INTRODUCTION





## HOW WE PROTECT YOUR DEPOSITS

### Corporate Profile

Perbadanan Insurans Deposit Malaysia ("PIDM") is a statutory body established under the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act"). Our key role is to provide insurance for depositors in the event of a member institution failure and to administer the deposit insurance system.

As part of the national financial safety net system, we have wide-ranging powers to promote and contribute to the stability of the financial system, and to provide incentives for sound risk management in the financial system.

PIDM reports to Parliament through the Minister of Finance. We are also known as the Malaysia Deposit Insurance Corporation, especially within the international context.

### Our Mandate

Our statutory mandate is to:

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

in such manner as to minimise costs to the financial system.

### How the Deposit Insurance System works

**Two Funds.** The national deposit insurance system is funded by premiums paid by member institutions. We administer two separate funds - the Conventional Deposit Insurance Fund and Islamic Deposit Insurance Fund. The Islamic fund is managed separately and invested in accordance with Shariah principles.

**Our Member Institutions.** Our member institutions are all commercial banks (including locally-incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all the Islamic banks licensed under the Islamic Banking Act 1983.

**Depositor Protection.** We provide insurance against loss of deposits placed by depositors with member institutions up to RM60,000 (principal and interest or return) per depositor per member institution. In the event of a member institution failure, we would reimburse all affected depositors promptly on their insured deposits, based on the records of the member institution.

**Our Work and Our Partners.** We provide incentives for sound risk management in the financial system and contribute to the stability of the financial system. We work closely with Bank Negara Malaysia ("BNM"), the primary regulator and supervisor of our member institutions. Our working relationship is mandated in the MDIC Act and detailed in a Strategic Alliance Agreement ("SAA") signed with BNM in 2006. This partnership with BNM ensures timely exchange of information on member institutions and collaboration in all significant aspects of our functions and activities.

A key aspect of our work is to monitor and manage our risks within the financial system. In this regard, we rely heavily on BNM, which conducts examinations on our member institutions and provides us with the results of such examinations. In special circumstances, we may also conduct special examinations. We are also empowered to intervene to reduce or avert risks to the financial system or a threatened loss. Our intervention powers enable us, among others, to acquire assets from member institutions, make loans or advances, or to make or guarantee a deposit. We also have powers to deal with a failing member institution and make payouts to depositors, once BNM has determined that the member institution has ceased or is likely to cease to be viable.

Given our mandate, we conduct ongoing public awareness and education initiatives to build up the level of understanding of the deposit insurance system in Malaysia.

More information about PIDM and our mandate can be found on our website, [www.pidm.gov.my](http://www.pidm.gov.my).

## HOW WE WILL ACHIEVE OUR MANDATE

### Our Aspirations

**Vision.** We aim to be recognised as the most effective deposit insurer in Southeast Asia by 2008; and to be acknowledged as one of the leading deposit insurers in the world by 2010.

**Mission.** We will carry out our mandate in an efficient and effective manner, having regard to the interests of our employees and other stakeholders.

**Corporate Values.** As a public body that aims to distinguish itself, we believe it is crucial to uphold our corporate values. These are excellence and professionalism, respect and fairness, integrity and trustworthiness, communications and teamwork, and financial stewardship.

### Strategies and Corporate Objectives

**Strategic Thrusts.** Our business strategies are well formulated and set out in our annual Corporate Plan. We have these strategies to achieve our mandate:

Operational readiness	To fulfil our role as the deposit insurer.
Sound business and financial practices	To demonstrate we are well governed and well managed.
Effective public awareness	To explain the benefits and limitations of the system and build confidence.
Strong partnerships	Working with member institutions, regulators and suppliers to help us achieve our mandate.

**Corporate Objectives.** These are our corporate objectives:

<b>Stakeholders objectives:</b> <ul style="list-style-type: none"> <li>• Well governed and well managed organisation;</li> <li>• Educated and informed stakeholders; and</li> <li>• Effective partnerships.</li> </ul>
<b>Financial objective:</b> <ul style="list-style-type: none"> <li>• Optimal use of resources.</li> </ul>
<b>Learning and growth objectives:</b> <ul style="list-style-type: none"> <li>• Competent and knowledgeable workforce; and</li> <li>• Conducive corporate environment.</li> </ul>
<b>Internal process objective:</b> <ul style="list-style-type: none"> <li>• Operational excellence.</li> </ul>



# INTRODUCTION

More information about our strategies and corporate objectives can be found in our published Corporate Plan 2008-2010, available on our website, in four languages.

## OUR HISTORY

Having commenced our operations in August 2005, we have but a short history. In that short period of time, we believe that we have made significant inroads, in terms of setting the foundations for a well governed and well managed public sector institution, as well as in completing our operational initiatives as set out in our business plans. The following is an outline of our history.

### Year 2005: August to December 2005

With effect from 1 September 2005, depositors are automatically protected by PIDM, up to the maximum of RM60,000 per depositor per member institution, in the event of a member institution failure.

#### 2005 - The Year of Our Establishment

- The MDIC Act came into effect on 11 August 2005.
- On 15 August 2005, our Board of Directors ("Board") was established, with all Non-Executive Directors. The five non *ex-officio* Directors were appointed for a three-year term. Two other Directors are on the Board by virtue of their office.
- Three Board Committees were established and commenced work. The Board met three times in four months.
- Our Chief Executive Officer ("CEO"), a highly qualified leader and globally respected practitioner in deposit insurance, was appointed by the Minister of Finance on 30 August 2005 for a three-year term. The CEO is not a Member of the Board of Directors.

#### Financials as at 31 December 2005

- Premium rates for levying premiums on member institutions were approved by the Minister of Finance. Member institutions in 2005 had the option to pay the first year premium based on a rate of 0.02% per annum of the total deposits of the member institution or 0.06% of the total insured deposits held as at September 2005, subject to a minimum premium of RM250,000.

- PIDM collected RM35.67 million in premiums (RM3.3 million for the Islamic Deposit Insurance Fund and RM32.37 million for the Conventional Deposit Insurance Fund).
- For the four months ending 31 December 2005, total expenditure during 2005 amounted to RM3.3 million as compared to a budget of RM5.3 million, and we recorded a net surplus of RM32.5 million.

#### Building Strong Foundations

- Our corporate Vision, Mission and Corporate Values were developed and established.
- Our organisational structure and plans were put into place. There were 11 employees as at end December 2005.

#### Corporate Plan 2006-2008

- Our first Corporate Plan 2006-2008 was developed and approved by the Board. The theme was "Building a Strong Foundation". Building best practices in governance and management - based on best practice principles of independence, accountability, transparency and stewardship. These principles continue to underline how we carry out our work today.
- Key operational priorities for 2006 in the Corporate Plan included the following:
  - the implementation of an accounting system that would meet the current and future needs of PIDM;
  - the development of a broad human capital framework; and
  - the development of the Differential Premium Systems ("DPS") for implementation by 2008.

#### Annual Report 2005

Our first Annual Report 2005, themed "Building Strong Foundations" was submitted to the Minister of Finance within the statutory deadline of 31 March 2006. Our Annual Report was publicly released and copies were provided to all our key stakeholders, and published in our website in four languages.

### Year 2006: January to December 2006

In 2006, among others, significant attention was given to strengthening our foundations, in particular, governance - hence our theme for the Annual Report 2006, "Strengthening Governance; Building Credibility".

#### Key Highlights in the First Full Year of Operations 2006

- Implemented key governance policies, including our Code on Business Conduct and Ethics, a Whistleblowing Policy, and set out clear expectations between the roles of the Board and Management, in particular, in our Board Governance Policy.
- Implemented the new and comprehensive accounting system.
- Issued key regulations to operationalise the MDIC Act, including the Guidelines on Total Insured Deposits and the Guidelines on Disclosure Requirements for Joint Accounts and Trust Accounts.
- Crystallised key frameworks and concepts including internal audit, enterprise risk management ("ERM") and the DPS.
- Developed key frameworks with regard to risk assessment, monitoring and payout activities.
- Worked on raising public awareness through various activities.
- Hosted the Executive Council meetings of the International Association of Deposit Insurers ("IADI") and actively participated in international events and meetings. We also became an Associate Member of the Islamic Financial Services Board ("IFSB").
- Built our organisation team and established a human capital strategy as well as key human capital policies, including the compensation and benefits and performance management policies. As at the end of December 2006, we had 40 employees.
- Worked closely with our partners; executed an SAA with BNM, engaged our member institutions to create more public awareness about deposit insurance and established our policy to consult with stakeholders before issuing deposit insurance policies or regulations.

#### Financials as at 31 December 2006

- The premium rate for existing member institutions was 0.06% of total insured deposits for the 2006 year of assessment, subject to the minimum premium amount. Premium income for the year was RM102.1 million (RM92.7 million from the conventional insured deposits and RM9.4

million from the Islamic insured deposits). Our total operating expenditure amounted to RM15 million compared with the budget of RM20 million, with a net surplus of RM89.9 million as compared with our budget of RM84.9 million.

- Our Deposit Insurance Funds totalled RM122.5 million, comprising RM111.2 million in the Conventional Deposit Insurance Fund and RM11.3 million in the Islamic Deposit Insurance Fund.

#### Corporate Plan 2007-2009

- Our Corporate Plan 2007-2009, themed "Building on Our Strengths", was published and publicly circulated and included on our website in four languages. This sets out our strategic direction for the period 2007-2009 and we reported our progress against the initiatives for the year 2006.
- Our four business strategies remained unchanged. Key areas of focus in this Corporate Plan included, among others, the following:
  - strengthening our relationships with key stakeholders and partners;
  - strengthening our processes for sound business and financial practices and to build readiness, and financial stewardship;
  - strengthening the quality of our people and fostering a conducive work environment; and
  - focusing on public awareness.
- Key operational priorities included, among others, the following:
  - the development of the process for member institutions to obtain certification as to the insurability status of deposit products, as well as the Information Regulations;
  - the development of the Terms and Conditions of Membership;
  - the development of the Differential Premium Systems Regulations and premium order for implementation in 2008;
  - the implementation of our Integrated Communications Plan 2007-2011; and
  - the development of our ERM and internal audit frameworks.



## Annual Report 2006

Our Annual Report 2006 was submitted to the Minister of Finance, again within the statutory deadline of 31 March 2007 and publicly released after tabling in Parliament. The first annual dialogue with member institutions was also held in April 2007, on release of the Annual Report 2006.

## WHERE WE ARE TODAY

### Progress Towards Achievement of PIDM's Objectives

We have made much progress - in a short time frame - towards achieving our corporate objectives. We will continue to work towards achieving our Vision and fulfilling our mandate.

### Summary of Key Achievements

By end 2007, our key achievements since our inception are as follows:

#### *Well Governed and Well Managed Organisation*

- Best practices in governance and management are well established; with a "Very Good" rating from the Auditor General's management audit (this is a top rating, rare for a newly established organisation), and a "Certificate of Merit" from the National Annual Corporate Report Awards for our corporate reporting.
- Completed the ERM framework and internal control framework; with the implementation of the ERM process.

#### *Educated and Informed Stakeholders*

- We have established a five-year Integrated Communications Plan and Communications Policy; and have been actively carrying out communications and advertising activities in line with the communications plan and policy.

#### *Effective Partnerships*

- We are internationally known in the deposit insurance community; as an active member of the IADI and we were honoured to have hosted the 6th IADI Annual Conference in Malaysia in October 2007 and since 2005 participated in 32 international events and meetings.

- We are also recognisable in the Islamic financial services community; being the first deposit insurer to be admitted as an Associate Member of the IFSB.
- We have a firm working relationship with BNM; and have a formal mechanism to build on this critical relationship.

#### *Optimal Use of Resources*

- We operated within our budget in all our years in operation. We have also completed some other additional initiatives beyond the Corporate Scorecard.

#### *Operational Excellence*

- We monitor member institutions and carry out risk assessments on a regular basis.
- Our DPS has been developed.
- Many of our regulations to further operationalise the MDIC Act have been developed or implemented.
- Our strategic planning process has been established and incorporates our ERM process; helping to prioritise initiatives according to risks.

#### *Competent and Knowledgeable Workforce*

- We have developed and continue to implement our human capital strategy; in particular with training and development plans, a competency framework and succession management framework in place.

#### *Conducive Corporate Environment*

- Our first employee voice survey confirmed an employee satisfaction index of 79%, well above our ambitious target of 75% for 2007.
- Many human capital initiatives were carried out in 2007, including two Corporate Values workshops, Annual Dinner, Family Day, the employee assistance programme and rewards and recognition programme.

#### *Towards Readiness*

- Our DPS will be implemented in 2008.
- Our human capital strategy continues to be implemented.
- Our Corporate Plan 2008-2010 will challenge our employees to perform optimally.

- We continue to develop guidelines, regulations and policies.

### The Year 2007 - This Annual Report

The summary highlights of our activities in 2007 are found on page 3 of this Annual Report. The "Review of Operations and Achievements" in Section III also sets out our progress against the KPIs in the Corporate Plan 2007-2009 in detail.

### Significant Developments and Impact on PIDM

The review of our operating environment and our assessment of risks are found in Section III of this Annual Report.

## ETHICS AND OTHER KEY INFORMATION

### Conflict of Interest Code

PIDM has implemented a Conflict of Interest Code ("Code") which applies to both Directors and employees. The objective of the Code is to conserve and enhance public confidence and trust in the integrity, objectivity and impartiality of PIDM. The Code seeks to minimise the possibility of conflicts occurring or being seen to exist between the private interests of individuals and their duties and to ensure that if any real, potential or apparent conflict does arise, it will be resolved appropriately.

The principles underpinning the Code are drawn from the Organisation for Economic Co-operation and Development's "Recommendations for Core Principles for Managing Conflict of Interest in the Public Service", and are as follows:

- promoting individual responsibility and personal example;
- serving the public interests;
- supporting transparency and scrutiny; and
- confidentiality.

In view of PIDM's mandate and responsibilities, and the sensitivity of the information held by PIDM with regard to its members, among others, Directors and employees are prohibited from holding shares in any member institution or related corporation. Declaration of assets and liabilities on a yearly basis is also required.

### Code of Business Conduct and Ethics

The objective of the Code of Business Conduct and Ethics for employees is to maintain and enhance PIDM's values and to support a positive work environment in which people are respected. This Code makes clear that employees should perform their duties and conduct themselves in a way that conserves and enhances public confidence and trust in PIDM's integrity, objectivity and impartiality.

The principles on which this Code and related policies are derived from international standards of best practices in the public sector<sup>1</sup> and best practices in Malaysia. Among other things, this Code specifies that employees must:

- act in the best interests of the Corporation;
- make decisions objectively, solely on the basis of merit;
- take steps to address conflict of interests, be it real, apparent or potential;
- maintain confidentiality of information that they come across in the course of performing their duties and, except for the official spokesman, refrain from publicly commenting on PIDM's business and affairs;
- uphold PIDM's Corporate Values; and
- comply with the policies on Workplace Harassment, Conflict of Interest Code, Code of Business Conduct and Ethics and all other PIDM policies.

### Summary of Key Information about Member Institutions

As at end December 2007, our member institutions comprised 33 commercial banking institutions, which are 11 Islamic banks and 22 commercial banks. More information and our list of member institutions are found in Section III, Table 3 of this Annual Report. Member institutions and the public in general benefit from PIDM's work, as deposit insurance promotes public confidence and contributes to the stability of the financial system.

<sup>1</sup> The Principles of Public Life, as described by the "Committee of Standards in Public Life", U.K. (the "Nolan Committee")





SECTION II:  
CORPORATE GOVERNANCE



### Principles of Our Corporate Governance Framework

In March 2007, the Prime Minister's Department published the "Guidelines on Improving Governance in the Public Sector" for public sector bodies ("PMD Guidelines"). We are pleased to note that the principles underlying the PMD Guidelines had already been adopted by us early on.<sup>1</sup>

Our Board Governance Policy ("Policy") is based on the same internationally accepted core principles<sup>2</sup>, namely, openness (or transparency); integrity (including independence); and accountability<sup>3</sup>, as applied in the context of public sector bodies.<sup>4</sup> Stewardship is also engrained as one of our corporate values.

The Corporation is not strictly bound by the "Malaysian Code on Corporate Governance". However, our Policy incorporates its key principles, insofar as they are applicable in the context of the public sector.

We make this Statement on Governance to provide stakeholders with the ability to assess our governance practices and to report on our progress against our Policy.

### Our Statement on Governance

Although we have only been operating for less than three years, the Board is pleased to report significant compliance with our Policy. Out of 15 Policy standards, our Board is in full compliance with 10 Policy standards and have made significant progress in relation to four other Policy standards, namely:

1. Board Composition and Succession (Standard No. 4);
2. Significant Risks to the Corporation (Standard No. 10);
3. Control Environment and Internal Audit (Standard No.11); and
4. In Control (Standard No. 12).

For each of the four standards, the key principles and frameworks have been developed, which will enable the Board to fully comply with the terms of

the standards. On the remaining standard (succession management of senior corporate officers - Standard No. 8), work is in progress. A detailed report on our compliance with the Policy is found on page 41.

### BOARD OF DIRECTORS

#### The Composition of the Board

The Board of Directors ("Board") comprises seven non-executive Directors, two of whom are *ex-officio* Directors by virtue of the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act"). In 2007, one *ex-officio* Director, Tan Sri Dato' Sri Izzuddin bin Dali, retired as the Secretary General of the Treasury at the end of February. Accordingly, the Board composition has been changed since March 2007, as has the composition of two of the Board Committees, as described below.

#### Appointment of Board Members and Remuneration Policy

The Governor of Bank Negara Malaysia and the Secretary General of the Treasury hold *ex-officio* positions as Directors under the MDIC Act. All other members of the Board are appointed by the Minister of Finance under the MDIC Act. As noted before, all Directors are non-executive members of the Board. The allowances for members of the Board are approved by the Minister of Finance, as required by the MDIC Act. In 2007, Directors received a total remuneration for Board and Committee work, in line with the approval of the Minister of Finance, of RM333,054; compared with 2006 (RM146,000).

The terms of the current non *ex-officio* Board members expire in August 2008. Accordingly, the Board has, in 2007, developed a best practice board succession plan. This is to enable the Board to advise the Minister of Finance on the appropriate mix of skills, qualifications and experience for the Corporation's needs going forward, as well as to make recommendations on the staggering of the terms of Board members in future.

### BOARD RESPONSIBILITIES

#### Responsibilities

The MDIC Act provides that the Board is "responsible for the conduct of the business and affairs of the Corporation and shall exercise all powers and do all acts which may be exercised or done by the Corporation". Each Director is required to act honestly and in the best interest of the Corporation and to use reasonable diligence in the discharge of the duties of his or her office. Position descriptions set out, in detail, our Board's general responsibilities as Directors.<sup>5</sup>

#### Standards of Governance in the Board Governance Policy

Specific responsibilities of the Board – in order to meet the highest standards of governance – are also spelt out in our Policy.

### WORK OF THE BOARD

#### Meetings and Attendance

In 2007, six Board meetings were held including one special Board meeting to assess the effectiveness of the Board in 2006. Board members also met to set the strategic direction for 2008 to 2010. The following sets out the attendance of each Board member at Board and Committee meetings in 2007:

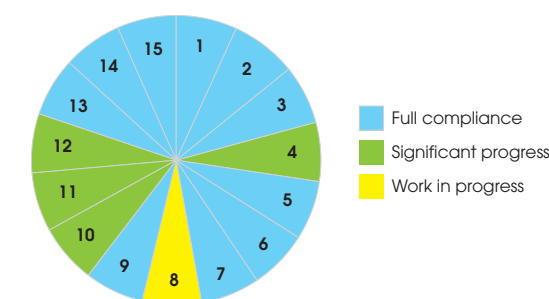
Table 1: Board meetings and attendance.

Board of Directors	Number of Board meetings attended out of 6 held	Strategic Planning Session
Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)	6 / 6	1
Tan Sri Dato' Sri Dr Zeti Akhtar Aziz	6 / 6	–
Dato' Sri Dr Wan Abdul Aziz Wan Abdullah (w.e.f. 28 February 2007)	3 / 4 meetings after appointment	–
Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin	6 / 6	1
Dato' Sri Dr Sulaiman bin Mahbob	4 / 6	–
Datuk Dr Abdul Samad bin Haji Alias	6 / 6	1
Mr Michael Wong Kuan Lee	6 / 6	1
Tan Sri Dato' Sri Izzuddin bin Dali (retired w.e.f. 28 February 2007)	0 / 2	n/a

### Statement on Governance

This diagram sets out compliance against each standard, which is numbered in the Policy. As noted earlier, our Policy incorporates best practice principles in governance, insofar as they are applicable to the Corporation. Each of the best practices from which our standards are drawn – including the "Malaysian Code on Corporate Governance" – can be found in our Policy, which is publicly available.

Diagram 1: Status of the Board Governance Policy's compliance.



<sup>1</sup> Our detailed review of our framework against the checklist contained in the PMD Guidelines also shows compliance. See the report on Governance Committee work.

<sup>2</sup> The Malaysian Code on Corporate Governance (Revised 2007) and the Governance in the Public Sector: A Governing Body Perspective by the International Federation of Accountants (August 2001) ("IFAC Study").

<sup>3</sup> The Cadbury Report 1992.

<sup>4</sup> The IFAC Study.

<sup>5</sup> Available on the website, [www.pidm.gov.my](http://www.pidm.gov.my)

### Detailed Report

The following table is a narrative report of our compliance against each Policy standards as at the end of the 2007 financial year.

Table 2: Report on compliance against Board Governance Policy.

Stated Standards in the Board Governance Policy	Progress Report as at end 2007
<b>Standard No. 1 - Independence of the Board</b>	<b>Full compliance</b>
Board members will exercise independent judgment.	Independence is enshrined in the MDIC Act. There are no executive Directors on the Board. The roles of the Chairman and the Chief Executive Officer ("CEO") are separated. The CEO is not a Board member. Board members have at all times used their independent judgment to act in the best interests of the Corporation.
<b>Standard No. 2 - Board effectiveness and governance responsibilities</b>	<b>Full compliance</b>
<p>The Board will obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities.</p> <p>To achieve this, the Board will:</p> <ol style="list-style-type: none"> <li>develop and maintain approaches to fulfilling those responsibilities and will evaluate, objectively, on a regular basis, its effectiveness in doing so; and</li> <li>ensure that the Corporation has arrangements for the orientation of new Directors and ongoing training appropriate to the Board's governance responsibilities and needs.</li> </ol>	<p>Four Board education sessions have been held, in accordance with a Board Education Programme. The Board has a good understanding of its governance responsibilities as set out in various documents, including this Policy.</p> <p>The Board:</p> <ol style="list-style-type: none"> <li>has developed, and since reviewed its Board evaluation methodology. The Board evaluated its effectiveness for the year 2006 in February 2007; and the Board's effectiveness for the year 2007 in February 2008; and</li> <li>has adopted the practice of developing an ongoing Board Education Programme for each year. In 2007 the sessions were on the following: <ul style="list-style-type: none"> <li>Our Objects and Powers under the MDIC Act;</li> <li>Differential Premium Systems;</li> <li>Enterprise Risk Management ("ERM"); and</li> <li>Islamic Finance.</li> </ul> </li> </ol> <p>The Board was also updated regularly on developments relating to deposit insurance, such as the implications of the Northern Rock incident in the United Kingdom.</p> <p>Meetings were held with the new Director to orientate and update him about the Corporation's business and affairs, and a Director's Handbook provided, with training sessions made available.</p>

Stated Standards in the Board Governance Policy	Progress Report as at end 2007
<b>Standard No. 3 - Roles and responsibilities of Committees</b>	<b>Full compliance</b>
Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them.	The responsibilities and authority of the Committees are set out in their Charters. Charters were reviewed in 2007 to ensure they remained current and relevant. Action plans to implement the Charters are routinely reported at each Committee meeting. A description of the work of the Committees is found on page 49 and Committee Charters are found in the Appendix to this Annual Report.
<b>Standard No. 4 - Board composition and succession</b>	<b>Significant progress - completion in 2008</b>
<p>The Board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation.</p> <p>To achieve this, the Board will, in consultation with the CEO:</p> <ol style="list-style-type: none"> <li>develop a profile of desirable skills and capabilities that would best enable the Board to fulfill their responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non <i>ex-officio</i> Board vacancies; and</li> <li>have a board succession plan to recommend to the Minister of Finance the orderly turnover of Directors.</li> </ol>	<p>The MDIC Act sets out the composition of our Board. Biographies of the Board members (page 19) demonstrate the high level and range of public and private sector experience amongst the Board members. To ensure there is an appropriate mix of skills and capabilities, we have conducted the annual review of the mix of skills and capabilities, given the objectives and strategic direction of the Corporation.</p> <p>The Board has also:</p> <ol style="list-style-type: none"> <li>developed an individual Board member profile, and a collective Board profile, as well as a Board Policy on Tenure, Retirement and Succession. This is to address the upcoming vacancies on the Board in August 2008, when the terms of our <i>ex-officio</i> Directors expire; and</li> <li>developed the Board Succession Plan, comprising the Board Policy on Tenure, Retirement and Succession, and the process for evaluating the skills needed on the Board. This plan and related recommendations will be communicated to the Minister of Finance in 2008.</li> </ol>
<b>Standard No. 5 - Roles and responsibilities of the Chief Executive Officer</b>	<b>Full compliance</b>
<p>The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented.</p> <p>In this connection, the Board will:</p> <ol style="list-style-type: none"> <li>develop a position description for the CEO;</li> <li>develop a set of corporate objectives at least annually for which the CEO is responsible for achieving and evaluate the performance of the CEO against those objectives; and</li> <li>establish an accountability relationship for the CEO to the Board.</li> </ol>	<p>These have been fully documented in their position descriptions and expectations in 2006 and the documents reviewed in 2007.</p> <p>In this connection:</p> <ol style="list-style-type: none"> <li>the position description for the Chairman and the CEO were established in 2006 and reviewed in 2007;</li> <li>each year, the CEO sets his key performance indicators ("KPIs") against the corporate objectives, which are then considered and approved by the Board at the recommendation of the Remuneration Committee. Performance against those objectives is tracked regularly, and is also reported to the Remuneration Committee and the Board at the end of the year to evaluate the CEO's performance against those objectives; and</li> <li>the CEO is responsible to achieve Board-approved corporate objectives as set out in the approved Corporate Plan and approved KPIs. This is reinforced by the MDIC Act and the position descriptions.</li> </ol>



Stated Standards in the Board Governance Policy	Progress Report as at end 2007
<b>Standard No. 6 - Appointment of senior corporate officers</b>	<b>Full compliance</b>
The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.	The Board approved two key senior officers in 2006. In 2007, the Board approved the appointment of one additional senior corporate officer as well as his terms and conditions of service, namely the General Manager, Insurance, Risk Assessment and Monitoring.
<b>Standard No. 7 - Compensation of officers</b>	<b>Full compliance</b>
The Board will satisfy itself, on a regular basis, that the compensation of the Corporation's officers and employees are consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures.	The 2006 Board-approved compensation and benefits policy contemplates a yearly salary survey to assure competitiveness. As the loss of key personnel is a significant risk to the Corporation as identified in the ERM process, maintaining an appropriate compensation and benefits policy and performance management policy remain important. This has been addressed by the Board in 2007.
The Board will review the compensation programme for all Directors, and make recommendations to the Minister of Finance in that regard.	As the Board's compensation programme had been reviewed in 2006, no review was carried out in 2007. However, the Board will periodically review the compensation programme to ensure it is kept current, and make recommendations to the Minister of Finance, when required.
<b>Standard No. 8 - Succession planning</b>	<b>Framework established - on the agenda for 2008</b>
The Board will plan for the succession of the CEO and review succession plans for key senior management.	The succession management framework for management generally (other than the CEO) has been developed in 2007 and will be implemented in 2008. Succession planning for the CEO is on the agenda for 2008.
<b>Standard No. 9 - Standards of behaviour and ethics</b>	<b>Full compliance</b>
The Board will establish standards of conduct and ethical behaviour for Directors and for the Corporation's officers and other employees, and obtain, on a regular basis, reasonable assurance that the Corporation has an ongoing, appropriate and effective process for ensuring adherence to those standards.	The Board has established these standards which are reflected in the Code of Business Conduct and Ethics, and the Conflict of Interest Code ("Codes"). In particular, a programme has been put in place to ensure that employees report against these policies to the relevant person and Management reports to the Board on compliance with these standards. This programme includes: <ul style="list-style-type: none"> <li>i. yearly reports of compliance with such Codes;</li> <li>ii. regular training on the Codes and corporate values; and</li> <li>iii. a mechanism for "whistleblowing" under the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace.</li> </ul>

Stated Standards in the Board Governance Policy	Progress Report as at end 2007
<b>Standard No. 10 - Significant risks to the Corporation</b>	<b>Significant progress - completion in 2008</b>
The Board will: <ul style="list-style-type: none"> <li>i. obtain an understanding of the principal risks of the Corporation's business;</li> <li>ii. ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly; and</li> <li>iii. obtain reasonable assurance, on a regular basis, that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed.</li> </ul>	The Board: <ul style="list-style-type: none"> <li>i. obtains an understanding of the principal risks by receiving and reviewing regular reports on the soundness of member institutions. It also receives reports on risks to our business and affairs on an ongoing basis. In 2007, in the course of developing the ERM system framework, the Board considered the significant risks affecting the Corporation in detail and agreed to the risk appetite of the Corporation;</li> <li>ii. has overseen the implementation of the action plans for the ERM framework. There has been considerable progress in the implementation as planned, including, in particular, the identification of significant risks and related action plans. The ERM framework and oversight structure have been completed and approved by the Board in December 2007; and</li> <li>iii. receives regular reports from the Audit and Consulting Services ("ACS") Division on certain key areas of audit including the strategic planning process. (See the report on the work of the Audit Committee, on page 49). ACS is also responsible for validating the ERM system and report compliance. The Board has also received a report from the National Audit Department following a management audit undertaken in mid-2007 on the Corporation, which rated our management practices as "Very Good". Accordingly, the Board has a degree of assurance that systems are in place and are being adhered to.</li> </ul>
<b>Standard No. 11 - Control environment and internal audit</b>	<b>Significant progress - completion in 2008</b>
The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.	The Board accepts overall responsibility for the Corporation's system of internal control and risk management and obtains assurance from Management and ACS in this regard.
In this connection, the Board will: <ul style="list-style-type: none"> <li>i. allocate resources for, and establish an internal audit group, setting out its mandate;</li> </ul>	In this connection, the Board: <ul style="list-style-type: none"> <li>i. has established an internal audit function and approved its mandate. It has provided resources to ensure that it can fulfill its responsibilities. The ACS Charter was reviewed by the Board in 2007;</li> </ul>

Stated Standards in the Board Governance Policy	Progress Report as at end 2007
<p>ii. approve its audit plan each year; and</p> <p>iii. seek, from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.</p>	<p>ii. has put in place a process to approve a rolling three-year audit plan each year and has approved the plan for 2008 to 2010. Performance to such audit plan is reported and reviewed on a semi-annual basis. The audit plan has been developed using a risk-based approach to audit planning and is aligned with the ERM framework; and</p> <p>iii. obtains, from ACS, reports on certain key areas in respect of the Corporation's system of internal controls. In 2007, these areas included the processes of:</p> <ul style="list-style-type: none"> <li>• migrating to the new accounting system;</li> <li>• public awareness and education programmes;</li> <li>• call centre management;</li> <li>• corporate planning activities;</li> <li>• salary administration;</li> <li>• corporate-wide insurance programme;</li> <li>• policy development;</li> <li>• appointment of external legal counsel; and</li> <li>• management of the Corporation's contracts.</li> </ul> <p>The audits revealed that there was no reported incidence of weakness or deficiency in the adequacy and integrity of internal controls embedded in the Corporation's systems, policies and processes of the areas audited.</p> <p>In 2007, a considerable amount of work has been carried out in this regard. In particular:</p> <p>i. our ERM framework was completed and approved by the Board in December 2007 and is being implemented in 2008/2009. The ERM process was also incorporated into the strategic planning process so as to ensure that our Corporate Plan takes into account and prioritises our initiatives in line with significant risks identified. The results of the ERM process were also utilised by ACS as a basis for prioritising work contemplated in its audit plan and risk-based consulting. The Board-approved information technology governance framework in 2006 was also aligned with our work on the ERM framework. The ERM framework, which includes a comprehensive oversight structure, forms the basis for monitoring and reporting of the Corporation's risks going forward and will be reviewed on an annual basis. ACS provides a letter of representation each year regarding internal controls to the CEO, the Audit Committee and the Board; and</p> <p>ii. our internal control framework was completed in early 2008. In future, the Board will be able to review Management's assessment of internal controls using the agreed criteria and obtain reasonable assurance on the compliance with internal controls and the integrity of the system.</p>

Stated Standards in the Board Governance Policy	Progress Report as at end 2007
<b>Standard No. 12 - In control</b>	<b>Significant progress – completion in 2008</b>
<p>The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".</p> <p>(Note: The concept of being "in control" refers to a state where the Corporation's operations are subject to effective governance by the Board and are being managed in accordance with an ongoing strategic and risk management process in an appropriate control environment and where significant weaknesses related to those matters will be identified, addressed and brought forward to the Board's attention).</p>	<p>As noted in Standard No. 11, our ERM and internal control frameworks have been approved. Going forward, these will be the bases on which the Board will obtain reasonable assurance that the Corporation's operations are subject to effective governance and that the Corporation's operations are being managed in accordance with a risk management process in an appropriate control environment.</p> <p>The Board's Statement on Internal Control is in this Section, page 53.</p>
<b>Standard No. 13 - Strategic management process</b>	<b>Full compliance</b>
<p>The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation.</p> <p>To fulfill this responsibility, the Board will:</p> <p>i. periodically assess the Corporation's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister of Finance;</p> <p>ii. adopt a strategic planning process;</p> <p>iii. at least annually, approve operating objectives and strategies, the operating budget, capital budget, borrowing plan, corporate plan and premium rates that are appropriate and prudent in light of the Corporation's objects, current and anticipated environment, risks, resources and financial position;</p>	<p>The Board plays an important role in strategy-setting. In line with best practices, the strategic management process involves both the Board and Management, and the process is co-owned by the Board and Management. In 2007, the Board approved the new Corporate Plan 2008 - 2010 that sets out our strategic direction, objectives, priorities and financial plans for 2008.</p> <p>In this connection:</p> <p>i. the Board will periodically review the Corporation's objects and make recommendations, if warranted;</p> <p>ii. a strategic planning process has been adopted whereby the Board and Management annually set the strategic direction of the Corporation;</p> <p>iii. as part of the corporate planning process, Management develops a detailed Corporate Plan that sets out the operating objectives, assumptions used in the Plan, the strategies and budgets, including premium rates in line with the Corporation's objects, current and anticipated environment risks, resources and financial position, and this is approved by the Board. The Corporate Plan is released publicly to stakeholders and performance to set Plan is monitored and reported on;</p>



Stated Standards in the Board Governance Policy	Progress Report as at end 2007
iv. regularly evaluate the Corporation's performance in implementing its approved plans, and budgets; and  v. obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process.	iv. the Board is presented with quarterly performance reports which detail both the status of the financial position and performance to set approved initiatives. These are also considered by the Audit Committee at its meetings; and  v. the strategic management process has been set in place and ACS also reviewed and reported to the Board on the effectiveness of the strategic management process in 2007.
<b>Standard No. 14 - Effective communication</b>	<b>Full compliance</b>
The Board will ensure that the Corporation communicates effectively with the public, Bank Negara Malaysia ("BNM"), other statutory bodies or regulators, depositors, member institutions and other relevant parties.	The Board monitors the effectiveness of Management's communications with our stakeholders. See page 48 on Stakeholder Relations and Communications.
<b>Standard No. 15 - Review of Board Governance Policy</b>	<b>Full compliance</b>
The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject to, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.	In 2007, the Board reviewed the Board Governance Policy against the checklist contained in the "Governance in the Public Sector: A Governing Body Perspective" by the International Federation of Accountants (August 2001) ("IFAC Study") as well as the PMD Guidelines and found that it remains responsive to circumstances and the needs of the Corporation.

### COMMITTEES

The three Board committees are the Audit Committee, the Remuneration Committee, and the Governance Committee. In 2007, there were five Audit Committee meetings, three Remuneration Committee meetings and three Governance Committee meetings. The composition and details about the work of the Committees are set out in page 49.

### EVALUATION OF THE EFFECTIVENESS OF THE BOARD, COMMITTEES AND SKILLS GAP ANALYSIS

#### Process for Evaluation

The Board has a process to assess the effectiveness of the Board, its Committees and individual Board

members respectively. The process includes the completion of separate evaluation forms, developed by reference to their responsibilities and best practices. Under the process, which is led by the Chairman of the Board, each Board member fills in the evaluation forms and the Board then meets to assess the effectiveness of the Board and the respective Committees. For 2007, as for 2006, individual Board members have also completed the relevant evaluation form for the purposes of self-assessment of his or her performance as a Director.

### Annual Skills Gap Analysis

In line with best practices, the annual skills gap analysis has been carried out to ascertain that the Board has the appropriate mix of skills, qualifications and experience. The conclusion from our analysis is that our Board has the necessary mix of skills, qualifications and experience, having regard to the Corporation's needs and strategic direction. There is also a Board-approved policy that allows Board members and Committee access to expert advice, where needed, with related guidelines.

### STAKEHOLDER RELATIONS AND COMMUNICATIONS

In keeping with standards of good governance and transparency, we publish all our key policies and practices including our governance and ethics-related policies, procurement policy, Corporate Plans, Annual Reports, by-laws and Board Committee Charters.

To promote accessibility to information, we are committed to a language regime that responds to public needs, i.e. generally the four major languages, more if appropriate. We also adopt a policy to consult extensively on all key regulations having an impact on stakeholders. This is intended to allow our stakeholders and the public to make comments on the same, and to ensure transparency in our decision-making process.

In 2007, we carried out the first of the following regular initiatives:

- Annual Dialogue with member institutions following the release of our Annual Report;
- Malaysia Financial Exhibition 2007; and
- Corporate Outreach (outside Kuala Lumpur).

The Board has also put in place an Integrated Communications Plan for 2007-2011, which will be reviewed in 2008. As a matter of practice, the Board also receives regular updates on the Corporation's public awareness initiatives at Board meetings. The Board also receives reports on the consultation processes and approaches in developing regulations and policies, and ACS conducted its audit on this process in 2007.

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

### ACCOUNTABILITY AND AUDIT

#### Financial Reporting

The Corporation has adopted the Financial Reporting Standards ("FRS") by the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and must ensure that the Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements.

The Statement of the Directors' opinion on the financial statements' compliance with relevant standards or requirements, and Management's statutory declaration with regard to its responsibility for the financial statements, are found in Section IV of this Annual Report.

#### Internal Control

The Corporation's Statement on Internal Control is described on page 53 of this Annual Report.

#### Relationship with Auditors

The Auditor General ("external auditor") audits our financial statements, as required by the MDIC Act and in accordance with the Audit Act 1957. Through the Audit Committee, we have established a transparent relationship with the Corporation's external auditors. The external auditors are entitled to receive notice of each of the Audit Committee meetings under its Charter and to receive all reports provided to the Audit Committee in advance of meetings. In 2007, they attended four out of five Audit Committee meetings held. The external auditor's fees charged to the Corporation are shown on page 119 of this Annual Report<sup>6</sup>.

#### Statement of Compliance with Law and Ethics

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

<sup>6</sup> Note 12 of the Financial Statements

### COMMITTEE REPORTS

All the Committee Charters are found in the Appendix to this Annual Report and each Charter sets out the size, composition and qualifications of members as well as its principal responsibilities. As a matter of practice, at each Committee meeting, the Committee tracks its progress against its principal responsibilities in its Charter, and sets out its action plans. The reports of the Committees are found below.

### REPORT OF THE AUDIT COMMITTEE ("AC")

#### Members and Attendance at meetings

Audit Committee members	No. of meetings attended
Datuk Dr. Abdul Samad bin Haji Alias (Chairman)	5 / 5
Dato' Sri Dr. Sulaiman bin Mahbob (w.e.f. 12 June 2007)	1 / 2
Mr Michael Wong Kuan Lee	5 / 5
Tan Sri Dato' Sri Izzuddin bin Dali (January-February 2007)	-

#### The AC Charter

The Charter is set out in the Appendix. The AC must meet at least four times a year and must satisfy itself that the financial statements follow approved accounting principles and give an accurate account of the Corporation's financial affairs in as comprehensible a way as possible. It must also satisfy itself that the internal and external auditors have no cause for concern about any aspect of the accounts or of the Corporation's control and audit procedures. It advises the Board on other financial reporting, accounting and internal control issues as well as financial management. The AC also plays a significant risk oversight function.

### Summary of Activities

The following are some of its key activities during 2007 against principal responsibilities, conducted or provided:

#### Financial reporting

- the review of draft and final financial statements, the significant accounting policies followed by the Corporation, the notes to the financial statements, the Management's Discussion and Analysis and other parts of the Annual Report, the report of the external auditors' financial statements, as well as the Directors' resolution to approve financial statements for recommendation to the Board.

#### Financial reporting processes, accounting policies and internal control structure

- regular reviews of quarterly financial reports and reporting to the Board;
- regular review and tracking of quarterly performance to Corporate Plan 2007-2009 and reporting to the Board;
- the review of the Corporate Plan 2008-2010 and recommended it for Board approval;
- the review of the Policy on Procurement, Contracting and Outsourcing;
- the review of significant accounting policies;
- oversight of the management audit by the external auditors;
- the review and recommendations for changes to the Corporation's capitalisation and assets and depreciation policy;

#### Financial management oversight

- the review of the Statement on Internal Control for the Annual Report;
- the oversight of the budget 2007 and the semi-annual reviews of corporate officers' expenses;

#### Internal audit

- the review of the ACS Charter and Audit Plans and recommended the same for Board approval, as well as the review of ACS overall performance;

- the review of the Internal Control Framework which is intended to ensure the integrity of the internal controls in the Corporation;
- the regular review of ACS reports on nine specific areas on internal control, and the review of and ensured the appropriate and prompt remedial actions have been undertaken by Management within an appropriate time frame to implement agreed action plans following the audits, and tracked progress;

#### Risk management

- a discussion, with Management of the significant risks within the Corporation and provided directions on the ERM project. The AC also provided input on the significant risks to the Corporation and the respective risk mitigation plans to address those risks and made recommendations to the Board on the significant risks to the Corporation, the respective risk mitigation plans to address those risks and the ERM oversight structure;

#### Ethical and legal compliance

- the review of the Conflict of Interest Code and refinements to the same and recommending the same to the Board for approval; and
- the review of the Corporation's compliance with law and ethical matters.

### REPORT OF THE REMUNERATION COMMITTEE ("RC")

#### Members and attendance at meetings

Remuneration Committee members	No. of meetings attended
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (Chairman)	3 / 3
Tan Sri Dato' Seri Haji Mohd Azmi bin Dato' Haji Kamaruddin	2 / 3
Mr Michael Wong Kuan Lee	3 / 3

### The RC Charter

Its Charter is set out in the Appendix. The RC must meet at least twice a year and is required under the Charter to review and make recommendations to the Board on a range of human resource issues, such as compensation, compliance with human resource-related legal requirements, personnel policies, training, succession planning, complaints and other human resource-related matters.

### Summary of Activities

Among the RC's main areas of business during 2007, against its principal responsibilities, were:

#### Policies and strategies

- reviewing the key human resources policies and strategies including the competency framework, succession planning framework for Management and the annual training programme and generally overseeing progress against the development of a human capital strategy, in particular, initiatives for a conducive work environment. These initiatives include, for example, an employee voice survey, as well as initiatives to encourage buy-in to our corporate values;
- carrying out the annual review of the compensation philosophy to ensure that it is in line with the Corporation's business model and in line with the need to attract and retain talents, assessing changes in the market in terms of salary, and recommending to the Board for approval, any required changes;
- ensuring there are ongoing policies and procedures for employee conduct and behaviour, including, the review of the Policy on Workplace Harassment, and disciplinary and grievance procedures;
- reviewing and recommending for Board approval, certain other programmes such as the work-life balance coaching programme, and the rewards and recognition programme;



#### Compliance and reports

- considering the annual report on compliance with human capital-related laws and key policies;

#### Bonus awards

- reviewing the implementation of the Board-approved performance management policy, again in line with the needs and work culture of the Corporation and approving bonuses (other than the CEO's) in line with its Charter;

#### CEO objectives and evaluation

- reviewing the annual KPIs for the CEO for 2008 and recommending them for Board approval; and
- overseeing and reviewing the performance of the CEO to KPIs 2007, and recommending bonus award, if appropriate, for Board approval.

### **REPORT OF THE GOVERNANCE COMMITTEE ("GC")**

#### **Members and attendance at meetings**

Governance Committee members	No. of meetings attended
Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)	3 / 3
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz	2 / 3
Dato' Sri Dr. Sulaiman bin Mahbob (changed w.e.f. 12 June 2007)	2 / 2 meetings until rotation from the GC onto the AC
Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah (appointed w.e.f. 12 June 2007)	1 / 2 meetings held since appointment onto the GC

#### **The GC Charter**

Its Charter is set out in the Appendix. The GC's principal responsibilities include ensuring that appropriate structures and processes are in place

to provide effective oversight of and direction for the Corporation's activities. It must meet at least twice a year. Among its primary roles are: ensuring the establishment of best practice governance policies and high governance standards, reviewing the appropriate balance of skills, experience and knowledge on the Board and identifying skills gaps, as well as recommending future appointments for non *ex-officio* positions on the Board.

#### **Summary of Activities**

During 2007, the GC, in respect of its principal responsibilities:

#### Corporate governance oversight

- conducted its annual review of our approach to corporate governance issues. In particular, it reviewed the Board Governance Policy, the documentation on the respective roles and responsibilities of the Board, the Chairman and the CEO and the standards expected of them as well as the set of Corporate By-Laws that regulate the conduct of the affairs of the Board to ensure that they remained current and relevant;
- made recommendations on the policy regarding Director tenure, retirement and succession;
- operationalised the policy for Board Committees and Directors to engage separate independent counsel or other advisors at the Corporation's expense;
- kept updated on corporate governance developments locally and internationally. It noted the issuance of the PMD Guidelines, as well as revisions to the "Malaysian Code on Corporate Governance" and the co-publication of the paper "National Integrity System - A Guiding Framework" by the Malaysian Institute of Integrity and the United Nations Development Programme. The GC reviewed our governance against the PMD Guidelines' checklist and noted that we comply in all significant respects. Although the PMD Guidelines checklist suggests a 'governance meeting' every quarter led by

the CEO, we note our practice of holding three GC meetings in a year led by the Chairman of the Governance Committee, together with all our processes to report on governance to the Board, is in line with governance best practices;

- continued to benchmark the Board's and the Corporation's governance policies and practices against international best practices. It again reviewed our governance progress against the checklist contained in the IFAC Study;

#### Evaluation of Board operations and Board Committees

- prepared and recommended the yearly agenda planner for Board and Committee meetings in terms of frequency and location and agenda items, in advance, and made recommendations to the Board;
- reviewed the documentation on the respective roles and responsibilities of the Board, the Chairman and the CEO as well as the standards expected of them, and the set of Corporate By-Laws that regulate the conduct of the affairs of the Board to ensure that they remained current and relevant;
- effected the Board methodology for evaluation of the Board, its members and Committees, and reviewed it for 2007;

- developed the methodology for the Board to evaluate Management's support to the Board, in particular, in terms of the sufficiency, relevance and timeliness in the manner in which information is provided to the Board, so that the Board may make informed decisions;

#### Board nominations

- implemented the Board-approved process for a skills gap analysis, and developed and recommended the Board Policy on Tenure, Retirement and Succession, to the Board;
- considered our policy on rotation of Board Committee members and rotated Committee members to address the retirement of an *ex-officio* member; and

#### Reporting and disclosure

- reviewed reports on governance that may be required or be advisable for disclosure in the Annual Report for approval of the Board.

#### Other activities

It also:

- recommended the Board Education Programme for Board approval; and
- considered and recommended for Board approval, the policy on Corporate Social Responsibility for the Corporation and received reports on the implementation of the same.



### OVERVIEW

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

### RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for maintaining sound systems of internal control. This Board's role is to oversee the conduct of the business to see that it is properly managed, and to ensure reliable financial reporting. It is responsible for the review of the adequacy and integrity of the internal control systems and management information systems, including systems for compliance with applicable laws and regulations and for proper safeguarding of the Corporation's assets. Standards No. 11 and 12 of our Board Governance Policy set out the expectations from the Board in this regard.

The Board and Management also acknowledge that the growing size and complexity of its business operations necessitate the managing of a wide and diverse spectrum of risks. Standard No. 10 of the Board Governance Policy sets out the Board's and Management's respective roles and responsibilities in respect of the identification, assessment and management of the Corporation's risks.

Over the year, the Corporation has developed the Corporation's ERM framework to identify and to assess the risks of the Corporation. Consequently, suitable internal controls have been designed to mitigate and manage these identified risks. In 2007, the Board reviewed the ERM framework and related processes. The ERM framework has been

implemented as a concerted and continuing effort by all employees throughout the financial year under review. Page 79 of this Annual Report elaborates.

### KEY INTERNAL CONTROLS

#### The Audit Committee

The principal responsibilities of the AC are set out in its Charter, in the Appendix to this Annual Report. The Statement on Governance, on page 39 contains the report on the AC and its work.

#### The Audit and Consulting Services Division

The AC is supported by the ACS Division. ACS provides the Board with an independent and objective assurance with regard to the monitoring of, and compliance with internal controls and the integrity of the system. It also helps the Board ensure that appropriate actions are being taken to address any significant weaknesses or breakdowns, if identified. ACS evaluates and makes recommendations on the effectiveness of controls, risk management, business and governance processes implemented by Management and makes recommendations for improvement, if any.

ACS also performs risk-based auditing and provides consulting services in accordance with the Board-approved audit plan.

During the financial year under review:

- regular internal audits were carried out. On a quarterly basis, ACS reported the outcome of the audits conducted and highlighted the effectiveness of the systems of internal control and significant risks. The AC reviewed and evaluated the key issues raised by ACS in the audit reports. It then ensured that plans to take remedial actions were put in place and

implemented by Management within the planned timeframes. ACS provides periodic reports to the AC on the status of the implementation of Management's agreed action plans;

- the AC carried out its annual review of overall performance and operations of ACS for 2007, as required by its Charter. This ensures that ACS will continue to function effectively and that its performance against the planned audit and consulting work is monitored;
- the AC also reviewed feedback from auditees and recommendations on each audit performed; and
- with the implementation of the Corporation's ERM framework, the Board has also approved ACS Audit Plan for 2008 to 2010, which applies a risk-based approach to audit planning. The Audit Plan 2008 to 2010 is driven by:
  - the Corporation's business processes with high inherent risk exposures but low level of controls;
  - the Corporation's initiatives which are key to achieving the objectives of the Corporate Plan 2008-2010; and
  - the Corporation's operations and processes identified through the ERM exercise, in particular those with increasing risk exposures.

#### The Internal Control Framework

The Board and Management have acknowledged that, to maintain a sound system of internal control, an internal control framework would need to be developed, designed and implemented. Part of the key initiatives for 2007 was the development of this internal control framework. The objective of this framework is to:

- manage the risk of failure to achieve the Corporation's objectives; and

- allow the provision of reasonable, rather than absolute, assurance against any material misstatements or significant losses.

The Corporation's Internal Control Framework was developed in 2007 and completed in early 2008. It was based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") Internal Control-Integrated Framework. Going forward, the Internal Control Framework would provide a systematic methodology to evaluate the state of the Corporation's system of internal control.

### INTERNAL CONTROL ENVIRONMENT OF THE CORPORATION IN 2007

In 2007, the following additional work was carried out as part of our system of internal control:

- we reviewed the existing organisation structure and employees' job functions. This is to ensure that there was a proper segregation of duties and delineation of functions, and a system of checks and balances;
- we continued to promote an internal control culture. We focused, in particular, on training and educating employees with regard to our corporate values, the Conflict of Interest Code, the Code of Business Conduct and Ethics, as well as requirements for declaring personal assets and liabilities, the Policy on Workplace Harassment and the disciplinary and grievance proceedings;
- we implemented a programme to ensure compliance with applicable laws and regulations. This entails a yearly compliance review and the submissions of compliance statements from relevant heads of Divisions;



- the Board Committees continued to carry out their work against their principal responsibilities set out in their Charters in the Appendix of this Annual Report;
- the Executive Management Committee meetings continued to be held regularly on operational issues at Management level. We have also established several key operational committees, such as the Information Technology Steering Committee, the Asset Liability Committee and the Enterprise Risk Management Committee. This is to ensure and facilitate the effectiveness of key areas of the Corporation's operations;
- we documented key financial and operational policies and procedures to ensure compliance with internal controls and applicable laws and regulations, and ensured regular review of the same. These policies and procedures have been communicated to all employees through internal circulars or memoranda. We also reviewed or enhanced policies that were put in place earlier;
- we followed our strategic management framework in developing our Corporate Plan, which included our ERM system. The Board and Management held a session to discuss the strategic direction of the Corporation and agreed on the corporate objectives, key assumptions, priorities and activities for the planning period;
- the Corporation's annual budget for 2008 was prepared in line with the Corporate Plan 2008-2010 and tabled to the Board for approval;
- as before, the Board continued to receive comprehensive information that is relevant and timely to help them make more informed decisions. Board members received reports on

the Corporation's actual performance against budget on a quarterly basis, with Management providing an explanation of any key variances. These are reviewed by the Board as well as the AC. The Board has also put in place a process for the Board to evaluate its satisfaction with the timeliness and manner in which it receives information and the information received;

- through the RC, the Board monitored the development of more key Human Capital policies and procedures, such as the training and development plans, and the employee voice survey. The Board also approved the succession management and the competency frameworks. These are to promote a high performance culture, to allow for employee development, to ensure plans are in place for succession and to promote a conducive workplace in line with the Corporate Plan 2007-2009;
- the Insurance, Risk Assessment and Monitoring Division continued to monitor our operating environment and financial condition of member institutions, and the Board received regular reports;
- the Corporation's KPIs for initiatives that support the achievement of the Corporate Plan 2007 to 2009 have been published, issued to stakeholders and posted on the Corporation's website. The KPIs would drive the Corporation in meeting its performance targets while managing risks and maintaining high standards of governance and internal controls.

#### STATEMENT ON EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

The Board has reviewed the effectiveness of the Corporation's systems, policies and processes which were implemented in 2007; the achievement of the Corporation's initiatives for 2007; the development and implementation of the ERM framework. In addition, in early 2008 the Audit Committee conducted a final review on Management's assessment of its internal controls as of 31 December 2007 using the criteria set out in the Internal Control Framework. All these formed part of the Corporation's systems of internal controls.

The Board's review was based on the reports from various Board Committees and Management and its review work included the following:

- the Board considered, on a regular basis, the reports of various Board Committees. These included the report on the review by the AC of the Corporation's financials, compliance with laws and ethics and effectiveness of controls embedded in a system or process audited by ACS; and the reports through the RC on compliance with key human capital policies and related laws; and the GC report, contained in the above Statement on Governance, on compliance with key governance policies;
- the Board considered, on a quarterly basis, the Corporation's financial reports which are also regularly provided to the Treasury;
- the Board considered, on a quarterly basis, the utilisation of resources, compared with the approved budget;
- the Board considered, on a quarterly basis, the update and progress of Management's overall performance against approved initiatives

as set out in the Corporate Plan as well as Management's assessment of internal and external factors that may impair the performance of the Corporate Plan; and

- the Board considered, on a quarterly basis, the update on the Corporation's risks and measures to mitigate risks.

Based on the systems, policies, processes and frameworks that have been put in place, the Board is pleased to report that the Corporation's system of internal control was operating effectively in 2007, given the Corporation's stage of development and given the current extent of our operations. The Board is also pleased to report that, for the year 2007, there was no reported incidence of weakness or deficiency in the adequacy and integrity of internal controls embedded in the Corporation's systems, policies and processes.

This statement is made in accordance with the Board's resolution dated 18 February 2008.





A photograph of four children playing tug-of-war on a grassy hill under a clear blue sky. The children are wearing orange and black shirts with 'NDM' on them. They are pulling on a thick rope. The hill is covered in green grass, and the sky is a solid blue color.

## SECTION III: MANAGEMENT'S DISCUSSION AND ANALYSIS





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OUR OPERATING ENVIRONMENT



Our statutory objects are as follows:

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

In pursuing paragraphs (2) and (4), we are to act in such manner as to minimise costs to the financial system.

Our mandate requires that we monitor and assess our operating environment, so that we can properly manage the inherent risks of deposit insurance.

Accordingly, our Management's Discussion and Analysis ("MD&A") includes a survey of our operating environment. This covers a brief review of the economic environment and an overview of the state of our member institutions in 2007.

### ECONOMIC ENVIRONMENT AND TRENDS

Malaysia's economic growth in 2007 remained good and the financial system remained sound. Amidst a protracted slump in exports and with limited impact from the sub-prime mortgage crisis

in the US, private consumption spending remained the key growth driver, with support coming from a recovery in investments.

Going forward, there are certain risks, in that prospects for Malaysia in 2008 depend on the extent of the slowdown in the US. Given the potential for a sharp pull back in US economic growth, the current slump in manufacturing exports would likely continue. Weaker outlook for advanced economies aside, high oil prices and turbulence in global financial market could further affect the economy. Domestically, inflationary concerns could pose another major policy challenge.

Nevertheless, we expect that Malaysia should show continuing resilience. With a strong reserves position, a solid financial system and the scope for policy adjustments, we believe Malaysia to be well placed to cope with adverse external developments.

Overall, with consumer spending and investments in the various Corridors mitigating the slump in manufacturing exports, economic growth is still likely to hold up in 2008. Underpinned by resilient domestic demand and barring unexpected circumstances, the operating environment for the banking sector should remain favourable.

### OVERVIEW OF THE MEMBERSHIP IN 2007

Overall, it was a good year for the banking industry, supported by a favourable operating environment and prudent lending practices.

#### Membership Composition

As at end December 2007, our membership comprised 33 banking institutions - 11 Islamic banks and 22 commercial banks ("member institutions"). Asian Finance Bank Berhad was our latest member, effective January 2007. We expect the number of member institutions to increase in 2008, as more Islamic subsidiaries are established by parent banks.

Table 3: List of member institutions as of end December 2007

#### Islamic banks

1. Affin Islamic Bank Berhad
2. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
3. Amlslamic Bank Berhad
4. Asian Finance Bank Berhad
5. Bank Islam Malaysia Berhad
6. Bank Muamalat Malaysia Berhad
7. CIMB Islamic Bank Berhad
8. EONCAP Islamic Bank Berhad
9. Hong Leong Islamic Bank Berhad
10. Kuwait Finance House (Malaysia) Berhad
11. 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. CIMB Bank Berhad
10. Citibank Berhad
11. Deutsche Bank (Malaysia) Berhad
12. EON Bank Berhad
13. Hong Leong Bank Berhad
14. HSBC Bank Malaysia Berhad
15. J.P. Morgan Chase Bank Berhad
16. Malayan Banking Berhad
17. OCBC Bank (Malaysia) Berhad
18. Public Bank Berhad
19. RHB Bank Berhad
20. Standard Chartered Bank Malaysia Berhad
21. The Bank of Nova Scotia Berhad
22. United Overseas Bank (Malaysia) Berhad

### Performance in the Banking Sector in 2007

Overall, the banking industry in Malaysia has shown a strong performance. A benign operating environment and prudent lending practices supported member institutions' overall performance. The industry showed improvements in terms of asset quality. There was ample liquidity, sufficient capital and strong earnings growth.

The key trends in 2007 were as follows:

- There was a general improvement in asset quality, with the reduction in non-performing loans ("NPLs") and a downward trend in residential property defaults. Leading indicators such as loans past due ("LPD") for two to three months as a percentage of gross loans ("LPD ratio") also showed an improving trend. This

was supported by a strong loans growth of 8.8% in 2007 (2006: 6.2%) and, more significantly, the steady contraction of both the absolute NPLs and LPDs.





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OUR OPERATING ENVIRONMENT

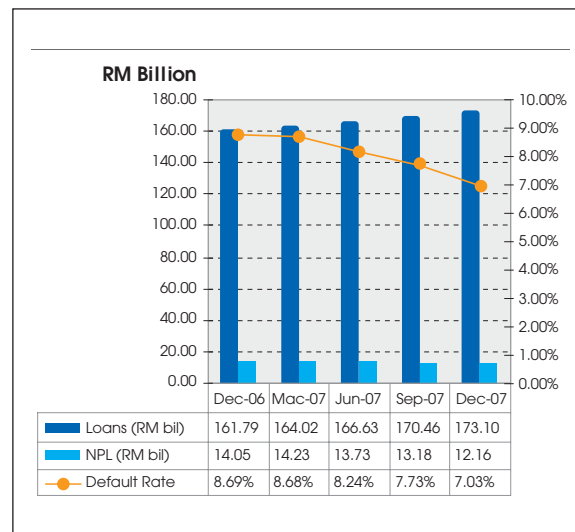


Chart 1: Default trend for residential property lending<sup>1</sup>

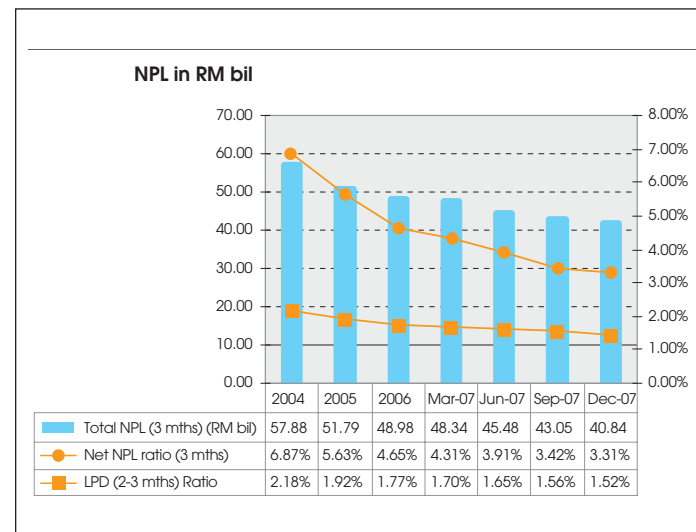


Chart 2: NPL trend from 2004 to Dec 2007<sup>1</sup>

- As a whole, the risk-weighted capital adequacy ratio ("RWCR") remained strong, above the minimum 8% regulatory requirement. Whilst the strong growth in risk-weighted assets<sup>2</sup> led to a gradual decline in overall RWCR, improvements in asset quality appear to have led to more

efficient capital management. In this regards, supplementary capital grew, as a percentage of capital base, from 19.4% as at end December 2006 to 22.7% as at end December 2007.

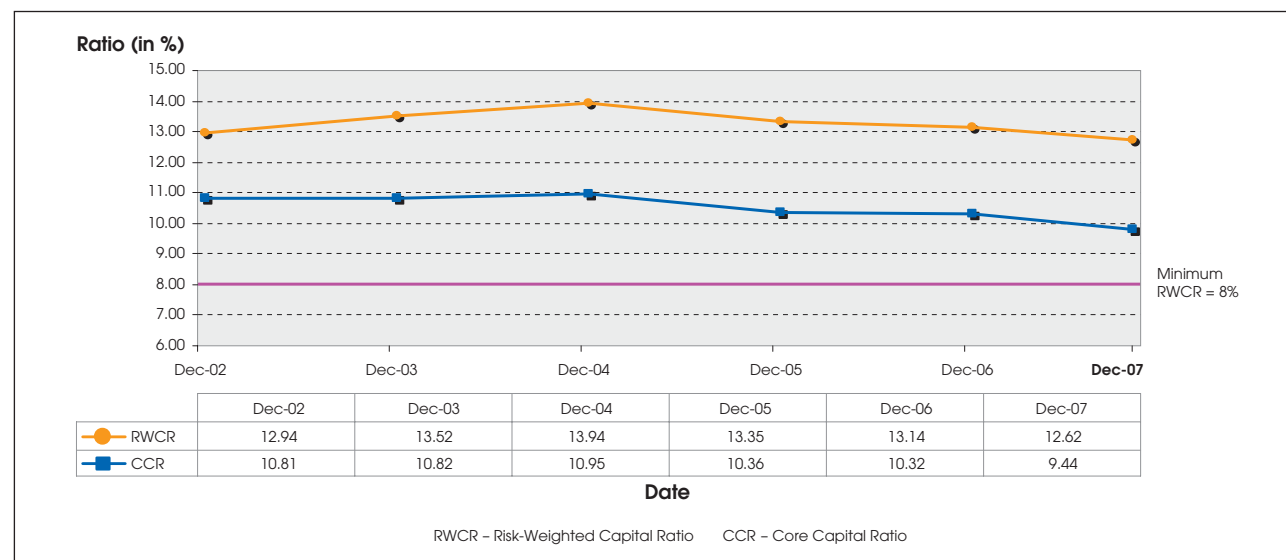


Chart 3: Trend of main capitalisation indicators<sup>1</sup>



- Earnings continued on an uptrend. Member institutions reported a return on equity ("ROE") of 18.5% for 2007, compared with 15.1% recorded in 2006. This was largely due to a slower growth in capital (equity) with share

buybacks by certain member institutions and the increase in supplementary capital. Return on assets ("ROA") also improved gradually to 1.52% in 2007 after a low of 1.30% in 2006.

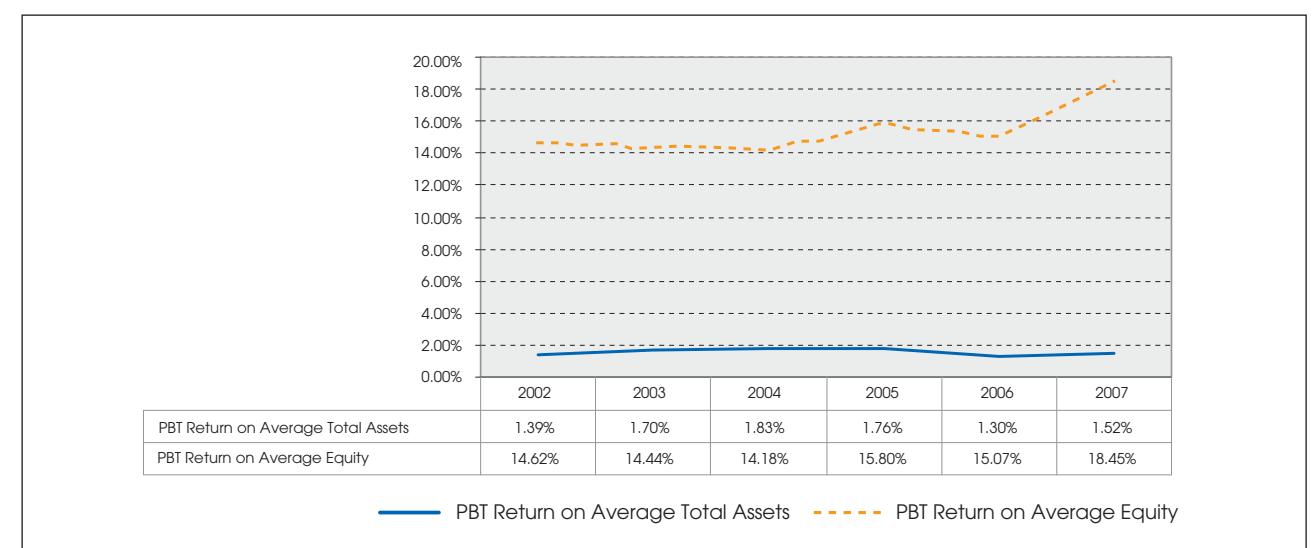


Chart 4: Yearly trend of ROA and ROE<sup>1</sup>

<sup>1</sup> Source: Financial Institution Statistical System (FISS), Bank Negara Malaysia

<sup>2</sup> About 14% till December 2007





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OUR OPERATING ENVIRONMENT

- All member institutions complied with Bank Negara Malaysia ("BNM")'s New Liquidity Framework in 2007. The large number of negotiable instruments of deposit ("NIDs") maturing during the year accounted for an erratic trend in customer deposit growth. As a result, total customer deposits grew by only 6.9% in 2007, compared with 16.4% in 2006. As a consequence of the lower deposits growth and strong loans growth, the loan-to-deposit ratio inched up to 77.6% as at end December 2007 (end December 2006: 76.3%).

### Islamic banking

- Overall, the Islamic banking industry performed strongly. Total assets in the Islamic banking business inched up to 13.2% of total industry as at end December 2007 (end December 2006: 12.3%). It is expected that the momentum will continue in the coming years. However, the growth in net securities was much higher than the growth in financings, indicating strong progress in the Islamic capital and money markets compared with traditional financing products. During the year, one new Islamic



bank commenced operations and most Islamic banking windows were converted into full-fledged Islamic subsidiaries. A number of locally-incorporated foreign banks also expressed interest in setting up their own Islamic subsidiaries with some receiving BNM approvals. We expect the growth in Islamic banking activity to continue.

Table 4: Selected indicators in the Islamic banking business

	2004	2005	2006	2007
Islamic assets to industry total assets	10.69%	11.45%	12.31%	13.19%
Financings growth	28.93%	8.80%	9.03%	16.58%
Financings to total assets	68.17%	64.67%	57.83%	56.53%
Risk-weighted capital ratio	12.66%	14.39%	16.74%	15.38%
Net non-performing financing (NPF) ratio (3-month)	7.24%	6.87%	4.87%	3.31%
Return on average assets (ROA)	1.03%	1.23%	0.56%	1.30%

Source: Financial Institutions Statistical System (FISS), Bank Negara Malaysia

### Deposits and premiums

In line with the growth in total deposits of 16.4% in the assessment year 2007 (based on numbers as at end December 2006), total insurable deposits recorded a growth of 11.6%. Out of this, 30.9% was insured by the Corporation amounting to RM179 billion. This comprised Islamic deposits of RM17.5 billion (9.8%) and conventional deposits of RM161.5 billion (90.2%). Charts 5 and 6 exhibit the size and growth in premiums and the total insurable deposits insured by PIDM.

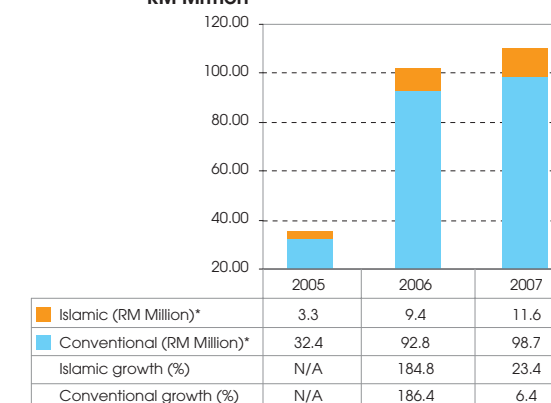
All member institutions paid their annual premiums by 31 May 2007, apart from the newly licensed Asian Finance Bank, which made its first premium payment in February 2007. In line with the increase in total insured deposits, the total premiums collected also grew by 7.9% to RM110.3 million (assessment year 2006: RM102.2 million). Islamic premiums increased by 23.4% to RM11.6 million (assessment year 2006: RM9.4 million) and conventional premiums by 6.4% to RM98.7 million (assessment year 2006: RM92.8 million).

### Conclusion

In conclusion, our member institutions are performing well with increased business activities and prudent risk management practices. In addition, Islamic banking is expected to grow strongly in the coming years, in line with the conducive operating environment supported by accommodating Government policies. Meanwhile, the Deposit Insurance Funds are on the uptrend with strong growth in premiums amidst good customer deposit growth.



RM Million



\* Premiums collected in 2005 was for a period of four months (September to December 2005)

Chart 5: Size and growth of premiums

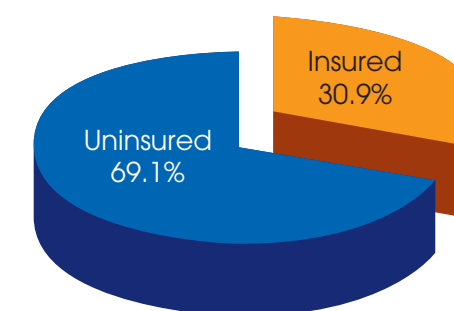


Chart 6: Total insured deposits to total insurable deposits



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2007 OPERATIONS AND ACHIEVEMENTS

From day one, we have focused on building a performance-driven organisation with the right culture. Accordingly, we attach great importance to our three-year rolling Corporate Plan. So that our stakeholders can assess our progress, we have set out key performance indicators ("KPIs"), against which we report each year. To date, we have made significant progress<sup>1</sup>. We believe our accomplishments speak for themselves.

This section is our review of our operations for 2007 and our achievements against our Corporate Plan 2007-2009. Overall, we made excellent progress in carrying out all of our key initiatives and engaging in other initiatives beyond those planned for the year.

### REVIEW OF OPERATIONS

#### Towards Fulfilling Our Mandate

Our strategic thrusts remain the same as in previous years, namely: readiness, sound business and financial practices, effective public awareness, and strong partnerships. Our KPIs and initiatives support our strategic thrusts and corporate objectives, which ultimately supports the achievement of our mandate. Our corporate objectives, described from the Balanced Scorecard's four perspectives, are as follows:

Stakeholders	<b>Well managed and well governed organisation</b> <b>Educated and informed stakeholders</b> <b>Effective partnerships</b>  Stakeholders' confidence in the Corporation is integral to the effectiveness of the deposit insurance system. Therefore, we need to demonstrate that we are well governed and well managed through our business conduct and by adhering to sound governance practices. We shall continue to engage all stakeholders - to educate them on the deposit insurance system through public awareness and educational programmes as well as to consult them when developing our regulations. We shall also continue to work in close collaboration with our member institutions, regulators and supervisors, other deposit insurers and key suppliers so that we may carry out our initiatives effectively and efficiently.	<b>Competent and knowledgeable workforce</b> <b>Conducive corporate environment</b>  Given our role as the nation's deposit insurer, it is important to ensure that we have the necessary skills and capabilities to accomplish our initiatives and goals. Our employees are our most important assets. Therefore, we will provide the appropriate incentives to attract and retain the right people with appropriate and relevant management skills, experience and attitude. We are committed to provide our employees with opportunities for ongoing training and development so as to meet their full potential. We shall also inculcate the appropriate corporate culture and values as well as provide a safe, healthy and harassment-free work environment.	Learning and Growth
	<b>Optimal use of resources</b>  As a public body accountable to our stakeholders, we shall make optimal use of our resources through prudent financial stewardship and by properly managing and deploying our assets, human capital and intellectual property.	<b>Operational excellence</b>  To promote confidence and to effectively administer our deposit insurance system, we shall continue to implement and keep current sound policies, systems, processes and procedures based on relevant domestic and international best practices.	
Financial			Internal process

#### Building on Our Strengths - What We Have Achieved in 2007

Our strategic direction for 2007 was to continue our focus on achieving best practices in governance and operations, working at the same time towards the achievement of our corporate objectives. Work naturally continued on developing our people, and a conducive work environment and culture.

### OUR VISION

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

<sup>1</sup> See Section I on the history of PIDM





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2007 OPERATIONS AND ACHIEVEMENTS

NOTE

<b>G</b>	Progressing as scheduled; and/or within budget.
<b>A</b>	Target achieved/initiative completed.
<b>Y</b>	Not yet initiated/future date.
<b>R</b>	Time-slippage to completion; and/or below target; and/or >±10% (full year) budget variance.

Highlights of our accomplishments for the year 2007 are as follows:

	Corporate Objectives		KPIs	Target 2007	Result Dec-07	Remarks
Stakeholders	A Well governed and well managed organisation.	1	Board assessment on: a. Best practices of governance adopted  b. Management practices adopted c. Compliance with significant policies d. Timeliness and relevance of information and quality of recommendation provided by Management for the Board to make informed decisions and fulfill responsibilities	High satisfaction  High satisfaction 100% High satisfaction	<b>A</b>  <b>A</b> <b>A</b> <b>A</b>	Governance practices include all key governance policies on business conduct developed and implemented to date. Considerable progress has been made against best practice standards as set out in our Board Governance Policy. (See our Statement on Governance, page 39 of this Annual Report.) Received a Certificate of Merit from the National Annual Corporate Report Awards Committee for our Annual Report 2006. External auditor's rating following a management audit was "Very Good", a top rating.  Our Board assessment on management's support in terms of information provision.
		2	Engagement and responsiveness to other stakeholders' needs	Develop feedback mechanism & establish baseline	<b>A</b>	We consult our key stakeholders to obtain feedback on key policies and regulations. Our Annual Reports and Corporate Plans are publicly released and we forward a copy to our key stakeholders and outline the highlights of the Corporate Plan and our performance to it.
		3	Successful completion of key initiatives: a. Development of a Crisis Communication Management framework b. Development and implementation of an Enterprise Risk Management (ERM") framework: i. Introduction and buy-in programme ii. Development of an enterprise risk management foundation and governance process iii. Initial high level risk identification and assessment c. Development and implementation of an Internal Control framework d. Development of a Succession Management framework for the Board	Complete	<b>A</b>	This provides guidance to manage communication in any event of crisis.
				Complete	<b>A</b>	The introduction and buy-in process include ERM project kick-off and awareness sessions at all levels.
				Complete	<b>A</b>	This includes the development of the ERM framework and operational processes as well as the governance process and structure.
				Complete	<b>A</b>	Identification of the corporate-wide significant risks affecting the Corporation.
	B Educated and informed stakeholders.	4	Public Awareness Index	30%	<b>R</b>	Public awareness of deposit insurance has increased to 15% in 2007 from 13% in 2006. Although it fell below the 30% targeted mark, two segments have increased substantially. (The Professionals, Managers, Executives segment increased to 35% and Degree/Masters/PhD/Professional qualification segment increased to 31%).
				Implement	<b>A</b>	Launched a comprehensive advertising campaign with key messages to raise public awareness and education.
				Implement	<b>A</b>	See public initiatives discussion on page 139 of the Annual Report.
	C Effective partnership	6	PIDM's relationship with: a. Bank Negara Malaysia  b. Member institutions  c. Suppliers d. International deposit insurers	Strong	<b>A</b>	Our relationship with BNM is strong, with a formal strategic alliance agreement with BNM in place. We monitor performance to expectations and hold periodic meetings with representatives of BNM. Rely extensively on BNM for effective regulation and supervision of members and for other support such as investment management services.
				Satisfactory	<b>A</b>	Since 2007, annual dialogues will be held to allow members to discuss matters with PIDM, following our release of the Annual Report. Consult extensively on proposed regulations and conduct training on deposit insurance.
				Strong	<b>A</b>	Established an initial base of key suppliers and have good working relationships with our suppliers.
				Strong	<b>A</b>	Strong ties with members of the International Association of Deposit Insurers ("IADI"). Our CEO was the President and Chairman of the Executive Council, of IADI since its inception until November 2007. He has been asked on many occasions to provide technical assistance and advice on deposit insurance matters. Leveraged on these links with other members with study visits to experienced deposit insurers for knowledge transfer.
		7	International recognition	Develop mechanism & establish baseline	<b>A</b>	Actively participated in international forum.
		8	Successful completion of key initiatives: a. Establishment of a base of strategic partners b. Hosting of IADI 6th Annual Conference	Develop	<b>A</b>	Established and continued to develop a base of strategic partners as part of our operational readiness.
				Complete	<b>A</b>	Successfully hosted the 6th IADI Annual Conference in Kuala Lumpur, held between 31 October 2007 and 1 November 2007, and which involved a total of 232 delegates from 43 countries.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2007 OPERATIONS AND ACHIEVEMENTS

		Corporate Objectives		KPIs	Target 2007	Result Dec-07	Remarks	
Financial	D	Optimal use of resources.	9	Actual vs. approved Budgets	±10% variance	A	Since establishment, we have conducted our business and affairs based on a set strategic direction that is further detailed in our Board-approved annual Corporate Plan. This is complemented by sound financial and investment policies and procedures with embedded internal controls and regular monitoring of budget utilisation. We have met or exceeded our forecasted plans and completed our planned initiatives on budget, having achieved a budget variance of +9%. Regular financial reports are provided to the Audit Committee and the Board of Directors. All our Annual Reports have been submitted to the Minister of Finance before 31 March each year, for tabling in Parliament.	
			10	Successful completion of key initiatives: a. Implementation of an ALCO framework	Implement	A	A committee was established to monitor PIDM’s assets and liabilities as well as our exposure to financial risks.	
Internal Process	E	Operational excellence.	11	Internal control compliance	Establish baseline	A	See Statement on Internal Control, on page 53 of this Annual Report.	
			12	Successful completion of key initiatives: a. Development and implementation of Differential Premium Systems (“DPS”): i. Issuance of a consultation paper on DPS ii. Development of DPS Regulations  b. Development and implementation of comprehensive Risk Assessment and Monitoring frameworks i. Phase 1 - Basic infrastructure  c. Development of comprehensive Intervention and Resolution frameworks: i. Phase 1- Research and development of scope of framework  d. Development and implementation of Deposit Insurance policies and regulations: i. Terms and Conditions of Membership regulations: – Issuance of a consultation paper – Development of draft regulations ii. Provision of Information on Deposit Insurance regulations: – Issuance of a consultation paper – Development of draft regulations  iii. Criteria for Insurability of Conventional and Islamic Deposit Products guidelines: – Development of a concept paper – Issuance of a consultation paper – Development of draft guidelines  e. Implementation of the IT Infrastructure Enhancement Plan: i. Phase 2 - IT infrastructure  f. Development and implementation of the plan for relocation to new work premise	Complete Develop  Complete  Complete  Complete Complete  Complete Complete Complete  Complete  Complete	A A  A  A A  A A A  A  A	A consultation paper was issued to the public on 3 May 2007. These regulations are expected to come into force in 2008. See Article on DPS, on page 127 of this Annual Report.  Presently, regular risk assessment and monitoring takes place and reports are made to the Board. This involves the development of parameters and methodologies for risk assessments and monitoring process.  This involves the study and research on other jurisdictions' approaches to interventions and failure resolutions.  A consultation paper was issued to the public on 3 May 2007. These regulations are expected to come into force in 2008.  A consultation paper was issued to the public on 19 June 2007. These regulations are expected to come into force in 2008. See Article on these regulations, on page 135 of this Annual Report.  A concept paper was presented to the Board before the issuance of the consultation paper to public. A consultation paper was issued to the public on 19 June 2007. These regulations are expected to come into force in 2008.  This includes additional office equipment, hardware and software applications under our planned phase 2 of the IT Infrastructure Enhancement Plan. Relocation of our office to the new office premise in 1 Sentral, Kuala Lumpur.	
	Learning and Growth	F	Competent and knowledgeable workforce.	13	Successful completion of key initiatives: a. Development and assessment of employees' competency: i. Development and assessment of competency gap framework ii. Development and assessment of specific training needs analysis  iii. Development of annual Training Plan for individuals b. Development and implementation of a succession management framework	Complete Complete  Complete Develop	A A  A A	Developed a framework to identify the competency gaps of employees against the job requirement. Conducted the training needs analysis of each employee in order to identify the type and level of training required for optimal performance of employees in their respective roles and responsibilities. Developed a training plan for each employee. Developed the framework, as an integral component of PIDM’s business model and workforce planning framework.
		G	Conducive corporate environment.	14	Employee Satisfaction Index	75%	A	The results of the Employee Satisfaction Index indicated a 79% level of satisfaction, exceeding the targeted 75% level.
				15	Successful completion of key initiatives: a. Development and implementation of Recognition and Rewards programmes	Implement	A	

Overall, we have generally completed our key Corporate Plan initiatives and we have done so within the approved financial plan and targets.





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2007 OPERATIONS AND ACHIEVEMENTS

### Beyond the Corporate Scorecard 2007

We also completed key initiatives beyond the Corporate Scorecard 2007 as follows.

Stakeholders	Well managed and well governed organisation. Educated and informed stakeholders. Effective partnerships.	Competent and knowledgeable workforce. Conducive corporate environment.	Learning and Growth
	<ul style="list-style-type: none"><li>• Our first management audit by external auditors, with a rating of "Very Good".</li><li>• Our Corporate Social Responsibility Policy established, with initiatives implemented.</li><li>• Public events hosted for consumer education and to promote financial literacy, in particular, Malaysia Financial Exhibition 2007 (MYFex 2007).</li><li>• Developed draft regulations relating to the derivatives contracts at the behest of industry, to be implemented in 2008.</li></ul>	<ul style="list-style-type: none"><li>• Implemented a 360-degree feedback programme with action plans, a year early.</li><li>• Conducted "Corporate Values" sessions for all employees and formed a team of "change champions" to engage employees and build the right corporate culture.</li><li>• Held two inaugural events - the Family Day and the Annual Dinner.</li><li>• Implemented policy on Workplace Harassment with training, in line with our commitment to a safe, healthy and harassment-free work environment for all employees.</li></ul>	

### Divisional Operations Review

The following is a brief picture of the responsibilities of each functional division in PIDM, and their key work in 2007.

#### Audit and Consulting Services ("ACS")

*Towards a well governed and well managed organisation.*

One of our key corporate objectives is to have a well governed and well managed organisation. ACS thus provides an independent and objective assurance services in line with the Board-approved audit plan, and uses a risk-based auditing approach. ACS also works in partnership with Management, adding value with consulting and advisory services for key projects. It also provides training in audit-related matters.

During the year, ACS has embarked on projects to implement an audit application tool and an electronic documentation system, in order to

improve its auditing processes. Apart from its audit and consulting work, ACS has in 2007 completed several initiatives including the development and implementation of:

- a best practice internal control framework for PIDM; and
- a risk-based auditing approach.

The internal control framework provides a systematic methodology to evaluate the state of PIDM's system of internal control. Page 53 of this Annual Report contains our Statement on Internal Control, with details about our system.

Going forward, ACS will implement the Board-approved Audit Plan for 2008 to 2010. This is a risk-based audit plan which is aligned with our ERM Framework. ACS' future initiatives will also include implementing an internal audit knowledge management system, a quality assurance review framework and related ACS policies and procedures.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2007 OPERATIONS AND ACHIEVEMENTS

### Communications and Public Affairs ("COMMS")

*Well informed stakeholders are key to confidence in the stability of the financial system and thus, our success as a deposit insurer.*

Public awareness is key to the effective administration of a deposit insurance system. For the system to work, there must be public confidence and awareness about it. COMMS, therefore, plays a key role in enhancing public awareness about deposit insurance and PIDM.

A major task for COMMS last year was to implement the first year initiatives of the Integrated Communications Plan 2007-2011. This covered a variety of activities including the implementation of public relations programmes, an advertising campaign and ongoing stakeholder engagement programmes. Apart from managing media and stakeholder relations, the call centre operations and maintaining our website, COMMS completed the following key initiatives:

- conducted the Deposit Insurance Awareness Week, 46 briefings and road shows and 18 exhibitions;
- organised and sponsored MYFex 2007, the most comprehensive financial exhibition of the year bringing together regulatory agencies and market players;
- produced and launched television and print advertisements;
- produced and launched an information video on deposit insurance; and
- finalised the crisis communications management framework.

Overall, our survey on public awareness in 2007<sup>2</sup> shows an increase in public awareness and understanding about deposit insurance and the administrator of Malaysia's deposit insurance system. Among those aware of deposit insurance, there was a significant increase in knowledge about its key aspects (i.e. that protection is provided by the law, the deposit insurance system is established by the Government and the coverage limit amount).

Public awareness about deposit insurance increased to 15% in 2007, below our overall public awareness index target of 30%. In two specific segments, however, public awareness increased substantially exceeding our target level. These were the "Professionals, Managers, Executives" segment, where awareness increased to 35%, and the "Degree/Masters/PhD/Professional qualifications" segment, where awareness increased to 31%.

COMMS will continue to implement the multi-year Integrated Communications Plan with a focused approach in order to achieve a higher level of public awareness about deposit insurance. In addition, COMMS will also undertake new projects for awareness and educational programmes, interactive training materials, enterprise portal and crisis communications planning as well as enhancing its stakeholder relations and corporate outreach efforts.

### Enterprise Risk Management ("ERM")

*A well governed and well managed organisation must address its risks on an enterprise wide basis in particular in its strategic planning.*

In year 2007, our ERM Division:

- implemented the Board-approved ERM Framework;
- incorporated the ERM approach into the strategic planning process, allowing PIDM to focus on the planning, development and the prioritization of initiatives in a way that addresses our risks according to their significance;
- established an ERM Oversight Structure which includes our Board, our Audit Committee, an ERM Committee (comprising Management) and a joint working committee with the Corporate Planning unit. The structure provides clear accountability and responsibility for the risk management process in PIDM, ensures continuous risk monitoring and that the risk management activities remain appropriate and prudent to support our mandate, objectives and strategic direction.



A more detailed account of the work of the ERM Division is on page 79 of this Annual Report.

Going forward, ERM Division will continue to strengthen its framework by enhancing and implementing its policies and practices as well as developing an ERM effectiveness assessment framework.

### Finance and Administration ("FINAD")

*Effective corporate planning, corporate and financial reporting, procurements, information systems and general administration are necessary to ensure the smooth operations of the Corporation and to allow for effective monitoring of performance.*

The units in FINAD include the following - Corporate Planning and Reporting, Finance, Administration, Information Technology as well as Organisation and Methods. Aside from its day-to-day operations, FINAD completed the following key initiatives in 2007:

- developed and implemented the investment management framework;
- implemented the Asset Liability Committee framework;

- developed and implemented operational financial and office administration policies;
- developed and implemented the health and safety policy;
- developed and implemented initial phase of the business resumption policies;
- coordinated the development of the annual Corporate Plan;
- implemented the IT Infrastructure Enhancement Plan and reviewed IT governance policies and procedures; and
- developed and implemented the plan for relocation to our new office.

Going forward, FINAD's key initiatives include establishing the framework for effective funding and the payment systems to support the payout process, a comprehensive business continuity and disaster recovery plan, a quality assurance framework, a performance reporting information system, IT infrastructure enhancement, an inventory management system as well as knowledge management framework and system.

<sup>2</sup> Results were obtained from quantitative research conducted from 26 October to 27 November 2007 and compared with research results from the quantitative research conducted a year ago from 31 October to 12 December 2006.





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## REVIEW OF 2007 OPERATIONS AND ACHIEVEMENTS

### Human Capital ("HC")

*Human capital development in the specialised area of deposit insurance is vital for the achievement of our corporate objectives, Vision and Mission.*

The overriding objective of our HC strategic plan is to attract, recruit, develop and retain the right talents to drive professionalism and performance, in keeping with our business model.

Among many others, in 2007, HC has carried out the following key initiatives in line with its strategic plan:

- assessed specific training needs and developed annual training plans;
- developed and implemented a recognition and rewards programme;
- developed a comprehensive competency framework;
- developed the succession management framework;
- developed and implemented a 360-degree feedback mechanism;
- carried out Corporate Values workshops and other training;
- organised various employee activities, including a family day and annual dinner; and
- launched a work-life coaching or employee assistance programme.

We also conducted our first employee voice survey ("EVS") at the end of 2007, with 100% participation of employees, as a means of assessing the effectiveness of our corporate objective to build a conducive work environment and as a guide to any areas for improvement. The overall results of our EVS came as a pleasant surprise – PIDM achieved an overall 79% satisfaction with the Corporation's work environment, well within our ambitious target of 75% for 2007. All our employees agreed that they are clear how their KPIs are linked to the Corporate Plan, and 87% indicated that they would recommend PIDM to others as a place to work. Overall, the results show that our employees are highly engaged and subscribe to our Corporate Values.

Human capital development remains one of our key areas of focus. Going forward, key HC

initiatives include implementing the succession management framework, talent management, a focused training and development programme, and a scholarship programme.

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

*Monitoring and assessing insurance risks of member institutions are core functions of the Corporation.*

INRAM is responsible for monitoring and assessing the insurance risks of our member institutions as well as for the development and implementation of intervention and failure resolutions and the payout management process.

Aside from its continuous monitoring and assessments of members institutions last year, INRAM carried out the following initiatives throughout the year:

- developed and consulted on the DPS and worked on the necessary related legislation;
- developed a comprehensive Risk Assessment and Monitoring Framework, and worked on the development of its basic infrastructure;
- developed phase 1 of a comprehensive Intervention and Failure Resolution Framework; and
- developed a payout framework.

A key object in our mandate is to provide incentives for sound risk management as well as to promote financial system stability. INRAM will continue to strengthen the DPS and implement our frameworks on risk assessment and monitoring, intervention and failure resolutions as well as payout management. INRAM will also be involved in the development of related deposit insurance policies and guidelines.

### Legal Division ("LEGAL")

*Sufficient legal authority and governance are fundamental as a basis for the successful achievement of our mandate, Vision and Mission.*

The Division provides all legal and corporate secretariat services to the Corporation. This includes legal advice on all matters related to the Corporation's business and affairs including

compliance with applicable laws and key ethical and other policies. It also assists with the development of subsidiary and other related legislation. LEGAL is also secretariat to the Board and in this connection, also monitors and keeps the Board apprised of corporate governance developments and advises on governance-related matters.

Apart from its day-to-day operational activities, in 2007, LEGAL carried out the following key initiatives:

- developed, in support of INRAM and POLICY, the drafts for three regulations, including "Differential Premium Systems", "Terms and Conditions of Membership", "Provision of Information on Deposit Insurance" and worked with the relevant authorities on their implementation;
- developed the "Guidelines for the Criteria for Determining Insured Products" and commenced the certification process;
- provided support on key corporate governance matters, including in particular, the implementation of the Board education plan and the development of the Board succession plan;
- established a taskforce as well as implemented the CSR policy; and
- ensured annual compliance with laws and ethics and conducted training on PIDM's key ethics codes.

LEGAL is also responsible for the maintenance and development of the MDIC Act and related legislation to ensure that it remains relevant and continues to be effective, and that the legislation allows PIDM to effectively fulfill its mandate. Going forward, LEGAL will continue to help develop and operationalise new deposit insurance policies through legislation and give effect to its responsibilities. Key initiatives will be to review as well as to stress-test the MDIC Act and to enhance contract management framework within the Corporation.

### Policy and International ("POLICY")

*Effective policy making, international relations and achieving international credibility are important aspects of our Vision and Mission.*

POLICY is responsible for the development of key

deposit insurance policies and regulations and plays an important role in international relations. In its policy development process, a full consultative approach was adopted for wider acceptance and more effective policy making.

POLICY's key achievements in year 2007 included the following:

- hosted the 6th IADI Annual Conference;
- developed and implemented deposit insurance policies and regulations;
- developed and issued internal economic publications; and
- reviewed regulatory requirements applicable to member institutions.

In particular, the 6th IADI Annual Conference, held from 31 October to 1 November 2007 in Kuala Lumpur, brought together 232 delegates from 43 countries – drawing the highest number of delegates in the history of these conferences. Given the Northern Rock incident in the United Kingdom, the theme for this Annual Conference, "Deposit Insurance and Consumer Protection", was extremely timely. Deposit insurers and policymakers participating at the Conference commended the Corporation for elevating the importance of consumer protection and for highlighting the important link between public awareness and consumer protection.

Two other events were also held alongside the Annual Conference, namely the MDIC Country Showcase and the IADI International Exhibition. The Country Showcase provided the opportunity for selected Asian countries to present the investment potential of their respective financial services sector while the International Exhibition showcased the publications and public awareness initiatives of IADI members. Several Malaysian financial protection agencies, including BNM, also participated in the exhibition.

Going forward, POLICY will continue to build the Corporation's credibility and reputation, and promote PIDM as a thought leader by developing robust deposit insurance policies and by building strategic partnerships with key deposit insurers for capacity building and knowledge sharing, as well as by hosting deposit insurance seminars.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2007 FINANCIAL OVERVIEW

### FINANCIAL PERFORMANCE

#### Operating Results

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER	2007 Actual RM'000	2007 Budget RM'000	Variance		2006 RM'000
			RM'000	%	
Premium revenue	110,156	110,153	3	0	102,122
Investment income from cash and investment securities	5,754	5,532	222	4	2,816
Miscellaneous income	39	-	39	n/a	-
<b>Total revenues</b>	<b>115,949</b>	<b>115,685</b>	<b>264</b>	<b>0</b>	<b>104,938</b>
Employee benefits	13,072	13,321	249	2	8,768
Public relations and advertising	6,356	7,900	1,544	20	1,473
Depreciation	1,314	3,056	1,742	57	975
Operating lease	768	897	129	14	284
Other expenses	5,591	8,826	3,235	37	3,506
<b>Total operating expenditures</b>	<b>27,101</b>	<b>34,000</b>	<b>6,899</b>	<b>20</b>	<b>15,006</b>
<b>Net surplus</b>	<b>88,848</b>	<b>81,685</b>	<b>7,163</b>	<b>9</b>	<b>89,932</b>

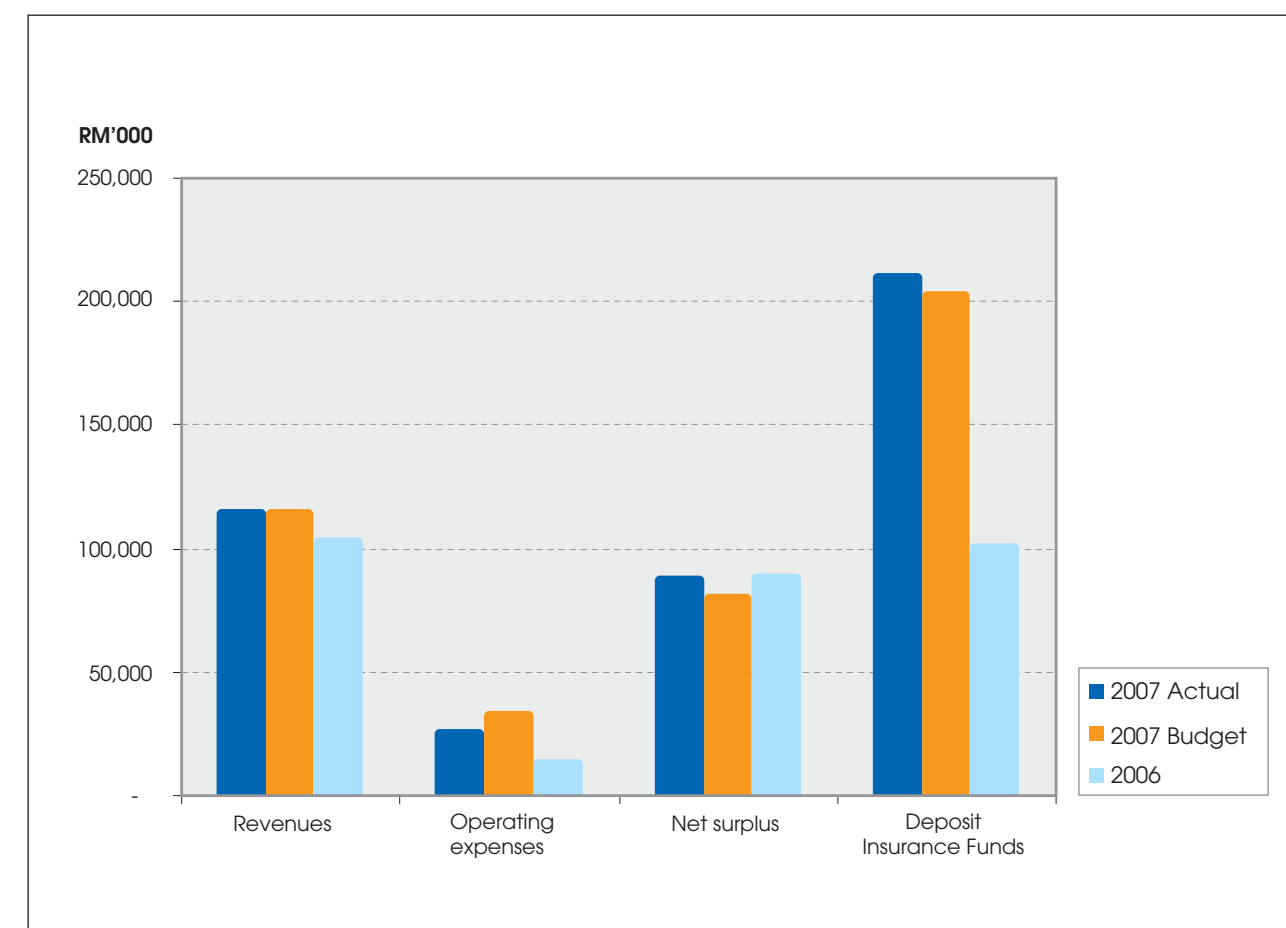
#### Capital Expenditures

	2007 Actual RM'000	2007 Budget RM'000	Variance		2006 RM'000
			RM'000	%	
Furniture, fittings and office refurbishment	3,966	5,060	1,094	22	644
Computer systems and office equipment	3,037	4,900	1,863	38	916
Motor vehicle	240	240	0	0	172
<b>Total Capital Expenditures</b>	<b>7,243</b>	<b>10,200</b>	<b>2,957</b>	<b>29</b>	<b>1,732</b>

### Financial Commentary

The end of financial year 2007 recorded total revenues of RM115.9 million, operating expenditures of RM27.1 million, and a net surplus of RM88.8 million. Net surplus was RM7.1 million or 8.8% higher than budget.

Chart 7: Key Financial Trends



### Revenues

- Premium income for the year was RM110.2 million, slightly higher than budget. This represented an increase of 7.9% from the year before, as insured deposits increased from RM165 billion in 2006 to RM179 billion in 2007.
- We also achieved our budgeted investment income for 2007, with a weighted average yield of 3.4% return on investments. As at the year end, funds in investment securities had increased from RM119.6 million in 2006 to RM200.7 million.





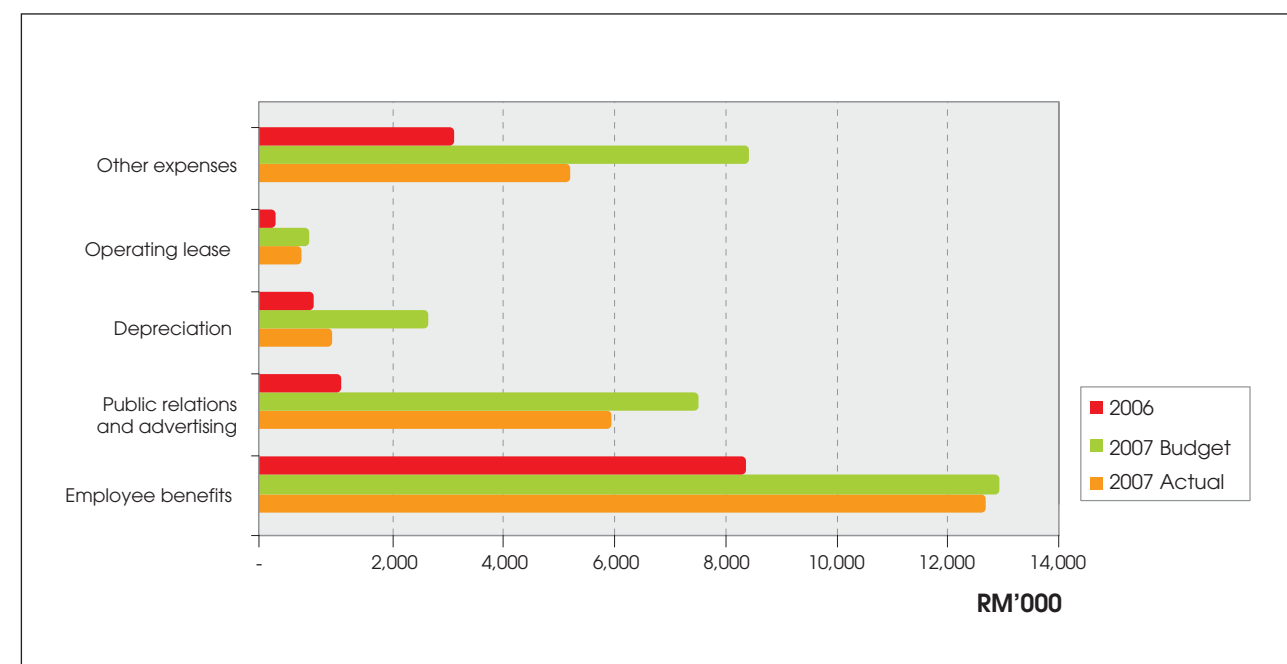
# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2007 FINANCIAL OVERVIEW

### Operating Expenditures

Our operating expenditures in the year 2007 compared to the budget and year 2006 is depicted below.

Chart 8: Operating Expenditures Trend



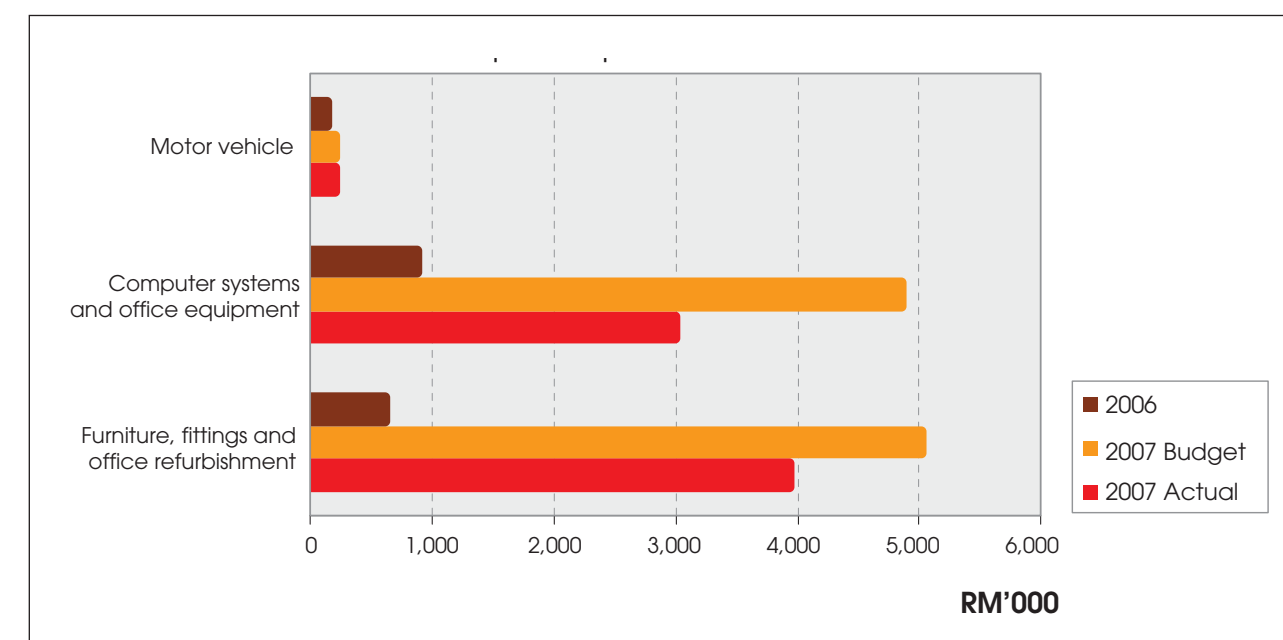
- Up to 31 December, total operating expenditures amounted to at RM27.1 million, RM6.9 million lower than budget and RM12.1 million higher than 2006.
- The main increase in operating expenditures in 2007 arose from the implementation of our human capital and communications strategies, i.e. employee benefits, advertising and public relations. The increase can also be attributed to several one-off expenses for our initiatives during the year.
- For 2007, we budgeted employee benefits cost of RM13.1 million for 59 employees for the full year (2006: 40 employees). Lower salaries and benefits cost resulted from timing, in relation to commencement of employment in a number of individuals hired throughout the year. This contributed to the positive variance of RM0.2 million or 1.9%.
- Total public relations and advertising costs amounted to RM6.3 million, 19.5% lower than the budgeted amount of RM7.9 million. Part of the cost savings arose from working with BNM and other government agencies on road shows and exhibitions. The increase, from 2006, is attributed to the implementation of our Integrated Communications Plan consisting of our comprehensive advertising campaign and public relations activities including hosting the first MYFex 2007.
- Depreciation charges for 2007 was lower than budget by 57%, with the deferment of computer terminal upgrades and a change in the payout development plan resulted in lower capital expenses and a revision to the depreciation rates for the Corporation's fixed assets.

- Other expenses mainly comprised printing and stationery costs, professional fees, subscriptions, training and development expenses as well as several one-off expense items. The increase by RM2.1 million from 2006 is primarily due to the hosting of the IADI 6th Annual Conference in October 2007, the retirement of fixed assets (arising from the change in the property and equipment capitalisation threshold policy) post relocation to our new office as well as higher travelling costs as compared to prior year. The

overall positive variance of RM3.3 million or 34.5% - other expenses and operating lease - against budget is largely due to the lower training costs incurred during the year, pending the implementation of a comprehensive annual training and development plan in year 2008. Lower travelling expenses, operating lease costs, printing and stationery costs compared to budget as well as unutilised miscellaneous expenses budget also contributed to this positive variance.

### Capital Expenditures

Chart 9: Capital Expenditures Trend



- The RM5.5 million increase in total capital expenditures in 2007 is a reflection of our initiatives in 2007, in particular, the move to our new office in Kuala Lumpur Sentral as well as our IT infrastructure development.
- For capital expenditures, we incurred a total of RM7.2 million or 29% lower than budget. The

significant positive variance for capital expenditures is primarily due to lower expenditures on computer systems and office equipment. Although we had initially budgeted funds for computer terminal upgrades, we had deferred the upgrades to 2008. In addition, the infrastructure cost for the payout system will only be incurred from 2008 onwards.

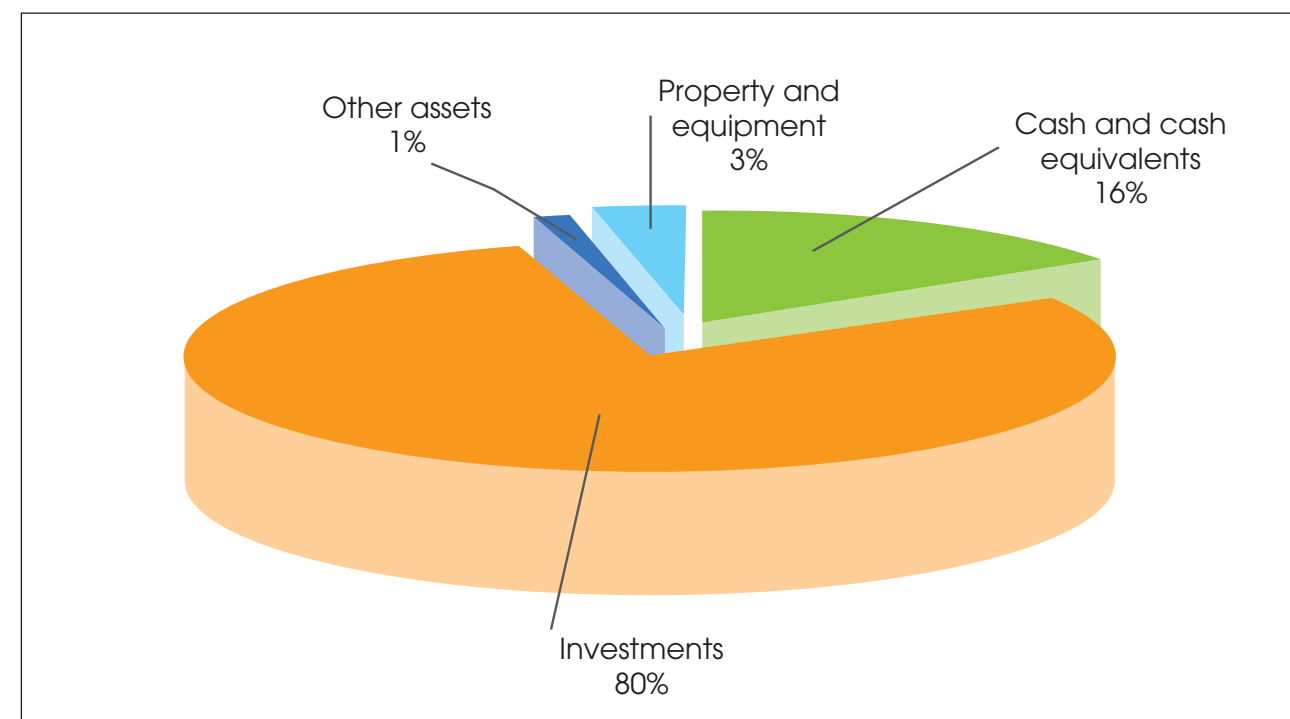


# MANAGEMENT'S DISCUSSION AND ANALYSIS

## 2007 FINANCIAL OVERVIEW

### Balance Sheet Highlights

Chart 10: Asset Composition



### Cash, cash equivalents and investments as at 31 December 2007

- Our combined balance of cash, cash equivalents and investments for both Islamic and Conventional Deposit Insurance Funds totalled RM206 million, comprising cash and short term investments (RM35.3 million) and other investments (RM170.8 million).
- Our investments comprised Malaysian Government Securities and Investment Issues, Bank Negara Malaysia Bills and Negotiable Notes with varying maturities, no longer than 12 months.
- The sources and uses of cash are described in the Statements of Cash Flows in Section IV of this Annual Report.
- Our Board-approved investment policy is to invest in short-term Ringgit denominated Government securities of varying maturities. Our investment policy prohibits making investments or depositing funds with any member institutions, except for day-to-day operating purposes.

### Property and equipment and other assets as at 31 December 2007

- Our property and equipment stood at RM7.5 million, an increase by RM5.8 million from 31 December 2006. Assets were depreciated at a rate of between three and five years.
- Other assets, totalling RM1.5 million, mainly related to deposits and prepayments on rentals and utilities as well as other receivables due from sales of fixed assets. Other receivables also included inter-fund balances for transactions paid by the Conventional Deposit Insurance Fund as at year end on behalf of the Islamic Deposit Insurance Fund which is to be reimbursed.

### Liabilities as at 31 December 2007

- Our liabilities of RM3.8 million comprised payables for utilities, communications services, IT systems, provision for unutilised leave as well as services rendered in respect of consultancy engagements and supply of goods. Other payables also included inter-fund balances for transactions paid by the Conventional Deposit Insurance Fund as at year end on behalf of the Islamic Deposit Insurance Fund which is to be reimbursed.

### Deposit Insurance Funds as at 31 December 2007

- Our total Deposit Insurance Funds ("DIFs") increased by 73% to RM211 million from the year before following the increase in premiums received and higher investment income. Our DIFs also exceeded our 2007 forecast by 3%, and comprised the Conventional Deposit Insurance Fund of RM190 million and the Islamic Deposit Insurance Fund of RM21 million.

### Contingencies as at 31 December 2007

- As the insurer of deposits, we have an inherent exposure to losses resulting from the operations

of member institutions. However, this exposure cannot be quantified or ascertained at this time. Accordingly, no general or specific provisions have been recorded in the financial statements for the financial year ending 2007.

### Source of funding and financial ability

- As a statutory body, our source of funding and future ability to meet liabilities and commitments are assured. We are governed by statute and are obligated to protect depositors from loss, if a member institution is unable to meet its liabilities to depositors. The MDIC Act empowers us to borrow or raise funds as we see fit to meet our obligations. We may also request the Minister of Finance to lend us funds from the Consolidated Revenue Fund on such terms and conditions as the Minister may determine.
- We are authorised under our enabling legislation to assess annual premiums against member institutions and to set premium rates with the Minister of Finance's approval. In 2007, the annual premium rate remained at 0.06% of total insured deposits held by a member institution. In 2008, the premium rates for the DPS will apply. If further funding were required, premium rates could under the MDIC Act be increased with the approval of the Minister of Finance.
- Our net surpluses are retained in the DIFs which totalled RM211 million as at the end of 2007. Our policy is to build reserves in the DIFs over time to provide us with readily available funds to meet any future obligations.
- Finally, the MDIC Act prohibits the winding up of the business and affairs of the Corporation.





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGING OUR RISKS

As the national deposit insurer of all commercial and Islamic banks in Malaysia, we operate in a dynamic environment, with diverse internal and external risk exposures. We recognize that management of risks is an integral part of sound management.

In 2007, we successfully implemented the ERM framework within PIDM, and carried out the first cycle of ERM process. This is aimed at ensuring that all significant risks to PIDM are identified, assessed, managed, monitored, and communicated in a systematic and consolidated manner.

### ERM Process at PIDM

#### Background

Our ERM framework was developed in line with best practices, to which we are committed. We benchmarked our ERM process against the *Australian/New Zealand Standard 4360:2004* as the primary standard, as well as the *Committee of Sponsoring Organizations of the Treadway Commission's Enterprise Risk Management - Integrated Framework*. The key risk management activities encompass five broad processes, namely risk identification, risk assessment and analysis, risk evaluation and treatment, risk monitoring and review, and risk reporting and communication.

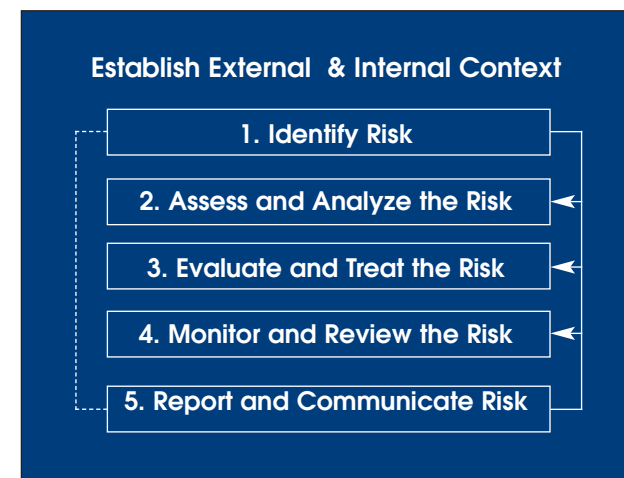


Diagram 2: PIDM's ERM Process

### Linking ERM to Corporate Planning

In line with best practice, we have integrated the ERM process and our corporate planning activities. The environmental assessment, for example, formed part of the risk identification process and the development of corporate initiatives took into account the need for risk mitigants in relation to significant risks affecting PIDM. The incorporation of the ERM approach in the strategic planning process allows us to focus on, and prioritise initiatives in accordance with these significant risks.

### PIDM Risk Categories

The areas of risk to which PIDM are exposed are risks which we have categorised and termed our "Strategic and Governance Risk", "Insurance Risk", "Reputation Risk", "Financial Risk", and "Operational Risk". The five categories of risk are defined as follows.

Table 5: Definition of Risk Categories

#### Strategic and Governance Risk:

The group of risks affecting the medium to long term plans and priorities of PIDM or the risks that contribute towards ineffective governance structures and processes in the Corporation.

#### Insurance Risk:

The group of risks related to PIDM's capabilities in carrying out assessment, monitoring, intervention and other related risks associated with insuring deposits.

#### Reputation Risk:

The group of risks which have a negative impact on stakeholders' perceived trust and confidence in PIDM carrying out its mandate.

#### Financial Risk:

The group of risks that result from ineffective or inefficient management of financial resources, budgets, cash flows, all other assets and liabilities items, both on and off balance sheet.

#### Operational Risk:

The group of risks that result from inadequate or failed internal processes, people, IT/systems, compliance/legal, or from external events.



Diagram 3: PIDM Risk Exposures

The colours indicate the severity level of the risks, as follows:

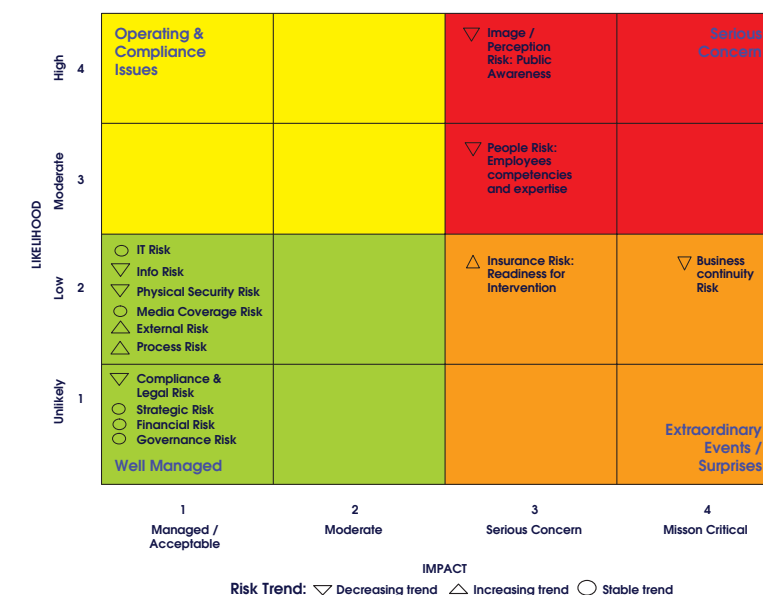
- Red** Risks of serious concern.
- Amber** Extraordinary events or surprises that have low likelihood of occurrence but have mission critical impact on the Corporation if realised.
- Yellow** Normally operating and compliance issues which have higher likelihood of occurrence but have less of an impact on the Corporation. These risks can develop into major issues if not monitored.
- Green** Well managed risks for which current routine procedures and controls are adequate.

### Significant Risks to PIDM

The result of the ERM process - involving risk identification, analysis, evaluation and prioritization - was a focus on the events that are extraordinary in nature and of serious concern to PIDM. These

are acknowledged as the significant risks affecting PIDM. Specific initiatives and action plans have been developed to address these significant risks, which form part of our Corporate Plan 2008-2010.

Diagram 4: PIDM 2007 Risk Map





# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGING OUR RISKS

The significant risks affecting PIDM are:

1. **Low level of public awareness on the deposit insurance system and the misunderstanding of PIDM's role.** Public confidence is vital to maintaining a stable financial system. An uninformed public increases the possibility of bank runs and other events that may create instability to the financial system. Currently, the awareness of the deposit insurance system is still low, thus our continued efforts to increase awareness levels.
2. **The availability of deposit insurance expertise and experience.** People are our greatest assets. As deposit insurance is new to Malaysia, our ability to attract, build and retain a pool of competent and skilled employees is essential.
3. **Development of our policies, systems, practices and processes in our core operations and readiness to intervene in a troubled member institution.** We are still in the midst of developing our policies, systems, practices and processes in areas of operations, in particular, in the area of interventions and failure resolutions.
4. **Business continuity.** We are still developing a comprehensive business continuity and disaster recovery plan. This may affect our ability to respond effectively in an event of a disaster.

### ERM Oversight Structure

The PIDM ERM Oversight Structure provides clear accountabilities and responsibilities for risk management process to ensure that the risk

management activities remain appropriate and prudent and continue to support our mandate and objectives.

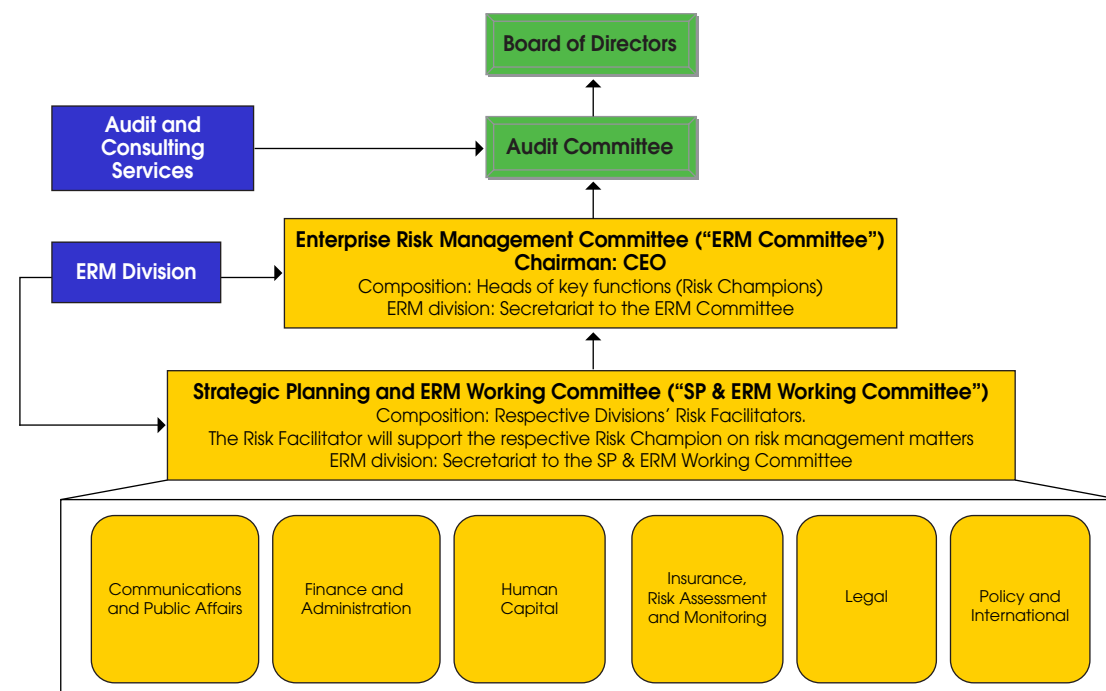


Diagram 5: PIDM ERM Oversight Structure

1. The **Board** is ultimately responsible for the oversight of PIDM's principal risks. The Board, through the Audit Committee, ensures that appropriate and prudent risk management systems to manage the significant risks of PIDM's business have been implemented and reviews these regularly.
2. The **Audit Committee** is responsible to ensure that sound policies, procedures and practices are implemented to manage PIDM's significant risks. The Committee will review with Management and advise the Board on policies developed and implemented to manage PIDM's risk exposures.



3. The **ERM Committee** provides oversight and direction for the implementation and consistent application of the corporate ERM framework. This management committee will champion risk management as well as manage and monitor the risk exposures and ERM activities of PIDM at a corporate-wide level. It will also provide recommendations and reports to the Audit Committee and the Board on the significant risks affecting PIDM and how such risks are being managed.

4. The **Strategic Planning and ERM Working Committee** supports the ERM Committee in facilitating and coordinating ERM and strategic planning activities at an operational level across PIDM. This includes updating the assessment and rating of existing risks, monitoring the progress and updating the status of the mitigation plans of the respective divisions.

### Going Forward

Sound and effective implementation of risk management is part of best business practices at a corporate and strategic level, as well as a means to improve operational activities. Thus, we will continue to enhance our current ERM process in 2008 and proceed with the next phase of the implementation of the ERM framework by building the guidelines, policies and practices governing the ongoing risk assessment and review. Starting in 2008, the Board will obtain independent and objective validation of PIDM's ERM framework from the ACS Division.







# MANAGEMENT'S DISCUSSION AND ANALYSIS

## SUMMARY OF OUR CORPORATE PLAN 2008 – 2010

### “Growing from Strength to Strength”

Our Corporate Plan 2008-2010 (“Plan”) was published in January 2008 and is available on our website, [www.pidm.gov.my](http://www.pidm.gov.my). The following is a summary of the Plan and it should be read in conjunction with our Corporate Plan 2008 – 2010.

Our Plan is a collective product of our Board, Management and employees. In developing the Plan, we have integrated our strategic planning and ERM processes. We have also assessed our operating environment to enable us to evaluate our enterprise-wide risks and challenges faced by the Corporation. Based on this and our risk assessments, we established our key planning assumptions, the strategic direction and initiatives.

### OUR STRATEGY

#### Corporate and Financial Plans

##### Our Strategy

As we progress, we will continue to build our strengths, so as to be able to carry out our planned initiatives effectively and efficiently, and to be ready for challenges in our operating environment. Our strategic direction for the planning period will be focused on human capital development, operational readiness and communications.

Details of areas of focus and key initiatives in support of our corporate objectives for 2008-2010 are described in our new Corporate Scorecard in the Appendix.

##### Our Supporting Financial Plan

Our premium rate for 2008 will be based on the new DPS rate structure. Premium revenue is budgeted at RM120 million. We are also budgeting an interest and investment income of RM8 million for 2008, which would result in a total revenue of RM128 million. Total operating expenditures are budgeted at RM45 million whilst capital expenditures are budgeted at RM15 million for 2008. We

expect a net surplus of RM83 million for 2008, which will increase the total DIFs to RM292 million.

### OUR AREAS OF FOCUS

#### Some Areas of Focus Going Forward

Our long term capacity and capability building are focussed on having a strong:

- leadership team;
- relationship management; and
- corporate culture.

#### Human Capital Development

Given our roles and responsibilities in our mandate, it is crucial to ensure that we have the capabilities to achieve our plans.

Our Human Capital strategic plan is to continue to attract, recruit, develop and retain the best and right talent for the Corporation, who will excel in every area and deliver international standard results and professionalism. We will continue our work in the following areas:

- **Talent Acquisition.** We aim to deal with the scarcity of talents with the required skill sets by building on our “employer of choice” brand – developing and retaining our own talents.
- **Employees, Our Stakeholders.** We will continue to treat our employees equally; we strive to provide equal employment and development opportunities for all, free from bias. Performance and the right attitude are highly valued in the Corporation and will be the main distinguishing factors in reward and development opportunities.
- **Compensation Philosophy.** We will continue to benchmark ourselves against relevant industries and developing a robust, competitive and equitable compensation, benefits and reward policy to support our talent acquisition and retention initiatives in a highly performance-driven culture.

- **Learning Philosophy.** We will continue to make investments and carry out talent development initiatives. Learning and development efforts will include but not limited to: knowledge transfers, both locally and internationally; cross functional training, on the job training and job rotation; job sharing; relationship building and sharing of best practices with local and international bodies; participation in local and international forums; in-house training and secondment opportunities, where relevant. We have developed our competency framework and succession management policy, and will implement these to ensure we have the right programmes to support organisational continuity from strategic and operational perspectives.

- **A Conducive Corporate Environment.** We will continue our work to ensure a safe, healthy, harassment-free working environment and a well balanced life for our employees.

#### Development of Deposit Insurance Operations

Throughout the year, we have worked diligently to develop our insurance risk assessment and monitoring, deposit insurance regulations and public communications.

Over the next three years, we will continue to develop these areas, as part of our strategy to ensure operational readiness. This will entail, among others:

- **Readiness in Intervention and Failure Resolution.** We will develop and implement all key processes, to ensure that we are able to effectively carry out intervention and failure resolution activities, and stress test through crisis management simulations;
- **Communications.** We will review and continue to implement our Integrated Communications Plan, to ensure that our communications programmes are properly targeted, relevant and fit our purpose;

- **Laws and Regulations.** We will stress-test our powers under the MDIC Act, and continue to develop and implement relevant subsidiary legislation.

#### Stakeholder engagements and partnerships

To achieve our goals, we depend heavily on effective communications and teamwork with our stakeholders and partners. Accordingly, we are committed to building a strong relationship with our stakeholders and business partners. As set out in our Corporate Scorecard, we will continue to work on various aspects to achieve our objectives from the “Stakeholders” perspective. These include:

- **Good governance and management practices.** We will continue to meet the Board’s high expectations of our governance and management practices, strengthening our ERM, risk-based auditing and internal control frameworks.
- **Public awareness and education.** We will also intensify our efforts to increase the level of public awareness and education through the implementation of the multi-year Integrated Communications Plan, development and implementation of a new awareness educational programme as well as scholarship and education programmes.
- **International exposure.** We will also continue to be actively involved through our membership in the IADI and other international bodies, and by participating in standing committees, research and guidance projects as well as related training and seminars.

### GOING FORWARD

The successful completion of our Plan is the next step in achieving our Vision to be one of the leading deposit insurers in the world. At the same time, we hope to make our contributions to the society - by providing sound depositor protection and promoting financial system stability in Malaysia.



A photograph of four children pulling a thick rope across a grassy hill under a clear blue sky. The children are wearing orange and blue shirts, some with 'PDM' logos. The rope extends from the top left towards the bottom right.

## SECTION IV: FINANCIAL STATEMENTS





# FINANCIAL STATEMENTS

## DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia ("PIDM") for the financial year ended 31 December 2007.

### PRINCIPAL ACTIVITIES

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

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

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

### RESULTS

	2007 RM	2006 RM
<b>Net surplus for the financial period:</b>		
Conventional Deposit Insurance Fund	79,181,078	81,690,915
Islamic Deposit Insurance Fund	9,667,088	8,241,425
<b>Total net surplus</b>	<b>88,848,166</b>	<b>89,932,340</b>
<b>Deposit Insurance Funds</b>		
Conventional Deposit Insurance Fund	190,399,969	111,218,891
Islamic Deposit Insurance Fund	20,922,578	11,255,490
<b>Total Deposit Insurance Funds</b>	<b>211,322,547</b>	<b>122,474,381</b>

### DIRECTORS

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

- Tan Sri Dato' Abdul Aziz bin Haji Taha (Chairman)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
- Dato' Sri Dr. Wan Abdul Aziz bin Wan Abdullah (appointed on 28 February 2007)
- Tan Sri Dato' Sri Izzuddin bin Dali (retired on 27 February 2007)
- Tan Sri Dato' Seri Haji Mohd. Azmi bin Dato' Haji Kamaruddin
- Dato' Sri Dr. Sulaiman bin Mahbob
- Datuk Dr. Abdul Samad bin Haji Alias
- Encik Michael Wong Kuan Lee

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

### DIRECTORS' BENEFITS

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

### RESERVES AND PROVISIONS

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

### BAD AND DOUBTFUL DEBTS

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



# FINANCIAL STATEMENTS

## DIRECTORS' REPORT

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

### VALUATION METHODS

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

### CHANGE OF CIRCUMSTANCES

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

### ITEMS OF AN UNUSUAL NATURE

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

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

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

### CONTINGENT LIABILITIES

*Exposure to losses from member institutions*

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

### RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

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

- the financial statements have been prepared in accordance with the provisions of MDIC Act and applicable Financial Reporting Standards ("FRS") so as to give a true and fair view of the financial position of PIDM as at 31 December 2007 and of the results and the cash flows of PIDM for the year ended on that date. The FRS are the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.
- the Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, as set out in the MDIC Act.

### AUDITORS

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

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

**Tan Sri Dato' Abdul Aziz bin Haji Taha**  
Chairman of the Board of Directors

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

Kuala Lumpur  
18 February 2008



## FINANCIAL STATEMENTS

### STATEMENT BY DIRECTORS

We, Tan Sri Dato' Abdul Aziz bin Haji Taha and Datuk Dr. Abdul Samad bin Haji Alias, being two of the Directors of Perbadanan Insurans Deposit Malaysia, do hereby state that, in the opinion of the Directors, the financial statements are drawn up in accordance with the provisions of the Malaysia Deposit Insurance Corporation Act 2005 and applicable Financial Reporting Standards, which are the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, so as to give a true and fair view of the state of affairs of PIDM as at 31 December 2007 and of the results and the cash flows of PIDM for the period ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, as set out in the Malaysia Deposit Insurance Corporation Act 2005.

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

**Tan Sri Dato' Abdul Aziz bin Haji Taha**  
Chairman of the Board of Directors

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

Kuala Lumpur  
18 February 2008



## FINANCIAL STATEMENTS

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

The preparation of the financial statements of Perbadanan Insurans Deposit Malaysia ("PIDM") and the information related to the financial statements are the responsibility of Management. The financial statements have been prepared in accordance with the provisions of the Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act") and applicable Financial Reporting Standards ("FRS"), which are the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities, so as to give a true and fair view of the state of affairs of PIDM as at 31 December 2007 and of the results and the cash flows of PIDM for the year ended on that date. The Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, as set out in the MDIC Act.

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

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

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

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

Subscribed and solemnly declared by the above-named at Kuala Lumpur on 18 February 2008

**Jean Pierre Sabourin**  
Chief Executive Officer

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

Before me,

Commissioner of Oaths







**CERTIFICATE OF THE AUDITOR GENERAL  
ON THE FINANCIAL STATEMENTS OF THE  
MALAYSIA DEPOSIT INSURANCE CORPORATION  
FOR THE YEAR ENDED 31 DECEMBER 2007**

I have audited the financial statements of the Malaysia Deposit Insurance Corporation for the year ended 31 December 2007. These financial statements are the responsibility of the management. My responsibility is to audit and to express an opinion on these financial statements.

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

3. In my opinion, the financial statements give a true and fair view of the state of financial affairs of the Malaysia Deposit Insurance Corporation as at 31 December 2007 and of the results of its operations and its cash flows for the year ended based on the approved accounting standards.

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

PUTRAJAYA  
19 FEBRUARY 2008



## FINANCIAL STATEMENTS

### BALANCE SHEET AS AT 31 DECEMBER

	Note	2007 RM	2006 RM
<b>ASSETS</b>			
Cash and cash equivalents	3	<b>35,292,638</b>	25,116,262
Investments			
<i>Held-to-maturity investments</i>	4	<b>170,869,969</b>	99,700,227
Other assets	5	<b>1,465,786</b>	431,721
Property and equipment	6	<b>7,448,740</b>	1,772,009
<b>Total Assets</b>		<b>215,077,133</b>	127,020,219
<b>LIABILITIES</b>			
Payables	7	<b>3,754,586</b>	4,545,838
<b>Total Liabilities</b>		<b>3,754,586</b>	4,545,838
<b>DEPOSIT INSURANCE FUNDS AND RESERVES</b>			
Conventional Deposit Insurance Fund	8a	<b>190,399,969</b>	111,218,891
Islamic Deposit Insurance Fund	8b	<b>20,922,578</b>	11,255,490
<b>Total Deposit Insurance Funds</b>		<b>211,322,547</b>	122,474,381
<b>Total Liabilities and Deposit Insurance Funds</b>		<b>215,077,133</b>	127,020,219

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



## FINANCIAL STATEMENTS

### INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

		2007	2006
	Note	RM	RM
Premium revenue	9	110,155,613	102,122,205
Investment income from cash and investment securities	10	5,754,463	2,815,560
Miscellaneous Income		39,000	—
		<b>115,949,076</b>	104,937,765
Employee benefits	11	13,071,515	8,768,001
Public relations and advertising		6,355,822	1,472,541
Depreciation	6	1,314,364	974,567
Operating lease		767,724	283,947
Other expenses	12	5,591,485	3,506,369
		<b>27,100,910</b>	15,005,425
<b>Net surplus</b>		<b>88,848,166</b>	89,932,340

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



## FINANCIAL STATEMENTS

### STATEMENT OF CHANGES IN FUNDS AND RESERVES FOR THE YEAR ENDED 31 DECEMBER 2007

		Islamic Deposit Insurance Fund	Conventional Deposit Insurance Fund	Total
	Note	RM	RM	RM
At 1 January 2006	8	3,014,065	29,527,976	32,542,041
Net surplus for the year		8,241,425	81,690,915	89,932,340
At 31 December 2006	8	11,255,490	111,218,891	122,474,381
<b>At 1 January 2007</b>	<b>8</b>	<b>11,255,490</b>	<b>111,218,891</b>	<b>122,474,381</b>
<b>Net surplus for the year</b>		<b>9,667,088</b>	<b>79,181,078</b>	<b>88,848,166</b>
<b>At 31 December 2007</b>	<b>8</b>	<b>20,922,578</b>	<b>190,399,969</b>	<b>211,322,547</b>

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





# FINANCIAL STATEMENTS

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Note	2007 RM	2006 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium receipts from member institutions	9	110,155,613	102,122,205
Payments in the course of operations to suppliers and employees		(29,717,652)	(8,093,746)
Receipts of investment income		4,323,190	1,572,100
Miscellaneous income		14,000	-
<b>Net cash flow from operating activities</b>		<b>84,775,151</b>	<b>95,600,559</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities		278,000,000	143,220,496
Purchase of investment securities		(346,035,525)	(213,693,039)
Purchase of property and equipment		(6,563,250)	(1,718,382)
<b>Net cash flow used in investing activities</b>		<b>(74,598,775)</b>	<b>(72,190,925)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>10,176,376</b>	<b>23,409,634</b>
Cash and cash equivalents at beginning of year		25,116,262	1,706,628
<b>Cash and cash equivalents at end of year</b>	3	<b>35,292,638</b>	<b>25,116,262</b>

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



# FINANCIAL STATEMENTS

## CONVENTIONAL DEPOSIT INSURANCE FUND BALANCE SHEET AS AT 31 DECEMBER

	Note	2007 RM	2006 RM
<b>ASSETS</b>			
Cash and cash equivalents	3	32,177,249	23,021,161
Investments			
<i>Held-to-maturity investments</i>	4	152,953,961	90,323,435
Other assets	5	1,392,827	391,311
Property and equipment	6a	6,762,331	1,607,921
<b>Total Assets</b>		<b>193,286,368</b>	<b>115,343,828</b>
<b>LIABILITIES</b>			
Payables	7	2,886,399	4,124,937
<b>Total Liabilities</b>		<b>2,886,399</b>	<b>4,124,937</b>
<b>DEPOSIT INSURANCE FUND AND RESERVES</b>			
Conventional Deposit Insurance Fund	8a	190,399,969	111,218,891
<b>Total Deposit Insurance Fund</b>		<b>190,399,969</b>	<b>111,218,891</b>
<b>Total Liabilities and Deposit Insurance Fund</b>		<b>193,286,368</b>	<b>115,343,828</b>

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



## FINANCIAL STATEMENTS

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

		2007	2006
	Note	RM	RM
Premium revenue	9	<b>98,546,846</b>	92,719,007
Investment income from cash and investment securities	10	<b>5,203,432</b>	2,576,330
Miscellaneous income		<b>35,408</b>	-
		<b>103,785,686</b>	95,295,337
Employee benefits	11	<b>11,867,856</b>	7,956,084
Public relations and advertising		<b>5,771,979</b>	1,333,401
Depreciation	6a	<b>1,193,119</b>	884,322
Operating lease		<b>696,978</b>	257,653
Other expenses	12	<b>5,074,676</b>	3,172,962
		<b>24,604,608</b>	13,604,422
<b>Net surplus</b>		<b>79,181,078</b>	81,690,915

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



## FINANCIAL STATEMENTS

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

		2007	2006
	Note	RM	RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium receipts from member institutions	9	<b>98,546,846</b>	92,719,007
Payments in the course of operations to suppliers and employees		<b>(27,439,797)</b>	(7,519,297)
Receipts of investment income		<b>3,875,936</b>	1,477,336
Miscellaneous income		<b>12,711</b>	-
<b>Net cash flow from operating activities</b>		<b>74,995,696</b>	86,677,046
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities		<b>255,000,000</b>	131,422,664
Purchase of investment securities		<b>(314,809,200)</b>	(195,148,267)
Purchase of property and equipment		<b>(6,030,408)</b>	(1,559,260)
<b>Net cash flow used in investing activities</b>		<b>(65,839,608)</b>	(65,284,863)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>9,156,088</b>	21,392,183
Cash and cash equivalents at beginning of year		<b>23,021,161</b>	1,628,978
<b>Cash and cash equivalents at end of year</b>	3	<b>32,177,249</b>	23,021,161

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





## FINANCIAL STATEMENTS

### ISLAMIC DEPOSIT INSURANCE FUND BALANCE SHEET AS AT 31 DECEMBER

		2007	2006
	Note	RM	RM
<b>ASSETS</b>			
Cash and cash equivalents	3	3,115,389	2,095,101
Investments			
<i>Held-to-maturity investments</i>	4	17,916,008	9,376,792
Other assets	5	72,959	40,410
Property and equipment	6b	686,409	164,088
<b>Total Assets</b>		<b>21,790,765</b>	11,676,391
<b>LIABILITIES</b>			
Payables	7	868,187	420,901
<b>Total Liabilities</b>		<b>868,187</b>	420,901
<b>DEPOSIT INSURANCE FUND AND RESERVES</b>			
Islamic Deposit Insurance Fund	8b	20,922,578	11,255,490
<b>Total Deposit Insurance Fund</b>		<b>20,922,578</b>	11,255,490
<b>Total Liabilities and Deposit Insurance Fund</b>		<b>21,790,765</b>	11,676,391

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



## FINANCIAL STATEMENTS

### ISLAMIC DEPOSIT INSURANCE FUND INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

		2007	2006
	Note	RM	RM
Premium revenue	9	11,608,767	9,403,198
Investment income from cash and investment securities	10	551,031	239,230
Miscellaneous income		3,592	-
		<b>12,163,390</b>	9,642,428
Employee benefits	11	1,203,659	811,917
Public relations and advertising		583,843	139,140
Depreciation	6b	121,245	90,245
Operating lease		70,746	26,294
Other expenses	12	516,809	333,407
		<b>2,496,302</b>	1,401,003
<b>Net surplus</b>		<b>9,667,088</b>	8,241,425

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



# FINANCIAL STATEMENTS

## ISLAMIC DEPOSIT INSURANCE FUND

### CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Note	2007 RM	2006 RM
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Premium receipts from member institutions	9	11,608,767	9,403,198
Payments in the course of operations to suppliers and employees		(2,277,855)	(574,449)
Receipts of investment income		447,254	94,764
Miscellaneous income		1,289	-
<b>Net cash flow from operating activities</b>		<b>9,779,455</b>	<b>8,923,513</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment securities		23,000,000	11,797,832
Purchase of investment securities		(31,226,325)	(18,544,772)
Purchase of property and equipment		(532,842)	(159,122)
<b>Net cash flow used in investing activities</b>		<b>(8,759,167)</b>	<b>(6,906,062)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,020,288</b>	<b>2,017,451</b>
Cash and cash equivalents at beginning of year		2,095,101	77,650
<b>Cash and cash equivalents at end of year</b>	3	<b>3,115,389</b>	<b>2,095,101</b>

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



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 1. PRINCIPAL ACTIVITIES

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

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

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

The office address of PIDM is at Level 19, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, 50470 Kuala Lumpur.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 18 February 2008.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of accounting

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

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

### 2.2 Summary of significant accounting policies

#### a. Financial instruments

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

#### i. Cash and cash equivalents

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

#### ii. Investments

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

#### iii. Receivables and other assets

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

#### iv. Payables

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





# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### b. Impairment of non-financial assets

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

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

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

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

An impairment loss for assets other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation)

had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in subsequent period.

### c. Property and equipment and depreciation

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

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

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

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

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment.



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

An item of property and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in income statement and the unutilised portion of the revaluation surplus on that item is taken directly to retained earnings.

### d. Recognition of income and expenditure

All income and operating expenditures are recognised on an accrual basis. In accordance with the MDIC Act, the expenditures of PIDM which could not be directly attributed to the Islamic Deposit Insurance Fund or Conventional Deposit Insurance Fund are apportioned based on the proportion of the Islamic and conventional premiums received against total annual premiums immediately prior to the year in which such expenditures are incurred. For the current financial year, the apportionment basis was determined based on the proportion of actual premiums received during the financial period ended 31 December 2006. The apportionment basis used for the Islamic Deposit Insurance Fund and the Conventional Deposit Insurance Fund during the financial year was 9.21% (2006: 9.26%) and 90.79% (2006: 90.74%) respectively.

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

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

### e. Employee benefits

#### i. Short-term benefits

Wages, salaries, bonuses, social security contributions and other benefits such as medical coverage benefits and allowances are recognised as an expense in the year in which the associated services are rendered by employees of PIDM. Short-term

accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

#### ii. Defined contribution plan

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

### f. Foreign currencies

#### i. Functional and presentation currency

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

#### ii. Foreign currency transactions

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



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

Exchange differences arising from the settlement of monetary items, and on the translation of monetary items, are included in income statement for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in income statement for the period except for the differences arising from the translation of non-monetary items in respect of which gains and losses are recognised directly in equity. Exchange differences arising from such non-monetary items are also recognised directly in equity.

### 2.3 Changes in accounting policies

During the year, the Board of Directors had approved the change in accounting policy relating to the depreciation rates for furniture and fittings as well as office refurbishments. This change in the depreciation rate is to reflect the current nature and useful life of the new assets in use post relocation to the new office premises in 1 Sentral, Kuala Lumpur Sentral. The change in depreciation rates applied to the above classes of property and equipment are as follows:

	2007	2006
Furniture and fittings	20%	33.3%
Office refurbishments	20%	66.7%

This change in accounting policy is accounted prospectively, as assets pre-office relocation, in particular, the office refurbishments are no longer in use and have been fully expensed to the income statements. It is also impracticable to determine the cumulative effect of the change for the remaining furniture and fittings still in use at the new office and the impact of such change is immaterial.

During the year, the Board of Directors had also approved the change in the recognition criteria for property and equipment. This change is to better reflect the nature of the assets post relocation to the new office premise, which will provide future economic benefits to the Corporation in line with the nature of business and operations of the Corporation. This change in accounting policy is accounted for prospectively as majority of the affected assets pre-office relocation, are no longer in use and have been fully expensed to the income statements. It is also impracticable to determine the cumulative effect of the change from prior years and the impact of such change is immaterial.

The effects of the above changes on the 2007 financial statements are described in Notes 6 and 12.



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 3. CASH AND CASH EQUIVALENTS

	2007		
	Total RM	Conventional RM	Islamic RM
Deposits with Bank Negara Malaysia	1,810,283	1,810,283	-
Cash on hand and at bank	3,615,649	3,486,269	129,380
Short-term investments:			
Malaysian Government Securities and Investment Issues	9,742,356	8,769,156	973,200
Bank Negara Bills and Negotiable Notes	19,565,496	17,607,837	1,957,659
	29,307,852	26,376,993	2,930,859
Add: Accretion of discounts net of amortisation of premium	558,854	503,704	55,150
	29,866,706	26,880,697	2,986,009
	35,292,638	32,177,249	3,115,389
Market values of short-term investments held as at 31 December 2007 are as follows:			
Malaysian Government Securities and Investment Issues	9,918,740	8,926,740	992,000
Bank Negara Bills and Negotiable Notes	19,943,500	17,949,150	1,994,350
	29,862,240	26,875,890	2,986,350

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

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





# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 4. INVESTMENTS

	2007		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	34,863,663	31,949,393	2,914,270
Bank Negara Bills and Negotiable Notes	135,634,145	120,658,312	14,975,833
Accretion of discounts net of amortisation of premium	372,161	346,256	25,905
	<u>170,869,969</u>	<u>152,953,961</u>	<u>17,916,008</u>
Market values of investments are as follows:			
Malaysian Government Securities and Investment Issues	35,212,700	32,275,940	2,936,760
Bank Negara Bills and Negotiable Notes	135,682,320	120,704,880	14,977,440
	<u>170,895,020</u>	<u>152,980,820</u>	<u>17,914,200</u>

	2006		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	43,867,057	37,593,364	6,273,693
Bank Negara Bills and Negotiable Notes	55,064,244	52,110,294	2,953,950
	<u>98,931,301</u>	<u>89,703,658</u>	<u>9,227,643</u>
Accretion of discounts net of amortisation of premium	768,926	619,777	149,149
	<u>99,700,227</u>	<u>90,323,435</u>	<u>9,376,792</u>
Market values of investments are as follows:			
Malaysian Government Securities and Investment Issues	44,418,000	38,007,700	6,410,300
Bank Negara Bills and Negotiable Notes	55,276,300	52,307,500	2,968,800
	<u>99,694,300</u>	<u>90,315,200</u>	<u>9,379,100</u>



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 4. INVESTMENTS (continued)

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.

## 5. OTHER ASSETS

	2007		
	Total RM	Conventional RM	Islamic RM
Deposits and prepayments	460,475	417,993	42,482
Interest and investment income receivables	374,968	349,572	25,396
Other assets	30,000	27,222	2,778
Other receivables	600,343	598,040	2,303
	<u>1,465,786</u>	<u>1,392,827</u>	<u>72,959</u>

	2006		
	Total RM	Conventional RM	Islamic RM
Deposits and prepayments	385,677	349,964	35,713
Interest and investment income receivables	-	-	-
Other assets	30,000	27,222	2,778
Other receivables	16,044	14,125	1,919
	<u>431,721</u>	<u>391,311</u>	<u>40,410</u>



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 6. PROPERTY AND EQUIPMENT

2007					
	Office equipment and computer systems RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
<b>Cost</b>					
Balance as at 1 January 2007	1,091,696	755,271	172,009	814,081	2,833,057
Additions (i)	3,166,974	1,569,272	240,000	2,734,800	7,711,046
Reclassification	-	-	-	-	-
Write-offs (ii)	(506,253)	(657,011)	-	(814,081)	(1,977,345)
Balance as at 31 December 2007	3,752,417	1,667,532	412,009	2,734,800	8,566,758
<b>Accumulated depreciation</b>					
Balance as at 1 January 2007	257,933	217,949	25,801	559,365	1,061,048
Charge for the year	539,449	282,357	31,534	461,024	1,314,364
Reclassification	-	-	-	-	-
Write-offs	(252,120)	(191,193)	-	(814,081)	(1,257,394)
Balance as at 31 December 2007	545,262	309,113	57,335	206,308	1,118,018
<b>Net carrying amount</b> At 31 December 2007	3,207,155	1,358,419	354,674	2,528,492	7,448,740

- i. Included in office equipment and computer systems was an amount of RM1,730,563 (2006: Nil) relating to expenditure for an asset in the course of construction.
- ii. During the year, the property and equipment recognition criteria has been revised to better reflect the nature of the assets post relocation to the new office premise, which will provide future economic benefits to the Corporation in line with the nature of business and operations of the Corporation. The change in policy as noted in Note 2.3 resulted in property and equipment being expensed to the income statements amounting to RM719,951.



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 6. PROPERTY AND EQUIPMENT (continued)

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





# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 6. PROPERTY AND EQUIPMENT (continued)

### a. Conventional Deposit Insurance Fund

2007					
	Office equipment and computer systems RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
<b>Cost</b>					
Balance as at 1 January 2007	990,604	685,333	156,081	738,697	2,570,715
Additions	2,875,296	1,424,742	217,896	2,482,925	7,000,859
Reclassification	-	-	-	-	-
Write-offs	(459,438)	(596,340)	-	(738,697)	(1,794,475)
Balance as at 31 December 2007	<u>3,406,462</u>	<u>1,513,735</u>	<u>373,977</u>	<u>2,482,925</u>	<u>7,777,099</u>
<b>Accumulated depreciation</b>					
Balance as at 1 January 2007	234,048	197,767	23,412	507,567	962,794
Charge for the year	489,690	256,379	28,614	418,436	1,193,119
Reclassification	-	-	-	-	-
Write-offs	(228,853)	(173,595)	-	(738,697)	(1,141,145)
Balance as at 31 December 2007	<u>494,885</u>	<u>280,551</u>	<u>52,026</u>	<u>187,306</u>	<u>1,014,768</u>
<b>Net carrying amount</b> At 31 December 2007	<u>2,911,577</u>	<u>1,233,184</u>	<u>321,951</u>	<u>2,295,619</u>	<u>6,762,331</u>



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 6. PROPERTY AND EQUIPMENT (continued)

### a. Conventional Deposit Insurance Fund

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



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 6. PROPERTY AND EQUIPMENT (continued)

### b. Islamic Deposit Insurance Fund

2007					
	Office equipment and computer systems RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
<b>Cost</b>					
Balance as at 1 January 2007	101,092	69,938	15,928	75,384	262,342
Additions	291,678	144,530	22,104	251,875	710,187
Reclassification	-	-	-	-	-
Write-offs	(46,815)	(60,671)	-	(75,384)	(182,870)
Balance as at 31 December 2007	<u>345,955</u>	<u>153,797</u>	<u>38,032</u>	<u>251,875</u>	<u>789,659</u>
<b>Accumulated depreciation</b>					
Balance as at 1 January 2007	23,885	20,182	2,389	51,798	98,254
Charge for the year	49,759	25,978	2,920	42,588	121,245
Reclassification	-	-	-	-	-
Write-offs	(23,267)	(17,598)	-	(75,384)	(116,249)
Balance as at 31 December 2007	<u>50,377</u>	<u>28,562</u>	<u>5,309</u>	<u>19,002</u>	<u>103,250</u>
<b>Net carrying amount</b> At 31 December 2007	<u>295,578</u>	<u>125,235</u>	<u>32,723</u>	<u>232,873</u>	<u>686,409</u>



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 6. PROPERTY AND EQUIPMENT (continued)

### b. Islamic Deposit Insurance Fund

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



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 7. PAYABLES

	2007		
	Total RM	Conventional RM	Islamic RM
Amount due to Bank Negara Malaysia	199,192	180,846	18,346
Sundry creditors	27,000	24,513	2,487
Other payables	3,309,563	2,482,363	827,200
Provision for unutilised leave	218,831	198,677	20,154
	<u>3,754,586</u>	<u>2,886,399</u>	<u>868,187</u>

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

## 8. DEPOSIT INSURANCE FUNDS

### a. Conventional Deposit Insurance Fund:

	2007 RM	2006 RM
Balance as at 1 January	111,218,891	29,527,976
Net surplus	79,181,078	81,690,915
	<u>190,399,969</u>	<u>111,218,891</u>
Balance as at 31 December		



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 8. DEPOSIT INSURANCE FUNDS (continued)

### b. Islamic Deposit Insurance Fund:

	2007 RM	2006 RM
Balance as at 1 January	11,255,490	3,014,065
Net surplus	9,667,088	8,241,425
	<u>20,922,578</u>	<u>11,255,490</u>
Balance as at 31 December		

## 9. PREMIUM INCOME

	2007		
	Total RM	Conventional RM	Islamic RM
First premiums	250,000	-	250,000
Annual premiums	109,905,613	98,546,846	11,358,767
	<u>110,155,613</u>	<u>98,546,846</u>	<u>11,608,767</u>

Under the *Malaysia Deposit Insurance Corporation (Annual Premium) Order 2006*, the rate of *Annual Premium* is 0.06% of the total insured deposits of the respective member institution. However, the annual premium is subject to a minimum premium of RM250,000.

The annual premiums for 2007 were due and payable by 31 May 2007.

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

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

The first premium is also subject to a minimum premium of RM250,000.

From year 2008 onwards, the rate of premium will be based on the *Differential Premium System*.





# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 9. PREMIUM INCOME (continued)

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

## 10. INVESTMENT INCOME

	2007		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	1,105,993	972,886	133,107
Bank Negara Bills and Negotiable Notes	4,648,470	4,230,546	417,924
	<u>5,754,463</u>	<u>5,203,432</u>	<u>551,031</u>

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

The weighted average yield rates for the investment securities that were effective during the financial year were 3.43% (2006: 3.27%) and 3.41% (2006: 3.36%) for the Islamic and Conventional portfolio respectively.



# FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2007

## 11. EMPLOYEE BENEFITS EXPENSE

	2007		
	Total RM	Conventional RM	Islamic RM
Wages and salaries	10,888,532	9,886,006	1,002,526
Contributions to defined contribution plan	1,245,282	1,130,504	114,778
Provision for unutilised leave	183,666	166,768	16,898
Other benefits	754,035	684,578	69,457
	<u>13,071,515</u>	<u>11,867,856</u>	<u>1,203,659</u>

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

The number of employees at the end of the financial year was fifty nine (59) (2006: 40).



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 12. OTHER EXPENSES

	2007		
	Total RM	Conventional RM	Islamic RM
Audit fees	27,000	24,513	2,487
Directors' fees and remuneration*	333,054	300,796	32,258
International Association of Deposit Insurers Annual Conference	399,053	363,211	35,842
Printing and stationery expense	788,616	714,760	73,856
Professional and consultancy fees	795,759	722,992	72,767
Retirements of property and equipment	719,951	653,330	66,621
Subscriptions and memberships	326,264	296,156	30,108
Training and development expense	676,232	614,144	62,088
Travelling	726,188	659,145	67,043
Telecommunication and computer systems expenses	304,885	276,803	28,082
Website development and maintenance expense	57,260	51,986	5,274
Miscellaneous expenses	437,223	396,840	40,383
	<u>5,591,485</u>	<u>5,074,676</u>	<u>516,809</u>

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

	2006		
	Total RM	Conventional RM	Islamic RM
Audit fees	25,000	22,685	2,315
Directors' fees and remuneration	146,000	132,480	13,520
Printing and stationery expense	982,406	891,435	90,971
Professional and consultancy fees	769,647	697,440	72,207
Subscriptions and memberships	194,244	175,832	18,412
Training and development expense	670,136	596,129	74,007
Telecommunication and computer systems expenses	166,193	150,804	15,389
Website development and maintenance expense	279,543	256,470	23,073
Miscellaneous expenses	273,200	249,687	23,513
	<u>3,506,369</u>	<u>3,172,962</u>	<u>333,407</u>



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 13. TAXATION

PIDM is exempted from income tax at the statutory level.

### 14. OPERATING LEASE ARRANGEMENT

PIDM has entered into a non-cancellable lease arrangement for the use of office space at Level 19, 1 Sentral, Kuala Lumpur Sentral. The lease is for five years beginning 18 April 2007 at a fixed rental rate with the option to renew for another five years. There are no purchase option or escalation clauses included in the contract. There are also no restrictions placed upon PIDM by entering into this lease arrangement.

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

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

Future minimum rentals payments:  
Not later than 1 year  
Later than 1 year and not later than 5 years

2007 RM	2006 RM
975,192	71,880
<u>3,268,961</u>	<u>81,028</u>
<u>4,244,153</u>	<u>152,908</u>

### 15. CAPITAL COMMITMENTS

Capital expenditures  
Approved and contracted for:  
Property and equipment

2007 RM	2006 RM
316,809	70,176
<u>316,809</u>	<u>70,176</u>



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 16. CONTINGENCIES

*Exposure to losses from member institutions*

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

### 17. RELATED PARTY DISCLOSURES

#### a. Transactions with related parties

- i. During the year, PIDM has entered into a contract with Shook Lin & Bok, a legal firm of which one of the Directors of PIDM is a contracted advisor of the firm, for the provision of legal advisory services to PIDM. The fee charged is RM60,000 which is comparable to market prices. As at 31 December 2007, there is no amount outstanding due to the firm. The Director was not involved in the selection process, nor did he participate in or deliberate on the decision by Management to contract the chosen firm. The Director also did not obtain or gain any benefits from the contract.
- ii. During the year, PIDM has entered into a contract with Chan & Associates, a legal firm of which the spouse of one of the Corporate Officers ("the Officer") of PIDM is an associate of the firm assigned for the provision of legal advisory services to PIDM. The fee charged is RM70,000 which is comparable to market prices. As at 31 December 2007, there is no amount outstanding due to the firm. The Officer was not involved in the selection process, nor did the Officer participate in or deliberate on the decision by Management to contract the chosen firm. The Officer is also not involved in managing the tasks or activities for which the firm was engaged for.

#### b. Remuneration of key management personnel

	2007 RM	2006 RM
Short-term benefits	6,232,293	4,665,557
Post employment benefits: Defined contribution plan	443,172	373,616
	<u>6,675,465</u>	<u>5,039,173</u>

The above remuneration of key management personnel includes the remuneration of the Chief Executive Officer and all members of the Executive Management Committee, being those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. However, the above does not include Directors' remuneration which is disclosed separately in Note 12. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 11.



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 18. FINANCIAL INSTRUMENTS

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

#### a. Foreign currency risk

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

#### b. Interest rate risk and rate of return risk

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

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

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





# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 18. FINANCIAL INSTRUMENTS (continued)

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

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

Conventional Deposit Insurance Fund	Note	WAYR %	Within 1 month RM	1>3 months RM	3>12 months RM	Total RM
<b>31 December 2007</b>						
<i>Fixed rate</i>						
Cash and Cash Equivalent	3	3.19	14,277,383	17,899,866	-	32,177,249
Investments	4	3.53	-	-	152,953,961	152,953,961
<b>31 December 2006</b>						
<i>Fixed rate</i>						
Cash and Cash Equivalent	3	3.36	13,095,243	9,925,918	-	23,021,161
Investments	4	3.47	-	996,408	89,327,027	90,323,435
<b>Islamic Deposit Insurance Fund</b>						
<b>31 December 2007</b>						
<i>Fixed rate</i>						
Cash and Cash Equivalent	3	3.19	1,127,415	1,987,974	-	3,115,389
Investments	4	3.53	-	-	17,916,008	17,916,008
<b>31 December 2006</b>						
<i>Fixed rate</i>						
Cash and Cash Equivalent	3	-	2,095,101	-	-	2,095,101
Investments	4	3.56	-	-	9,376,792	9,376,792



# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2007

### 18. FINANCIAL INSTRUMENTS (continued)

#### c. Liquidity risk

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

#### d. Market risk

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

#### e. Credit risk

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

#### f. Fair values

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

### 19. CURRENCY

All amounts are stated in Ringgit Malaysia.

SECTION V:  
ARTICLES







# ARTICLES

## DIFFERENTIAL PREMIUM SYSTEMS - AN INCENTIVE FOR SOUND RISK MANAGEMENT PRACTICE

### INTRODUCTION

#### Background

Sound funding arrangements are critical to the effectiveness of a deposit insurance system and the maintenance of public confidence. A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims. Funding can be sourced in many ways, such as premiums assessed against member institutions, market borrowings, Government liquidity support or a combination thereof. There are two common approaches to funding, namely *ex-ante* and *ex-post* funding. *Ex-ante* funding refers to the accumulation of a reserve or a fund and provides an opportunity to smooth the premiums paid by member institutions over the course of a business cycle, while *ex-post* funding requires member institutions to pay premiums or levies only after failures occur and are most likely to be assessed during an economic downturn.

Since the introduction of deposit insurance system in September 2005, Malaysia has adopted an *ex-ante* funding approach where the premiums charged to the member institutions have been based on a flat-rate premium system. Under this system, the annual premium rate of 0.06% applied to all members.

The Malaysia Deposit Insurance Corporation Act 2005 ("MDIC Act") currently provides for the establishment of Differential Premium Systems ("DPS"). The objective of introducing the DPS is to provide incentives for member institutions to avoid excessive risk taking and to introduce more fairness into the premium assessment process. Therefore, the flat-rate system will be replaced, in 2008, by the new DPS, for both conventional and Islamic deposits, in line with the Corporation's mandate of promoting sound risk management and contributing to the stability of the financial system in Malaysia.

#### Some history - why have DPS?

Deposit insurance premium systems generally fall into two types – a flat rate and the DPS.

Flat-rate premium systems are relatively simple to design, implement and administer, nevertheless, they are open to criticism as they do not take

into account the level of risk that member institutions pose to the deposit insurance system. Flat-rate premium systems are also viewed as being less equitable since members with lower risk profiles would effectively be subsidising those with higher risk profiles.

DPS, on the other hand, are not intended to be an actuarially-based measure of the risk posed to the Corporation by individual member institutions. Rather they are intended to send an early warning signal – with financial consequence – to the Management and Board of Directors of member institutions. DPS takes into account the risk profiles of member institutions in determining the premiums payable by the member institutions. Under such system, member institutions are assessed according to their risk profiles and placed into the corresponding risk categories. The higher the risk category in which a member institution falls, naturally, the higher the premium rate imposed. Not only are the systems more equitable, but the systems encourage member institutions to manage their risks more prudently.

A DPS was first introduced by the Federal Deposit Insurance Corporation in 1993. Since then, the number of deposit insurers adopting such a system have grown steadily and there are currently 15 countries which have implemented such a system. Among them are Argentina, Canada, Colombia, Finland, France, Peru, Portugal, Romania, Taiwan and Turkey. Other countries are presently considering the merits of a DPS.

#### DPS practices elsewhere and the Malaysian approach

Measures to assess risks may be qualitative measures or indicators, for example, supervisory ratings; or quantitative, such as capital adequacy ratio or income volatility or concentration ratios. In developing the DPS, three approaches are generally adopted in terms of the measures used to assess risk. There are:

- quantitative measures only;
- qualitative measures only; and
- a combination of both quantitative and qualitative measures.

Table 6: Summary of international DPS practices

Deposit Insurer(s)	Approaches
<b>United States</b> <b>Federal Deposit Insurance Corporation (FDIC)</b>	<ul style="list-style-type: none"><li>• Introduced in 1993 and incorporated a three-by-three matrix where premium categories are determined based on capital adequacy and supervisory rating measures.</li><li>• Recently refined its measurement approach for category 1 members in order to better differentiate members.</li></ul>
<b>Canada</b> <b>Canada Deposit Insurance Corporation (CDIC)</b>	<ul style="list-style-type: none"><li>• Introduced in 1999 and incorporated 14 individual quantitative and qualitative indicators.</li><li>• Quantitative indicators such as capital adequacy, income volatility, and concentration ratios make up 60% of the score.</li><li>• Qualitative measures such as examiner ratings, and other information measures make up the remaining 40%.</li><li>• Four premium categories were applied with category 1 (best) to 4 (worst).</li></ul>
<b>Argentina</b> <b>Seguro de Depósitos Sociedad Anónima (SEDESA)</b>	<ul style="list-style-type: none"><li>• Members contribute a basic premium and an additional premium determined by combined quantitative and qualitative indicators.</li><li>• The differentiated additional premium for each member takes into account the factors such as capital adequacy, asset quality and supervisor rating.</li></ul>
<b>Taiwan</b> <b>Central Deposit Insurance Corporation (CDIC) of Taiwan</b>	<ul style="list-style-type: none"><li>• Introduced in 1999 and utilised a three-by-three matrix.</li><li>• Members are differentiated based on capital adequacy and supervisory ratings measures based on the CAMEL(S) framework.</li></ul>
<b>France</b> <b>The Commission Bancaire (the French banking supervisor)</b>	<ul style="list-style-type: none"><li>• Introduced in 1999 and based on a combination of prudential and financial risk analysis ratios which are applied to the amount of deposits with each member bank.</li><li>• A synthetic risk indicator is employed to compute the premium of each member bank. The indicator is derived from the arithmetic mean of the scores of four criteria: solvency, risk diversification, operating profitability and maturity transformation.</li><li>• The four criteria are then rated from 1 (best) to 3 (worst) and premiums applied according to a specified formula.</li></ul>
<b>Turkey</b> <b>Savings Deposit Insurance Fund (SDIF)</b>	<ul style="list-style-type: none"><li>• Applies a flat rate for all members plus "add on" on the basis of individual member risk profiles.</li><li>• The total premium assessed is determined by adding on to the basic premium assessment and in consideration of capital adequacy ratios, sensitivity of foreign exchange net position and asset quality.</li></ul>





# ARTICLES

## DIFFERENTIAL PREMIUM SYSTEMS - AN INCENTIVE FOR SOUND RISK MANAGEMENT PRACTICE

In line with most countries, Malaysia has adopted the “combined” approach, whereby both quantitative and qualitative measures are used to categorise member institutions into their applicable DPS categories.

### Objectives

The objectives of our DPS are based on the International Association of Deposit Insurers (“IADI”) Guidance as follows:

- **To provide incentives for member institutions to adopt sound risk management practices.**

The DPS should provide incentives for member institutions to better manage their risk profiles and to address the factors that would lead to a lower rating, hence, a lower premium;

- **To differentiate member institutions according to their risk profiles.**

The DPS should appropriately differentiate member institutions according to their risk profiles. Appropriate criteria and factors need to be identified such that the system is able to clearly differentiate the risk profiles of member institutions;

- **To introduce more fairness into the premium assessment process.**

The DPS should result in member institutions with a higher risk profile paying higher premiums than member institutions with a lower risk profile; and

- **To promote stability of the financial system.**

The DPS should enhance sound risk management practices in member institutions, thereby promoting the stability of the financial system.

### DPS project task force

In developing the DPS framework for Malaysia, a project task force comprising staff members from the Corporation and Bank Negara Malaysia (“BNM”) was formed. The eight-member project task force comprised senior members with regulatory, supervisory, risk management, statistics and IT experience. Members of the project task force are listed in Table 7. Significant analysis

and data mining exercises were conducted on member institutions’ financial data when developing and calibrating the criteria of the DPS.

Table 7: DPS Project Task Force Members

Members	Role
1. Md. Khairuddin Hj. Arshad	Project Champion
2. Lim Kong Kuan	Project Manager
3. Grace Low Pei Lin	Member
4. Saifulrizam Zainal	Member
5. Sherilin Mohd. Ali	Member
6. Akbar Jamaluddin	Member
7. Marina Abdul Kahar	BNM representative
8. Dr. Zarina Zainal Abidin	BNM representative

## THE DPS FRAMEWORK IN MALAYSIA

### Our mandate and DPS

The objects of the Corporation 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
- promote or contribute to the stability of the financial system.

In achieving its objects for items (b) and (d), the Corporation shall act in a manner as to minimise costs to the financial system.

Part of the objects in our mandate is to promote sound risk management practices among member institutions, and the MDIC Act provides the necessary powers to achieve this object. Therefore the MDIC Act<sup>1</sup> empowers the Corporation to make regulations for a system that would differentiate member institutions into different categories, and contemplates, for transparency, that the regulations would deal with the criteria and procedures for classifying member institutions.

Following extensive research conducted, public consultation and intense analysis, our Board approved the DPS framework and related draft regulations in September 2007. The DPS is expected to be implemented in 2008, once the DPS regulations have been approved by the Minister of Finance.

### Guiding principles

In developing our DPS, we were guided by eight principles as described below. These principles were intended to ensure the development of a DPS that would adequately and fairly capture the risk profiles of member institutions, and which can be effectively implemented.

The DPS should:

- Remain equitable for all member institutions irrespective of size or complexity;
- Provide incentives for member institutions to move towards the best classification (lowest premium) by improving their risk profile;

- Take into consideration both quantitative and qualitative factors and contain forward looking elements;
- Remain objective and transparent such that member institutions can understand the system and are able to manage their profiles;
- Ensure that information provided is accurate, reliable and timely;
- Use data based on the approved accounting standards set by the Malaysian Accounting Standards Board;
- Classify member institutions based on their risk profiles that are consistent with the Corporation’s and the supervisor’s overall assessment; and
- Segregate between conventional and Islamic banking businesses.

### Scope

As required by law, we manage two separate and distinct DPS – for both conventional and Islamic deposit-taking activities as illustrated in Table 8 below.

Table 8: Scope of coverage of the DPS

Entity	Business	Conventional DPS Criteria	Islamic DPS Criteria
Conventional member institutions	Conventional	✓	
	Islamic banking scheme		✓
Islamic member institutions	Islamic		✓

<sup>1</sup>Section 48 of the MDIC Act



## ARTICLES

### DIFFERENTIAL PREMIUM SYSTEMS - AN INCENTIVE FOR SOUND RISK MANAGEMENT PRACTICE

#### Quantitative and qualitative criteria

The DPS scores member institutions according to a variety of quantitative and qualitative criteria. The quantitative factors which account for a score of 60 out of 100 include capital adequacy, profitability, efficiency, asset quality, asset concentration and asset growth criteria as shown in Table 9 below. The remaining score of 40 accounts for the qualitative criteria which include supervisory rating and other information. The scores will then be added up to derive a total score for the member institutions that would determine which premium category it would fall within.

Table 9: Summary of criteria and scores

CRITERIA	MAXIMUM SCORE
<b>Quantitative Criteria</b>	<b>60</b>
<b>Capital Quantitative Criteria:</b>	<b>20</b>
Risk-weighted Capital Ratio	10
Core Capital Ratio	10
<b>Other Quantitative Criteria:</b>	
<b>Profitability</b>	<b>15</b>
Return on Risk-weighted Assets	8
Mean Adjusted Return Volatility	7
<b>Efficiency</b>	<b>5</b>
Efficiency Ratio	5
<b>Asset Quality</b>	<b>10</b>
Net NPLs to Capital Base Ratio	5
Gross NPLs and Loans in Arrears to Gross Loans Ratio	5
<b>Asset Concentration</b>	<b>5</b>
Aggregate Sector Asset Concentration Ratio; and Residential Property Asset Concentration Ratio	5
<b>Asset Growth</b>	<b>5</b>
Risk-weighted Assets to Total Assets Ratio; and Total Asset Growth Ratio	5
<b>Qualitative Criteria</b>	<b>40</b>
Supervisory Rating	35
Other Information	5
<b>TOTAL</b>	<b>100</b>

#### Premium categories

Member institutions will be classified into four premium categories based on their DPS scores, 1 representing the best, and 4 the lowest. The table below sets out the scores and premium categories:

Table 10: Scores and premium categories

Score	Premium Category
≥ 85	1
≥ 65 but < 85	2
≥ 50 but < 65	3
< 50	4

An annual premium rate is prescribed in relation to each premium category and the applicable premium rate for each member institution is based on the premium category in which a member institution is scored. Member institutions that achieve a score of less than 50 out of 100 will be placed in the highest premium rate category (4) and those with a score of 85 or better will be classified into the lowest premium rate category (1).

For the first year of implementation, applicable to the premium assessment year of 2008, the proposed system provides a transitional period such that rates for premium category 4 will be accorded the same as category 3. Furthermore, member institutions' quantitative scores will be adjusted upwards by 20% subject to a ceiling score of 60 during the one-year transitional period.

Premiums are payable by 31 May of an assessment year based on member institutions' DPS scores, premium category and the amount of insured deposits they hold at 31 December of each year. For any new institution that becomes a member institution of PIDM during the year, the member institution is automatically categorised in the lowest premium category for the first two years. This is on the basis that the member institution has just started operations, and hence its risk profile may not be significant.



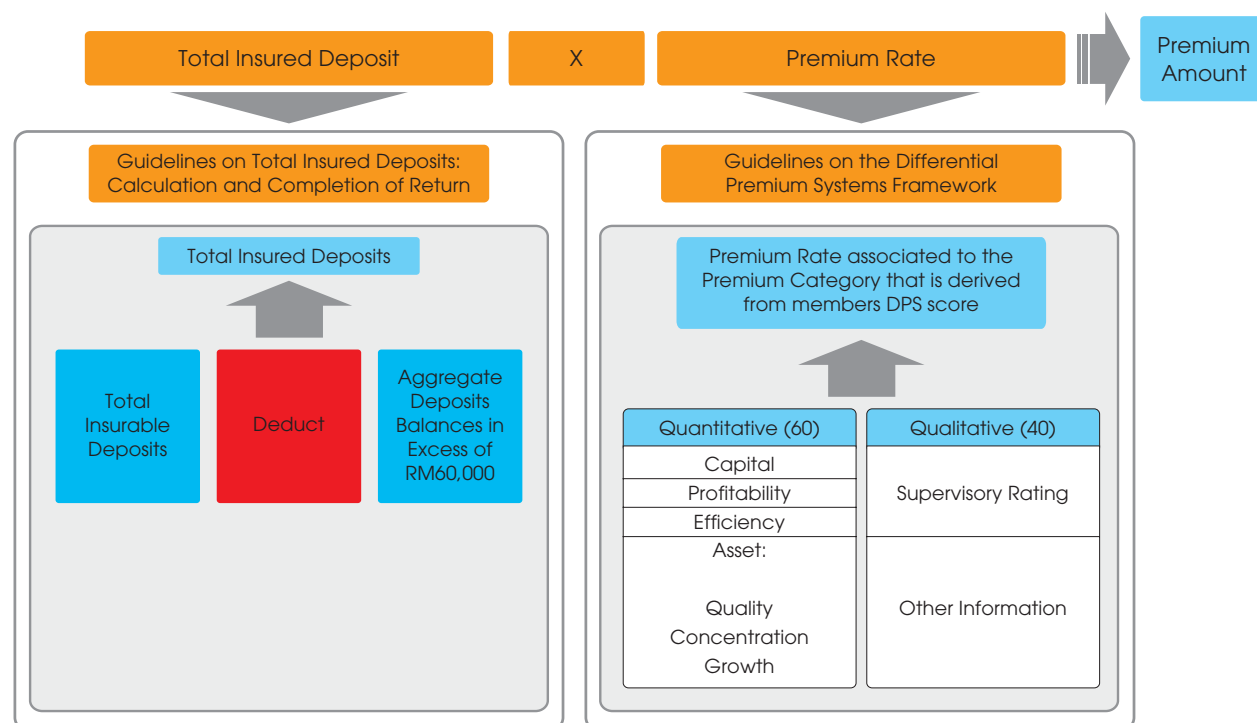
**Application of DPS in the calculation of premiums**  
The Corporation has established a structured approach to determine the annual premium for each member institution. The annual premium is calculated by multiplying the total insured deposits with applicable premium rates as determined by the DPS. Diagram 6 (next page) provides an illustration of the process of premium computation.



## ARTICLES

### DIFFERENTIAL PREMIUM SYSTEMS - AN INCENTIVE FOR SOUND RISK MANAGEMENT PRACTICE

Diagram 6: DPS in the calculation of premiums



#### Submission by member institutions

The computation of DPS score for premium assessment involves the submission of member institutions' quantitative information in pre-formatted template or forms by 30 April of each assessment year. The Corporation will aggregate the quantitative and qualitative scores and notify member institutions of the total score, premium category and applicable premium rates such that the respective premiums will be payable to the Corporation by end May of each assessment year. In order to ensure the accuracy of the submissions, the quantitative information submitted shall be validated by a member institution's external auditor. In addition, each member institution's chief executive officer and chief financial officer shall certify that the submission is accurate and reflective of its financial condition for the assessment period.

#### CONCLUSION

##### Going forward

As always, we anticipate changes in the financial and regulatory landscape and expect to refine our DPS accordingly as the need arises. Of significance in the current operating environment, are developments in the financial services industry that would impact on member institutions' financial statements, regulatory and reporting requirements. Among these are the New Basel Capital Accord (Basel II), enhancements in accounting standards and the standards issued by the Islamic Financial Services Board.

The application of the Malaysian DPS will be monitored closely to consider the impact of these changes, if any. The DPS would be refined, if necessary, to address the impact of the latest developments in accounting conventions, as well as regulatory and supervisory developments, using the same principles that guided us in the development of the first, original DPS.

#### Its impact on member institutions

The timing of the introduction of the DPS has been strategically determined. Given the relative stability of our financial system, the impact of the DPS as well as the transitional adjustments provided to member institutions would, we expect, be minimal.

The one-year transitional period would also allow member institutions in the lowest category time to improve their risk management resulting in a less drastic change in the applicable premium rates. At the same time, member institutions with already well managed risk could see a reduction in the overall premiums they would have to pay in comparison with those higher risk members.



#### The DPS in fulfilling our mandate

Our DPS is a culmination of extensive research, discussions and feedback from our stakeholders. We are confident that our DPS – once fully implemented – will help us advance one of our key objects, to promote sound risk management in the financial system. As a consequence, greater levels of risk management provide more stability within the financial system.







# ARTICLES

## REGULATIONS ON THE PROVISION OF INFORMATION ON DEPOSIT INSURANCE – TOWARDS INFORMED DEPOSITORS

### INTRODUCTION

Depositor confidence is a key element of a stable financial system. And confidence is based on consumer awareness and understanding. Bank customers who are able to make informed decisions in respect of their deposits have greater confidence in the financial system.

Our mandate includes the object of contributing to or promoting the stability of the financial system. As the national deposit insurer, we have, therefore, an obligation to ensure the depositing public receives accurate, relevant and timely information about the deposit insurance system and how it protects depositors.

### OUR STRATEGY

Research in other jurisdictions show that customers prefer to obtain, and trust, information provided by their bankers<sup>1</sup>. Accordingly, PIDM's strategy has always been to work in partnership with our member institutions to educate the public about deposit insurance. Over the past years, we have conducted many briefings to member institutions about deposit insurance, so that they may, in turn, create awareness and education among the depositing public.

### PROPOSED INFORMATION REGULATIONS

Towards this end, in 2007 we issued a consultation paper on the draft Malaysia Deposit Insurance Corporation (Provision of Information on Deposit Insurance) Regulations ("Regulations"). The Regulations, when effected, will standardise the information that member institutions provide to their customers in respect of deposit insurance and products, whether the product is insured or not, and timing and manner in which disclosures should be made.

The Regulations are expected to come into force in the second quarter of 2008.

#### The aim of the Regulations

The Regulations aim to ensure that member institutions:

- make clear representations about their membership in the deposit insurance system;
- provide accurate information on deposit insurance; and

- disclose whether a deposit product is insured or not.

#### Salient features

The salient features of the Regulations are as follows:

##### Representations about membership

If a financial institution is a member of the deposit insurance system, this should be made clear to the public. As a member of the public, therefore, one can look for:

- The PIDM Membership decal at each entrance of a member institution. A member institution must, once the Regulations are effected, post such a decal at each of its offices, making it clear, however, where it shares office with a non-member.



- An electronic form of the decal on the member institution's website and its Automated Teller Machines ("ATMs").
- A "Membership Statement" near the member institution's name on all advertisements. A membership statement would indicate that the financial institution is a "Member of PIDM" or "Member of Perbadanan Insurans Deposit Malaysia", for example.

##### Regulations

Once the Regulations take effect, as members of the public, one should look for:

- PIDM brochures, which member institutions must display prominently at all their offices.
- Notifications as to where these brochures can be obtained. Member institutions are required to notify customers conducting financial transactions at ATMs or on its website that such brochures are available in physical form at its offices and in electronic form on PIDM's website.

##### Brochures about deposit insurance and PIDM

PIDM provides brochures, in six languages, containing key information about PIDM and deposit insurance in Malaysia. These brochures - provided free of charge to the public through member institutions - contain information about PIDM, what types of deposits are generally insured, and explain the deposit protection limit of RM60,000 per depositor per member institution.

##### Disclosures on insured and uninsured deposit products

Member institutions will also be required under the Regulations to disclose whether a deposit product is insured or not insured by PIDM. A requirement for the disclosure of either insured or non-insured deposit products is a norm for a number of deposit insurance systems. In Malaysia, the level of awareness of deposit insurance is still low. Given this, we have adopted the "dual disclosure" approach in crafting the draft Regulations, namely, a disclosure must be made for both insured and non-insured deposits.

Prior to offering any deposit product to the public, member institutions will be required, in accordance with the "Guidelines on the Criteria for Determining Insured Deposits", to submit all relevant documents pertaining to the deposit products for certification by PIDM as to the status of the products. Once certified by PIDM, the deposit product may then be offered to the public. Member institutions must, under the Regulations, then include a statement on all product documentation as to whether the product is insured by PIDM or not, when offering the product. For ease of reference, a member institution will also be required to maintain and display a "Register of Insured Deposits". This will list all insured deposit products of the member institution.

#### The certification of insurability process

The certification process described earlier serves several important objectives - first, it allows member institutions to clearly inform the prospective depositor before he or she makes the decision to place money with the bank, as explained above. It also provides greater certainty and accuracy in determining the insurable deposits held by a member institution for the purpose of premium calculations.

Additionally, in the event of a depositor payout, the fact that products have been certified also

provides greater efficiency - there is no uncertainty as to whether the type of deposit in question is eligible for insurability or not, and a payout may be made without undue delay. This is particularly important with regard to structured products and Islamic deposit products.

##### Unit trusts

Unit trusts are investment products, not bearing the characteristics of a "deposit". As such, it is important to note that these are not in fact insured by PIDM. In particular, in the case of a unit trust, there is no assurance with regard to the return on the investment, in contrast with the conventional meaning of a deposit.

However, unit trusts are commonly sold by member institutions along with deposit products and this may create a perception that they are insured by PIDM. For clarity, therefore, the Regulations will require members to disclose that unit trusts are not insured by PIDM with their unit trust product documentation.

##### Timeliness of information

Timeliness of the provision of deposit insurance information is critical for customers to make informed decisions. Member institutions must, therefore, provide relevant information prior to customers committing to place their funds. At the opening of any deposit account or purchase of any deposit product by their customers, member institutions will be required to draw customers' attention to whether the product is insured or not insured, and provide their customers with the PIDM information brochure. Member institutions will also be required to obtain acknowledgement of receipt of all this important information.

### CONCLUSION

PIDM is committed to educating our depositing public and equipping them to make timely and informed financial decisions. Well informed depositors are a key element in our strategy to promote the stability of the financial system. Financial education is also in line with PIDM's desire to benefit the wider community.

Accordingly, as a first step, we intend to work with our member institutions to create an environment where depositors can be properly informed in making decisions about deposit products. These Regulations and our partnership with our member institutions, we believe, have set the scene.

<sup>1</sup> In the United States, a finding from the Federal Deposit Insurance Corporation (FDIC) Household Survey on Deposit Insurance Awareness (April 2001) was that 57% of the households surveyed preferred to obtain information about deposit insurance directly from their bank. Only 33% of households surveyed reported a preference for receiving information from the FDIC. In Canada, the Canada Deposit Insurance Corporation, through 12 focus groups in August 2003, found out that consumers indicated an interest in receiving information on deposit insurance from the financial institution with which they have a relationship.





SECTION VI:  
PUBLIC AWARENESS INITIATIVES  
AND CORPORATE SOCIAL  
RESPONSIBILITY



INTRODUCTION

Year 2007 marked the launching and implementation of the Corporation’s multi-year Integrated Communications Plan which covers year 2007 until year 2011 (“Plan”). The Plan aims to promote awareness about deposit insurance and PIDM using a systematic and comprehensive strategy and approach.

The Plan, which was approved by the Board of Directors, identifies advertising and public relations initiatives to enhance awareness of the deposit insurance system and build confidence in the role of the Corporation as the national deposit insurer. The Plan defines “target audiences” to include depositors and the general public, member institutions, the mass media, professional and business associations, Government and regulatory authorities as well as other stakeholders. Throughout the year, the Corporation has actively engaged these stakeholders through briefings, exhibitions, roadshows and outreach programmes.

OUR INITIATIVES IN 2007

The following are highlights of our key initiatives in 2007 to raise public awareness.

Date/Ongoing	Initiative	Objective
February 2007	<p>The Corporation became a member of the newly-formed Financial Education Working Committee (“FEWC”), chaired by BNM.</p> <p>Since its formation, members of FEWC have collaborated immensely especially in the areas of financial awareness and consumer education to ensure that consumers are better equipped with information and knowledge necessary to make sound financial decisions.</p> <p>Members of FEWC have also participated together in nationwide exhibitions and roadshows such as the BNM-Financial Planning Association of Malaysia Financial Education Roadshow 2007 and the Minggu Saham Amanah Malaysia.</p>	<ul style="list-style-type: none"> <li>To enhance financial awareness and consumer capability more efficiently and effectively.</li> <li>To further strengthen existing strategic partnerships with our financial safety net partners, which include BNM, AKPK, FMB and the Securities Commission.</li> <li>To further enhance and promote co-operation in the area of financial consumer education in Malaysia.</li> </ul>

The Corporation also joined forces with Bank Negara Malaysia (“BNM”), Agensi Kaunseling dan Pengurusan Kredit (“AKPK”), Financial Mediation Bureau (“FMB”) and other strategic partners to raise financial awareness on banking matters, including the benefits provided by a sound deposit insurance system. This holistic approach to banking knowledge helps to frame deposit insurance as a relevant element in depositors’ personal financial decisions. On the whole, collaboration with other relevant organisations enhances the effectiveness of our public awareness initiatives by providing wider public reach.


Our public awareness efforts were measured by a nationwide consumer survey undertaken in the final quarter of 2007, which indicated an increase in public awareness of the deposit insurance system and the Corporation since 2006.




Date/Ongoing	Initiative	Objective
April to December 2007 	<p>The Corporation launched our first advertising campaign which included newspaper advertisements and television commercials.</p> <p>Three versions of advertisements were developed:</p> <ul style="list-style-type: none"><li>• “Rest Assured, Your Deposits Are Insured” (Cause)</li><li>• “Your Coverage Is Very Wide” (Coverage)</li><li>• “You Don’t Have To Do Anything Because You’re Automatically Covered” (Cost)</li></ul> <p>The newspaper advertisements were featured in four languages, which are English, Bahasa Malaysia, Chinese and Tamil. The television commercials were produced and featured in English, Bahasa Malaysia and Chinese.</p> <p>With the commencement of our advertising campaign in 2007, the Corporation’s Call Centre (toll free 1-800-88-1266) received over 700 calls from the public in the year 2007 while the Corporation’s website (<a href="http://www.pidm.gov.my">www.pidm.gov.my</a>) recorded over 35,000 visitors in the year 2007.</p>	<p>According to the Bank of International Settlements Financial Stability Forum’s “Guidance for Developing Effective Deposit Insurance Systems”, the characteristics of the deposit insurance system need to be publicised regularly so that the credibility of the system is strengthened and maintained.</p> <p>Advertising in mass media enables the Corporation to communicate the key messages to a wider target audience from diverse demographic backgrounds such as age, gender, ethnic group, occupation and education level.</p> <p>Advertising is also a creative approach to promote awareness of deposit insurance and allows the Corporation to strengthen our branding and delivery of key messages.</p>
24 April 2007 	<p>Conducted our first Annual Dialogue with Member Institutions in conjunction with the release of the Corporation’s Annual Report 2006.</p>	<p>To discuss issues of interest relating to member institutions including our financial results, past year’s activities and milestones as well as our current and future initiatives which will affect our member institutions.</p>
7 to 11 May 2007 	<p>As part of the Deposit Insurance Awareness Week, the Corporation featured special advertorials on deposit insurance in major dailies.</p> <p>During the Week, the Corporation also conducted a briefing for bankers in Penang as part of the session on various banking issues organised by BNM (Penang branch) and the Association of Banks (Penang, Perak, Kedah and Perlis sub-committees).</p>	<p>The Deposit Insurance Awareness Week is an annual event held in conjunction with the annual International Week of Deposit Insurance.</p> <p>During this Week, deposit insurers all over the world carry out special campaigns and activities to promote awareness of deposit insurance.</p>



# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES

Date/Ongoing	Initiative	Objective
May to July 2007 	<p>Participated in the BNM-Financial Planning Association of Malaysia Financial Education Roadshow held in five major cities across the country – Penang, Malacca, Johor Bahru, Kuching and Kota Kinabalu. BNM, AKPK and FMB also participated in the roadshow.</p> <p>The Corporation presented briefings on deposit insurance system in Malaysia to over 700 financial planners in these states.</p>	This initiative is part of the Corporation's effort to enhance awareness and understanding of deposit insurance and financial literacy.
October to November 2007	<p>Commissioned an independent research agency to conduct the annual nationwide survey.</p> <p>The findings of our annual survey are used in the development and enhancement of future advertising and public awareness initiatives.</p> <p>1,000 respondents were surveyed using the quantitative method of face-to-face interviews.</p>	<ul style="list-style-type: none"> <li>To measure the level of awareness of deposit insurance and the Corporation.</li> <li>To gauge the effectiveness of the ongoing advertising campaign.</li> </ul>
22 to 23 October 2007	<p>Organised the inaugural Corporate Outreach programme in Penang which was participated by members of the Board of Directors and the Executive Management Committee.</p> <p>The outreach programme included:</p> <ul style="list-style-type: none"> <li>Dinner talk with some 80 senior Government officials and community leaders of Penang.</li> </ul>	The annual Corporate Outreach is an initiative of the Corporation for the Board of Directors and Executive Management Committee to actively reach out to members of the public, with the aim of raising awareness of deposit insurance and the financial consumer protection framework in Malaysia.

Date/Ongoing	Initiative	Objective
	<ul style="list-style-type: none"> <li>Public talk on "Effective Financial Consumer Protection" (together with BNM, AKPK and FMB) which attracted some 250 people.</li> </ul>	By engaging the State Government officials and community leaders in our outreach efforts, the Corporation contributes to enhancing financial literacy as the community leaders and other participants can further share their knowledge on deposit insurance and consumer protection issues with others.
31 October to 1 November 2007  	<p>Hosted the International Association of Deposit Insurers ("IADI") 6th Annual General Meeting and Annual Conference in Kuala Lumpur. An international exhibition was also held alongside the conference.</p> <p>The conference and exhibition was officiated by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Governor of BNM, in an opening ceremony on 31 October 2007.</p> <p>As a member of the IADI Subcommittee on Public Awareness and discussant on the IADI research and guidance paper on Public Awareness, representatives of the Corporation discussed a paper entitled "Public Awareness of Deposit Insurance Systems: A Malaysian Perspective", highlighting the Corporation's public awareness initiatives and experiences since its establishment in September 2005.</p> <p>The Corporation showcased its publications and information materials at the main booth of the International Exhibition, at which deposit insurers from various countries and other relevant agencies also showcased their organisations.</p>	<p>The IADI Annual Conference is a forum to discuss issues pertaining to the advancement and effectiveness of deposit insurance in contributing to financial system stability worldwide.</p> <p>This year's theme, "Deposit Insurance and Consumer Protection", is in line with the Corporation's continuous focus and efforts in raising public awareness of the deposit insurance system since our establishment.</p>

# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## PUBLIC AWARENESS INITIATIVES

Date/Ongoing	Initiative	Objective
30 October to 4 November 2007	<p>Organised the Malaysia Financial Exhibition 2007 ("MYFex 2007") in conjunction with the IADI 6th AGM and Annual Conference. The exhibition, which was held at the Mid Valley Exhibition Centre, Kuala Lumpur, attracted more than 5,000 visitors.</p> <p>MYFex 2007 was officiated by Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Governor of BNM on 30 October 2007.</p> <p>Some 28 exhibitors participated in MYFex 2007 including commercial banks, Islamic banks, BNM, agencies under the Ministry of Finance, training providers and relevant organisations such as the International Centre for Leadership in Finance.</p> <p>An "infohunt" contest and on-ground activities by radio stations were among the highlights of MYFex 2007. There were also daily public talks by the Corporation, BNM, AKPK and FMB.</p> <p>The Corporation's information video was launched during the Opening Ceremony of MYFex 2007. The video is an educational tool for the public and stakeholders. To request for a copy, please call 1-800-88-1266 or email to <a href="mailto:info@pidm.gov.my">info@pidm.gov.my</a></p>	<ul style="list-style-type: none"> <li>To educate the public on financial consumerism, with the aim of creating informed consumers who can make better financial decisions.</li> <li>To bolster the existing collective effort between relevant agencies and market players to enhance financial awareness and consumer empowerment.</li> </ul>
November 2007	<p>Conducted a website survey to obtain user feedback on the functionality and user-friendliness of the Corporation's website (<a href="http://www.pidm.gov.my">www.pidm.gov.my</a>). Overall, the Corporation received generally positive feedback from users.</p>	<p>The user feedback obtained from this survey will be used in future enhancements of the website.</p>
Ongoing	<p>Throughout the year, there were several prominent news articles in the various media arising from our media briefings, press conferences, exclusive interviews, press releases and other initiatives.</p>	<ul style="list-style-type: none"> <li>To enhance the Corporation's profile in the media.</li> <li>To reach the general public and convey key messages through the media as a highly important communication channel and partner.</li> </ul>

Date/Ongoing	Initiative	Objective
Ongoing	<p>Collaborated with Institut Bank-Bank Malaysia ("IBBM") to organise 17 briefings in cities and towns across Malaysia and trained some 800 bank employees on deposit insurance matters.</p> <p>Conducted briefings for various audiences including chambers of commerce, Government agencies and universities.</p>	<p>The Corporation enjoys a strong working relationship and promotional support from IBBM, which is the professional and educational body for the banking and the financial services industry in Malaysia.</p> <p>As commercial and Islamic banks play a very important role in promoting deposit insurance to the public through their daily interaction with customers, the Corporation will continue our strategic partnership with IBBM to conduct on-going briefings to member institutions throughout Malaysia in 2008.</p>
Ongoing	<p>Given the positive support by our Liaison Officers, we will continue to further enhance our working relationship with them through dialogues, individual meetings and regular correspondence.</p>	<p>We have a PIDM Liaison Officer (and an alternate Liaison Officer) representing each member institution. The Liaison Officers act as a single point of contact for all deposit insurance matters, including promotion of the Corporation's briefings held nationwide and dissemination of information during our consultative process to the relevant parties in the respective member institutions.</p>
Ongoing	<p>Joint outreach initiatives with BNM in national events including Minggu Saham Amanah Malaysia, Karnival Pengguna Malaysia, 50th Merdeka Expo, Fiesta Usahawan Luar Bandar and 4th Penang Career and Entrepreneurship Fair.</p>	<p>The Corporation works closely with BNM in various areas as part of the Strategic Alliance Agreement, including promoting public awareness.</p>

### MOVING FORWARD

Following the first year campaign, overall awareness of deposit insurance increased from 13% (2006) to 15% (2007) while overall awareness of the Corporation increased from 4% (2006) to 12% (2007). The survey also highlighted that the differences in attitudes and characteristics of various consumer groups in terms of financial products and knowledge have an impact on the relevance and understanding of the Corporation's communications approaches to the public.

In view of the findings, the Corporation will use a specific and targeted approach for our communications initiatives in 2008. With this new approach, the Corporation will tailor different communications approaches, channels and key messages to reach different target audiences to achieve our objective of ensuring high level of understanding of deposit insurance among the depositing public.

For a complete listing of our briefings, exhibitions and roadshows, please refer to our Calendar of Events for 2007 (pg 149).





# PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

## CORPORATE SOCIAL RESPONSIBILITY

*"The Corporation is committed to carrying on our business and affairs in a socially responsible, sustainable and meaningful way, taking into account ethics, the environment and society at large." – Our CSR Policy*

### INTRODUCTION

#### Corporate Social Responsibility ("CSR") in our mandate

Educating depositors about our system and the benefits of deposit insurance has always been part of our business strategy to achieve one of the objects set out in our mandate – promoting stability in the financial system. Our key performance indicators entail our engagement with the community to inform them about our role, our work and the deposit insurance system.

This has necessarily meant working on having considerable outreach throughout the country. We have carried out many educational programmes, working closely with Bank Negara Malaysia, in particular in rural areas in East Malaysia as well as in Kuala Lumpur.

It was a completely natural extension of this work, for PIDM employees working on these programmes to also answer basic financial questions that our key stakeholders - the public - had about financial matters and to promote financial literacy, generally. Financial education and literacy is an area that is in line with our mandate, and therefore, continues to be an area of focus going forward.

#### Our greater role in society

As a corporate entity, we acknowledge our greater role in society and in our environment. Our Codes of Business Conduct and Ethics for Directors and Employees require us individually to respect and uphold the CSR Policy of the Corporation.

In line with our corporate culture, we have actively encouraged our employees to be involved with community work.

#### Formalising our CSR Policy in 2007

In 2007, therefore, we established a formal CSR Policy, to provide more structure and guidance about the matters that we would support. By way of guidance and for best practices in developing our CSR Policy and programme, we have referred to the Silver Book on "Achieving Value Through

Social Responsibility" issued by the Putrajaya Committee on Government-Linked Companies' High Performance.

### OUR CSR POLICY AND DEVELOPMENT OF OUR FRAMEWORK

#### The core themes

In May 2007, our Board of Directors approved a CSR Policy for the Corporation. The CSR Policy crystallises our commitment towards good corporate citizenry and governance and identifies three core themes for our focus in demonstrating responsible corporate behaviour – employee well-being, community involvement and environmental protection.

#### The guidelines

As stated in the CSR Policy, the following are some of the guidelines which apply in terms of community work:

- i. The Corporation may support any causes, activities, projects or events that are in line with our core themes including community or charitable work which:
  - are relevant to Malaysians including in situations of natural disasters or emergencies; and/or
  - involve our employees either as office bearers or as active individual contributors.
- ii. The Corporation will:
  - participate in, and contribute to, charitable causes or community work impartially and without prejudice in terms of race, gender, ethnicity or religion;
  - provide corporate support in a way that minimises any inference or perception of a conflict of interest.

#### The CSR taskforce

This year also saw the establishment of a CSR Taskforce, headed by our Chief Executive Officer ("CEO") and comprising volunteer employees, with specific terms of reference. The Taskforce is working towards developing a framework for our corporate responsibility activities, and help identify and recommend activities and programmes which are aligned to our core themes. The Governance Committee and the Board are kept updated on our activities.

Another significant part of the framework established in 2007 include the following:

#### i. Procedure for External Requests

In line with the Silver Book recommendations, we established a procedure for handling external requests by third parties. This deals with how we evaluate requests for contributions by external parties, whilst emphasising what we will not support.

#### ii. Employee Initiative Support Process

This sets out the process by which employees, who are involved in a particular cause, activity or event, may apply to the Corporation for official support. Our CSR Policy allows us to encourage our employees to carry out CSR activities by various means, as long as these are in line with our CSR Policy.

Our CSR Policy and Procedure for External Requests are available on our website.

#### CSR activities in 2007

The following are some of our initiatives in 2007 in the three areas of focus:

##### Community involvement

Following our involvement in the Terry Fox Run for cancer in 2006, we continued efforts in public education with regard to cancer. In conjunction with the Malaysia Financial Exhibition 2007 (MYFex 2007) held between 30 October 2007 and 4 November 2007 at the Mid Valley Exhibition Centre, we allocated two booths for cancer outreach to the public. Both booths served as a platform for cancer organisations to highlight issues surrounding the disease as well as to conduct some fundraising activities. Participants included:

- a. the National Cancer Society of Malaysia;
- b. the Cancer Research Initiatives Foundation (CARIF); and
- c. the Childhood Cancer Caring Society of Kuala Lumpur

Terry Fox Run tee-shirts were sold at the booth, and the proceeds from the sale were directed to CARIF to support cancer research projects. We were also pleased to again showcase our CSR activities, as we did in 2006, by involving the international deposit insurance community. In 2007, we did this by having a CSR kiosk at the IADI International Exhibition in Kuala Lumpur.

##### Environmental protection

The documentary "An Inconvenient Truth", by former US Vice President Al Gore and directed by Davis Guggenheim, was screened to employees in an employee briefing session on the CSR Policy. This film was shown to raise awareness on global climate change. In addition, a copy of the pocket-sized publication by I Count entitled "Your step-by-step guide to climate bliss" has been made available for reading to those interested in learning how they can combat climate chaos. We also began developing our wastage reduction programme which we plan to implement in 2008.

##### Employee welfare

The CSR Taskforce also discussed and considered the Policy on Workplace Harassment, intended to deal with any encounters of harassment by employees and to ensure a conducive work environment. This Policy applies as well to our service providers and is accessible to the public on the PIDM website, and its implementation is overseen by the Human Capital Division. We also implemented a work-life coaching or employee assistance programme, to enhance employees' well-being by providing employees with the tools and avenues to seek professional and confidential assistance on personal or work related challenges.

### CONCLUSION

CSR, as we stated earlier, is part of our corporate culture and our governance framework. As stated in our CSR Policy, we see CSR as:

- a strategic means to make a positive contribution to our success;
- part of our plan to continue to build trust and public confidence in our organisation through public awareness and strong stakeholder engagement; and
- part of our plan to generate teamwork among employees and pride and commitment in the Corporation.

As early as 2006 we have been involved in our community work, both in the course of carrying out our job to enhance public awareness as well as by promoting causes in which our employees are involved. Our CSR Policy is also now in place, setting the parameters within which we can operate. Going forward, we plan to identify the appropriate programmes - aligned to our objects and values – that would benefit both PIDM and the society in which we live.





## SECTION VII: CALENDAR OF EVENTS





# CALENDAR OF EVENTS 2007

PIDM has participated in or organised the following events in 2007:

- JANUARY**
- 4 PIDM, Kuala Lumpur**  
Meeting with visitors from Japan's Financial Services Agency, University of Tsukuba, and Institute of Developing Economies officers.
- 12 Institute Bank-Bank Malaysia (IBBM), Kuala Lumpur**  
Dialogue with the Chief Internal Auditors of Member Institutions
- 17 Bank Negara Malaysia ("BNM"), Kuala Lumpur**  
Remuneration Committee Meeting
- 22-27 Kathmandu, Nepal**  
Southeast Asian Central Banks Research and Training Centre ("SEACEN"). SEACEN Advance Seminar on Comparative Experience in Confronting Banking Sector Problems in the Asia-Pacific Region.
- 23 Kuala Lumpur**  
Seminar on Shariah and Legal Issues in Islamic Banking and Bonds Products
- 26 PIDM, Kuala Lumpur**  
Audit Committee Meeting



Dialogue with Liason Officers

- FEBRUARY**
- 2 PIDM, Kuala Lumpur**  
Governance Committee Meeting
- PIDM, Kuala Lumpur**  
Board of Directors Meeting
- 6 Kuala Lumpur**  
Islamic Financial Services Board: Workshop on Exposure Draft No. 4 & 5/ Workshop on Profit Equalisation Reserve & Investment
- 8 PIDM, Kuala Lumpur**  
Dialogue with Liaison Officers of Member Institutions
- 9 PIDM, Kuala Lumpur**  
Audit Committee Meeting
- 10 BNM, Kuala Lumpur**  
Malaysian Financial Planning Council 101 Financial Planning Workshop
- 13-16 Amman, Jordan**  
Islamic Financial Services Board: Seminar on Risk, Rewards and the role of Regulation in Islamic Investment in Real Estate
- 15 PIDM, Kuala Lumpur**  
Board of Directors Meeting
- 26 FEBRUARY - 2 MARCH Washington, USA**  
Strategic Planning & International Association of Deposit Insurers ("IADI") EXCO Meeting



At the MFPC Workshop

- MARCH**
- 5-8 Canada**  
Study Visit to Canada Deposit Insurance Corporation
- 7-8 Tokyo, Japan**  
2nd Deposit Insurance Corporation of Japan ("DICJ") Roundtable Discussion
- 7 Kuala Lumpur**  
Media Briefing
- 8 Johor Bahru**  
Briefing on Deposit Insurance to Johor Chambers of Commerce
- 9 Johor Bahru**  
Seminar on Deposit Insurance for Member Institutions
- 11-17 Hong Kong Monetary Authority**  
Workshop on Clearing and Settlement System
- 12-13 Kuala Lumpur**  
Value Workshop - Support Staff
- 15-16 Kuala Lumpur**  
Value Workshop - Senior Managers & Managers
- 19-21 PIDM, Kuala Lumpur**  
Study Visit by Mr. S.S. Matafu from Deposit Insurance Board, Tanzania
- 22 Kuala Lumpur**  
Value Workshop - Executive Management Committee & Deputy General Managers
- 23 IBBM, Kuala Lumpur**  
Briefing on Deposit Insurance to Member Institutions
- 26-29 Kuala Lumpur**  
Seminar on Legal Issues in the Islamic Financial Services Industry Surveys on Legal & Shariah Issues
- 28-30 Hanoi, Vietnam**  
5th IADI-Asia Regional Committee Meeting and International Conference
- 29 Kuala Lumpur**  
Global Islamic Finance Forum



Media Engagement



Values Workshop



# CALENDAR OF EVENTS 2007

## APRIL

- 3 Ipoh**  
Briefing on Deposit Insurance to Member Institutions
- 4 Ipoh**  
Briefing on Deposit Insurance to Chambers of Commerce
- 7 Langkawi**  
Myers Briggs Type Indicators ("MBTI") Workshop
- 10 Islamic Banking and Finance Institute of Malaysia, Kuala Lumpur**  
Talk on Deposit Insurance System in Malaysia
- 11 PIDM, Kuala Lumpur**  
Enterprise Risk Management ("ERM") session: Understanding the business of PIDM
- 19 Securities Commision, Kuala Lumpur**  
Seminar on Regulatory Issues in Islamic Capital Markets
- 19-30 Kuantan**  
Minggu Saham Amanah Malaysia ("MSAM")
- 24 Kuala Lumpur**  
Board of Directors Meeting  
Launch of PIDM Annual Report 2006  
1st Annual Dialogue with Member Institutions
- 25 Klang**  
Briefing on Deposit Insurance to Member Institutions
- 25 BNM, Kuala Lumpur**  
Bank Indonesia Visit
- 25-28 Taiwan**  
Meeting with Central Deposit Insurance Corporation of Taiwan
- 30 Basel, Switzerland**  
IADI 5th Anniversary



Annual Dialogue with MI



Annual Dialogue

**30 APRIL - 6 MAY Basel, Switzerland**  
Cross-Border Symposium & IADI EXCO Meeting

## MAY

- 7-11 Kuala Lumpur**  
Deposit Insurance Awareness Week
- 10 Penang**  
Briefing on Deposit Insurance organised by BNM, Penang branch
- 14 Kuala Lumpur**  
Briefing on Deposit Insurance to DDB International's staff
- 14 PIDM, Kuala Lumpur**  
Differential Premium Systems ("DPS") Briefing to Member Institutions
- 15-16 Dubai**  
Islamic Financial Services Board: The Need for a Cross-sectoral Approach to the Supervision of Islamic Financial Services

**15-19 Prague, Czech Republic**  
Deloitte Global Financial Services Industry Summit

**22 PIDM, Kuala Lumpur**  
Audit Committee Meeting

**22 Malacca**  
Briefing on Deposit Insurance to Member Institutions  
Meeting with SUK Malacca

**23 Negeri Sembilan**  
Briefing on Deposit Insurance to Member Institutions

**26 Penang**  
Financial Planning Association Malaysia ("FPAM") Roadshow

**30 MAY - 6 JUNE PIDM, Kuala Lumpur**  
Visit by Mr. Galo Cevallos from Federal Deposit Insurance Corporation on the preparations of the PIDM Case Study



Briefing to Member Institutions

## JUNE

**8 PIDM, Kuala Lumpur**  
Governance Committee Meeting

**9 Malacca**  
FPAM Roadshow

**12 PIDM, Kuala Lumpur**  
Board of Directors Meeting

**14 BNM, Kuala Lumpur**  
Briefing on Deposit Insurance to Staff of Consumer & Market Conduct Department

**18 Kuala Lumpur**  
Board of Directors Education Session - ERM

**19 IBBM, Kuala Lumpur**  
Briefing on Deposit Insurance to Member Institutions

**24 Basel**  
Bank for International Settlements Annual General Meeting

**25 Johor Bahru**  
FPAM Roadshow

**26 Kuala Trengganu**  
Briefing on Deposit Insurance to Member Institutions

**26-27 Istanbul, Turkey**  
1st IADI Inter-regional Conference (Europe, Eurasia, Middle East and North Africa) on "The Role of the Deposit Insurance System in Enhancing Financial Stability in Different Countries"



Roadshow





# CALENDAR OF EVENTS 2007

## JULY

- 4 Kuala Lumpur**  
ERM Technical Workshop
- 5 Kuala Lumpur**  
Living the Values Workshop
- 6 Kuala Lumpur**  
MBTI Workshop
- 7-8 Kuala Lumpur**  
Roadshow with BNM
- 7 Sunway Lagoon**  
PIDM Family Day
- 9-12 Singapore**  
9th SEACEN Conference of Directors of Supervision of Asia-Pacific Economies & 3rd SEACEN/ABA/ABAC/PECC Public-Private Dialogue
- 12 Miri**  
Briefing on Deposit Insurance to Member Institutions
- 13 Kuching**  
Briefing on Deposit Insurance to Member Institutions
- 14 Kuching**  
FPAM Roadshow
- 23-26 Federal Deposit Insurance Corporation, Arlington, USA**  
IADI Executive Training
- 26-31 Shah Alam**  
*Karnival Pengguna 2007*
- 26 Sandakan**  
Briefing on Deposit Insurance to Member Institutions
- 27 Kota Kinabalu**  
Briefing on Deposit Insurance to Member Institutions
- 28 Kota Kinabalu**  
FPAM Roadshow



Karnival Pengguna 2007, Shah Alam



Briefing

## AUGUST

- 1 Kuala Lumpur**  
Fundamental of Derivatives Seminar (ISDA)
- 6 Alor Setar**  
Briefing on Deposit Insurance to Member Institutions
- 7 Penang**  
Briefing on Deposit Insurance to Member Institutions
- 9 Kuala Lumpur**  
PIDM's Internal Strategic Planning Session
- 10 PIDM, Kuala Lumpur**  
Audit Committee Meeting
- 10-17 Manila, Philippines**  
Study Visit to Philippines Deposit Insurance Corporation & 47th SEACEN – Federal Reserve System Intermediate Course on Banking Supervision: Risk Focused Supervision
- 13-24 BNM's Human Resource Development Centre**  
6th Banking Supervision Foundation Course
- 14 Kuala Lumpur**  
Target Fund Workshop
- University Sains Malaysia, Penang**  
USM Convocation Expo 2007
- 20 BNM**  
Remuneration Committee Meeting
- 21 Kuala Lumpur**  
Briefing to Bahagian Pinjaman Perumahan, Perbendaharaan Malaysia
- 25-26 Kuala Terengganu**  
*Karnival Pengguna*
- 28 Kuantan**  
Briefing on Deposit Insurance to Member Institutions
- 30 AUGUST - 2 SEPTEMBER Kuala Lumpur**  
50th Merdeka Expo
- 31 AUGUST - 2 SEPTEMBER PIDM, Kuala Lumpur**  
Visit by Central Deposit Insurance Corporation, Taiwan



Seminar



Briefing



# CALENDAR OF EVENTS 2007

**SEPTEMBER 6**

**PIDM, Kuala Lumpur**

Briefing to Students and Academic staff, Universiti Teknologi MARA

**IBBM, Kuala Lumpur**

Briefing on Deposit Insurance to Member Institutions

**8**

**Alor Gajah, Malacca**

BNM Roadshow

**10**

**Bursa Malaysia**

Briefing to Bursa Malaysia

**11**

**PIDM, Kuala Lumpur**

Board of Directors' Strategic Planning Session

**12-14**

**Singapore**

Financial Stability Institute – Executives' Meeting of East Asia – Pacific Central Banks Seminar

**12**

**Kuala Lumpur**

Briefing on Standard File Format of Member Institution Deposit Information and IT Infrastructure Supporting Member Institution's Deposit System

**18-21**

**Basel, Switzerland**

Strategic Planning Sessions and IADI EXCO Meeting

**20**

**Kuala Lumpur**

Buka Puasa with the Media



Briefing to Member Institutions



Exhibition Materials

**OCTOBER**

**22-23**

**Penang**

PIDM's Corporate Outreach Programme in conjunction with Board of Directors' Meeting

**29-30**

**Kuala Lumpur**

Internal Auditing Training organised by Audit and Consulting Services

**29 OCTOBER - 4 NOVEMBER**

**Kuala Lumpur & Langkawi**

6th IADI Annual Conference & Annual General Meeting

**30 OCTOBER - 4 NOVEMBER**

**Mid Valley Exhibition Centre, Kuala Lumpur**

Malaysia Financial Exhibition 2007 (MYFex 2007)



IADI 2007



MYFex 2007



IADI 2007



MYFex 2007





## CALENDAR OF EVENTS 2007

### NOVEMBER

7

#### Kuching

Kementerian Perdagangan Dalam Negeri dan Hal Ehwal Pengguna and BNM Financial Education Roadshow 2007

12

#### Kuala Lumpur

Luncheon and Board Education

13

#### PIDM, Kuala Lumpur

Study Visit from Kyrgyz Republic delegates

14

#### PIDM, Kuala Lumpur

Visit from delegation of Senegal's Ministry of Finance & Economy

16-17

#### Kapit, Sarawak

*Hari Pengguna Peringkat Negeri Sarawak*

20

#### PIDM, Kuala Lumpur

Audit Committee Meeting

21

#### Jakarta

IT Asia Congress

27

#### PIDM, Kuala Lumpur

Governance Committee Meeting

29

#### BNM, Kuala Lumpur

Remuneration Committee Meeting

#### Kuala Lumpur

PIDM won the National Annual Report Award (NACRA)'s "Certificate of Merit"



Hari Pengguna Peringkat Negeri Sarawak, Kapit



Acceptance for NACRA Certificate of Merit

### DECEMBER

1

#### Kuala Lumpur

PIDM Annual Dinner

3

#### Ministry of Finance, Putrajaya

Meeting with Treasury Solicitor and Auditor General on DPS Regulations & Premium Order

#### PIDM, Kuala Lumpur

Briefing on Deposit Insurance to external auditors on DPS

#### PIDM, Kuala Lumpur

Board of Directors Meeting

4-8

#### Frankfurt, Germany

2nd Islamic Financial Services Forum: The European Challenge

5-7

#### New Delhi, India

Citi-FT Financial Education Summit

#### PIDM, Kuala Lumpur

Launch of Employee Voice Survey

6

#### PIDM, Kuala Lumpur

Launch of Work Life Coaching

6-7

#### Singapore

Asia Pacific Contact Centre Executive Summit 2007



PIDM Annual Dinner



Annual Dinner





APPENDIX





## APPENDIX

### 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.



## APPENDIX

### CHARTER OF GOVERNANCE COMMITTEE

##### 12. Reporting

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

##### 13. Review of Charter

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

##### 14. Self-assessment

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

##### 15. Disclosure

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

##### 16. Independent Counsel or Other Advisors

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

#### D. Principal Duties and Responsibilities

##### 1. Corporate governance oversight

- a. The Committee shall review at least annually the Corporation's approach to governance issues and shall make recommendations to the Board respecting revisions to the Corporation's governance guidelines. The Committee shall make recommendations to the Board on policies with regard to director tenure retirement and succession.

- b. Ensure there is a system that enables a Board committee or member of the Board to engage separate independent counsel or other advisors in appropriate circumstances, at the Corporation's expense, and be responsible for the ongoing administration of such a system.

- c. On a periodic basis, review the Corporation's mandate as set out in the Malaysia Deposit Insurance Corporation Act 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.



## APPENDIX

### CHARTER OF GOVERNANCE COMMITTEE

- 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 there from.
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 fulfill the Board's responsibilities that take into consideration the current strengths, skills and experience on the Board, terms, retirement dates and the strategic direction of the Corporation.
  - b. Identify a list of potential Board nominees who fit the profiles and update such list on a regular basis.
  - c. When a vacancy or vacancies on the Board occurs, consider the most recently recommended profiles and update them if required, and prepare and recommend to the Board a list of nominees to fill such vacancy or vacancies to enable the Board to make a recommendation to the Minister.
- d. Develop and implement a strategy to communicate the profiles and potential candidates to the Minister.
  - e. Review periodically the compensation program of the members of the Board and make any recommendation to the Board.
  - f. Review, monitor and make recommendations regarding the orientation, training and ongoing development of members of the Board.
4. **Succession Planning**  
Review Management's succession plans for the CEO and other corporate officers approved by the Board and make recommendations in respect of the same, if any, to the Board for approval; and
5. **Reporting and Disclosure**  
Recommend to the Board that any reports on governance that may be required or considered advisable for public disclosure be produced.



## APPENDIX

### 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 deemed it necessary to establish a Remuneration Committee.

#### B. Objective

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

#### C. Operating Principles

##### 1. Functions and Composition

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

##### 2. Chair

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

##### 3. Quorum

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

##### 4. Voting

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

##### 5. Procedure and Conduct

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

##### 6. Secretary and Minutes

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

##### 7. Frequency of Meetings

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

##### 8. Notice of Meetings

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

##### 9. Meeting Agenda

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

##### 10. Supplemental Attendees

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

##### 11. Term of Appointment/Rotation of members

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

##### 12. Reporting

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

##### 13. Review of Charter

The Committee shall review and assess the adequacy of this Charter at least





# APPENDIX

## CHARTER OF REMUNERATION COMMITTEE

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.

### Principal Duties and Responsibilities

#### 1. Policies and Strategies

- The Committee shall review key human resource policies and strategies and propose such changes as seem desirable.
- The Committee shall review the Corporation's compensation philosophy and its related policies, and make recommendations, if any, to the Board for approval.
- 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:

- compliance with legal requirements and major corporate policies pertaining to human resource matters on an annual basis; and

- compliance with policies on employee business conduct and ethical behaviour on an annual basis or immediately where circumstances dictate. When required, the Committee shall request of Management that it provide a report to the Audit Committee in the event a breach occurs or a concern is raised that is of a nature that warrants such a report.

#### 3. Matters referred by CEO

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

#### 4. Reports to Board

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

#### 5. Bonus Awards

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

#### 6. CEO Objectives and Evaluation

The Committee shall:

- Review the annual statement of objectives for the CEO and recommend same to the Board for approval; and
- Review the performance of the CEO based on an evaluation thereof by the Chairman of the Board, having regard to the aforesaid statement of objectives and any other relevant factors. The Committee shall make recommendations, if any, to the Board with respect to the CEO's compensation and bonus.

#### 7. Complaints

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



# APPENDIX

## CHARTER OF AUDIT COMMITTEE

### A. Mandate

Pursuant to Section 7 of the Malaysia Deposit Insurance Corporation Act 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:

- be financially literate, upon appointment, that is, having a basic understanding 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

- undertake to be financially literate within a reasonable period of time after their appointment to the Committee.

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

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

#### 2. Chair

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

#### 3. Quorum

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

#### 4. Voting

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

#### 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.



# APPENDIX

## CHARTER OF AUDIT COMMITTEE

### 6. Secretary and Minutes

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

### 7. Frequency and Calling of Meetings

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

### 8. Notice of Meetings

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

### 9. Auditor General ("AG")

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

- i. entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at each meeting, and the AG shall be invited to attend any or every meeting of the Committee; and
- ii. may call a meeting of the Committee.

### 10. Private Meetings

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

### 11. Meeting Agenda

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

### 12. Supplemental Attendees

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

### 13. Term of Appointment/Rotation of Committee members

Members of the Committee shall be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time.

### 14. Reporting

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

### 15. Review of Charter

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

### 16. Self-assessment

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

### 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,



# APPENDIX

## CHARTER OF AUDIT COMMITTEE

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;
- e. ensuring that Management has the necessary policies and procedures in place related to internal controls, in





# APPENDIX

## CHARTER OF AUDIT COMMITTEE

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.



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## CHARTER OF AUDIT COMMITTEE

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;

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, guidelines and practices are implemented for the management of key corporate risks;

b. receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;

c. review with Management and advise the Board on the Corporation's policies and guidelines developed and implemented to manage the Corporation's risk exposures, and review such policies and guidelines at least once a year to ensure that they remain appropriate and prudent;

d. on a regular basis, obtain reasonable assurance that the Corporation's risk management policies and guidelines for significant risks are being adhered to;

e. report to the Board on: the significant risk profiles; the mitigation plans and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;



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## CHARTER OF AUDIT COMMITTEE

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- 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.





# APPENDIX

## CORPORATE SCORECARD 2008-2010

CORPORATE OBJECTIVES		KEY PERFORMANCE INDICATORS		TARGET		
				2008	2009	2010
STAKEHOLDERS	A	Well governed and well managed organisation	1. Board assessment on: a. Best practices of governance adopted b. Management practices adopted c. Compliance with significant policies d. Effectiveness of enterprise risk management policies and practices e. Timeliness and relevance of information and quality of recommendation provided by Management for the Board to make informed decisions and fulfill responsibilities	High satisfaction High satisfaction 100%  High satisfaction	High satisfaction High satisfaction 100% High satisfaction High satisfaction	High satisfaction High satisfaction 100% High satisfaction High satisfaction
			2. Engagement and responsiveness to other stakeholders' needs	Action on feedback received	Action on feedback received	Action on feedback received
			3. Successful completion of key initiatives: a. Develop and implement enterprise risk management framework: i. Phase 4 – Ongoing risk assessment and review ii. Enterprise risk management policies and practices iii. Enterprise risk management effectiveness assessment framework b. Develop and implement risk based auditing c. Implement Internal Control framework d. Implement Succession Management plan for the Board	Develop & implement Develop & implement Develop Develop & implement Complete Complete	Review Develop & implement Implement  Review & enhance Complete	Review Review  Review & enhance Complete
	B	Educated and informed stakeholders	4. Public awareness index (general awareness of deposit insurance)	35%	40%	45%
			5. Successful completion of key initiatives: a. Review and implement Integrated Communications Plan: i. Implement advertising programmes ii. Implement public relations programmes iii. Implement stakeholders engagement programmes b. Develop and implement awareness educational programmes c. Develop and implement scholarship and education programmes	Complete Complete Complete Complete Develop Develop	Complete Complete Complete Complete Develop & implement Develop	Complete Complete Complete Complete Implement Implement
	C	Effective partnerships	6. PIDM's relationship with: a. Bank Negara Malaysia b. Member institutions c. Suppliers d. International deposit insurers	Strong Satisfactory Strong Strong	Strong Satisfactory Strong Strong	Strong Satisfactory Strong Strong
			7. Participate in international forum	Active participation	Active participation	Active participation
			8. Successful completion of key initiatives: a. Establish base of strategic partners b. Host deposit insurance seminars	Develop Complete	Complete Complete	Complete
FINANCIAL	D	Optimal use of resources	9. Actual vs. approved budgets	-10% variance +20% variance	-10% variance +15% variance	±10% variance
			10. Successful completion of key initiatives: a. Develop and implement provisioning framework b. Develop funding arrangements framework and processes	Develop Develop & implement Phase 1	Develop Develop & implement Phase 2	Implement



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## CORPORATE SCORECARD 2008-2010

CORPORATE OBJECTIVES			KEY PERFORMANCE INDICATORS	TARGET		
				2008	2009	2010
INTERNAL PROCESS	E	Operational excellence	11. Internal control compliance	Strong	Strong	Strong
			12. Successful completion of key initiatives: a. Develop and implement Differential Premium Systems (DPS): i. DPS Regulations ii. DPS framework/guidelines on returns of total insured deposit iii. DPS eFilling b. Develop and implement comprehensive Risk Assessment and Monitoring frameworks: i. Phase 2 - Enhancement c. Develop and implement comprehensive Intervention and Resolution frameworks: i. Phase 2 - Develop specific resolution methodology, policy, process and criteria ii. Phase 3 - Develop comprehensive Intervention and Resolution frameworks d. Develop and undertake crisis management simulation e. Develop crisis communications manual f. Develop and implement payout system i. Phase 1 – Develop depositor liabilities information management and depositor relationship management ii. Phase 2 – Develop payment management and reconciliation between deposit and loan information iii. Phase 3 – Develop dynamic deposit database g. Develop and implement deposit insurance policies and regulations: i. Interest and dividend payable guidelines/rules – Develop concept paper – Develop consultation paper – Develop draft guidelines/rules ii. Contractual relationship between PIDM and banks with Islamic banking activities – Develop and issue notifications h. Develop and implement business continuity and disaster recovery plan i. Develop and implement quality assurance and compliance framework j. Implement IT infrastructure enhancement plan: i. Phase 4 – Collaboration: technology enhancement and user empowerment ii. Phase 4 – Implementation of the IT infrastructure enhancement plan k. Implement key business systems l. Develop and implement knowledge management framework and system	Implement Implement & review  Develop  Develop  Develop Develop  Develop  Develop  Complete Develop  Complete Develop & implement Phase 1  Complete Complete Complete Develop	Review & enhance Develop  Develop  Develop Develop Develop  Develop & implement  Develop  Complete Complete  Develop & implement Phase 2 Develop  Complete Complete Complete Develop & implement Phase 1	Review & enhance Implement  Implement  Implement Develop Develop Undertake simulation  Develop & implement Develop    Develop & implement Phase 3 Develop  Complete Complete Complete Develop & implement Phase 2
LEARNING AND GROWTH	F	Competent and knowledgeable workforce	13. Successful completion of key initiatives: a. Build employees’ competency: i. Review and implement annual training plan ii. Identify, develop and implement cross-functional opportunities iii. Identify, develop and implement appropriate learning and assessment tools b. Develop and implement talent management framework c. Develop and implement succession planning/management systems	Complete Develop Develop Develop Develop & implement Phase 1	Complete Develop & implement Develop & implement Develop & implement Develop & implement Phase 2	Complete Implement Review & enhance Review & enhance Review & enhance
	G	Conducive corporate environment	14. Employee satisfaction index	75%	75%	75%
			15. Successful completion of key initiatives: a. Review and implement recognition and reward programmes b. Develop and implement an action plan to deal with the results of the employees satisfaction index survey  c. Review, develop and implement safe, healthy and harassment-free programmes	Complete Action on assessment conducted Develop & implement	Complete Action on assessment conducted	Complete Action on assessment conducted





# APPENDIX

## LIST OF KEY POLICIES

### SUMMARY OF KEY POLICIES ESTABLISHED IN 2007

#### *Policy on Workplace Harassment*

The Policy on Workplace Harassment is intended to prevent incidents of harassment in the workplace by describing what constitutes as harassment and affirmatively prohibits such harassment. It also sets out a procedure to resolve any complaints of harassment. The policy also aims to educate all employees to recognize that harassment is demeaning and that it prevents the workplace from being a safe, secure and comfortable environment for employees.

#### *Employee Grievance Procedures*

The Employee Grievance Procedures set out the steps for an employee to take should he or she wish to raise a work-related complaint, issue or concern. The procedures are an important, transparent mechanism to deal with difficulties arising from an employment relationship as well as to ensure consistent and fair treatment of all employees. The procedures also explain how the Corporation addresses a grievance raised, the appeal process, and the consequences of abusing procedures.

#### *Corporate Social Responsibility Policy*

The corporate social responsibility policy ("CSR Policy") outlines the Corporation's commitment to carry out its operations and affairs in a sustainable and meaningful manner. The policy affirms the Corporation's responsibility in the areas of employee well-being, community involvement and environmental protection. Apart from this, the policy also highlights what and how the Corporation may support or contribute to causes and activities. See page 145 of this Annual Report.

#### *CSR Policy: Procedure for External Requests*

Accompanying the CSR Policy is the Procedure for External Requests, which sets out in detail how the Corporation considers requests for contributions or support by external parties. Such requests must be in conformity to this stated procedure and will be granted if the cause or activity best meets the objectives of the CSR Policy. The procedure further specifies what the Corporation will not contribute to or support. It also provides that requests for contributions or support should be in the form of a written proposal, with a description of the kind of information required to be submitted together.

### **Summary of subsidiary legislation proposed in 2007 (with consultation papers and drafts approved by the Board of Directors)**

#### *Proposed Malaysia Deposit Insurance Corporation (Terms and Conditions of Membership) Regulations*

The proposed Malaysia Deposit Insurance Corporation (Terms and Conditions of Membership) Regulations set out obligations and responsibilities of member institutions in the areas of safety and soundness, information on deposits, premium payments and charges, and depositor communication. These obligations and responsibilities are intended to promote safety and soundness of banks, clarify certain provisions of the Malaysia Deposit Insurance Corporation Act 2005 ("Act"), and reinforce Bank Negara Malaysia's supervisory role through a premium surcharge. These regulations are made pursuant to section 38(1) of the Act.



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### LIST OF KEY POLICIES

#### *Proposed Malaysia Deposit Insurance Corporation (Differential Premium Systems) Regulations and related premium order*

The proposed Malaysia Deposit Insurance Corporation (Differential Premiums Systems) Regulations relate to the differential premiums systems framework for assessing the premiums payable by both Islamic and conventional member institutions based on their risk profiles. These regulations establish separate systems of classifying members in different categories for Islamic and conventional banking models. They also specify the criteria or factors to be considered and the procedures to be followed in determining the category in which a member institution is classified. These regulations are made pursuant to section 48 of the Act. See page 127 of this Annual Report.

#### *Proposed Malaysia Deposit Insurance Corporation (Provision of Information on Deposit Insurance) Regulations*

The proposed Malaysia Deposit Insurance Corporation (Provision of Information on Deposit Insurance) Regulations prescribe the conduct of member institutions in relation to the type and timing of providing deposit insurance information to depositors, and the disclosure to depositors as to which deposit products are covered by deposit insurance. These regulations also specify the type of representations made by member institutions on their membership in the deposit insurance system, and elucidate on the role of member institutions in building public awareness of deposit insurance. These regulations are made pursuant to section 100(1)(a) of the Act. See page 135 of this Annual Report.

#### *Proposed Malaysia Deposit Insurance Corporation (Financial Agreements or Transactions) Regulations*

The proposed Malaysia Deposit Insurance Corporation (Financial Agreements and Transactions) Regulations are promulgated to address concerns in relation to the enforceability of close-out netting provisions in certain derivatives agreements in Malaysia. These regulations enlarge the current category of agreements and transactions contained in the Act by prescribing other agreements and transactions which will also be deemed as the prescribed financial agreements or transactions for the purposes of section 80(h) of the Act. These regulations are made pursuant to this section.

#### *Proposed Guidelines on the Criteria for Determining Insured Deposits*

The proposed Guidelines on the Criteria for Determining Insured Deposits provide a set of criteria to be applied for determining whether a deposit product is insured by the Corporation. These guidelines enable the Corporation to ascertain its obligations should payments to depositors need to be made. The introduction of the guidelines will further reduce any uncertainty faced by depositors over which deposit products are considered insured by the Corporation or otherwise. These guidelines are made pursuant to section 36(a)(iii) of the Act.



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### GLOSSARY OF TERMS

#### **Adjusted Return Volatility**

Mean adjusted return volatility measures the sustainability or volatility of earnings of a member institution by using the semi-standard deviation of profit before tax. Semi-standard deviation is a statistical measure of volatility that would capture only the volatility associated with declines in earnings rather than all variations (positive and negative) compared to the mean.

#### **Basel II**

The Basel II Framework describes a more comprehensive measure and minimum standard for capital adequacy that national supervisory authorities are now working to implement through domestic rule-making and adoption procedures. It seeks to improve on the existing rules by aligning regulatory capital requirements more closely to the underlying risks that banks face. In addition, the Basel II Framework is intended to promote a more forward-looking approach to capital supervision, one that encourages banks to identify the risks they may face, at present and in the future, and to develop or improve their ability to manage those risks. As a result, it is intended to be more flexible and better able to evolve with advances in markets and risk management practices.

#### **Capital Adequacy Ratio ("CAR")**

The capital adequacy ratio is the central feature of the Basel Capital Accord which is applied to all banking institutions licensed by Bank Negara Malaysia. It is the ratio of a bank's regulatory capital to its risk-weighted assets exposure and international standards recommend a minimum ratio of 8 percent (the core regulatory capital element should be at least 4 percent), intended to permit banks to absorb losses without becoming insolvent, in order to protect depositors.

#### **Concentration Ratio**

Concentration ratio measures the overall exposure of a member institution's loan portfolios in the economy, i.e. what percentage of the outstanding loan was exposed to certain economic sectors. If a member institution's loans are not evenly distributed or are heavily concentrated in certain economic sectors, the member institution will have high concentration risk. Loans weighted towards a specific economic sector would create a higher ratio than a set of evenly distributed loans because the evenly spread loans would serve to offset the risk of economic downturn and default in any one specific industry.

#### **Conventional Deposit Insurance Fund**

All premiums received by PIDM and interests earned minus the direct cost of operating conventional deposit insurance system.

#### **Corridors**

A government designated special economic development zone. The government has launched various corridors such as the Iskandar Development Region ("IDR"), Northern Corridor Economic Region ("NCER"), Eastern Corridor Economic Region ("ECER") and Sabah Development Corridor ("SDC").

#### **Deposit products**

Deposit received or held by member institution from or on behalf of a person in the usual course of the business of deposit taking such as:

- savings, demand, investment and fixed deposits;
- bank drafts, cheques or other instrument or payment instructions drawn or made against deposit accounts; and
- cheques drawn on deposit accounts and entered into a designated payment system.



## APPENDIX

### GLOSSARY OF TERMS

#### **Deposit Taking Institution**

Deposit taking institution refers to a licensed institution that is in the business of receiving deposits on current account, savings account or other similar account.

#### **Differential premium**

A levy on a bank assessed on the basis of that bank's risk profile.

#### **Efficiency ratio**

Efficiency ratio measures the ability of a member institution in optimally deploying resources to generate income, thus providing an indication of how efficiently a member institution is operating.

#### **Enterprise portal**

An enterprise portal is a system for integrating information, people and processes. This portal allows users to access via a single gateway to information retained within the portal.

#### **Enterprise risk management**

The framework applied on an organisation-wide basis to ensure and demonstrate that an entity's significant risks are being consistently continuously identified, assessed, managed, monitored and reported on.

#### **Financial safety net**

Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function.

#### **Integrated Communications Plan**

This 5-year plan identifies the strategies and initiatives to enhance understanding and acceptance of the deposit insurance system. The Plan is built on two major thrusts – to create

awareness of the deposit insurance system and to build the Corporation's authority and credibility as the administrator of the deposit insurance system.

#### **Intervention and Failure Resolution**

Intervention refers to actions taken or impose on a member institution by the Corporation in order to address certain concerns with the institution. These actions are usually imposed prior to any failure resolution option being taken on the member institution. Failure resolution refers to the disposition plans of a failed member institution.

#### **Intervention and Failure Resolution Framework**

It is a framework that guides the Corporation in carrying out its intervention and failure resolution measures. It provides actions and options available to the Corporation to address concern with a member institution.

#### **Islamic Deposit Insurance Fund**

All premiums received by PIDM and returns made minus the direct cost of operating an Islamic deposit insurance system.

#### **Loans past due (LPD)**

The situation where the status of a scheduled loan payment that has not been paid on time.

#### **Mandate**

A mandate is a set of official instructions or statement of purpose of a Corporation.

#### **Member institutions**

Member institutions are all commercial banks (including foreign banks operating in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983. Membership is



## APPENDIX

### GLOSSARY OF TERMS

compulsory under the Malaysia Deposit Insurance Corporation Act 2005.

#### **New Liquidity Framework**

A framework developed by Bank Negara Malaysia to assess the member institution liquidity position from three levels i.e.:

- the sufficiency of member institutions liquidity in the normal course of its business over the next few months;
- the capability to withstand liquidity withdrawals shock; and
- the degree of dependency on particularly known volatile markets.

#### **Payout System**

A system that involves the reimbursement of insured deposits of up to RM60,000 to eligible depositors in the event of member institution failure.

#### **Risk-weighted assets**

Risk-weighted assets refer to a concept developed by the Basel Committee on Banking Supervision for the capital adequacy ratio. Assets are weighted by factors representing their riskiness and potential for default.

#### **Shariah principle**

The law of Islam, based upon the Quran, Sunnah (sayings and deeds of the Prophet Muhammad s.a.w.), Ijma' (consensus of Muslim scholars) and Qiyas (analogy).





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### CONTACT DETAILS

#### For more information about PIDM

- Contact Customer Service Call Centre at toll free **1-800-88-1266**  
from 8.30 am to 5.30 pm  
Monday to Friday
- Visit website at [www.pidm.gov.my](http://www.pidm.gov.my)
- E-mail to [info@pidm.gov.my](mailto:info@pidm.gov.my)
- Write to:  
Communications and Public Affairs Division  
Level 19, 1 Sentral  
Jalan Travers  
Kuala Lumpur Sentral  
50470 Kuala Lumpur  
Telephone: 603-2173 7436  
Fax: 603-2260 7431/7432

