



Perbadanan Insurans Deposit Malaysia
Malaysia Deposit Insurance Corporation

Annual Report 2008

Protecting Your Deposits



COVER

Trees are an integral part of the ecosystem. A big, strong tree can provide those under it with the assurance of protection from the elements of nature. It also helps preserve the atmosphere so as to allow all other living things to flourish.

As such, it represents life and growth, the critical aspects that are closely related to PIDM. Here, we continuously strive to provide depositors with the assurance that their funds are protected and safe.

At PIDM, we are constantly aiming for ways to further enhance our growth with strong leadership, teamwork, focus and dedication. Following this theme, our cover design depicts an orchard of strong, healthy trees, symbolising PIDM's growth as we further expand our operations in the pursuit of our mission.

Perbadanan Insurans Deposit Malaysia (PIDM) has achieved significant milestones in the three years since our establishment in 2005.

As a result, we have crafted a new vision to inspire us further:

"A best practice deposit insurer"

With this vision, we aspire to be recognised as a well governed and well managed deposit insurer in all aspects of our business and affairs.



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

Our Vision

Our Mission

Our Strategic Thrusts

Our Corporate Objectives

Our Corporate Values

- A best practice deposit insurer
- We shall protect Islamic and conventional deposits, provide incentives for promoting sound risk management, and promote and contribute to the stability of the financial system in Malaysia. We shall fulfil our mandate in an efficient and effective manner for the benefit of depositors, having regard to the interests of our employees and other stakeholders

- Operational readiness
- Sound business and financial practices
- Effective public awareness
- Strong partnerships
- 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
- Excellence and Professionalism
- Respect and Fairness
- Integrity and Trustworthiness
- Communications and Teamwork
- Financial Stewardship



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Section 1 Introduction





INTRODUCTION



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 administer the deposit insurance system in Malaysia, provide depositor protection and reimburse depositors in the event of a member institution failure.

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.

The deposit insurance system in Malaysia is funded by premiums paid by member institutions. Since the deposit insurance system provides coverage for both Islamic and conventional deposits, PIDM administers two separate deposit insurance funds.

The Islamic Deposit Insurance Fund is invested in accordance with Shariah principles.

PIDM reports to Parliament through the Minister of Finance and is governed by a seven-member Board of Directors. We are also known, internationally, as the Malaysia Deposit Insurance Corporation.

OUR MANDATE

Our statutory mandate is to:

- administer a deposit insurance system;
 - provide insurance against the 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 Malaysian financial system;
- in such manner as to minimise costs to the financial system.

PROTECTING DEPOSITORS

Under the Malaysian deposit insurance system, depositors enjoy protection for their deposits under the law. Depositors are protected against the loss of their funds placed with banks.

Following the implementation of the Government Deposit Guarantee (GDG) on 16 October 2008, PIDM fully protects all Ringgit and foreign currency deposits with commercial, Islamic, investment and international Islamic banks and deposit-taking development financial institutions regulated by Bank Negara Malaysia (BNM). The temporary deposit guarantee provides for additional depositor protection over and above that already provided by PIDM, and will be in effect until 31 December 2010.

PIDM member institutions comprise all commercial banks (including locally-incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983. As at end December 2008, 39 banking institutions (17 Islamic banks and 22 commercial banks) were member institutions of PIDM.

The GDG has expanded our scope of responsibilities, as PIDM currently provides additional protection for deposits in 15 investment banks, two international Islamic banks and five deposit-taking development financial institutions regulated by BNM.

FINANCIAL SYSTEM STABILITY

PIDM contributes to the stability of the financial system and complements the existing regulatory and supervisory framework by providing incentives for banks to implement sound risk management practices as provided for under our mandate. We are empowered to intervene to reduce or avert losses to the financial system by dealing with non-viable banks expeditiously. Our intervention and resolution powers enable us, among other things, to acquire assets from banks or make loans or advances. Once a member institution is no longer viable, we also have broad powers to assume control to undertake resolutions, and will make prompt payments of insured deposits.

In this regard, we work closely with BNM, the primary regulator and supervisor of financial institutions. Our working relationship is mandated in the MDIC Act and detailed in a Strategic Alliance Agreement (SAA). Our partnership with BNM ensures timely exchange of information on member institutions and collaboration in all significant aspects of our functions and activities.

Public awareness of deposit insurance is also key to the stability of the financial system as it assures the public that their deposits are protected and creates public confidence in the banking system and promotes financial stability. As such, PIDM regularly conducts public awareness and education initiatives to enhance the level of understanding of deposit insurance, thereby creating more informed depositors who understand the features and benefits of our system.

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A SUMMARY OF PIDM'S FOUR-YEAR PERFORMANCE

FOR THE YEARS ENDED 31 DECEMBER	2008	2007	2006	2005*
SELECTED INCOME STATEMENT ITEMS (RM Million)				
Premium Revenue	90.0	110.1	102.1	35.6
Conventional	76.0	98.5	92.7	32.3
Islamic	14.0	11.6	9.4	3.3
Investment Income	8.5	5.8	2.8	0.2
Conventional	7.5	5.2	2.6	0.2
Islamic	1.0	0.6	0.2	0.0
Operating Expenses	34.5	27.1	15.0	3.3
Net Surplus	64.0	88.8	89.9	32.5
SELECTED BALANCE SHEET ITEMS (RM Million)				
Total Assets	276.8	215.1	127.0	33.1
Total Liabilities	1.5	3.8	4.5	0.6
Deposit Insurance Funds	275.3	211.3	122.5	32.5
Conventional	243.0	190.4	111.2	29.5
Islamic	32.3	20.9	11.3	3.0
FOR ASSESSMENT YEAR				
	2008	2007	2006	2005
Total Insured Deposits (RM Billion)**	191.0	178.8	165.2	165.3
Growth Rate of Insured Deposits (%)	6.8%	8.2%	(0.06%)	
Total Deposits (RM Billion)**	822.0	769.6	662.0	640.8
Growth Rate of Deposits (%)	6.8%	16.3%	3.3%	

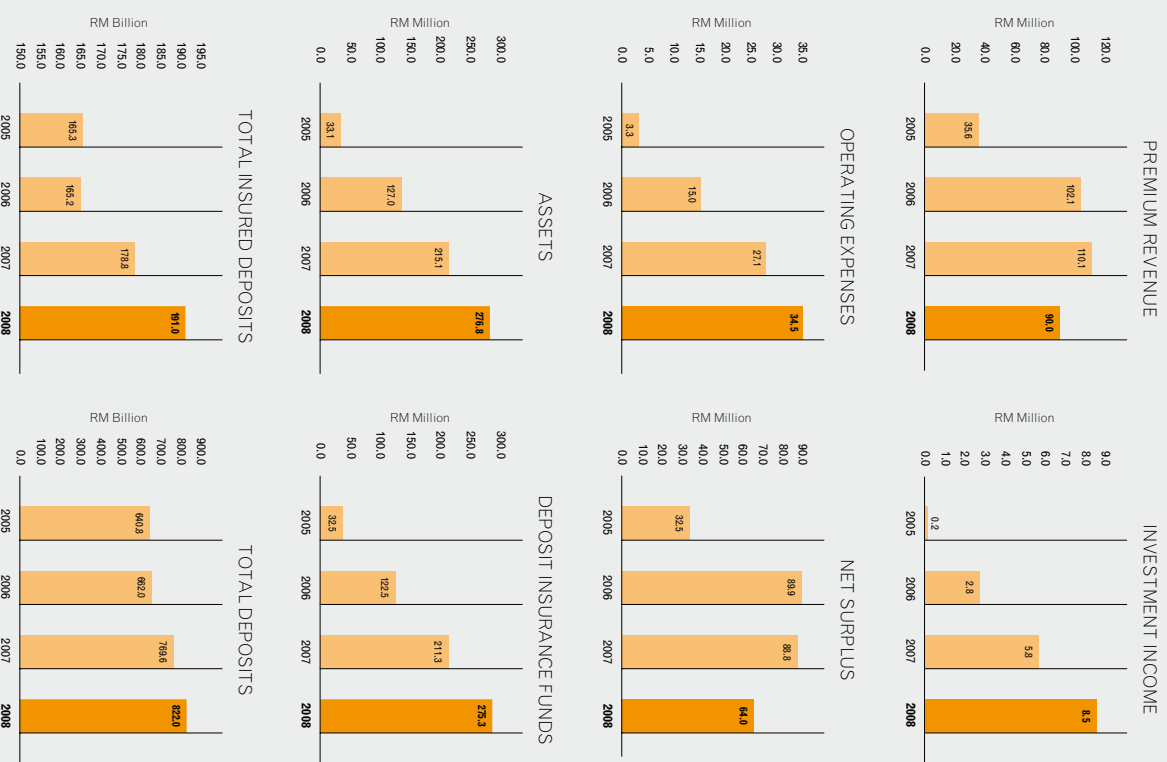
Note:

* The 2005 financial period was for a period of four months ended 31 December 2006.

** Total Insured Deposits and Total Deposits for assessment year 2008 refers to deposit positions as at 31 December 2007 as the annual premium assessments are based on the level of deposits held by member institutions as at 31 December of the preceding year.

INTRODUCTION

FINANCIAL SNAPSHOT





INTRODUCTION

THE YEAR 2008 AT A GLANCE



Our operations commenced in August 2005, and since that time, we have made significant progress in establishing the foundations for a well governed and well managed public sector institution.

HIGHLIGHTS OF OUR ACCOMPLISHMENTS IN 2008:

Growing from strength to strength

Enhancing our relationships with key stakeholders and partners

- Maintained strong, collaborative relationships with BNM and relevant Government bodies, member institutions, suppliers and other deposit insurers.
- Conducted three Board education sessions.
- Conducted briefings and knowledge sharing sessions with key stakeholders.
- Hosted an international Islamic deposit insurance seminar.

- Implemented Phase 2 of our multi-year Integrated Communications Plan.

Strengthening our processes and financial stewardship

- Developed and implemented a risk-based auditing process.
- Implemented the Risk Assessment System (RAS) to monitor member institutions.
- Reviewed and enhanced the budget monitoring and reporting system.
- Issued and implemented the Differential Premium Systems (DPS), Terms and Conditions of Membership Regulations and the Exemption under Section 80(h) of the Malaysia Deposit Insurance Corporation Act (Financial Agreements or Transactions) Regulations.
- Issued the Return on Total Insured Deposits Guidelines.
- Developed the Intervention and Failure Resolution Framework.

- Commenced development of the Payout System.
- Enhanced Information Technology (IT) infrastructure for user empowerment and operational effectiveness.

Strengthening our people and fostering a conducive working environment

- Developed and implemented the Talent Management Framework and Competency Model.
- Continued efforts to develop our employees through holistic training needs analysis and customised development plan for each employee.
- Commenced implementation of succession planning for key positions based on the Board-approved framework.
- Reinforced our corporate values and performance-based culture through Human Capital Week, Family Day and Annual Dinner.

Other Achievements

- Achieved the Key Performance Indicators (KPIs) in our Corporate Plan 2008-2010 on time and under budget.
- Developed and published PIDM Corporate Plan 2009-2011.
- Achieved employee satisfaction index of 81% exceeding our target of 75%.
- Beyond the KPIs, we also implemented the following initiatives:
 - (i) an external validation process for the Return on Total Insured Deposits and DPS information.
 - (ii) a Financial Institutions Directors' Education Programme jointly with BNM.
 - (iii) the framework to administer the Government Deposit Guarantee.

External Recognition

- Awarded a "Certificate of Merit" by the National Annual Corporate Report Awards (NACRA) for our Annual Report 2007.
- Received a Financial Management Excellence Award in the Federal Statutory Category by the National Audit Department.
- Led and chaired the formation of the Islamic Deposit Insurance Group (IDIG) at the International Association of Deposit Insurers (IADI).
- Nominated as one of the two organisations for the 2008 "Deposit Insurer of the Year" Award.

- A representative of PIDM was elected as a member of the Executive Council, the governing body for IADI.

GOVERNMENT DEPOSIT GUARANTEE

- Consistent with regional initiatives to preserve confidence in respective financial systems, the Ministry of Finance and BNM announced, on 16 October 2008, that all Ringgit and foreign currency deposits with commercial, Islamic, investment and international Islamic banks, and deposit-taking development financial institutions regulated by BNM will be fully guaranteed by the Government through PIDM until 31 December 2010. The GDG extends to all domestic and locally incorporated foreign banking institutions.
- PIDM is administering the GDG and will work closely with BNM to ensure that member institutions and other guaranteed financial institutions do not engage in excessive risk-taking and remain well capitalised.

GOING FORWARD

- Our Corporate Plan 2009-2011 sets out our strategic direction, focus and priorities to fulfil our mandate effectively and to work towards our new vision.
- The plan focuses on developing our human capital, intensifying risk assessment and monitoring activities, ensuring ongoing operational effectiveness, readiness to handle intervention and failure resolution activities, and continuing our efforts to increase the level of public awareness and understanding of PIDM as well as maintaining confidence in our financial system.
- Our long-term focus will continue towards building a strong leadership team, enhancing our stakeholder management and building a strong innovative culture in our quest to build a sustainable and high performance organisation.



INTRODUCTION

HIGHLIGHTS OF OUR ACCOMPLISHMENTS SINCE ESTABLISHMENT

2005 Year of Our Establishment	2007 Building on Our Strengths
<ul style="list-style-type: none"> • The MDIC Act came into effect on 11 August 2005. • Established our Board of Directors (Board) with all Non-Executive Directors. Three Board Committees were established and work commenced. • Developed and established PIDM's Vision, Mission and Corporate Values. • Established our organisational structure and developed our first Corporate Plan 2006 - 2008. • Implemented key governance policies, including our Code on Business Conduct and Ethics, Policy for Disclosure of Information Concerning W/ongdoing in the Workplace, and in particular, our Board Governance Policy, setting out clear expectations between the roles of the Board and Management. • Worked on raising public awareness through various activities. • Hosted the Executive Council meetings of IADI and actively participated in international events and meetings. PIDM also became an Associate Member of the Islamic Financial Services Board (IFSB). • Worked closely with our partners; executed a Strategic Alliance Agreement with BNM; engaged our member institutions as partners to create more public awareness about deposit insurance; established our policy to consult with stakeholders before issuing deposit insurance policies or regulations. • Instituted 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. • Implemented a 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. • Built our organisation team and established a human capital strategy as well as key human capital policies, including the compensation and benefits as well as performance management policies. • Developed and published PIDM Corporate Plan 2007 - 2009. 	<ul style="list-style-type: none"> • Received top rating and an award from our external auditors, the National Audit Department following a management audit. • Received an award of "Certificate of Merit" from NACRA for our Annual Report 2006. • Established succession management frameworks for both the Board and Management. • Conducted four formal Board education sessions and an orientation for our new Director. • Established a strong base of strategic partners. • Worked closely with the Ministry of Finance, BNM, member institutions, other financial regulators and Government agencies. • Implemented Phase 1 of our multi-year Integrated Communications Plan. • Focused on activities to raise public awareness about deposit insurance and PIDM, including holding the Malaysia Financial Exhibition 2007 and hosting the 6th IADI Annual Conference. • Implemented a Risk Assessment and Monitoring framework. • Established a framework for crisis communications management. • 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 DPS, draft regulations on Terms and Conditions of Membership and proposals with regard to the enforceability of close-out netting provisions in derivatives transactions. • Established the Asset and Liability Management Committee and the Information Technology Steering Committee. • Developed and published PIDM Corporate Plan 2008 - 2010. • Implemented a 360-degree feedback mechanism for Management. • Established a policy on workplace harassment. • Relocated our office to Kuala Lumpur Sentral.



MESSAGE FROM THE CHAIRMAN

TAN SRI DATO' ABDUL AZIZ HAJI TAHHA

The year 2008 can only be described as one of the most difficult years for the global financial system in recent history. All over the world, policymakers have grappled with the immediate challenge of restoring confidence in their financial systems, as crisis after crisis emerged. In the midst of the firefighting, I believe, longer term challenges lay ahead – many questions about the reform of current financial systems and regulatory schemes will need to be addressed.

As an open and trade-dependent economy, we cannot expect Malaysia to be entirely insulated from the global financial crisis. 2008 showed how challenges are precipitated from events well beyond our shores. On 16 October 2008 - despite a fundamentally sound financial system - Bank Negara Malaysia (BNM) and the Ministry of Finance jointly announced the Government Deposit Guarantee (GDG) through PIDM, extending our explicit limited deposit coverage system to a greater limit, over more financial institutions, and over more deposits.

In my mind, the series of events in 2008 have been significant in the context of a deposit insurer:

- For one, financial crises all over the world have reinforced the importance of having deposit insurance systems as an integral component of a country's safety net. Countries that do not have explicit deposit insurance systems have begun looking into having one.
- Countries that already have a deposit insurance system, such as the United States, found deposit insurers playing a critical and larger role to address troubled banks.
- Events internationally, as well as the GDG here in Malaysia, have generated greater public awareness and understanding of deposit insurance.

INTRODUCTION

MESSAGE FROM THE CHAIRMAN

The GDG of October 2008 is especially significant in the way in which it is being administered. In all other countries, government guarantees are being directly administered by the governments themselves. In Malaysia, the administration of the GDG - through a deposit insurer - is a uniquely Malaysian response, which no other country has adopted. With PIDM already having the necessary authority and powers, it was possible to neatly accommodate the administration of the GDG within its explicit deposit insurance framework. This solution, I would say, has come about through some far-sightedness of our policymakers, not least by establishing an effective national deposit insurance system in good times.

PIDM's Progress in 2008

I am pleased to note that, in 2008, PIDM has again made considerable progress in a number of areas.

We pressed on, in our work to ensure that we have the right culture, the right leaders and the right people. As part of our commitment to the best practices in governance, the Board focused on Board succession planning, and on developing and strengthening PIDM's enterprise risk management and internal controls. The Board also commenced Management succession planning, a focus that will continue over the coming years. The Board's priorities over 2008 also included a focus on talent management and building our Competency Model. Our Directors' personal views were sought to build a unique set of employee competencies necessary to drive PIDM towards success in meeting its mission and vision. PIDM is appreciative for the input, and the Board is very pleased with the results. We look forward to seeing the model being successfully implemented.

I am also pleased to report PIDM's receipt, again this year, of a "Certificate of Merit" from the National Annual Corporate Report Awards (NACRA) for our Annual Report 2007, as well as on our nomination, together with the 75-year old Federal Deposit Insurance Corporation of the United States, for the award of "Deposit Insurer of the Year" from the International Association of Deposit Insurers. I believe that this nomination is no small accolade, given that we were only established in September 2005.

Continuing efforts were made throughout the year to generate public awareness and to ensure operational readiness, notably in the areas of risk assessment, payout, and interventions and resolutions.

Implementation of the GDG

After the announcement of the GDG, another key area of focus, as might be expected, was on implementing the GDG, and on ensuring PIDM would be in a position to monitor and deal with the additional institutions now within the scope of the GDG. Key measures on the GDG were quickly taken. We defined the principles and framework to deal with the GDG and addressed the need to minimise excessive risk-taking by guaranteed institutions, through a GDG fee approved by the Government and other measures. We also drafted amendments to the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act), to allow, among other matters, PIDM to have access to information from non-member institutions covered by the GDG as well as to extend its intervention and resolution powers over them.

Partnerships

We continue our excellent relationships with other members of the financial safety net, including BNM and the Ministry of Finance. There is no doubt that the strong collaboration amongst financial safety net players, especially in times of stress, is fundamental to the achievement of our common objectives – to promote or contribute to the safety and soundness of the financial system. We also continue to engage and be responsive to the needs of our member institutions, and make sure we consult them extensively to ensure policy and regulatory decisions are appropriate and well-thought out.

The Future

As we completed our third year of existence, we were reminded by the sombre events in the global financial services sector how critical our mission is, and how we must play our role in protecting depositors and maintaining public confidence in the nation's financial system. In carrying out this role, we will place its primary emphasis in 2009 on our core objectives, our people, our depositors and the financial system by promoting sound risk management and public confidence in the financial system.

We are fortunate that, through prudent regulatory management and supervision, Malaysian banks have remained fundamentally strong. With vigilance and foresight, pre-emptive and precautionary measures in the form of the GDG in Malaysia have been taken in response to global nervousness. Public confidence in our financial system has remained intact.

At the same time, we are aware that the current challenges in our operating environment place pressures on us to achieve a state of preparedness with an even greater sense of urgency as well as to heighten monitoring and assessments. Within our organisation, therefore:

- We will focus considerable efforts working with BNM to ensure that all guaranteed financial institutions are appropriately managing risks, operating in a safe and sound manner, and fulfilling their statutory and other responsibilities to depositors and other stakeholders.

- We also recognise that we must be in a position to detect problems and promptly address them. Accordingly, we have stepped up our vigilance – we recognise the need to identify and analyse current risks and potential new risk areas within the financial services and the broader economy, and to quickly address issues as they arise. We are also in the midst of reviewing the MDIC Act, to ensure we address any gaps in our legislation that would impede our ability to act quickly and effectively if the need arises.

- We will continue to expand our communications efforts, working, as always, in partnership with BNM and other related organisations, to continue to develop public understanding and appreciation of our work and best practice efforts. Planning ahead, we expect our communications efforts to also consider the need to ensure a smooth transition from the GDG at the end of 2010 to the explicit limited deposit insurance scheme.

- Last but not least, we will continue our focus to implement our human capital strategic plan

to attract and retain the best talent for a high performance organisation.

In addition to these core areas, we will pursue a number of other priority initiatives in 2009 so as to enhance our longer-term organisational capabilities. We will be guided in our work by our renewed vision statement. Encouraged by our past success, we have developed a new vision for the future that envisages building on our strengths and growing through our aim to be a best practice deposit insurer. I am confident that, with the right governance arrangements in place, and the right culture and direction, we will achieve our vision.

Appreciation

I wish to thank my fellow Board members for their unwavering support to PIDM and for discharging their duties and responsibilities through the unselfish donation of their time. The comprehensive report on its work in 2008 found in the Statement on Governance is an attestation to the Board's commitment to transparency and best practices.

I speak for all at PIDM, in acknowledging the significant contributions of *Alahyarham* Tan Sri Dato' Seri Haji Muhammad Azmi Kamaruddin, who sadly passed away in January 2009. Tan Sri Azmi was a member of the PIDM Board of Directors since its establishment in 2005 and played a key role in supporting PIDM through its formative years.

On behalf of the Board, I would like to express our gratitude and appreciation to each and every employee of PIDM for their hard work, dedication and perseverance, under the very able leadership and commitment of our Chief Executive Officer, Mr. Jean Pierre Sabourin.

TAN SRI DATO' ABDUL AZIZ HAULI TAHAJ

BOARD OF DIRECTORS

From left to right:

Tan Sri Dato' Sri Dr. Sulaiman Mahbob

Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz

Tan Sri Dato' Abdul Aziz Haji Taha (Chairman)

Datuk Dr. Abdul Samad Haji Alias

Mr. Michael Wong Kuan Lee



INTRODUCTION

BOARD OF DIRECTORS: MEMBERS AND PROFILES

TAN SRI DATO' ABDUL AZIZ HAJI TAHAN Chairman

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

TAN SRI DATO' SRI DR. ZETI AKHTAR AZIZ

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz 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. Dr. Zeti presided over the formulation of the Financial Sector Masterplan, a 10-year road map for the development of the Malaysian financial system. During her term as Governor, she oversaw the transformation of the financial system, involving wide-ranging financial reforms, the establishment of new financial institutions, strengthening of the financial markets and the transition to a managed float of the Ringgit exchange rate. She is also involved in the international development of Islamic finance and in regional financial co-operation.

In promoting regional integration initiatives, Dr. Zeti chaired the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Task force on "Regional Cooperation among Central Banks in Asia" to draw up the blueprint for future financial cooperation in the region. She is also a member of the Bank for International Settlements (BIS) Central Bank

Governance Group since 2001. Dr. Zeti is also one of the founding members of the Asian Consultative Council for the BIS and is currently the Chairman of the Council. In 2008, she was appointed as a panel member for the United Nation's Task Force on the Reform of the Global Financial System. Dr. Zeti received her Bachelor of Economics (Honours) from the University of Malaya and her Ph.D from the University of Pennsylvania.

TAN SRI DATO' SRI DR. WAN ABDUL AZIZ WAN ABDULLAH

Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah is the Secretary General of Treasury, Ministry of Finance. He has 34 years of experience in the public sector, most notably in the area of economic planning. He started his career at the Economic Planning Unit, Prime Minister's Department in 1975, serving in various capacities in the area of macro economy, human resource and energy. He also served as an Alternate Executive Director for the World Bank Group in Washington DC, where he represented several Asian countries. He then returned to Malaysia and served in the Ministry of Finance, and in 2007 he was appointed the Secretary General of Treasury. He presently holds membership in the board of directors for organisations such as the Federal Land Development Authority, Malaysia Airlines System Berhad, Petroleum Nasional Berhad, MISC Berhad, Kumpulan Wang Persaraan (Diperbadankan), Inland Revenue Board, Syarikat Bekalan Air Selangor Sdn Bhd, Cyberview Sdn Bhd, Pembinaan BLT Sdn Bhd and Bank Negara Malaysia. Tan Sri Dr. Wan Abdul Aziz holds a Ph.D in Economics from the University of Leeds, United Kingdom.

TAN SRI DATO' SRI DR. SULAIMAN MAHBOB

Tan Sri Dato' Sri Dr. Sulaiman Mahbob is the Director General of the Economic Planning Unit (EPU) of the Prime Minister's Department. He was previously the President of the Malaysian Institute of Integrity, an agency established to implement the National Integrity Plan. He is also an Adjunct Professor (Economics) at the University of Malaya and at the Universiti Utara Malaysia (Public Management and Law). He has experience in the areas of national economic planning, public finance, public policies and overall national economic management. He served the Malaysian Government for 33 years from 1971 till 2004 in various capacities including as Secretary General of the Ministry of Domestic Trade and Consumer Affairs, Under-Secretary (Economics) at the Ministry of Finance, and Head of the Secretariat of the National Economic Action Council (NEAC) at EPU during the last financial crisis from 1998 to 2001. He was once Executive Director of the Malaysian Institute of Economic Research and a Board Member of the Malaysian Intellectual Property Corporation, Malaysia International Shipping Corporation Berhad and Padihars Nasional Berhad. He is currently a Board Member of Petrolam Nasional Berhad, Federal Land Development Authority and Iskandar Regional Development Authority.

DATUK DR. ABDUL SAMAD HAJI ALIAS

Datuk Dr. Abdul Samad Haji Alias is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in auditing and accounting and was the Non-Executive Chairman of Ernst & Young Malaysia from 2005 to 2008. He is currently Chairman of Bank Pembangunan Malaysia Berhad, Malaysia Venture Capital Management Berhad and Malaysia Debt Venture Berhad and serves as a Board Member of Lembaga Tabung Haji, Perbadanan Kemajuan Iktisad Negeri Kelantan, Feida 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, investment 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.

TAN SRI DATO' SERI HAJI MUHAMMAD AZMI KAMARUDDIN

Alahyarham Tan Sri Dato' Seri Haji Muhammad Azmi Kamaruddin served as a Board Member of PIDM from 2005 until his demise on 5 January 2009. He was also Chairman of the Financial Mediation Bureau, a position he was appointed to in June 2005. During his career in the Malaysian Judicial and Legal Service he served 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 later elevated to the position of a High Court Judge in 1970 and Federal Court Judge in 1980 before retiring from the Judiciary in 1999. He was also appointed by the Conference of Rulers as a Judge of the Special Court for three years. Other highlights of his career included being Arbitrator of the Kuala Lumpur Regional Centre for Arbitration, member of the Malaysian Panel of Arbitrators which is affiliated to the Paris-based International Chamber of Commerce Court of Arbitration, and Judge of the United Nations International Criminal Tribunal for Rwanda.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

JEAN PIERRE SABOURIN

This year has been a challenging one for governments as they have had to take unprecedented actions to stabilise financial systems as a result of the global financial crisis. These actions have been focused mainly in two areas, providing liquidity and financial support to financial institutions and maintaining public confidence through deposit insurance. A large number of countries increased the limits and coverage provided by their existing deposit insurance systems, introduced blanket guarantees while others established explicit deposit insurance systems. These actions had their desired effects and public confidence was maintained. This again demonstrated the benefits and importance of depositor protection and how it contributes to the stability of a financial system.

In Malaysia, we have been well aware of the benefits and importance of having an effective deposit insurance system to promote public confidence in the stability of our financial system. PIDM was established in 2005 with a strong and focused mandate to provide depositor protection and to promote and contribute to the stability of our financial system. Since that time, PIDM has been working diligently to become a best practice deposit insurer so that Malaysians can feel confident that their deposits are well protected and safe.

In our quest to meet our vision, I am pleased to report on our accomplishments in 2008. PIDM achieved all its initiatives as outlined in our Corporate Plan and did so under budget. We have again made significant progress in becoming a best practice deposit insurer.

We set out four strategic thrusts to guide us in our work. These are operational readiness, sound business and financial practices, effective public awareness and strong partnerships, and we have made excellent progress in the achievement of our corporate objectives that support these strategies.



INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I would note in particular our efforts towards being recognised as a well governed and well managed organisation so that our stakeholders can have confidence in our ability to meet our mandate. Towards this end, we were honoured to be the recipient of a "Certificate of Merit" by the National Annual Corporate Report Awards (NACRA) for the quality of our Annual Report 2007. We also received an award and top rating from the Auditor General's Office resulting from a management audit, and our nomination, by the International Association of Deposit Insurers (IADI) for the award of the Deposit Insurer of the Year, together with the Federal Deposit Insurance Corporation, gives me confidence and pride that we are on the right track.

We are also cognisant of the urgency in our work which is reflected in our priorities. The announcement of the Government Deposit Guarantee (GDG) in 2008 which made PIDM responsible to administer such a guarantee, while maintaining our current deposit insurance system, reflects how the landscape can change rapidly in these troubled times.

We accepted with pride, the responsibility placed upon us to develop and implement a comprehensive framework to make the GDG fully operational. But at the same time, we knew that the devil, as the saying goes, is always in the details. I am pleased to report that no effort was spared to ensure that the GDG would be credibly implemented. Many hours were spent with our partners at Bank Negara Malaysia (BNM), to ensure clarity of roles and responsibilities, to define what products would be included under the GDG, and to determine which institutions would need to be covered. Subsequently, we held meetings with representatives of financial institutions to ensure they understood the framework and how PIDM and BNM would institute measures to mitigate moral hazard.

We also developed related legislative amendments, recommended the level of the guarantee fee payable by financial institutions and prepared the requisite agreement between PIDM and the Government. In

addition, we publicly advertised the coverage under the GDG to ensure that this information reached a wider audience. New information brochures were published, PIDM call centre operators were briefed on the details of the GDG, necessary changes were made to the information residing on our website, and many information sessions and presentations were held with various stakeholders. To mitigate moral hazard, we prohibited financial institutions from using the GDG to market or attract deposits, heightened supervision and monitoring during the GDG period to ensure no excessive risk-taking, and we announced that an annual guarantee fee would be assessed against every financial institution falling under the GDG.

Operational Readiness and Sound Business and Financial Practices

In our Annual Report 2007, I spoke about the virtues of being ready and the need for contingency planning. In 2008, we have worked hard to ensure operational readiness. For one, we made considerable progress in our development of a payout system to promptly reimburse depositors in the event of a bank failure.

We also commenced the development of a critical aspect of operational readiness - the implementation of our comprehensive intervention and resolution framework, which includes the development of contingency plans. This project will culminate in PIDM having at its disposal a wide range of tools to deal with troubled institutions promptly in a manner to minimise losses to the financial system.

We achieved significant milestones in providing incentives for sound risk management in the financial system with:

- (a) the implementation of our Differential Premium Systems (DPS) respectively for conventional and Islamic banks. These systems provide financial incentives for banks to discourage excessive risk taking and introduce greater fairness in premium assessments. As a result, banks with lower risk profiles now pay lower premiums;

- (b) the issuance of our Terms and Conditions of Membership Regulations 2008. These regulations place requirements on member institutions and supports the supervisor's efforts by allowing PIDM to impose a premium surcharge for breaches of prudential requirements;

- (c) the implementation of our Risk Assessment System (RAS). This IT business intelligence tool allows us to undertake more effective and efficient risk assessment and monitoring of member institutions; and

- (d) the delivery of specific initiatives to promote best practices in governance.

Both the DPS and RAS are critical tools for best practice deposit insurers. We have already received a number of enquiries and requests from deposit insurers who wish to study PIDM's approach towards promoting sound risk management through our DPS and how we actively assess and monitor the risks posed by our member institutions.

We also worked with BNM to develop and implement a new education programme for directors of financial institutions. Developed jointly by BNM and PIDM, the Financial Institutions Directors' Education (FIDE) Programme commenced in November 2008. The programme is unique in its design and delivery, and is formulated to educate participants on sound corporate governance practices for application in their own institutions. Our involvement in the development and delivery of this programme directly supports our mandate of promoting sound risk management in the financial system.

Sound business and financial practices which were part of our key governance initiatives in 2008 included the completion of an entire cycle of our Enterprise Risk Management (ERM) Framework, with supporting validation from our internal control function. We also implemented a risk-based approach to internal audit planning and auditing to complement our risk management

framework. And in line with our vision, we plan to keep our governance approaches up to date and as a best practice, through tracking developments internationally and with regular reviews of our governance arrangements.

Strong Partnerships

In terms of strategic partnerships, we continued to maintain collaborative working relations with BNM, the Government, our member institutions and other key suppliers and stakeholders. On the international front, PIDM continued to play an important role in the development of effective deposit insurance systems. PIDM is often requested to provide speakers and advice to jurisdictions interested in implementing best practice deposit insurance systems. We are also a proud member of the IADI. Towards the latter part of 2008, our General Manager of the Policy and International Division, Ms. Lai Wai Keen was elected as a member of the Executive Council of IADI. We also received seven study visits from deposit insurers and foreign central banks interested in our work.

Human Capital

We have made inroads into our human capital management. We released the first edition of our employee manual and developed a Talent Management Framework. The latter provides us with a holistic approach so that we can continue to remain focused, deliberate and consistent in the manner in which we integrate and manage all human capital activities.

As a subset of the Talent Management Framework, we have developed a Competency Model which is unique to PIDM. This helps us define characteristics that would differentiate us from the other organisations. We also carried out information briefings on the Competency Model with all our employees to ensure that all employees understood the model and to help its successful integration in all our key human capital activities.



INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Maintaining a conducive corporate environment continues to be a key focus for the organisation. I am pleased to note our efforts have not gone unnoticed – we achieved an employee satisfaction index of 81%, up by 2% from 2007, well above our target of 75%.

Public Awareness

In the area of public awareness and education, we have made concerted efforts to inspire public confidence. During the year, we continued implementing our multi-year Integrated Communications Plan. The level of consumer awareness of deposit insurance showed an encouraging increase to 27% from 15% in 2007 while awareness of PIDM has increased to 32% from just 12% in 2007.

Financial Results

For 2008, PIDM recorded total revenues of RM98.5 million, comprising RM90.0 million in premiums and RM8.5 million in investment income.

Our operating expenditures totalled RM34.5 million, and we recorded a surplus of RM64.0 million. We invested our surplus funds in highly liquid Government securities. Our Conventional and Islamic Deposit Insurance Funds now stand at RM243.0 million and RM32.3 million respectively.

We have provided details of our financial results and comparatives in the Management's Discussion and Analysis section of this report. Our disclosure has been enhanced this year to provide the reader with prior years' comparative financial information. We have also significantly enhanced note 20 in our financial statements to provide the reader with a greater appreciation of why PIDM does not record provisions for future losses and how the deposit insurance funds are held in reserve to cover losses in the event PIDM is called upon to meet obligations to depositors.

Member Institutions

Total insured deposits held in our commercial and Islamic banks for assessment year 2008 amounted to RM191.0 billion, of which RM169.3 billion is in commercial banks and RM21.7 billion in Islamic banks.

Despite a challenging operating environment, the overall performance of our member institutions in 2008 remained strong with notable improvements in terms of asset quality and financial performance. Our membership also increased from 33 to 39, with six new Islamic entrants.

Conclusion

We are clearly at the threshold of a new horizon. I believe there will be further challenges ahead, hence our need to be focused, resilient and tenacious at all times. We have achieved much in our initial three years of existence – setting foundations, building on them and leveraging on our strengths to become a best practice deposit insurer.

Our renewed vision focuses us to continue to implement best practices in all aspects of our operations. To achieve this, we shall continue to promote rigorously in the quality of our research in the development and implementation of all aspects of our work – including governance, risk assessment, intervention and resolution, policy development, human capital and communications. Through ongoing benchmarking for excellence, coupled with breakthrough thinking, I believe we shall enhance our capabilities to promote and contribute to public confidence in our financial system. Internationally, PIDM can also assist others in our areas of expertise. We will also continue to work on our strong connections with our financial safety net partners, member institutions, members of IADI, researchers and the community at large to maximise the effectiveness of our work.

I believe there is always opportunity in challenges. I regard the events of 2008 as a gentle test of our resilience in stressful times. Nonetheless, I am confident that, with hard work and perseverance, PIDM will be more than ready to deal with any challenges in years to come.

In closing, I would like to thank the Board of Directors under the able chairmanship of Yang Berbahagia Tan Sri Dato' Abdul Aziz Haji Taha for its unwavering support in establishing a best practice deposit insurer. Management relies heavily on the Board's guidance, direction and support for which we are grateful and thankful.

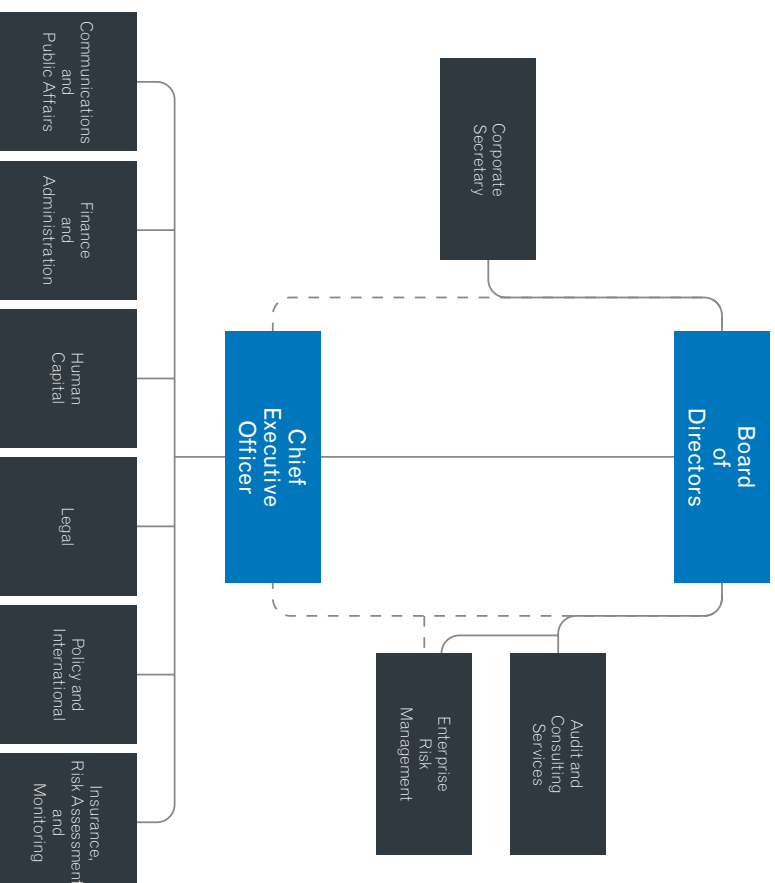
I also want to personally commend all of our employees for their devotion and commitment to this organisation. The future might seem difficult in light of the current global economic and financial meltdown, but I look forward to meeting these challenges with an energetic and dedicated team which truly believes that public service is honourable work.

JEAN PIERRE SABOURIN



INTRODUCTION

ORGANISATION CHART



INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE

Executive Management Committee
Jean Pierre Sabourin* CHIEF EXECUTIVE OFFICER
Lai Wai Keen GENERAL MANAGER, POLICY AND INTERNATIONAL
Lee Yee Ming CHIEF RISK OFFICER AND GENERAL MANAGER, ENTERPRISE RISK MANAGEMENT
Lim Yam Poh** GENERAL COUNSEL AND CORPORATE SECRETARY
Md. Khairuddin Haji Arshad** GENERAL MANAGER, INSURANCE, RISK ASSESSMENT AND MONITORING
Noorida Baharuddin CHIEF INTERNAL AUDITOR AND GENERAL MANAGER, AUDIT AND CONSULTING SERVICES
S. Loganathan GENERAL MANAGER, COMMUNICATIONS AND PUBLIC AFFAIRS
Siti Zubaidah Haron GENERAL MANAGER, HUMAN CAPITAL
Wan Ahmad Ikram Wan Ahmad Lotfi** CHIEF FINANCIAL OFFICER AND GENERAL MANAGER, FINANCE AND ADMINISTRATION

Note:

* CEO appointed by the Minister of Finance on recommendation by the Board of Directors until August 2011.

** Corporate officers appointed by the Board of Directors.

EXECUTIVE MANAGEMENT COMMITTEE

From left to right:

Lee Yee Ming
Siti Zubaidah Haron
Md. Khairuddin Haji Arshad
Lai Wei Keen
Jean Pierre Sabourin
Lim Yam Poh
Wan Ahmad Ikram Wan Ahmad Lotfi
S. Loganathan
Noorida Baharuddin



INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

The Executive Management Committee (EMC) is a forum for discussions on issues relating to the management and day-to-day operations of PIDM. The EMC is intended to facilitate communications, teamwork, adaptability to change and collaboration throughout all areas of PIDM, as well as to serve as a conduit for information to all employees.

JEAN PIERRE SABOURIN

Chief Executive Officer

Jean Pierre Sabourin is the Chief Executive Officer (CEO) of PIDM since its establishment in 2005. He has unparalleled expertise in all aspects of deposit insurance and is very much in demand internationally. His assistance has been widely sought by other countries on establishing and improving their deposit insurance systems. Among his many achievements, he chaired the Financial Stability Forum's international study and working groups on deposit insurance and the first ever APEC Policy Dialogue on Deposit Insurance. In May 2002, he led the establishment of the International Association of Deposit Insurers and was elected its first Chair of the Executive Council and President, a position he held until the end of 2007. He was employed by Canada Deposit Insurance Corporation (CDIC) in 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 to become a best practice deposit insurer. He is also Chairman of the Advisory Committee of the International Centre for Leadership in Finance (ICLIF). He holds a Master of Business Administration degree from the University of Toronto.

LAI WAI KEEN

General Manager, Policy and International

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

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

LEE YEE MING

Chief Risk Officer and General Manager, Enterprise Risk Management

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

She has nine years of consulting and banking experience in ERM, Basel II, corporate governance and internal audit. She began her career in the U.S. with a financial institution in Illinois and subsequently joined Ernst & Young in the Kuala Lumpur, Malaysia and Taipei, Taiwan offices. With regards to ERM, she has advised Malaysian public listed companies and a Korean organisation on the implementation of their respective ERM frameworks. She has also assisted banks in Taiwan as the overall project manager in their Basel II system implementation and Basel II-related implementation projects. She holds an honours degree in business administration (*summa cum laude*) and a Master of Business Administration degree in finance from Western Michigan University. She is also a Certified Internal Auditor.

LIM YAM POH

General Counsel and Corporate Secretary

Lim Yam Poh is the General Counsel and Corporate Secretary, who is responsible for all legal advice provided to PIDM as well as services such as contracting, negotiating settlements and litigation. She also ensures that PIDM complies with all applicable law, including legislation specific to PIDM's business and affairs such as the Malaysia Deposit Insurance Corporation Act 2005, other related legislation, and legislation relating to being a statutory agency and regulated employer. She also performs the role of Corporate Secretary and provides all legal services related to the Board. In particular, she provides input and advice to the Governance Committee through which the PIDM Board of Directors monitors and addresses corporate governance matters. She has over seven years of experience in a leading law firm in Kuala Lumpur. She was with the Malaysian Securities Commission between 1997 and 2000 and with the Hong Kong Securities and Futures Commission between 2000 and 2005. She holds an honours Bachelor of Laws degree from the University of Birmingham, England and has been called to the Bar of England and Wales and in Malaysia.

MD. KHAIRUDDIN HAJI ARSHAD

General Manager, Insurance, Risk Assessment and Monitoring

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

provided technical assistance to various countries in developing their Islamic banking industry as well as presented papers at domestic and international seminars. He holds an accounting degree from the International Islamic University, Malaysia.

NOORIDA BAHARUDDIN

Chief Internal Auditor and General Manager, Audit and Consulting Services

Noorida Baharuddin is the Chief Internal Auditor (CIA) and heads the Audit and Consulting Services Division. Her main responsibilities include providing, on an ongoing basis, independent and objective assurance and consulting services that are designed to improve the effectiveness and efficiency of PIDM's operations, reliability and integrity of PIDM's financial reporting as well as ensure PIDM's compliance with applicable laws and regulations. She has over 15 years of experience in auditing, risk management and policy development gained through her career with an external audit firm, regulatory bodies and a public listed company. Her auditing experience includes external and internal auditing as well as supervisory examination. In supervisory examination, she had led examinations of capital market institutions and intermediaries licensed and supervised by the Securities Commission, as well as offshore financial and insurance institutions licensed by the Labuan Offshore Financial Services Authority (LOFSA). In risk management, she was involved in the development and implementation of enterprise-wide risk management for LOFSA. She was also attached to the Islamic Financial Services Board where she assisted in the development of the Guiding Principles of Risk Management for Banks Offering Islamic Financial Services. She holds a Bachelor of Business degree in accounting from the University of Tasmania, Australia and a Bachelor of Law degree from Universiti Institut Teknologi MARA (UITM), Malaysia. She is a Certified Practising Accountant (Australia) and a Certified Financial Planner (CFP) with the Financial Planning Association of Malaysia (FPAM).

INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

S. LOGANATHAN

General Manager, Communications and Public Affairs

S. Loganathan is the General Manager of the Communications and Public Affairs Division. He is responsible for communications and public relations as well as managing PIDM's public awareness programmes. He has more than 25 years of experience in the financial media and the securities industry. He started off his career as a journalist first with Bernama and then with Business Times, where he specialised in corporate, stock market and securities industry news. He joined the Bursa Malaysia group (previously known as the Kuala Lumpur Stock Exchange) in 1990 and rose through the ranks, holding various positions including Manager of the Research Institute of Investment Analysts Malaysia, Senior Vice-President of Market Development and General Manager of the Kuala Lumpur Options and Financial Futures Exchange (KLOFFE). His last posting was as General Manager of the Labuan International Financial Exchange, a position he assumed in June 2001. He left the Bursa Malaysia group in October 2004 to set up War-1 Consultants Sdn Bhd in Malaysia, a consultancy firm specialising in investor relations and media strategy with its head office in Singapore. He holds an honours degree in business administration from 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 PIDM and in particular for its human capital strategy, talent management and related human capital policies, procedures and functions, and is responsible to ensure robust human capital development. She started her career in human resources in 1990 and has exposure and experience in managing human resources functions across manufacturing, retail and hypermarket and group service centres serving 15 countries across Europe, the U.S. and Asia Pacific. She has extensive exposure and has been managing the full spectrum of

human resources at senior level across various cultures since 1996. She was the Head of Human Resources at Carrefour (Malaysia)/Magnificent Diagraph Sdn Bhd between 2002 and 2005, and was Vice-President - Human Resources, Learning & Development and Communications at HSBC Electronic Data Processing (M) Sdn Bhd (Group Service Centre, Malaysia) until she joined PIDM. Siti holds an honours Bachelor in Business Administration degree in human resource management and a Diploma in Business Studies.

WAN AHMAD IKRAM WAN AHMAD LOTFI

Chief Financial Officer and General Manager, Finance and Administration

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

INTRODUCTION

MANAGEMENT COMMITTEES

ENTERPRISE RISK MANAGEMENT COMMITTEE

In assisting the Audit Committee (AC) and the Board of Directors (Board), the Enterprise Risk Management (ERM) Committee provides oversight for the implementation and consistent application of the ERM framework, policies and processes. The ERM Committee champions risk management and monitors the risk exposure and ERM activities of PIDM.

The ERM Committee comprises the following members:

- CEO (Chair)
- General Manager, Insurance, Risk Assessment and Monitoring Division
- CFO
- General Counsel, Legal Division
- CRO
- General Manager, Policy and International Division
- General Manager, Communications and Public Affairs Division
- General Manager, Human Capital Division
- Senior Manager, Economics and Research

The Manager of the ERM Division acts as the Secretariat to the ERM Committee, while the CIA attends all ERM Committee meetings as an observer.

The Strategic Planning and ERM Working Committee (PERM 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 against the mitigation plans of the respective divisions and updating the plans. PERM Working Committee members are represented by all divisions in PIDM.

ASSET AND LIABILITY MANAGEMENT COMMITTEE

The Asset and Liability Management Committee (ALCO) is a management committee designed to advise the CFO on issues related to asset and liability management of PIDM. The committee also provides advice and information on funding, liquidity, investment and financial risk management to the CFO and EMC in general. It also

acts as a forum to discuss the implications of decisions in respect of PIDM's asset and liability management.

The Committee comprises 10 members, who are as follows:

- CFO (Chair)
- CEO (ex-officio)
- General Manager, Insurance, Risk Assessment and Monitoring Division
- CRO
- CIA
- General Manager, Communications and Public Affairs Division
- Deputy General Manager, Intervention
- Deputy General Manager, Finance and Administration
- Senior Manager, Policy and International
- Senior Manager, Finance and Administration, who also acts as the Secretary to the Committee

INFORMATION TECHNOLOGY STEERING COMMITTEE

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

The ITSC members are:

- General Manager, Insurance, Risk Assessment and Monitoring Division (Chair)
- CFO
- CRO
- General Manager, Communications and Public Affairs Division
- Deputy General Manager, Information Technology
- Deputy General Manager, Finance and Administration
- Senior Legal Counsel
- CIA (Observer)

Section 2

Corporate Governance





INTRODUCTION

One of our objectives, as stated in the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act), is to provide incentives for sound risk management within the financial system. We fulfil this objective through measures, such as the Differential Premium Systems (DPS) implemented in 2008, whereby the applicable premium rate depends on an assessment of the risk profile of financial institutions.

As a regulator, therefore, PIDM's credibility requires us to set ourselves as an example to others. Since our establishment, we have invested significantly in developing a best practice risk management infrastructure to effectively measure and monitor risks in a holistic manner.

In 2007, we reported that our Enterprise Risk Management (ERM) Framework had been developed. Much work has been carried out since and this report highlights our progress in ERM in 2008.

OUR RISK MANAGEMENT REPORT FOR 2008

Key achievements

Consistent with our vision to be a best practice deposit insurer, we are committed to the implementation and maintenance of leading ERM processes and practices. We continuously benchmark ourselves against these best practices.

The key elements towards achieving an effective and efficient risk management include having a clearly stated risk policy and framework and establishing the risk appetite of the organisation. This effort is underpinned by the emphasis on accurate, aggregated, and enterprise-wide understanding of the risks faced, as well as by ensuring that risk management is an integral part of strategic management.

In 2008, the ERM Division has incorporated these elements into the PIDM organisational structure. The ERM Division implemented the ERM Framework, infrastructure and processes within PIDM.

In particular, the ERM Division's key achievements included:

- (i) Developing and implementing the ERM Policy Statement. Our ERM Policy Statement confirms our commitment to ERM and good corporate governance. This Policy Statement is found in the "Governance" section of our website at www.pidm.gov.my;
- (ii) Documenting the ERM Framework and guidelines, as well as implementing PIDM's risk monitoring mechanism and oversight structure;
- (iii) Effecting a second complete cycle of the ERM process, which encompassed the identification, assessment, evaluation, treatment, monitoring and communication of significant risks affecting PIDM, and mitigating action plans;
- (iv) The successful integration of the ERM process with the corporate planning process; and

- (v) The integration of the ERM process into PIDM's risk-based internal audit approach. This integration allows for the streamlining of management reporting efforts, standardisation of risk vocabulary, inculcation of a risk management culture and securing buy-in, all of which lead to better corporate governance and management effectiveness.

The Chief Risk Officer (CRO) also participated actively in several external discussion fora and conferences to share practical experiences in the successful implementation of the ERM Framework and oversight infrastructure.

Other initiatives

To enhance risk management mechanisms, the ERM Division also embarked on several new projects in 2008, which will be continued into 2009. These include:

(a) A framework for developing ERM Board risk policies

The Board risk policies will outline the Board's specific expectations of Management in supporting them in the management of the relevant risk categories.

(b) The development of the ERM Effectiveness Assessment Framework

The ERM Effectiveness Assessment Framework includes a set of benchmarking self-assessment criteria to enable PIDM to evaluate the effectiveness and maturity level of the ERM practices within the Corporation. With this assessment, PIDM will be able to chart the progress of its efforts to improve and increase the effectiveness of its ERM practices.

(c) The commencement of a project for business continuity management

Together with the Finance and Administration Division, the ERM Division has embarked on the implementation of a business continuity management programme. The first phase, scheduled to be completed in 2009, is the development of a business continuity plan to ensure organisational business continuity in the event of a disaster.

ERM OVERSIGHT STRUCTURE

Our ERM Oversight Structure provides clear accountabilities and responsibilities for the risk management process. This ensures that the risk management activities remain appropriate and prudent, and that significant risks are managed and monitored continuously. In 2008, PIDM successfully implemented the ERM Oversight Structure. Both the ERM Committee and the Strategic Planning and ERM Working Committee (PERM Working Committee) met five times to facilitate the monitoring, update and discussions of various risk-related issues. The practice of having monthly monitoring of the implementation status of mitigation plans for significant risks was also established in 2008.



CORPORATE GOVERNANCE

MANAGING OUR RISKS

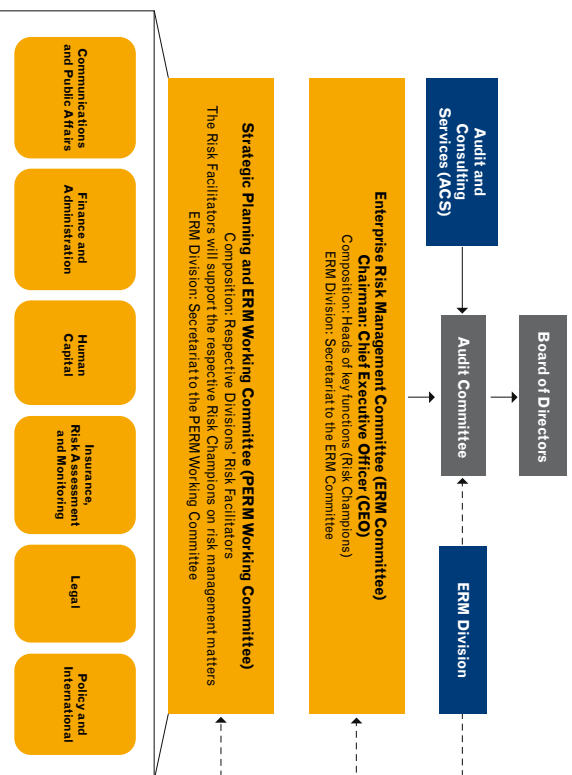


Diagram 1: PIDM's ERM Oversight Structure

- The Board is ultimately responsible for the oversight of PIDM's principal risks. The Board, through the Audit Committee, ensures that appropriate and prudent risk management systems to manage the significant risks of PIDM's business have been implemented and reviews these regularly.
- The Audit Committee is responsible for ensuring that sound policies, procedures and practices are implemented to manage PIDM's significant risks. The Committee will review with Management and advise the Board on policies developed and implemented to manage PIDM's risk exposures.
- The ERM Committee champions and provides oversight for the implementation of ERM across PIDM. This committee manages and monitors risk exposures and ERM activities which include the implementation of the ERM Framework, policies and processes across PIDM.



SIGNIFICANT RISKS AFFECTING PIDM

Significant risks

In 2008, we reviewed the significant risks for the year and completed the second cycle of the ERM process, which involved risk identification, analysis, evaluation and prioritisation.

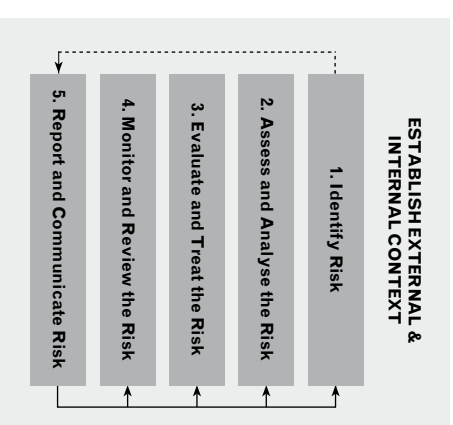


Diagram 2: PIDM's ERM Process

PIDM's ERM Framework was developed in line with best practices to which it is committed to. The ERM Framework encompasses five key processes, namely risk identification, risk assessment and analysis, risk evaluation and treatment, risk monitoring and review, and risk reporting and communication.

With the global financial crisis, it is becoming widely accepted that risk management issues were not given sufficient oversight or direction, and that the position of CROs in financial institutions should be elevated with greater authority. Recommendations to enhance some of these practices include, for example, the provision of more timely and sufficient information to the Board on risks. In the last quarter of 2008, PIDM took steps to enhance the Corporation's corporate governance practices. A proposal for the reporting structure of the CRO to be changed was made, so that the CRO reports functionally to the Audit Committee and administratively to the Chief Executive Officer (CEO). With the implementation of the new reporting line in 2009, the ERM Division will be empowered with the authority to execute its functions with greater independence and objectivity.

CORPORATE GOVERNANCE

MANAGING OUR RISKS

PIDM's significant exposures are highlighted in the risk map below.



The risks in each colour-denoted quadrant indicate the severity level of the risk:

RED Risks of serious concern.

YELLOW Issues which can develop into major issues if not monitored.

AMBER Extraordinary events or surprises that have low likelihood of occurrence but have a mission critical impact on PIDM if realised.

GREEN Well managed risks for which current routine procedures and controls are adequate.

Significant risks affecting PIDM, for the three-year planning period of our Corporate Plan, are listed below. Specific initiatives and action plans, which form part of our Corporate Plan 2009-2011, were also developed to address these significant risks, as described below.

1) Risk: Low level of public awareness of the deposit insurance system and misunderstanding of PIDM's role

Public confidence is vital to maintain a stable financial system. An uninformed public increases the possibility of bank runs that may create instability to the financial system. Although the awareness level did not meet our 2008 target level of 55%, public

understanding of the deposit insurance system has significantly increased. The increase was a direct result of our adjustments to our communications plan and strategies based on the results of our 2007 public awareness survey. A key area of focus in our strategic direction for the 2009-2011 planning period includes increasing the level of public awareness and understanding of the deposit insurance system.

2) Risk: The availability of deposit insurance expertise and experience

People are our greatest asset. Our ability to attract, build, enhance and retain a pool of competent and skilled employees is essential to ensure operational

readiness. As such, a key area of focus in our strategic direction for the 2009-2011 planning period is human capital development. Initiatives to build and enhance the competencies of our workforce include training and development programmes, implementation of the Talent Management Framework, development and implementation of the Competency Framework, identification of relevant cross-functional development opportunities and implementation of the Knowledge Management Framework.

3) Risk: Disclosure of confidential information

We now have greater access to detailed information about member institutions. We also have greater access to information due to the development of other key documents and systems. Thus, it is vital to have the proper policies, procedures and systems in place to maintain, store and protect confidentiality of information. In 2008, we embarked on a project to classify and secure information and ensure appropriate records management. The implementation of a corporate enterprise portal in 2009 will provide PIDM with an additional tool for storing and protecting key and confidential information. External expertise will be engaged to conduct an independent validation of the systems and processes implemented.

4) Risk: Development of policies, systems, practices and processes in our core operations and readiness to intervene in a troubled institution

We have commenced a major project in the areas of intervention and failure resolution to implement our Board-approved framework developed in 2007. This project will result in the development of policies, procedures, manuals and guidelines on all aspects of interventions and resolutions, and would involve simulations and the development of an integrated stakeholder engagement communications plan.

5) Risk: Business continuity

We are developing and implementing a comprehensive business continuity and disaster recovery plan and infrastructure, which will provide PIDM with the ability to respond effectively in the event of an incident that disrupts the Corporation's functions and obstructs access to its office.

6) Risk: External environment

We acknowledge that PIDM is operating in an increasingly challenging environment. We are, therefore, monitoring these external risks closely as well as studying their possible impact on our member institutions and the financial institutions enjoying the benefits of the Government Deposit Guarantee.

THE GOVERNMENT DEPOSIT GUARANTEE

The Government Deposit Guarantee (GDG) was announced by the Government and Bank Negara Malaysia (BNM) on 16 October 2008. From a risk perspective, we quickly recognised the impact of implementation of the GDG on PIDM on our risk profile, which includes strategic and governance risk, insurance risk, reputation risk and operational risk. Steps are being taken to ensure that the GDG is effectively implemented and monitored with administrative agreements as well as specific amendments to the MDIC Act. We are also preparing for the subsequent transition from the GDG when required.

CONCLUSION

In the wake of the global financial turmoil and its accompanying risks, we are pleased to report that much progress has been made to implement our ERM Framework, guidelines, policies and procedures to ensure that PIDM is in control and that all significant risks are effectively managed.

Still, the successful implementation and maturity of risk management will need continued efforts and discipline from all employees of PIDM. We shall continue to enhance our infrastructure and processes for governance, risk oversight and risk management. We also plan, as a key focus in 2009, to continue to build on our risk management capabilities. This, we believe, is critical to ensure the evolution of risk management and to ensure that ERM is a well-integrated function within PIDM.

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

INTRODUCTION

Our Board Governance Policy (Policy) was developed with reference to best practice recommendations on corporate governance, and taking into account the fact that the Corporation is a public sector entity. The Policy is reviewed annually, with reference to the latest developments in corporate governance best practices. In 2008, there were no changes to the Policy.

This Statement is a report on the Board's work in 2008.

OUR STATEMENT

In 2008, the Board is pleased to report full compliance with each of these 15 standards.

BOARD OF DIRECTORS

Composition, Appointment and Allowances

The Board comprises seven Directors, with a broad range of skills and relevant experience. Two of these Directors are *ex-officio*, namely, the Governor of Bank Negara Malaysia and the Secretary General of the Treasury. All Directors are non-executive, for the purposes of maintaining the independence of the Board, and the CEO is not a member of the Board.

The Minister of Finance appoints non *ex-officio* Directors on the recommendation of the Board of Directors. In 2008, all five non *ex-officio* Directors whose original three-year terms expired in August 2008 were reappointed. In line with the Corporation's Policy on Tenure, Retirement and Succession for Directors, the terms of office for these Directors are now staggered, so that not all Directors will retire at the same time. This will ensure continuity on the Board.

In 2008, Directors collectively received a total of RM315,241 as remuneration for Board and Committee work.

Board Responsibilities

The MDIC Act sets out the Board's overall responsibility for the conduct of the business and affairs of the Corporation, and Directors' duties of honesty, independence and diligence. Descriptions of expectations from the Board Members are set out in position descriptions, and as well as in the Board Governance Policy. The MDIC Act, the Board Governance Policy, and the job descriptions can be found on PIDM's website at www.pidm.gov.my.

Board Meeting Attendances

In 2008, there were four Board meetings. The attendance record is as follows:

BOARD OF DIRECTORS		BOARD MEETING ATTENDANCES
Tan Sri Dato' Abdul Aziz Haji Taha (Chairman, non <i>ex-officio</i>)		4 / 4
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (<i>ex-officio</i>)		4 / 4
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah (<i>ex-officio</i>)		2 / 4
Tan Sri Dato' Seri Haji Muhammad Azmi Kamaruddin (Non <i>ex-officio</i>)		3 / 4
Tan Sri Dato' Sri Dr. Sulaiman Mahbob (Non <i>ex-officio</i>)		4 / 4
Datuk Dr. Abdul Samad Haji Alias (Non <i>ex-officio</i>)		3 / 4
Mr. Michael Wong Kuan Lee (Non <i>ex-officio</i>)		4 / 4

THE WORK OF THE BOARD

The following highlights the key work of the Board in 2008 against the standards in the Board Governance Policy.

Overview of Board Work in 2007

For 2007, the Board had reported full compliance with 10 standards in the Policy, significant progress in relation to four other standards and work in progress against one standard.

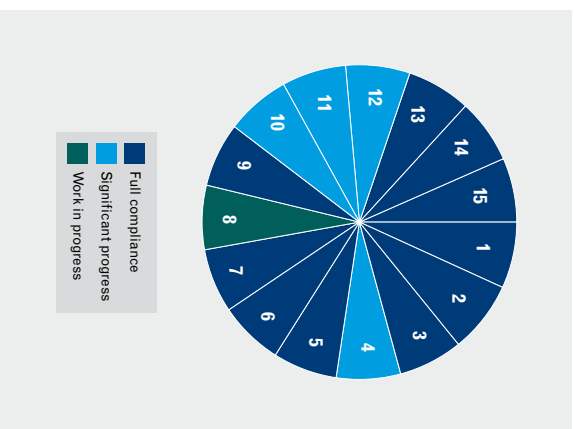


Diagram 4: Status of Compliance with the Board Governance Policy in 2007

Overview of Board Work in 2008

IN 2008, THE BOARD FULLY COMPLIED WITH ALL STANDARDS IN THE BOARD GOVERNANCE POLICY.

The following table sets out a detailed report on the work of the Board. As noted in the table, since 2007, the Board has essentially completed work in relation to the following standards:

- Board composition and succession (Standard No. 4).
- Succession plans for key senior management (Standard No. 8).
- Significant risks to the Corporation (Standard No. 10).
- Control environment and internal audit (Standard No. 11), and
- In control (Standard No. 12).

In relation to Board and management succession plans, in particular, this is a continuous process, and the Board will continue to implement the same in the coming years.

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

DESCRIPTION OF STANDARDS	WORK REPORT 2008
Standard 1: Independence of the Board	
Board members will exercise independent judgement.	The MDIC Act separates the roles of the Chairman and the CEO, to ensure independence. All Directors are non-executive and must use their independent judgment to act in the best interests of PIDM.
Standard 2: Board effectiveness and governance responsibilities	
<p>The Board will obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities.</p> <p>To achieve this, the Board will:</p> <p>(i) develop and maintain approaches to fulfilling those responsibilities and will evaluate, objectively, on a regular basis, its effectiveness in doing so; and</p> <p>(ii) ensure that the Corporation has arrangements for the orientation of new Directors and ongoing training appropriate to the Board's governance responsibilities and needs.</p>	<p>The Board:</p> <p>(i) has a process for evaluating its effectiveness, which is followed yearly and regularly reviewed. In line with best practices, the effectiveness of the Board, its Committees and individual Directors are assessed every year. Led by the Chairman, the Board met to deliberate on the effectiveness of the Board and the respective Committees in 2008. The Directors also conducted a self-assessment of his or her performance by completing evaluation forms developed based on their duties and responsibilities. The evaluation of the Board's effectiveness in 2008 was completed in February 2009; and</p> <p>(ii) continued to participate in education sessions for its development and understanding of the organisation and its operating environment. In 2008, information sessions included discussions on Basel II implementation and BNM's risk-based supervisory approach. Board Members were also regularly updated on deposit insurance systems in key jurisdictions and developments in the global environment, including the sub-prime crisis.</p>
Standard 3: Roles and responsibilities of Committees	
Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them.	The responsibilities, authority and accountability requirements of Board Committees are detailed in their respective charters. The charters were reviewed in 2008 to ensure continuing relevance.

DESCRIPTION OF STANDARDS	WORK REPORT 2008
Standard 4: Board composition and succession	
<p>The Board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation.</p> <p>To achieve this, the Board will, in consultation with the CEO:</p> <p>(i) develop a profile of desirable skills and capabilities that would best enable the Board to fulfil its 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</p> <p>(ii) have a board succession plan to recommend to the Minister of Finance the orderly turnover of Directors.</p>	<p>In 2007, the Board established a Board succession plan which comprised a Policy on Tenure, Retirement and Succession and a process to develop a Board profile and individual Board members' profile. This plan was communicated to and noted by the Minister of Finance as part of the Board's recommendation on the appointment of Directors.</p> <p>In 2008, the Board also carried out its yearly skills gap analysis, taking into consideration the statutory mandate, objectives, strategic direction and needs of PIDM. The analysis concluded that there is an appropriate mix of skills and capabilities presently available on the Board.</p> <p>In view of an upcoming vacancy on the Board in 2009, the Board followed the process to update its collective Board profile and an individual Board member's profile. In developing these profiles, the Board:</p> <p>(i) considered the Corporation's stage of development, current needs and aspirations, in line with its statutory objects; and</p> <p>(ii) assessed the current strengths, skills and experience of the Board, by way of the skills gap analysis.</p> <p>This exercise resulted in the identification of a list of potential candidates that would fit these profiles, and the list would be maintained and updated from time to time, for the purpose of recommending the appointment of any Director as the need arises.</p> <p>In February 2008, the Board advised the Minister of Finance of the desired mix of skills and experience on the Board. The Board has also made recommendations to the Minister for the appointment of a new Director in regard to the vacancy that arose in January 2009.</p>
Standard 5: Roles and responsibilities of the Chief Executive Officer	
<p>The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented.</p> <p>In this regard, the Board will:</p> <p>(i) develop a position description for the CEO;</p> <p>(ii) develop a set of corporate objectives at least annually for which the CEO is responsible for achieving and evaluate the performance of the CEO against those objectives; and</p> <p>(iii) establish an accountability relationship for the CEO to the Board.</p>	<p>These have been distinguished and documented to provide clarity in the position descriptions for both roles.</p> <p>In this regard:</p> <p>(i) the position description for the CEO was reviewed in 2008;</p> <p>(ii) the key performance indicators (KPIs) for the CEO are determined based on the corporate objectives of PIDM and then approved by the Board upon the recommendation of the Remuneration Committee. His performance against those KPIs is also tracked and considered by the Remuneration Committee and the Board at the end of the year; and</p> <p>(iii) under the MDIC Act, the CEO is held accountable to the Board for the exercise of his powers and the performance of his duties.</p>

DESCRIPTION OF STANDARDS	WORK REPORT 2008
Standard 6: Appointment of senior corporate officers	
The Board will appoint the senior corporate officers of the Corporation (other than the CEO) and determine their terms of office and compensation.	The Board appointed two senior corporate officers in 2006 and another in 2007.
Standard 7: Compensation of officers	
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 employee compensation and benefits policy as well as the performance management policy were approved by the Board. These policies are in line with our business model, which requires that there be a lean and specialised team having the continued ability to achieve our mandate. The Board has also reviewed the compensation programme for all Directors.
The Board will review the compensation programme for all Directors, and make appropriate recommendations to the Minister of Finance in this regard.	
Standard 8: Succession planning	
The Board will plan for the succession of the CEO and review succession plans for key senior management positions.	The Board oversaw the succession plans for key senior management positions in 2006, and has considered a plan for CEO succession in February 2009. As the succession planning process is a continuous exercise, calling for the development of high calibre candidates, the Board will continue to oversee the implementation of such plans.
Standard 9: Standards of behaviour and ethics	
The Board will establish standards of conduct and ethical behaviour for Directors and for the Corporation's officers and other employees, and obtain, on a regular basis, reasonable assurance that the Corporation has an ongoing, appropriate and effective process for ensuring adherence to those standards.	The Board has established the standards of behaviour and ethics expected of Directors and employees through the Code of Business Conduct and Ethics as well as the Conflict of Interest Code. Management reports to the Board on compliance with these Codes annually. All employees undergo training on the Codes and are reminded to observe the corporate values of PIDM. There is a 'whistleblowing' mechanism under the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace. The Board-approved compliance programme can be found on PIDM's website at www.pidm.gov.my in the "Governance" section.

DESCRIPTION OF STANDARDS	WORK REPORT 2008
Standard 10: Significant risks to the Corporation	
The Board will:	
(i) obtain an understanding of the principal risks of the Corporation's business;	(i) The Board obtains an understanding of the principal risks of the Corporation by receiving and reviewing regular reports on the soundness of member institutions. The Board also receives and reviews regular reports from Management on the risks to its business and affairs, to gain an understanding of the nature and magnitude of significant risks to PIDM.
(ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly; and	(ii) In 2008, the Board ensured that appropriate and prudent risk management systems to manage risks were implemented. The Board:
(iii) obtain reasonable assurance, on a regular basis, that the systems are being adhered to and the risks affecting the Corporation continue to be effectively managed.	<ul style="list-style-type: none"> • approved an ERM programme to ensure consistent application of risk management practices throughout PIDM. This programme comprises a framework and guidelines, which document the Board-approved ERM approach, broad guidelines, and the parameters and criteria that are used within the ERM process; • monitored Management's undertaking of a complete cycle of the ERM process, and received regular risk reports that identify policies, controls, and mitigation plans to treat the risks identified; • approved the ERM Effectiveness Assessment Framework, with a view to having a framework within which to assess the effectiveness of PIDM's ERM; • considered and agreed to the significant risk profiles of the Corporation in the annual risk report; and • considered and agreed to the key Board risk policies to be developed. <p>Additionally, with effect from 2009, the CRO will functionally report to the Audit Committee, so as to ensure independence from Management.</p> <p>(iii) The Board also receives regular reports from the ACS Division on compliance with internal controls and certain key areas of audit. The ACS has also validated the ERM reports. Through its audit on compliance with internal controls, This enabled the Board to have reasonable assurance that risk management policies are being adhered to. With effect from 2009, the CRO will provide a representation to the Board with regard to her accountability for ERM annually. Accordingly, the Board has a degree of assurance that the respective systems are in place and are being adhered to.</p>

DESCRIPTION OF STANDARDS	WORK REPORT 2008
Standard 11: Control environment and internal audit	
<p>The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to ensure the integrity of internal controls and management of information systems.</p> <p>In this regard, the Board will:</p> <ul style="list-style-type: none"> (i) allocate resources for, and establish an internal audit group, setting out its mandate; (ii) approve its audit plan each year; and (iii) seek, from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weakness or breakdowns identified. 	<p>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:</p> <ul style="list-style-type: none"> (i) The Board has established an internal audit function, approved its mandate, and provided resources to ensure that it fulfils its responsibilities; (ii) The Board has also put in place a process to approve rolling three-year audit plans each year. The Board has, in 2008, approved the plan for 2009 to 2011. The execution and performance to the audit plan is reported and reviewed on a semi-annual basis; and (iii) PIDM's internal control framework was completed in February 2007. In February 2009, the Board will consider the internal audit's report on its assessment of Management's compliance with internal controls using agreed upon criteria. The ACS has provided reasonable assurance on the compliance with internal controls and the integrity of the internal control system. (See the Internal Control Statement on page 58).
Standard 12: In control	
<p>The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".</p> <p>(Note: The concept of being "in control" refers to a state where the Corporation's operations are subject to effective governance by the Board and are being managed in accordance with an ongoing strategic and risk management process in an appropriate control environment and where significant weaknesses related to those matters will be identified, addressed and brought forward to the Board's attention.)</p>	<p>The internal control framework and the ERM Framework were completed in 2007. In 2008, the Board obtained, in line with the criteria set out in the respective frameworks, reasonable assurance that the Corporation's business and affairs are being managed effectively in accordance with the risk management processes that have been put in place within an appropriate control environment. See the Statement on Internal Control on page 58.</p>

DESCRIPTION OF STANDARDS	WORK REPORT 2008
Standard 13: Strategic management process	
<p>The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation.</p> <p>To fulfil this responsibility, the Board will:</p> <ul style="list-style-type: none"> (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; (ii) adopt a strategic planning process; (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; (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. 	<p>The Board members attended the yearly strategic planning session in September 2008, to review and oversee the development of the strategic plan and direction. A "risks and opportunities" analysis was also carried out.</p> <p>An assessment of the objects of PIDM was carried out by the Board through the Governance Committee. The Board considered that no changes to the objects were necessary.</p> <p>A strategic planning process has been adopted by PIDM since its inception.</p> <p>Annually, the Board approves a three-year rolling Corporate Plan in line with this standard, and this Corporate Plan is published.</p> <p>Regular reports on the progress of the Corporate Plan are circulated to Board members, and this is considered in detail by the Audit Committee.</p> <p>The ACS provides this assurance on a regular basis.</p>
Standard 14: Effective communication	
<p>The Board will ensure that the Corporation communicates effectively with the public, BNM, other statutory bodies or regulators, depositors, member institutions and other relevant parties.</p>	<p>The Board continues to engage with various stakeholders through several ways. In conjunction with the release of our annual report, annual dialogue sessions are held with the Board. A number of Directors were also present in Kota Kinabalu during the Corporate Outreach programme in June 2008.</p> <p>The Board also continues to monitor the communications efforts by Management.</p>
Standard 15: Review of Board Governance Policy	
<p>The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.</p>	<p>In its review of the Board Governance Policy in May 2008, the Board has found that the policy is current and relevant for the needs and circumstances of PIDM. The Board also noted that good progress has been made based on the International Federation of Accountants' checklist in its report "Governance in the Public Sector – A Governing Body's Perspective" (August 2007).</p>

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

COMMITTEES

The Board has established three Board Committees, namely: the Audit Committee, the Remuneration Committee and the Governance Committee.

AUDIT COMMITTEE

Members and Meeting Attendances

The Audit Committee held five regular Audit Committee meetings and two special Audit Committee meetings in 2008. The attendance record of the Audit Committee members at meetings is as follows:

AUDIT COMMITTEE	MEETING ATTENDANCES
Datuk Dr. Abdul Samad Haji Alias (Chairman)	7 / 7
Tan Sri Dato' Sri Dr. Sulaiman Mahbob	4 / 7
Mr. Michael Wong Kuan Lee	7 / 7

Audit Committee Charter

The Audit Committee Charter is set out in the Appendix. The Audit Committee Charter requires that meetings be held at least four times a year and the Committee must satisfy itself that the financial statements follow approved accounting principles and give an accurate account of PIDM's financial affairs in as comprehensible a way as possible. It must also satisfy itself that the internal and external auditors have no cause for concern about any aspect of the accounts or about PIDM's control and audit procedures. It advises the Board on other financial reporting, accounting and internal control issues as well as financial management, and assists in the strategic management process. The Audit Committee also plays a significant risk oversight function, and its role in this regard is well-documented.

Summary of Activities in 2008

The following is a summary report of the work of the Audit Committee in 2008:

(a) Reliance on internal audit

In 2008, the Audit Committee considered six internal audit reports issued by the ACS, including audits on the Corporation's agreements; the establishment of base suppliers; the Corporation's financial reporting for the year ending 31 December 2007; learning and development; the data centre strategies, systems, policies, procedures and processes; and the assets of the Corporation. The Audit Committee also considered regular reports of the internal auditor on the progress made by Management against plans following the audit reports; and the external auditor's audit of the 2007 financial statements. The report on the external auditor's audit of the 2008 financial statements will be considered in February 2009.

(b) Information

The Audit Committee considered all the matters brought to its attention during 2008, and has unfettered access to the external auditor and Management of the Corporation as well as to external independent counsel. In 2008, it held two *in camera* sessions with the external auditors and one *in camera* session with the CEO as part of good governance practices. These *in camera* sessions are to provide the external auditor with the opportunity to discuss any matters of concern. The Audit Committee was satisfied that there were no areas of concern.

(c) Financial reporting

The Audit Committee obtained an understanding of the financial reports and monitored the financial information for accuracy, reliability as well as clarity. It also considered the annual report and budgets in detail, and ensured that the financial reports in the annual report have been duly provided to the Corporation's stakeholders in a manner required by law.

(d) Financial reporting processes, accounting policies and internal control structure

The Audit Committee considered accounting policies and noted no significant changes in

the accounting policy for 2008. It reviewed and advised the Board with respect to the annual financial statements, management's discussion and analysis, having considered the external audit report and the review of the integrity of the financial reporting process, internal control reports as well as Management representations. The Audit Committee has also reviewed the internal audit plans and recommended them for Board approval, and noted that Management has a process to report to the Audit Committee on financial planning and to monitor actual against budgeted results. With regard to the internal accounting controls, the Audit Committee obtained a written certification from the Chief Internal Auditor (CIA) addressing the organisation's system of internal controls.

(e) Financial management oversight

In 2008, the Audit Committee has fulfilled its responsibilities with regard to financial management oversight, that is, in relation to annual budgeting, investments and oversight of the expenses of corporate officers. The Audit Committee received regular reports on progress against the Corporate Plan in 2008. In particular, the Audit Committee considered the Corporate Plan 2009-2011 that included the annual operating budget and capital plan, and advised the Board on the same.

(f) Internal audit function

The Audit Committee reviewed the ACS Charter in 2008. It also reviewed the internal audit function's audit plans, budgets, and considered resources needed and made recommendations to the Board, as well as monitored the internal audit function's performance against its audit plans on a semi-annual basis, and ensured the independence of the internal audit function.

(g) Risk management

In relation to risk management, the Audit Committee provided advice and support to the Board on matters reported against Standards Nos. 10 to 12 of the Board Governance Policy. The Audit Committee also considered and recommended to the Board the change in reporting structure of the CRO

and the ERM Division, so that the CRO would functionally report directly to the Audit Committee and administratively to the CEO.

(h) Ethical and Legal Compliance

In 2008, the Audit Committee reviewed the Conflict of Interest Code, and agreed to recommend certain changes to facilitate greater administrative convenience and clarity to the Board for approval. In line with its usual practice, the Audit Committee also considered year-end reports on compliance with the Conflict of Interest Code and the Codes of Business Conduct and Ethics for Directors and Employees, as well as on compliance with laws applicable to PIDM. In January 2009, the Audit Committee also reviewed PIDM's compliance programme. This is found on PIDM's website at www.pidm.gov.my.

(i) Review of Charter

An annual review of the Audit Committee Charter was considered by the Audit Committee in 2008, and certain amendments to the Charter to reflect the ERM practices were recommended for Board approval in February 2009.

A full report of the work of the Audit Committee is found on the PIDM website, in the "Governance" section.

REMUNERATION COMMITTEE

Members and Meeting Attendances

The members of the Remuneration Committee, and the number of meetings each member attended in 2008 are as follows:

REMUNERATION COMMITTEE	MEETING ATTENDANCES
Tan Sri Dato' Seri Dr. Zeti Akhtar Aziz (Chairman)	3 / 3
Tan Sri Dato' Seri Haji Muhammad Azmi Kamaruddin	3 / 3
Mr. Michael Wong Kuan Lee	3 / 3

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE



Remuneration Committee Charter

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

Summary of Activities in 2008

Some of the key matters carried out or reviewed by the Remuneration Committee in 2008 are outlined below. The Committee:

- (a) considered the Talent Management Framework that provides a systematic method for the development, deployment and retention of talent, and recommended it for Board approval;
- (b) monitored the completion of the competency project that included the development of the

PIDM Competency Model. The model defines core behavioural and functional competencies, allows for the design of a "competency profile" for each employee and integrates the model into key processes. This was recommended for Board approval;

(c) noted the report on compliance with key human capital-related policies and legal requirements, as well as the Conflict of Interest Code and the Codes of Business Conduct and Ethics for Directors and Employees;

(d) assessed the 2008 CEO performance against the approved objectives and KPIs and made appropriate recommendations. The Committee also considered the 2008 statement of objectives and KPIs for the CEO and recommended the same to the Board;

(e) considered the market competitive study to benchmark current employee remuneration packages against existing market offerings; and

- (f) considered the succession management plan to ensure current and potential leaders are encouraged to remain in the organisation and develop in their careers, with a view to ensuring readiness to assume critical positions in the future.

GOVERNANCE COMMITTEE

Members and Meeting Attendances

The members of the Governance Committee, and the number of meetings each member attended in 2008 are as follows:

GOVERNANCE COMMITTEE	MEETING ATTENDANCES
Tan Sri Dato' Abdul Aziz Haji Taha (Chairman)	3 / 3
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz	3 / 3
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah	2 / 3

Governance Committee Charter

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

Summary of Activities in 2008

The Governance Committee supported the work of the Board on governance, as highlighted in the report above. Apart from that work, the following are some of the key highlights of the Governance Committee's work done in 2008:

- (a) the development of the annual Board education plan;
- (b) the implementation of the Board's objectives for the year 2008;
- (c) the development of Board profiles, both collectively and individually, and the review of the current membership of all three Board Committees;
- (d) the review of PIDM's mandate as set out in the MDIC Act;
- (e) the review of the Corporation's approach to governance as well as governance-related policies, including the Board Governance Policy, the Corporate By-Laws, position descriptions of the CEO, the Chairman and the Board members; and
- (f) the consideration of the assessments of Board and Committee effectiveness in line with the Board-approved process.

OTHER INFORMATION

Stakeholders Communications

We maintain a user-friendly website to promote accessibility of information concerning PIDM's business and affairs. As a matter of transparency, our key policies, practices and procedures on areas such as governance, ethics and procurement are made available to the public on our website.

Our communications strategy also involves the dissemination of PIDM-related materials to members of the public. These include our corporate plans, annual reports in four main languages and information brochures in six languages.

An annual dialogue is held with member institutions, and each year, PIDM organises a Corporate Outreach outside the Klang Valley.

ACCOUNTABILITY AND AUDIT

Financial reporting

We have adopted the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other than Private Entities. We administer two distinct and separate deposit insurance systems, one for conventional banks and the other for Islamic banks. We account and report on these deposit insurance funds separately.

The Directors' report on the financial statements for the financial year ending 31 December 2008 and the accompanying Statement of Directors are found on page 95 onwards.

Internal Control

The Statement on Internal Control is found on page 58 of this Annual Report.

Risk Management

The section on the Corporation's risk management is found on page 39 of this Annual Report.

Audit

Pursuant to the MDIC Act, the accounts of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. From an operational standpoint, we maintain a collaborative working relationship with our external auditors from the National Audit Department, whose representatives have an open invitation to attend all Audit Committee meetings. National Audit Department representatives receive, as a matter of course, all Audit Committee reports and documentation prior to the Audit Committee meetings. Their annual fees can be found on page 126 of this Annual Report.

Management

Senior Management is responsible for the day-to-day management of PIDM. It is headed by the CEO, whose authority is derived from the MDIC Act and the Board-approved job description. Senior Management is accountable for its respective functions, and the Chief Financial Officer (CFO), the General Manager, Insurance Risk Assessment and Monitoring, the General Counsel, as well as the CIA and CRO are all required to provide representations as to their

accountability to the CEO or the Board, as relevant. Management provides a comprehensive representation letter to the Board of Directors and the National Audit Department as part of the year-end audit. The CEO and the CFO also provide an enhanced statutory declaration on the financial statements and quality of internal controls.

Directors have access to Corporation records and information, to the Corporate Secretary and Senior Management. They receive regular detailed reports on financial and operational aspects of the Corporation's business and may request further explanation of those reports at any time.

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

- Executive Management Committee;
- ERM Committee and PERM Working Committee;
- Asset and Liability Management Committee;
- Information Technology Steering Committee; and
- Safety and Health Committee.

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



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

INTRODUCTION

As a statutory body, PIDM need not comply with paragraph 15.27(b) of the Listing Requirements of Bursa Malaysia Securities Berhad, which requires boards of public-listed companies to make a statement of internal control in their annual reports.

However, the Board of Directors accepts that it is a matter of good corporate governance practice, and consistent with its expectations under Standards No. 11 and 12 of the Board Governance Policy, to make such a statement. In this respect, this Statement has been prepared, where applicable, in accordance with the *Statement on Internal Control – Guidance for Directors of Public Listed Companies* that was published as guidance for companies complying with the Listing Requirements and the Malaysian Code on Corporate Governance.

RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

Board of Directors

The Board sets the overall strategic direction for PIDM and has the overall responsibility for maintaining an effective risk management system and a sound system of internal control. It recognises that PIDM's system of internal control is designed to manage and mitigate risks rather than eliminate entirely the risk of failure to achieve PIDM's statutory mandate and objectives. The system helps provide reasonable – but not absolute – assurance against material misstatements, mismanagement or losses.

Notwithstanding this, the Board acknowledges that a sound system of internal control is needed to achieve effective and efficient operations, reliable financial reporting, strict compliance with applicable laws and regulations, and proper safeguarding of PIDM's assets. In this respect, the review of the effectiveness, integrity and adequacy of PIDM's system of internal

control is a concerted and continuing process, which requires the involvement of each of the following:

(a) Audit Committee

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

Further details on the Audit Committee are set out in the Statement on Governance on page 53.

(b) Management

The CEO, who derives his authority from the MDIC Act and the Board-approved job description, sets the "tone at the top". This influences employees' ethics, business conducts and other factors for a positive control environment. The CEO fulfils this duty by providing leadership and direction to Management and reviewing the way they are controlling and managing the business and affairs of PIDM. Management, in turn, assigns responsibility to employees for the establishment and implementation of operational policies and procedures that govern the division's functions, operations and activities.

Management continues to strengthen PIDM's financial and operational capabilities and integrity through the introduction and continuous enhancement of key financial and operational policies, procedures and processes. Management ensures that, prior to their implementation, these policies, procedures and processes are reviewed by the Legal Division, the ERM Division and the ACS Division to ensure applicable laws and regulations are addressed, risks are mitigated and controls are built into these policies, procedures and processes.

Management acknowledges that the growing size and complexity of its business operations necessitate the management of a wide and diverse spectrum of its risks. In this regard, Management continues to assist the Board in the implementation of PIDM's ERM Framework, policies and processes.

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(c) Enterprise Risk Management Division

Internal controls are a critical aspect of ERM. In recognising that management of risk is an integral part of good governance and promotes a sound system of internal control, PIDM has issued an ERM Policy Statement which declares and affirms the Corporation's commitment to sound risk management. The ERM Policy Statement also makes reference to the Board Governance Policy and the Audit Committee Charter with regards to the roles and responsibilities of the Board, Audit Committee and Management. The ERM Policy Statement also touches on the commitment required from the committees involved in the ERM activities as well as PIDM as a whole.

The ERM Division has developed and implemented the ERM Framework (Framework) and guidelines that serve as the foundation for the ERM programme to ensure that risk management becomes the responsibility of all employees and

risk management practices are being applied consistently throughout PIDM.

The Board-approved Framework describes the stages within the risk management process, which are:

- Identification of risks
- Assessment and analysis of risks
- Evaluation and treatment of risks
- Monitoring and review of risks
- Reporting and communication of risks

The ERM Committee, assisted by the PERM Working Committee and the ERM Division, performs risk identification on an annual basis, or as and when a situation warrants it. Risk identification at this level will focus on enterprise risks that, on occurrence, could:

- threaten PIDM's ability to meet its mandate;
- severely damage PIDM's reputation; or
- have a systemic effect on the financial industry.

Throughout 2008, the ERM Division has been working closely with all corporate Divisions in carrying out the risk management processes. The ERM Division organises and coordinates all risk management-related activities via the ERM and PERM Committees. The ERM and PERM Committee members meet on a regular basis to discuss and decide on issues or matters pertaining to risk identification, assessment, monitoring as well as identification of controls to manage the risks.

In 2008, the Corporate Planning workshop was held concurrently with the ERM workshop as strategic risks may have significant impact on PIDM's corporate planning strategies.

The CRO reports to the Audit Committee on a bi-annual basis on both the current risk profile of PIDM and a summary of any major changes since its last report to the Audit Committee. The CRO also reports to the Board through the Audit Committee at least once a year.

(d) Employees of the Corporation

The Board and Management recognise that each employee has a responsibility towards maintaining a sound system of internal control, and this has been reinforced by making it explicit in the job description of all employees that they must uphold the highest ethical standards – a core component of our internal control system.

Furthermore, they acknowledge that, apart from using information in the execution of their duties and responsibilities, employees also use and communicate information for the purpose of effecting controls to improve business processes and operations. In this respect, Management has put in place proper mechanisms to ensure that information is provided to the right employees in sufficient detail and on time to enable them to carry out their responsibilities efficiently and effectively. Proper communication channels are available to enable employees to escalate material issues or problems, actual or potential, in relation to PIDM's operations as well as any non-compliance with relevant codes and policies.

(e) Audit and Consulting Services Division (ACS)

While the CEO and Management have ultimate responsibility for the adequate design and effective operations of the system of internal control, the ACS plays a significant role in verifying and validating whether Management has met its responsibility. The ACS supports the oversight role of the Audit Committee, in that it provides an independent and objective assurance, and related consulting services, by evaluating and improving the effectiveness of controls, risk management, business and governance processes implemented by Management. The ACS assists the Board, the Audit Committee and Management in the effective discharge of their responsibilities by recommending, when necessary, effective controls and risk management measures to mitigate identified risks and ensuring proper governance.

During the financial year under review, the ACS undertook a full-fledged risk-based approach to auditing and provided consulting and advisory services in accordance with the Board-approved audit plan. The ACS reported to the Audit Committee, on a quarterly basis, the outcome of the audits conducted and highlighted the overall effectiveness of the system of internal control of the audited areas. In highlighting its overall effectiveness, the ACS consolidated the following:

- the identification of audit issues via the independent assessment of risks and controls of the areas audited at both strategic and process levels;
- the assessment of new risk events and control deficiencies arising from the audit issues; and
- the validation of the existing controls to mitigate significant risks relating to the areas audited which have been identified by the ERM Division via the ERM process.

The Audit Committee reviewed and evaluated key concerns and issues raised by the ACS in the audit reports and ensured that appropriate and prompt remedial actions were undertaken by Management within an appropriate time frame. Additionally,

CORPORATE GOVERNANCE

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the ACS also provided status updates on the implementation of Management's agreed action plans to the Audit Committee twice a year.

Throughout 2008, the ACS met internal demands for consulting and advisory services through its direct involvement in the development and implementation of PIDM's projects and Corporate Plan initiatives planned for 2008. A significant proportion of its audit-person days were allocated to providing consulting and advisory services to various working committees, task forces and individual Divisions responsible for the projects or the Corporate Plan initiatives.

The Audit Procedures Manual of the ACS was reviewed in 2008 to ensure consistency with the applicable standards of best practices and duly approved by the Audit Committee.

The overall performance and operations of ACS for 2008 have been reviewed by the Audit Committee and this practice will be carried out on a semi-annual basis from 2009 onwards to ensure that the

ACS continues to function effectively and that its performance when compared against the planned audit and consulting works for the year will be adequately monitored. The auditee's feedback and recommendations on each audit performed have also been considered for the purpose of enhancing the ACS's performance and deliverables. These have also been reviewed by the Audit Committee.

(f) External Auditors

PIDM's external auditors are the National Audit Department, as set out in the MDIC Act. The external auditors undertake financial and management audits, as well as provide their opinions to Management and the Board in the course of carrying out their oversight responsibilities.

INTERNAL CONTROL ENVIRONMENT OF THE CORPORATION IN 2008

In 2008, the following key policies, practices and processes were established as part of our system of internal control:



- PIDM's organisational structure is adequately segregated by functions and is properly centralised to allow the necessary flow of information for an effective management of its operations and activities. Human resource requirements were reviewed on a periodic basis to ensure that a sufficient number of employees have been recruited, particularly for Management and supervisory-level positions, and that employees have sufficient time and are adequately provided with the necessary resources to carry out their responsibilities effectively.

- The importance of accountability and governance continued to be emphasised. In this regard, the CEO, CFO, CIA and the General Counsel provided annual representations to the Board on their respective responsibilities and accountabilities. With effect from 2009, the CRO and the General Manager of the Insurance, Risk Assessment and Monitoring Division will provide their annual representations to the Board on their responsibility and accountability.

- The process for determining the Board's satisfaction with Management's support and reports was implemented and assessed.

- A Competency Framework was developed and implemented to guide the development and maintenance of a highly skilled, dedicated and diverse workforce, and promote excellence and professionalism. A Competency Model, which is one of the critical objectives of the Framework, was also developed and implemented. As noted earlier, the Competency Model defines PIDM's competency standards and articulates how employees can demonstrate that they are meeting performance standards through observed behaviours.

- The Talent Management Framework aimed at enhancing employees' learning and development, experience and effectiveness was developed and duly approved by the Board. Succession planning for key Management positions, based on the Board-approved Succession Management Framework, was also implemented.

- Consistent with the respective development stage of key projects and initiatives approved under

the Corporate Plan, the financial and operational policies and procedures relating to these projects and initiatives were drafted and documented. The Board and the Audit Committee were kept updated on the progress of the development of these policies and procedures. Existing key financial and operational policies and procedures were reviewed and updated from time to time to ensure that PIDM's financial and operational capabilities as well as integrity continued to be strengthened and remained consistent with the applicable standards of best practices.

- The Board and Management held the annual strategic planning session to discuss and set the strategic direction of PIDM. The strategic direction provides the basis for the corporate initiatives. The broad strategic thrusts were reviewed in accordance with PIDM's mandate and any emerging issues, risks and threats potentially affecting the financial systems were carefully considered.

- The development of comprehensive Business Continuity Management and Disaster Recovery Plans were initiated as planned, in accordance with the Corporate Plan target. An employees' workshop on Business Continuity Management was held in the year.

- The development and implementation of a PIDM-wide Records Management System and the Enterprise Portal were also initiated in the year and have progressed as planned in accordance with the Corporate Plan target.

- The development and implementation of IT initiatives identified in the Corporate Plan and the implementation of the IT Governance Framework continued to be monitored by the IT Steering Committee which was established in 2007.

- PIDM's internal control framework which is founded on the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Internal Control-Integrated Framework, was fully implemented to facilitate Management in its evaluation of the state of PIDM's system of internal control.

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- An Employee Voice Survey Exercise which provided the platform for employees to provide suggestions on ways to enhance productivity, quality and other operational improvements was implemented. The exercise resulted in an employee satisfaction index of 81%. In addition, each Division within PIDM also conducted its own Customer Satisfaction Survey to gauge the effectiveness of the services it has provided to users in other Divisions.
- In 2008, the following key policies and processes continued to be implemented as part of PIDM's system of internal control:
 - An internal control culture continued to be promoted through an emphasis on employees' training and awareness on corporate values, avoidance of conflict of interest, application of the Code of Business Conduct and Ethics as well as the declaration of personal assets and liabilities. In strengthening commitment to high ethical standards, behavioural competencies and ethical values were incorporated as the criteria for performance appraisals, apart from technical competencies.
 - A programme on compliance with applicable laws and regulation continued to be implemented. This necessitated a compliance review and submission of compliance statements from the relevant Heads of Division on an annual basis.

- Committees such as the Executive Management Committee, IT Steering Committee, Assets and Liabilities Committee and ERM Committee continued to provide insights and deliberate on strategic and/or operational matters, which is then fed back to the related Divisions. The volume of information communicated to employees, however, differs as it would depend on their respective managerial level. The various levels of management also determine information needs and priorities.
- PIDM's annual budget was prepared based on the Corporate Plan and tabled to the Board for approval. Management continued to practise a prudent financial planning approach to budgeting. Actual performance continued to be reviewed against the budget by the Board on a quarterly basis with an explanation of major variances provided by the Management.
- PIDM's KPIs for initiatives that support the achievement of the Corporate Plan continued to be monitored on a monthly basis. The KPIs drive PIDM in meeting its performance targets while risks are managed and high standards of governance and internal controls are maintained. The Audit Committee and the Board received updates on performance against the Corporate Plan on a quarterly basis.

REVIEW OF SYSTEM OF INTERNAL CONTROL

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

- The Board considered on a regular basis the reports of various Board Committees. These included the report on the review by the Audit Committee of PIDM's financials, its compliance with laws and ethics, and the effectiveness of controls embedded in systems or processes audited by the ACS; the report from the Remuneration Committee on compliance with key human capital policies and related laws; in addition to the report from the Governance Committee on compliance with key governance policies.

- The Board considered, on a quarterly basis: (i) PIDM's financial reports which are also regularly provided to the Treasury; (ii) the utilisation of resources, compared with the approved budget; (iii) the implementation of the Framework and the update on PIDM's risks and measures to mitigate significant risks; and (iv) the update and progress of Management's overall performance against approved initiatives 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.

In its review of the effectiveness of PIDM's systems, policies, practices, and processes which were implemented in 2008, the Board also considered Management's assessment of its internal controls based on the criteria set out in PIDM's internal control framework.

STATEMENT ON EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

In view of the systems, policies, practices, processes and frameworks that have been put in place, and taking into account the results of the assessment and validation by ACS of internal controls, the Board is pleased to report that a sound system of internal control within PIDM has been established. In particular:

- this was achieved through directed leadership, shared values and a culture that emphasises accountability for control;
- the various risks facing PIDM were identified and assessed routinely at all levels and within all functions of PIDM (see page 39 for further information);
- control activities and other mechanisms, such as key policies, practices and procedures identified above as part of the internal control system, were designed to address and mitigate significant risks;
- information critical to identifying risks and meeting PIDM's objectives was communicated through established channels within PIDM and with external parties; and
- Management also monitored the entire system of internal control continuously and addressed issues or problems adequately and on a timely basis.

The Board is also pleased to report that for the year 2008, there were no reported incidences of weakness or deficiency in the adequacy and integrity of internal controls embedded in PIDM's systems, policies, practices and processes.

This Statement is made in accordance with the Board's resolution dated 19 February 2009.

Section 3

Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR OPERATING ENVIRONMENT

The year 2008 saw PIDM operating in a fairly dynamic environment. The recent changes in the global financial landscape have precipitated a series of governmental and regulatory measures, focused on mitigating the impact of the global financial crisis and to maintain and address financial stability.

Despite the adverse global economic conditions and the unprecedented stress in financial markets globally, the Malaysian economy remained relatively resilient in 2008. The Government and Bank Negara Malaysia (BNM) have taken several pre-emptive measures to mitigate the impact of the global economic situation on the domestic economy. This includes the announcement of the full deposit guarantee, administered by PIDM, on all Ringgit and foreign currency deposits as a pre-emptive measure to maintain stability in Malaysia's financial system.

The Malaysian banking system remained relatively strong, reflected by adequate capital, good asset quality, strong profitability and ample liquidity.



REVIEW OF 2008 OPERATIONS AND ACHIEVEMENTS

Within a short timeframe of some three years, we have made significant progress in demonstrating our commitment to be recognised as an effective deposit insurer. Our efforts were focused on developing a strong organisational infrastructure through implementation of our governance policies and practices as well as our risk management, financial management and internal control system. We also focused on human capital development to ensure that we have the right resources and capabilities. We believe we have a strong foundation to ensure that PIDM continues to perform its roles and responsibilities effectively.

This achievement was accomplished by a well defined strategic planning process and our annual three-year corporate plans detailing our objectives to be achieved each year as we build the foundations for a strong organisation. The Corporate Plan sets out our strategic direction, objectives and priorities which are then translated to Key Performance Indicators (KPIs) in our corporate scorecard which we use to track our progress.

This section provides a review of our operations for 2008 and our achievements against our Corporate Plan 2008-2010.

REVIEW OF OPERATIONS

Growing from Strength to Strength - Our Achievements in 2008

In fulfilling our mandate, we continued to maintain our strategic thrusts which are: readiness, sound business and financial practices, effective public awareness and strong partnerships with our stakeholders. Our KPIs and initiatives support our strategic thrusts and corporate objectives, which ultimately support the achievement of our mandate.

For the year 2008, we focused on building our capacity and capabilities to ensure operational readiness. Our strategic direction was focused on:

- Developing human capital;
- Enhancing and ensuring operational readiness and effectiveness in policies, systems, practices, approaches and resources to handle intervention and failure resolutions; and
- Intensifying communications efforts to increase the level of public awareness and understanding about the deposit insurance system.

We also embarked on initiatives to develop a strong leadership team, enhance our relationship management as well as build a strong corporate culture.





MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR OPERATING ENVIRONMENT

PIDM's corporate objectives as described by the Balance Scorecard perspectives are:

STAKEHOLDERS	Well governed and well managed organisation Educated and informed stakeholders Effective partnerships As a national deposit insurer, we must demonstrate that we are well governed and well managed through our business conduct and by adhering to sound governance as well as adopting effective enterprise risk management and internal control practices. Well informed stakeholders are integral to the effectiveness of deposit insurance. As such, we continue to engage our stakeholders to educate them through public awareness and educational programmes as well as consult extensively with them when developing policies and regulations affecting them. Effective partnerships are also critical to the fulfilment of our mandate. We 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 objectives and initiatives effectively and efficiently.	Competent and knowledgeable workforce Conducive corporate environment Our employees are our most important asset. Hence, we provide the appropriate incentives to attract and retain the right people with the management skills, experience and attitude. We are also committed to providing employees with opportunities for ongoing training and development so as to help them attain their full potential. A conducive corporate environment results in a high level of employee satisfaction and performance. We continue to foster a conducive corporate culture as well as provide a safe, healthy and harassment-free work environment.	LEARNING AND GROWTH
	Optimal use of resources As a public body accountable to our stakeholders, we shall make optimal use of our resources through prudent financial stewardship and proper management and deployment of our assets, human capital and intellectual property.	Operational excellence To promote confidence and to effectively administer our deposit insurance system as well as the Government Deposit Guarantee, we will continue to implement and keep current sound policies, systems, processes and procedures based on relevant domestic and international best practices. We will build on our capacity and capability to ensure that we fulfil our mandate, role and responsibilities effectively and efficiently.	INTERNAL PROCESS

Highlights of our achievements are described in the following page.



MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2008 OPERATIONS AND ACHIEVEMENTS

NOTE:	G Progressing as scheduled; end of year within budget	Y Not yet in line with future date
	A Target achieved / Initiative completed	R Target not achieved / Slippage - (time to completion and/or below target and/or >+10% (full year) budget variance

CORPORATE OBJECTIVES		KEY PERFORMANCE INDICATORS (KPIs)		TARGET 2008	RESULTS DEC 2008	REMARKS	
STAKEHOLDERS	A	Well governed and well managed organisation	1	Board assessment on: a. Best practices of governance adopted	High satisfaction	A	We have implemented governance best practices and we continuously monitor development in this area to ensure that our practices remain current and relevant. Please refer to our Statement on Governance, pg 45 of this Annual Report for the details. We have again received a Certificate of Merit from the National Annual Corporate Report Awards for our Annual Report 2007.
		b. Management practices adopted		High satisfaction	A	We have established sound internal controls. Control mechanisms have been designed to address and mitigate significant risks. We have complied with all significant policies that have been approved by the Board. We have also put in place a compliance framework to ensure continuous compliance with significant policies as well as relevant laws and regulations.	
		c. Compliance with significant policies		High satisfaction	A	We maintained a strong accountability regime and effective working relationship with our Board of Directors. We implemented the succession management plan based on the approved framework and also conducted three Board education sessions during the year. The Board has provided an assessment of Management's performance in this area and has determined that Management meets the Board's expectations in this regard.	
		d. Timeliness and relevance of the information and quality of recommendation provided by Management for the Board to make informed decisions and fulfil responsibilities		Action on feedback received	A	PIDM adopts a full consultative approach on our key policies and regulations. Our Annual Reports and Corporate Plans are publicly available and distributed to our stakeholders to update them on our performance against the plans set out.	
	2	Engagement and responsiveness to other stakeholders' needs					
	3	Successful completion of key initiatives: a. Develop and implement Enterprise Risk Management (ERM) Framework: i. Phase 4 - Ongoing risk assessment and review ii. ERM policies and practices iii. ERM Effectiveness Assessment Framework		Develop & implement Develop & implement Develop	A A A	We have fully implemented the ERM Framework and process which includes the continuous assessment, review and reporting of PIDM's significant risks. We have implemented our ERM governance structure including the establishment of our ERM Committee as well as our Strategic Planning and ERM Working Committee. We continued the implementation of the risk management and controls in line with our ERM and our internal control frameworks.	
		b. Develop and implement risk-based auditing		Develop & implement	A	We conducted a corporate wide ERM workshop and following that, we implemented the risk-based auditing process.	
		c. Implement Internal Control Framework		Complete	A	We have implemented the Internal Control Framework to ensure sound internal controls within our operations. We will be reviewing the framework on an ongoing basis to ensure that it remains current and relevant to PIDM.	
		d. Implement Succession Management Plan for the Board		Complete	A	We began implementation of succession planning based on Board-approved framework for key positions.	
	B	Educated and informed stakeholders	4	Public awareness index (general awareness of deposit insurance)	35%	1	The awareness level of deposit insurance is 27%.
STAKEHOLDERS		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	Complete Complete Complete	A A A	A series of publicity efforts were launched throughout 2008 including the "PIDM & You" public awareness contest. We have carried out our planned public relations programme for the year. Please refer to the public initiatives discussion on page 141 of the Annual Report for details. We have carried out our planned stakeholders engagement programme for the year. Please refer to public initiatives discussion on page 141 of the Annual Report for details.	
		b. Develop and implement education programme		Develop	G	We have initiated the development of the education programme as planned for which we are targeting to implement in 2009.	
		c. Develop and implement scholarship programme		Develop	G	We have initiated the development of the scholarship programme as planned for which we are targeting to implement in 2009.	
	C	Effective partnerships	6	PIDM's relationship with: a. Bank Negara Malaysia	Strong	A	Our relationship with Bank Negara Malaysia (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. We rely extensively on BNM for effective regulation and supervision of our member institutions.
		b. Member institutions		Satisfactory	A	We maintained good, collaborative relationships with member institutions (MIs) by keeping them informed of our initiatives and consulting with them on regulations that affects them.	
		c. Suppliers		Strong	A	We continued the establishment of base key suppliers and maintained good working relationships with our suppliers.	
		d. International deposit insurers		Strong	A	We maintained strong ties with members of the International Association of Deposit Insurers (IADI). During the year, PIDM was nominated for the IADI award of excellence; one of only two deposit insurers in the world to be so nominated.	
		7	Participate in international fora	Active participation	A	We participated actively in international fora and hosted several study visits during the year.	
		8	Successful completion of key initiatives: a. Establish base of strategic partners b. Host deposit insurance seminars	Develop Complete	A A	We continued to develop the base of strategic partners as part of operational readiness. We hosted the Islamic Deposit Insurance Seminar and held knowledge sharing sessions with key stakeholders.	
		9	Actual vs. approved budgets	-10% variance +20% variance	2	Our net surplus is below budget due to the shortfall in premium income.	
FINANCIAL	D	Optimal use of resources	10	Successful completion of key initiatives: a. Develop and implement provisioning framework b. Develop funding arrangements framework and processes	Ongoing development over several years Develop & implement Phase 1	G G	The provisioning framework will be included as part of the development and implementation of a Target Fund project. During the year, we began development of a funding arrangement framework with the Government.

Note

1. The awareness level of deposit insurance has increased to **27%** (2007:15%, 2008:3%) and the awareness level of PIDM has increased to **32%** (2007:12%, 2008:4%). This represents a significant increase from prior years. Please refer to page 142 of the Annual Report for more details.

2. We continued to practice prudent financial planning. Both our operating and capital expenditures were below budget and all our key initiatives in 2008 have been carried out within the approved financial plan and targets. However, our net surplus is below budget due to a shortfall in premium income. Please refer to page 79 for further details.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2008 OPERATIONS AND ACHIEVEMENTS

CORPORATE OBJECTIVES		KEY PERFORMANCE INDICATORS (KPIs)		TARGET 2008	RESULTS DEC 2008	REMARKS
INTERNAL PROCESS	E	Operational excellence				
	11	Internal Control Compliance	Strong	A	We have maintained sound internal controls within our operations. Please refer to Statement on Internal Control, on page 56 of this Annual Report for details.	
	12	Successful completion of key initiatives: a. Develop and implement Differential Premium Systems (DPS): i. DPS Regulations ii. DPS Framework / Guidelines on Returns on Total Insured Deposits 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 d. Develop and undertake crisis management simulation e. Develop a Crisis Communications Manual f. Develop and implement a Payout System: i. Phase 1 - Develop Depositor/Liabilities Information Management and Depositor Relationship Management g. Develop and implement deposit insurance policies and regulations: i. Interest and dividend payable guidelines / rules: - Develop framework (concept paper) - Develop consultation paper ii. Contractual relationship between PIDM and banks with Islamic banking activities: - Develop and issue notifications h. Develop and implement Business Continuity and Disaster Recovery Plans	Implement Implement & review Ongoing development Ongoing development Ongoing development Ongoing development Ongoing development Complete Ongoing development	A A G G G G G G A	We have issued and implemented the DPS and Terms and Conditions of Membership Regulations. We have issued the Return on Total Insured Deposits Guidelines and the Exemption under Section 80(h) of the Malaysia Deposit Insurance Corporation Act 2005 (Financial Agreements or Transactions) Regulations. We have strengthened our risk assessment methodology and monitoring through the implementation of the Risk Assessment System and DPS. We continue to develop the Intervention and Failure Resolution process. This project is expected to be carried out over a two year period. We have initiated the development of the crisis management simulation as part of the development of the Intervention and Failure Resolution methodology and process. We have initiated the development of the Crisis Communications Manual in conjunction with the development of the Intervention and Failure Resolution methodology and process. We have commenced Phase 1 of the development of the Payout System which is targeted to complete by 2010. We have completed the concept paper which will be presented to the Board for approval. We have initiated the development of the consultation paper for interest and dividend payable guidelines / rules which will be issued for consultation in 2009 as planned.	
		i. Implement Information Technology (IT) Infrastructure enhancement plan: i. Phase 4 - Collaboration: Technology enhancement and user empowerment ii. Phase 4 - Implementation of the IT Infrastructure enhancement plan j. Implement key business systems k. Develop and implement a Knowledge Management Framework and System	Complete Complete Complete Ongoing development	A A A G	We enhanced our IT systems to enable user empowerment and operational effectiveness. We have completed our planned IT Infrastructure enhancement for the year as set out in our IT Strategic Plan. We continued to review and implement our IT governance framework, policies and procedures as well as key operational systems. We have initiated the development of our Knowledge Management Framework which will be supported by relevant processes and tools to ensure knowledge are effectively captured, retained used and shared. The processes and tools will be developed over the next two-year period. We have also established a Records and Information Management taskforce to enhance our information and records management processes.	
	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 based on approved framework	Complete Develop Develop Develop Develop & implement Phase 1	A A A A A	The training plan was reviewed on an ongoing basis depending on the needs of the individual and/or division. In addition, we have also completed our Training Needs Analysis for all the employees to identify areas of improvement so that proper training plans could be planned to address those needs. We reviewed on an ongoing basis the opportunity on cross functional training. Although there was no formal programme available due to the lean and specialised skills of our people, the opportunity exists through involvement and participation within the working committees and projects. Consistent with the training needs, appropriate learning and assessment programmes were identified to enhance learning and development initiatives. A Talent Management Framework was developed and communicated to the employees. PIDM's competency model was also developed, involving all key stakeholders. The succession plan for Corporate Officers was presented to the Governance Committee based on the Board-approved Framework. A high level plan to identify key positions and potential successors was presented to the Remuneration Committee for implementation in 2009. We conducted the annual employee satisfaction survey, with 100% participation of employees. The overall results of the survey indicated a satisfaction index of 81% (2007: 79%), exceeding the targeted 75% level.	
		14 Employee satisfaction index	75%	A		
		15 Successful completion of key initiatives: a. Review and implement recognition and reward programmes b. Develop and implement an action plan to deal with results of the employee satisfaction index survey c. Review, develop and implement safe, healthy and harassment-free programmes	Complete Action on assessment conducted Develop & implement	A A A	The recognition and reward programme was communicated to all employees and PIDM awarded the first group award in October 2008. Change champions were identified to develop plans for action. The key focus areas include cross-divisional interaction, knowledge sharing via briefing sessions and intranet portal and work life balance. A Safety and Health Committee was established and related trainings were made available to the employees.	
	LEARNING AND GROWTH					
	G	Conducive corporate environment				



MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2008 OPERATIONS AND ACHIEVEMENTS

BEYOND THE CORPORATE SCORECARD 2008

We have also, during the year, completed additional initiatives which were not identified in the Corporate Scorecard 2008. Among them:

1. We developed an external validation process for the Return on Total Insured Deposits and the Differential Premium Systems (DPS) information. We engaged an audit firm to assist us with the establishment of the process, and consulted BNM, the accounting and audit profession and our member institutions, as part of our consultation process.
2. We, jointly with BNM, developed and implemented the Financial Institutions Directors' Education Programme in 2008. The objective for this programme is to promote high impact boards of directors in Malaysia's financial institutions and to reinforce good governance practices within the financial

institutions that provide a strong foundation for financial safety and soundness.

3. We developed and implemented the framework to administer the Government Deposit Guarantee (GDG) including recommending legislative amendments to the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act) and developed an agreement to be executed between PIDM and the Minister of Finance, the purpose of which was to enable PIDM to implement the GDG effectively and efficiently.

DIVISIONAL OPERATIONS REVIEW

All of the key 2008 initiatives were rolled out and completed through the eight divisions in PIDM. The following table provides a brief description of the respective functional divisions and their activities in 2008.



MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2008 OPERATIONS AND ACHIEVEMENTS

DIVISION	KEY INITIATIVES FOR 2008	GOING FORWARD
Audit and Consulting Services (ACS) ACS provides independent and objective assurance services in line with the Board's approved audit plan and uses a risk-based auditing approach. ACS also works in partnership with Management, adding value through the provision of consulting and advisory services for key projects.	<ul style="list-style-type: none"> As part of its audit and consulting work, ACS provided consulting and advisory services in the development of various cross functional projects / initiatives for the Corporate Plan 2009-2011. Implemented the Board-approved Audit Plan for 2008. Implemented a best practice internal control framework and adopted a risk-based auditing approach. Implemented an audit analysis tool in order to improve its auditing processes. 	<ul style="list-style-type: none"> ACS will implement the Board-approved Audit Plan for 2009 to 2011. This is a risk-based audit plan to provide the Board with an independent and objective assessment of Management's performance and compliance with internal controls. ACS will embark on its first co-sourcing audit with an external audit firm. ACS's future initiatives will include the implementation of a quality assurance review programme for the division and hosting of international seminars on internal controls and enterprise risk management for the internal audit professionals from the regulatory agencies and regional deposit insurance corporations.
Communications and Public Affairs (COMMS) The primary role of COMMS is to conduct ongoing public awareness and education initiatives to enhance public understanding of deposit insurance protection and the role of PIDM in contributing to the stability of the Malaysian financial system.	<ul style="list-style-type: none"> In its effort to enhance public awareness on deposit insurance and PIDM, COMMS conducted the Deposit Insurance Awareness Week, Corporate Outreach in Sabah, 48 briefings and 10 exhibitions throughout Malaysia. Produced, launched and aired television commercials, radio commercials, print advertisements and online advertising. Conducted the "PIDM & You" Contest which received an overwhelming response with over 16 million entries via Short Messaging System (SMS), online and contest forms published in various newspapers from 25,000 participants nationwide. Conducted interviews with 'Good Morning Malaysia', 'Selamat Pagi Malaysia' and 'Malaysian Business' (Bisnes Malaysia) by <i>Radio Televisyen Malaysia</i> (RTM) as well as various print media. Commenced the development of an education programme for students. Based on the nationwide consumer survey conducted in 2008, PIDM achieved a significant increase in the level of awareness of deposit insurance to 27% (mid-2008: 19%; 2007: 15%; 2006: 13%). The awareness of PIDM has also increased to 32% (mid-2008: 20%; 2007: 12%; 2006: 4%). 	<ul style="list-style-type: none"> COMMS will be refocusing communications efforts in public awareness and understanding of PIDM in light of the GDG and changes in the operating environment. COMMS will also undertake new projects to heighten public awareness, conduct educational programmes, launch and revamp public information brochures and website, develop a Crisis Communications Manual and enhance the Call Centre as part of the corporate-wide development of the Payout System.

DIVISION	KEY INITIATIVES FOR 2008	GOING FORWARD
Enterprise Risk Management (ERM) As the national deposit insurer in Malaysia, PIDM operates in a dynamic environment, with diverse internal and external risk exposures. The management of risks is an integral part of sound management. Hence, the key role for ERM is to implement and maintain leading ERM processes and practices within PIDM.	<ul style="list-style-type: none"> Completed an annual cycle of the ERM process of identifying, assessing, evaluating, managing, monitoring and communicating the significant risks affecting PIDM and its mitigating action plans. Developed and drafted Board risk policies – Market Risk Policy and Liquidity Risk Policy. Developed the concept of an ERM Effectiveness Assessment Framework. Held knowledge sharing sessions on ERM practices with employees, BNM, Malaysian Insurance Institute (MII) and the Securities Commission (SC). 	<ul style="list-style-type: none"> ERM will continue to review and enhance the ERM Framework as well as develop and implement Board risk policies and practices and PIDM's ERM Effectiveness Assessment Framework. ERM will continue to support and provide risk advisory services to all divisions and relevant projects within PIDM.
Finance and Administration (FINAD) The units in FINAD namely, Corporate Planning, Finance, Administration, Information Technology (IT) and Organisation and Methods focus mainly on internal processes to ensure the smooth and effective operation of PIDM.	<ul style="list-style-type: none"> Developed a funding arrangement framework and process. Developed and implemented operational, financial and office administration policies. Reviewed and enhanced the financial management processes. Reviewed and enhanced the Asset and Liability Management Committee Framework. Reviewed and enhanced the budget monitoring and reporting process. Initiated the development of the Business Continuity and Disaster Recovery Plans with ERM. Enhanced IT infrastructure for user empowerment and IT governance policies and procedures. Coordinated the development of the annual Corporate Plan. Developed and implemented an inventory management system. 	<ul style="list-style-type: none"> FINAD will be developing a target fund and provisioning framework to be implemented in the future. FINAD and ERM will continue to develop and implement the different phases in the Business Continuity and Disaster Recovery Plans. Other key initiatives include the development and implementation of effective funding processes and the payment system to support the payout process, continuous IT infrastructure enhancement as well as a Knowledge Management Framework and System. FINAD will continue to review and enhance the financial management processes to ensure efficient and effective operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2008 OPERATIONS AND ACHIEVEMENTS

DIVISION	KEY INITIATIVES FOR 2008	GOING FORWARD
Human Capital (HC) The HC Division is accountable for the full spectrum of PIDM's human capital management.	<ul style="list-style-type: none"> Initiated Phase 1 of the development of the Human Resource Management System (HRMS). Began implementation of succession planning for senior management based on the approved framework. Developed and implemented a Talent Management Framework and Competency Model. Completed the Capability Gap Exercise. Completed the Market Competitiveness Study. Organised various employee activities, including a family day, annual dinner and Human Capital Week. As part of the objective to build a conducive corporate environment, the Division also conducted the Employee Voice Survey (EVS) at the end of 2008. The results of the EVS indicated an 81% level of satisfaction index, exceeding the targeted 75% level. 	<ul style="list-style-type: none"> With human capital development as one of the focuses going forward, HC will continue with the implementation of key initiatives in talent management, succession planning as well as focused training and development programmes. HC will develop and implement a Knowledge Management Framework and System. HC will also work together with COMMS to develop a scholarship programme for PIDM.
Insurance, Risk Assessment and Monitoring (INRAM) INRAM is responsible for monitoring and assessing the insurance risk of our member institutions, premium and surcharge administration, compliance of member institutions with the MDIC Act and Regulations as well as the development and implementation of intervention and failure resolutions methodology and processes in addition to the payout management process. The Division is also tasked with the responsibility of developing and promoting Islamic deposit insurance.	<ul style="list-style-type: none"> Implemented the DPS where member institutions are required to pay premiums based on assessment of their risk profiles. Implemented the Risk Assessment System (RAS), that enables efficient assessment, monitoring and reporting of the risk profile of member institutions. Developed the Framework for Intervention and Failure Resolution and drafted the "Guide to Intervention" which aims to provide a general guideline to deal with specific situations or problems faced by any member institution. Developed payout policies, procedures and system to ensure the efficient reimbursement of insured deposits' claims. Concurrently, PIDM also shared its knowledge and experience through active participation in the International Association of Deposit Insurers (IADI) to develop the "Guidelines to Effective and Efficient Payout System". As Chair of the Islamic Deposit Insurance Group (IDIG) under IADI, PIDM organised a seminar on Islamic deposit insurance to raise awareness and discuss issues amongst fellow deposit insurers relating to the Islamic deposit insurance system. 	<ul style="list-style-type: none"> INRAM will continue to promote an Islamic deposit insurance system globally via IDIG through seminars and discussion/research papers on Islamic deposit insurance. The Division will focus its efforts to develop a comprehensive set of policies and procedures, manuals and guidelines for all aspects of intervention and failure resolution. This project is staggered in phases and the final phase is expected to be completed in 2011. Areas to be covered in the project include Contingency Plan, Due Diligence, Asset Management, Bridge Bank, Receivership, Purchase and Assumption as well as Liquidation. INRAM will further enhance the risk assessment approach to include more market-related indicators as well as forward looking and predictive elements. INRAM will refine their assessment on member institutions offering Islamic banking business to be more reflective of the unique features of Islamic banking.

DIVISION	KEY INITIATIVES FOR 2008	GOING FORWARD
Legal (LEGAL) LEGAL provides all legal and corporate secretariat services to PIDM. These include review for compliance with applicable laws and other key regulations and policies. It also assists with the development of subsidiary and other related legislation. LEGAL is also secretariat to the Board, as well as monitors and keeps the Board apprised of corporate governance developments and advises on governance-related matters. This Division is also the secretariat for corporate social responsibility (CSR) activities of PIDM to create greater environmental awareness within the organisation, as well as to contribute towards the community in line with the Board-approved CSR Policy.	<ul style="list-style-type: none"> LEGAL ensured the implementation of draft Regulations by gazetting the MDIC DP's Regulations 2008, MDIC (Terms and Conditions of Membership) Regulations 2008, MDIC (Financial Agreements and Transactions Under Paragraph 80(1) of the Act) Regulations 2008 and discussed the draft MDIC (Provision of Information) Regulations with the Treasury and Attorney General's Chambers. Drafted the stabilisation insurance legislation and an agreement with the Government, the purpose of which was to enable PIDM to implement the GDG effectively and efficiently. Undertook a comprehensive review of the MDIC Act (as well as certain related legislation) to ensure PIDM has all the necessary and up-to-date powers to efficiently and effectively carry out its mandate and responsibilities. Continued to certify deposit products offered by member institutions, as to the status of insurability of such products, prior to the announcement of the GDG. Developed "Contract Management Guidelines" to ensure effective operations and minimise risks involved in contracting with third parties. Advised on the development of the "Request for Proposal" Manual and and Records Management and Information Classification programme. 	<ul style="list-style-type: none"> LEGAL will continue to provide legal and corporate secretariat services. The Division will also continue to provide support on amendments to the law or drafting of new legislation affecting PIDM and to operationalise the MDIC Act. LEGAL will continue with the provision of legal services and support for the GDG, the Intervention and Failure Resolution project and the Payout System, among others. LEGAL will implement a comprehensive review of the MDIC Act in conjunction with the development of the Intervention and Failure Resolution project.
Policy and International (POLICY) POLICY proactively assesses and develops policies that concern the mandate and operations of PIDM. It also leads and coordinates the international activities of PIDM. The Division adopts a full consultative approach to ensure that robust and effective policies are in place.	<ul style="list-style-type: none"> Implemented the MDIC (Terms and Conditions of Membership) Regulations 2008. PIDM was one of two organisations nominated for the 2008 Deposit Insurer of the Year Award, a prestigious award conferred by IADI to an IADI member that has helped to contribute to financial stability by fulfilling its mandate. Organisations nominated for such awards are IADI members who have also participated actively in the field of deposit insurance at an international level and made significant contributions to the furtherance of the objectives of the IADI. A representative from PIDM was, in October 2008, elected as a member of the Executive Council, the governing body for IADI. 	<ul style="list-style-type: none"> POLICY will continue to build PIDM's credibility and reputation, through the development of sound and robust deposit insurance policies, in particular, during the tenure of the GDG. The Division will also continue to build strategic partnerships with key deposit insurers and other international agencies for capacity building and knowledge sharing, as well as hosting of deposit insurance seminars.

GOVERNMENT DEPOSIT GUARANTEE

On 16 October 2008, the Ministry of Finance and BNM announced that all Ringgit and foreign currency deposits with commercial, Islamic, investment and international Islamic banks, and deposit-taking development financial institutions regulated by BNM would be fully guaranteed through PIDM until 31 December 2010. The GDG extends to all domestic and locally incorporated foreign banking institutions.

The GDG has been put in place as a pre-emptive and precautionary measure to help maintain the stability of Malaysia's financial system. It follows the initiatives taken by neighbouring jurisdictions. Given the soundness and strong capitalisation of the Malaysian banking institutions, it is unlikely that the GDG will be called upon. Nevertheless, PIDM continues to risk assess and monitor the performance of these institutions on a continuous basis.

With this announcement, PIDM is entrusted with the expanded responsibility to administer the GDG and will work closely with BNM to ensure that member institutions and other guaranteed financial institutions remain well capitalised and do not engage in excessive risk taking.

PIDM remains obligated to insure deposits held by member institutions as set out in the MDIC Act. The Government under the GDG is responsible for guaranteeing deposits not directly insured by PIDM and for deposits held by other guaranteed financial institutions. As a result, PIDM has no financial exposure under the GDG.

OPERATING RESULTS

Income Statement For The Year Ended 31 December	2008 Actual RM'000	2008 Budget RM'000	Variance		2007 RM'000
			RM'000	%	
Revenues					
Premium revenue	90,079	120,000	(29,921)	(25)	110,156
Investment income from cash and investment securities	8,487	8,000	487	6	5,754
Miscellaneous income	-	-	-	-	39
Total Revenues	98,566	128,000	(29,434)	(23)	115,949
Operating Expenditures					
Employee benefits	19,170	21,230	2,060	10	13,072
Public relations and advertising	6,411	7,800	1,389	18	6,356
Depreciation	1,642	2,452	810	33	1,314
Operating leases	1,003	1,442	439	30	768
Other expenses	6,316	12,076	5,760	48	5,591
Total Operating Expenditures	34,542	45,000	10,458	23	27,101
Net Surplus	64,024	83,000	(18,976)	(23)	88,848

CAPITAL EXPENDITURES

	2008 Actual RM'000	2008 Budget RM'000	Variance		2007 RM'000
			RM'000	%	
Computer systems and office equipment	6,504	15,210	8,706	57	3,037
Furniture, fittings and office refurbishments	380	400	20	5	3,966
Motor vehicles	-	-	-	-	240
Total Capital Expenditures	6,884	15,610	8,726	56	7,243

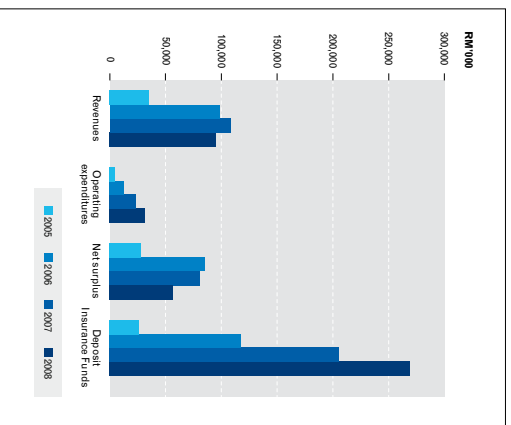
MANAGEMENT'S DISCUSSION AND ANALYSIS

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COMMENTARY ON 2008 FINANCIAL PERFORMANCE

We recorded total revenues of RM88.5 million and operating expenditures of RM34.5 million, resulting in a net surplus of RM64.0 million for 2008.

Chart 1: Key Financial Trends



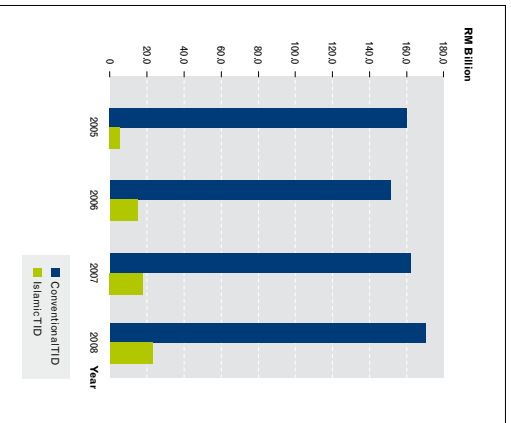
Note: The 2005 financial period was for a period of 4 months ended 31 December 2005.

REVENUES

Premium revenue

Annual premiums are assessed against the Total Insured Deposits (TID) held by member institutions. Since PIDM's incorporation in 2005, the level of TID has been on an increasing trend.

Chart 2: Trend of TID from year 2005 to 2008



Up until 2007, PIDM had assessed premiums against its member institutions on a flat rate of 0.06% of TID. In 2008, we introduced the DPS. The DPS differentiates member institutions according to their risk profile and classifies them into four premium categories.

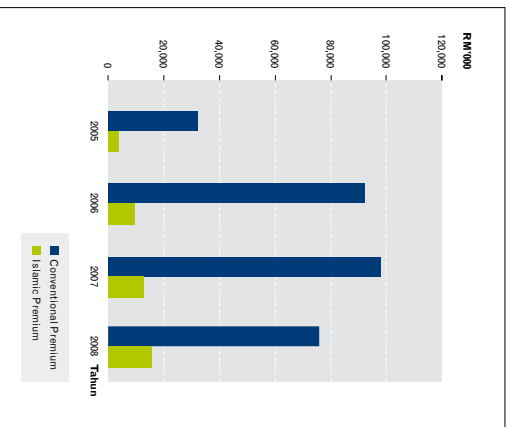
The premium rates applicable for the four categories are as follows:

Premium Category	Premium Rate
Category 1	0.03%
Category 2	0.06%
Category 3	0.12%
Category 4	0.24%

The DPS is aimed at incentivising member institutions to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. Under the DPS, member institutions with lower risk profiles pay lower premiums.

With the introduction of the DPS in 2008, total premiums collected from member institutions were RM90.0 million compared with RM110.1 million in 2007. Given that the DPS was first introduced in 2008, PIDM understood the difficulty in accurately projecting premium revenue in its Corporate Plan that was approved in December 2007. The reduction in premiums collected from member institutions was due to lower premiums paid by those member institutions which had a lower risk profile. Also, for the premium assessment year 2008 only, PIDM provided a transitional provision by adjusting the DPS scores upwards by 20% of their quantitative scores and assessing any member institutions rated Category 4 at the same rate as those in premium Category 3. The full DPS system will come into effect from 2009 onwards.

Chart 3: Trend of Premiums from year 2005 to 2008



For 2009, we have budgeted a premium revenue of RM147.0 million with expected TID growth of 10% from the previous year. PIDM will continue to build reserves in its Deposit Insurance Funds (DIFs) to provide it with financial resources to meet any future obligations it may have as a deposit insurer.

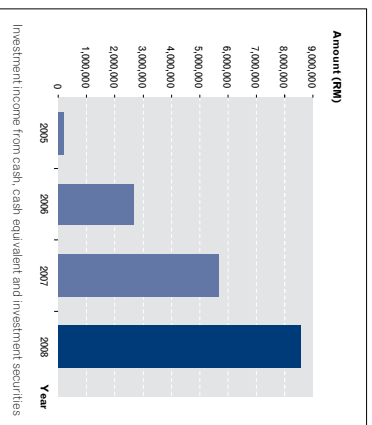
MANAGEMENT'S DISCUSSION AND ANALYSIS

2008 FINANCIAL OVERVIEW

Investment income

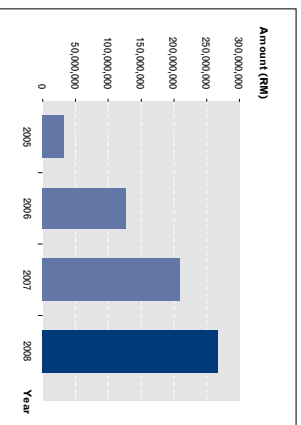
We achieved our budgeted investment income for 2008 with a weighted average yield of 3.4% return on investments.

Chart 4: Investment Income



As at the end of 2008, our funds in cash, cash equivalents and investments had increased from RM206.2 million in 2007 to RM267.4 million in 2008. PIDM invested its surplus funds in BNM and Government investment securities with varying maturities.

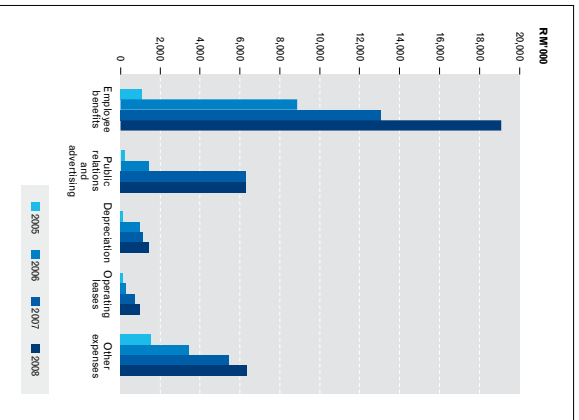
Chart 5: Cash, Cash Equivalents and Investments



OPERATING EXPENDITURES

Our operating expenditures for the year 2008 totalled RM34.5 million. The following chart depicts the trend of our operating expenditures.

Chart 6: Operating Expenditures Trend

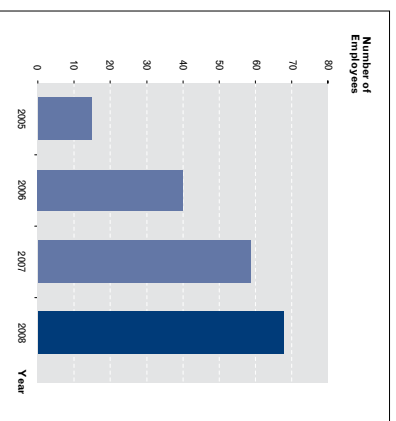


The total operating expenditures up to 31 December 2008 was RM10.5 million or 23% below budget but RM7.4 million or 27% higher compared with 2007. The upward trend in operating expenditures resulted from PIDM continuing to build its capacity and capabilities.

Employee benefits

Since our establishment in 2005, we have been focusing on building a strong team by recruiting employees with the right skills, knowledge, experience as well as attitude. We adopt a structured recruitment strategy and approach, including having in place a compensation and benefits package which is comparable to the market in order to attract and retain people with the right talents. As we are still in the development stage, we have continued our efforts to build our human capital base as reflected by the increase in the number of employees. The main increase is in the key areas of operations including our insurance risk assessment and monitoring, legal and communications functions.

Chart 7: Employee Headcount



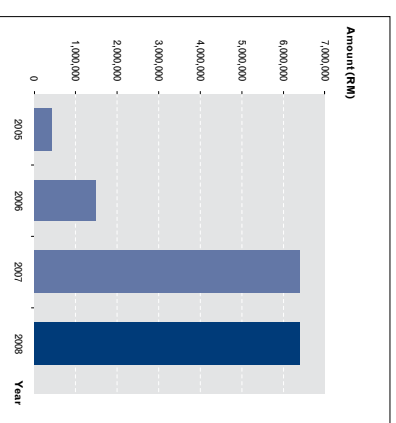
As a result, our employee benefits expenses increased to RM19.2 million in 2008 from RM13.1 million in 2007. However, it is RM2.1 million or 10% lower than budget, mainly due to the timing of recruitment during the year.

Public relations and advertising

Communications and public awareness is one of our key functions in ensuring the effectiveness of the deposit insurance system. Since our establishment in 2005, our focus has been on ensuring effective

communications in our efforts to increase the level of public awareness on the deposit insurance system. We have in place an integrated multi-year public awareness programme with a structured communications approach and plan. In the earlier years of establishment, we developed training tools and information brochures which we distributed to the public and also used to train representatives of member institutions about our deposit insurance system. We then carried out extensive public relations activities including public talks, road shows and seminars as well as participation in exhibitions and conferences. In 2007, we rolled out our advertising campaign through various media channels including television, radio and print media.

Chart 8: Public Relations and Advertising Expenses



For 2008, we budgeted RM7.8 million for public relations and advertising initiatives. However, we expended RM6.4 million which was RM1.4 million below budget. The overall favourable variance for the year was mainly due to the cancellation of some of the planned advertising programmes following the announcement of the GDG in October 2008. There were also cost savings arising from the partnership with BNM and other related government agencies for the road shows as well as various stakeholders' engagement programmes.

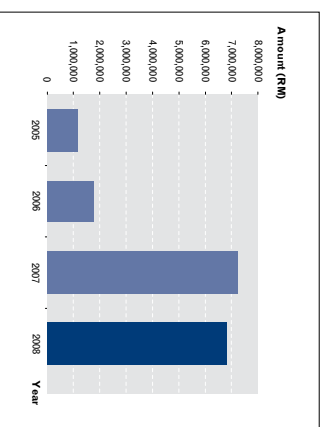
MANAGEMENT'S DISCUSSION AND ANALYSIS

2008 FINANCIAL OVERVIEW

Capital expenditures and depreciation

Arising from the business model adopted by PIDM, the Corporation places heavy reliance on strong and effective operational infrastructure. In particular, IT. In 2007, PIDM moved to its new head office in Kuala Lumpur Sentral which provided it with a more established office environment including a comprehensive data centre. Since then, our focus has been on building strong IT infrastructure to enhance our operational effectiveness.

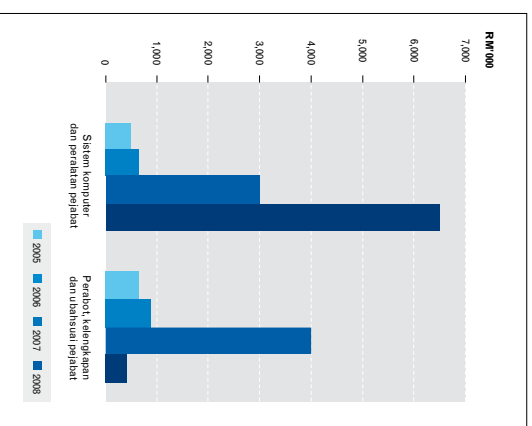
Chart 9: Capital Expenditures Trend



Capital expenditures incurred and contracted up to 31 December 2008 primarily related to key IT systems to support our operations. In 2007, we began the development of the RAS which was completed within the first quarter of 2008. In 2008, we initiated the development of Phase 1 of our Payout System. We have also continued to enhance our operational IT infrastructure including enhancing our network and IT security as well as business process automation for several key functions.

Capital expenditures incurred and contracted up to 31 December 2008 primarily relate to key IT systems to support our operations. In 2007, we began the development of the Risk Assessment System which was completed within the first quarter of 2008. In 2008, we initiated the development of phase 1 of our Payout System. We have also continued to enhance our operational IT infrastructure including enhancing our network and IT security as well as business process automation for several key functions.

Chart 10: Breakdown of Major Capital Expenditures from year 2005 to 2008



For 2008, we budgeted RM15.6 million for capital expenditures, primarily for our IT systems. However, we only expended RM6.9 million or 44% of our

budget. This significant positive variance was mainly attributed to the rescheduling of several IT initiatives due to other operational priorities. These initiatives will be undertaken in 2009. We have also achieved significant cost savings in relation to the Payout System – Phase 1 amounting to approximately RM5.3 million.

Depreciation expense increased in line with the increase in property and equipment of PIDM. However, it is RM0.8 million or 33% below budget due to the timing of the assets being procured and capitalised.

Other expenses

Other expenses relate to our General and Administration expenses such as office rental, professional and consultancy fees, training and development expenses, printing and stationery costs, subscriptions and telecommunication costs. There is an increase in these expenses year-on-year as our manpower resources increased and more initiatives undertaken. However, since 2007, most of our office administration expenses such as office rental, utility costs, printing and stationery costs, subscriptions and memberships as well as website costs have started to stabilise.

Chart 11: Other Expenses Trend

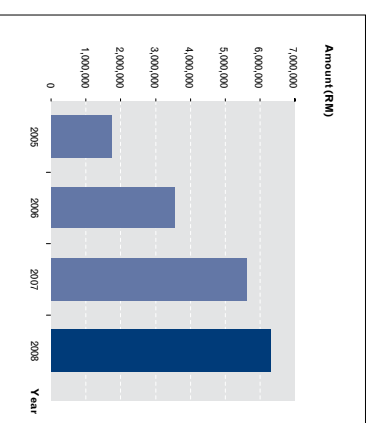
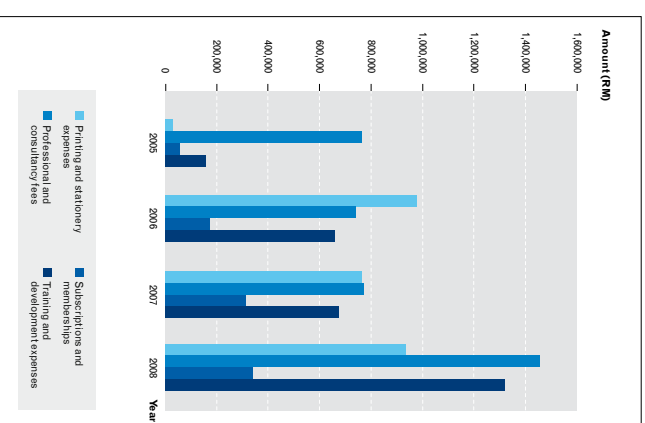


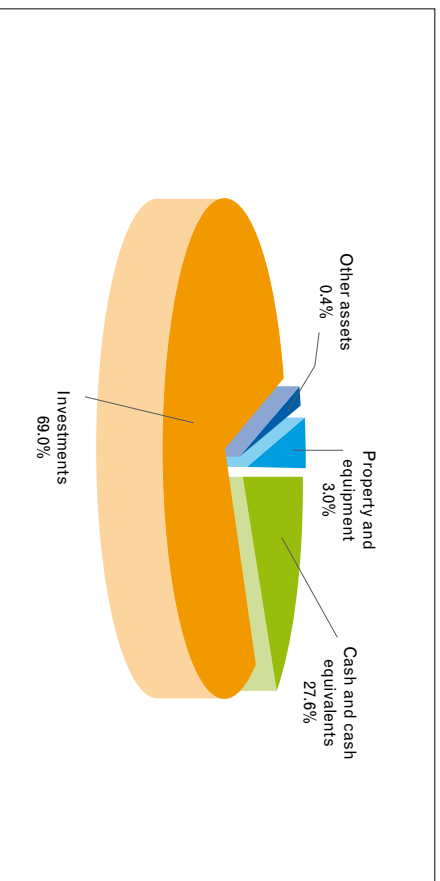
Chart 12: Major Items within Other Expenses



The increase in other expenses from RM5.6 million in 2007 to RM6.3 million in 2008 was mainly attributed to the increase in professional and consultancy services to support key initiatives being carried out as well as training and development costs. Our overall expenditures within this expense category are below budget by RM5.8 million.

BALANCE SHEET HIGHLIGHTS

Chart 13: Asset Composition



Cash and cash equivalents as at 31 December 2008
Our combined cash and cash equivalents stood at RM76.4 million as at 31 December 2008.

The sources and uses of cash are described in the Statements of Cash Flows in Section 4 of this Annual Report.

Investments

Total investments registered a growth of 12% to RM191.0 million compared with year 2007. Our Board-approved investment policy requires us to invest in short-term Ringgit denominated Government securities of varying maturities. Our investment policy prohibits investing or depositing funds with any member institution except for day to day operating purposes.

PIDM's investment portfolio as at 31 December 2008 comprised BNM and Government investment securities with short-term tenures ranging from 42 to 360 days.

Property and equipment and other assets as at 31 December 2008

Our property and equipment as at 31 December 2008 amounted to RM8.4 million with an increase of RM2.6 million from the previous year. We maintain a depreciation policy where assets are depreciated at a rate between three and five years depending on type and classification. See note 2.2(c) of the financial statements.

Other assets amounting to RM1.1 million were mainly rental and utility deposits for rented properties, pre-payments on rentals as well as investment income receivables.

Liabilities as at 31 December 2008

Total liabilities decreased by 59% to RM1.5 million in 2008. It comprised payables for utilities, communication services, IT systems, provision for unutilised leave as well as services rendered in respect of consultancy engagements and supply of goods.

Deposit Insurance Funds as at 31 December 2008

Total DIFs amounted to RM275.3 million, an increase of 30% from the previous year. However, the DIFs are 6% lower when compared with the budget of RM292.2 million due to lower premium revenue off-set by reduced operating expenditures. The total DIFs are made up of the Conventional Deposit Insurance Fund of RM243.0 million and the Islamic Deposit Insurance Fund of RM32.3 million.

Contingencies

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring the deposits of its member institutions. As this exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability, no general or specific provisions have been recorded in the financial statements for the current financial period. Since PIDM's incorporation in 2005, no losses have been incurred which would require specific provisions to be made and reflected in the financial statements.

PIDM's continuous risk assessment and monitoring function enables it to work closely with the supervisory authorities to take prompt corrective action thereby minimising the possibility of institutional failures. Furthermore, PIDM reinforces financial discipline through its DPS which provides strong incentives for institutions to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. In the unlikely event that a failure would occur, PIDM is mandated and has the necessary powers to intervene and resolve these institutions in a manner to minimise the loss to the financial system.

While no general or specific provisions were recorded as mentioned above, PIDM continues to build its reserves in its DIFs through annual premiums assessed against its member institutions. These reserves are available to cover any potential future losses or obligations of PIDM. If the reserves are not sufficient, PIDM, as a statutory body, has the authority to borrow or raise funds, including borrowing from the Government as well as assessing higher premiums with the approval of the Minister of Finance.

As one of the initiatives in this area, we are undertaking a study to establish an appropriate provisioning methodology, given the lack of data and loss experience in the Malaysian banking system. This would include identifying proxies for loss given default rates and probability of defaults. We are also undertaking research on the development of a target fund for both our Conventional and Islamic Deposit Insurance Funds. This is to enable us to have in place a comprehensive funding plan for the long-term.

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 to meet our obligations. We may also request borrowings from the Consolidated Revenue Fund with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

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. 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 amounted to RM275.3 million as at the end of 2008. 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 PIDM.

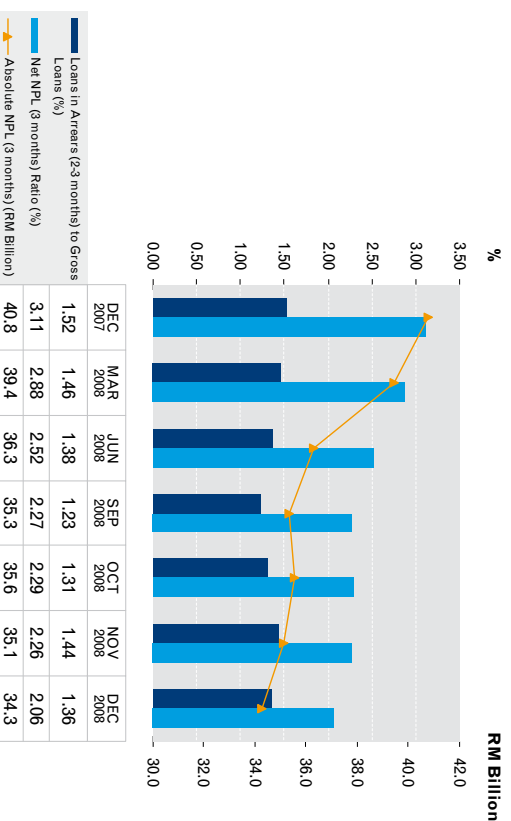
MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF MEMBERSHIP – 2008

PIDM assesses and monitors the risks of member institutions on a continuous basis. This function was enhanced in early 2008, with the completion of the RAS. RAS provides PIDM with the business intelligence tools to effectively and efficiently assess and monitor our member institutions, both from individual bank and industry perspectives.

Our financial indicators of the membership up to December 2008 demonstrate that our member institutions have a strong and resilient financial position. This is reflected by strong asset quality, adequate capital, strong profitability and ample liquidity. Nonetheless, the industry is bracing for a more challenging year in 2009 as the world economic downturn impacts our local economy.

Chart 14: Selected Asset Quality Indicators



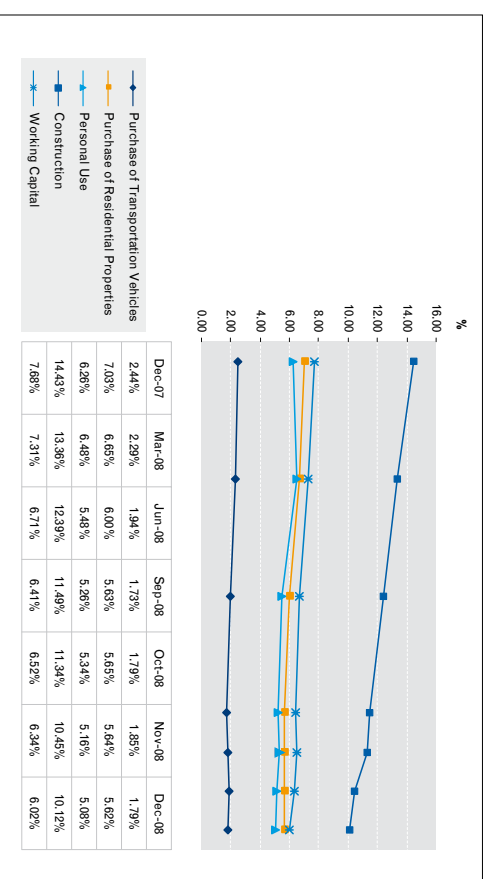
Overall asset quality is still strong

We observed that the main indicators of asset quality are still robust. The net non-performing loan (NPL) ratio was at a strong 2.1% as at end-December 2007, a relatively stable position since September 2008, after continuous improvement from the beginning of the year. The ratio of loans in arrears (2 to 3 months past due), was also showing a stable trend and stood at 1.4% as at end-December 2008, better than the ratio a year ago. The absolute NPL had also steadily decreased from RM40.8 billion as at end-December 2007 to RM34.3 billion as at end-December 2008, although the contraction rate has slowed since September 2008. The trends are shown in the following chart.

As a whole, the loan base grew strongly in 2008 due to robust business activities. Outstanding loans grew by 13.7% as at end-December 2008, higher than the 8.9% growth recorded in 2007. The loan growth is expected to moderate slightly in 2009 in light of fewer loan applications and approval rates over the last few months of 2008. The

default rates (non-performing loans against loans outstanding) in the selected major sectors were steadily improving. We will continuously monitor the impact of the economic moderation on the business and retail sectors (household sector – which accounted for about 54% of outstanding loans as at end-December 2008).

Chart 15: Default Rate of Selected Sectors

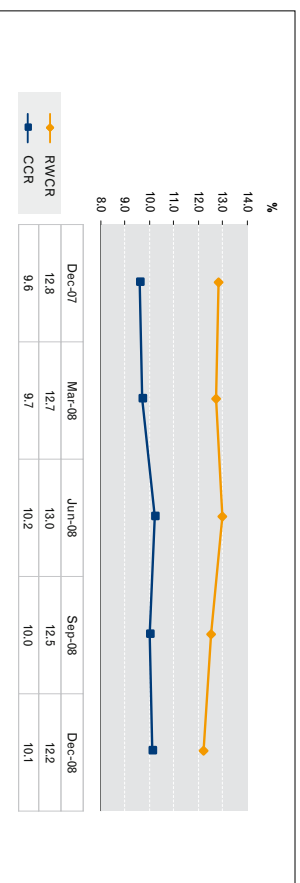


Adequate capital position

The overall risk-weighted capital adequacy ratio remained strong and above the minimum 8% regulatory requirement although it was on a gradual declining trend. This was due to strong growth in the risk-weighted assets (16.8% growth in 2008) with the implementation of the Basel II that

incorporates operational risk components. Despite healthy growth in Tier 1 capital, as reflected by the stable core capital ratio of about 10% throughout the year, the capital base dipped slightly in recent months to about RM107.9 billion due to higher investments in subsidiaries.

Chart 16: Selected Capital Ratios



Source: BNM Monthly Statistical Bulletin January 2009

Strong earnings performance in 2008

As a whole, the robust business activities as well as lower loan loss provisions contributed to higher earnings performance in 2008. The performance could have been better if not for the impact of higher trading and unrealised revaluation losses due to dynamic movements in market expectation and prices in the second half of 2008. With the higher profitability in 2008,

our members institutions reported higher returns on assets (ROA) and returns on equity (ROE) compared to 2007 despite a larger asset and equity base. While the overall profit generation is expected to remain strong, the year 2009 is expected to be more challenging due to the anticipated slower business activities coupled with narrower interest spreads and the potential for higher loan loss provisioning.

Table 1: Selected Earnings Indicators

	Half-year 2007	Full-year 2007	Half-year 2008	Full-year 2008
Profit before tax (RM Billion)	7.16	15.87	9.69	18.50
Gross specific loan loss provisions (RM Billion)	5.78	10.21	4.20	8.13
Annualised ROA	1.39%	1.52%	1.69%	1.58%
Annualised ROE	17.88%	19.46%	21.78%	19.59%

A ample liquidity position

There was no major issue with regard to liquidity position. Total deposits stood at RM937.3 billion as at end-December 2008. The loan-to-deposit ratio continued to be at a comfortable level of 77.4%, improved from 77.7% as at end-December 2007.

Conclusion

The overall performance of our member institutions in 2008 remained strong with notable improvements in terms of asset quality and financial performance. On top of the buoyant operating environment in most of 2008, we believe

that the significant initiatives and efforts that have been and are continuously being put in place to elevate the risk management capabilities and the oversight functions by the boards and management of member institutions contributed to their current resilient financial position. This will provide a strong platform for a more challenging year in 2009. While we expect the performance of the member institutions to moderate in 2009, we also foresee that the impact on performance will be gradual and manageable. Based on the current estimates, we are not expecting any severe deterioration that will affect the viability of our member institutions.

"A best practice deposit insurer"

Despite being a young organisation, we pride ourselves that our relentless efforts have led to the achievement of our immediate term vision. We then considered what would inspire us moving forward and proudly unveiled our new vision to be: **"A best practice deposit insurer"** in our Corporate Plan 2009-2011. We aspire to be a best practice deposit insurer in the whole spectrum of our operations - from governance, risk management, finance and administration, branding and communications, policy to human capital development.

The Corporate Plan 2009-2011 sets out our strategic direction, focus and priorities for the next three years to fulfil our mandate effectively and to work towards our vision. We have adopted a comprehensive strategic management framework which incorporates an assessment of our significant risks using an ERM Framework. Based on this and our risk assessments, we established our key planning assumptions, strategic direction and initiatives.

OUR STRATEGY

Corporate and Financial Plans

Our Strategy

The next few years will be more challenging for us due to the operational environment and our expanded scope of responsibilities in administering the GDG. Despite this, our strategic direction on human capital development, operational readiness and communications remains current, relevant and focused.

Strategic Direction

Our Board-approved strategic direction for the planning period 2009-2011 will be focused on:

- Developing our human capital;
- Intensifying risk assessment and monitoring activities;
- Ensuring ongoing operational effectiveness;
- Developing readiness to handle intervention and failure resolution activities; and

- Refocusing our communications efforts in public awareness as well as maintaining confidence in the financial system.

Developing our human capital

Our people are our greatest asset. Thus, our HC strategic plan is to continue to attract, build, enhance and retain the best talent for PIDM to build capacity and capabilities as well as ensure a sustainable, high performance organisation.

In our efforts to attract and retain top talents, we will continue the implementation of appropriate compensation and benefits, incentives, training programmes and other talent management practices. Our key initiatives include:

- Comprehensive learning and development programmes;
- Talent management programmes;
- Succession management programmes; and
- Other employee related programmes.





MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF OUR CORPORATE PLAN 2009-2011

Intensifying risk assessment and monitoring activities and ensuring ongoing operational effectiveness and readiness to handle intervention and failure resolution activities

The operational readiness and effectiveness in all aspects of our core operations is critical to the fulfilment of our mandate. We will continue to strengthen our operations through:

- Intensifying our comprehensive Risk Assessment and Monitoring activities;
- Developing and implementing the Intervention and Failure Resolution methodology, policy, process and criteria;
- Implementing policies and regulations for member institutions and other guaranteed financial institutions;
- Developing a Payout System, policies and procedures;
- Developing frameworks on target funds and provisioning;
- Implementing IT Strategic Plan initiatives;
- Developing and implementing the Business Continuity and Disaster Recovery Plans;
- Developing the Crisis Communications Manual;
- Developing the Knowledge Management Framework and System;
- Implementing the Records Management and Information Classification policies, processes and infrastructure;
- Reviewing and recommending amendments to the MDIC Act; and
- Reviewing operational requirements to effectively administer the GDG and developing and implementing a transitional plan to exit the GDG.



Refocusing our communications efforts in public awareness, understanding of PIDM as well as maintaining confidence in our financial system

We have refocused our communications efforts in light of the GDG and changes to the operating environment. We will continue to review and implement our Integrated Communications Plan and build on the past year's initiatives, to ensure that our communication programmes are properly targeted, relevant and fit for our purpose. This will be done through:

- Advertising and public relations programmes;
- Public awareness and educational programmes; and
- Stakeholder engagement programmes.

Details of areas of focus and key initiatives in support of our corporate objectives for 2009-2011 are described in our new Corporate Scorecard in the Appendix.

Supporting Financial Plan

The Financial Plan for 2009 has been developed to support the achievement of the 2009 initiatives. The premium revenue budgeted for 2009 is based on the DPS rate structure. Premium revenue is budgeted at RM147.0 million. Combined with a budgeted interest and investment income of RM111.0 million, PIDM's total revenues are expected to total to RM158.0 million for year 2009, total operating expenditures at RM54.0 million and capital expenditures are budgeted at RM15.6 million. Hence, we expect a net surplus of RM104.0 million, which will increase the total DIFs of RM275.3 million at 31 December 2008 to RM379.3 million by the end of 2009.

GOING FORWARD

Since we commenced operations in 2005, we have made significant progress in building the foundations to become a best practice deposit insurer. We are well governed and well managed and will continue to focus our resources towards enhancing capacity and capability in all core areas of operations. Our long-term focus will continue towards developing a strong leadership team, enhancing our stakeholder management and building a strong innovative culture in our quest to build a sustainable, high performance organisation.

Section 4

Financial Statements



FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) for the financial year ended 31 December 2008.

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 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.

FINANCIAL RESULTS

	2008	2007
	RM	RM
Net surplus for the financial period:		
Conventional Deposit Insurance Fund	52,597,387	79,181,078
Islamic Deposit Insurance Fund	11,427,020	9,667,088
Total net surplus	64,024,407	88,848,166
Deposit Insurance Funds		
Conventional Deposit Insurance Fund	242,997,356	190,399,969
Islamic Deposit Insurance Fund	32,349,598	20,922,578
Total Deposit Insurance Funds	275,346,954	211,322,547

DIRECTORS

The names of the Directors of PIDM in office and as at 31 December 2008 were:

- Tan Sri Dato' Abdul Aziz Haji Taha (Chairman)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
- Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah
- Tan Sri Dato' Seri Haji Muhammad Azmi Kamaruddin
- Tan Sri Dato' Sri Dr. Sulaiman Mahbob
- Datuk Dr. Abdul Samad Haji Alias
- Mr. Michael Wong Kuan Lee

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz and Tan Sri Dato' Sri Dr. Wan Abdul Aziz 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 year and as at the date of this report, no Director of PIDM has received or become entitled to receive a benefit (other than Director's remuneration disclosed in the financial statements) by reason of a contract made by PIDM with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL DEBTS

Before the income statements and balance sheets of PIDM were finalised, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts, and have satisfied

themselves that there are no known bad debts to be written off or doubtful debts to be provided for.

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 year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

SIGNIFICANT EVENTS

The Ministry of Finance and Bank Negara Malaysia (BNM) announced on 16 October 2008 that all Ringgit and foreign currency deposits with commercial, Islamic, investment and international Islamic banks, and deposit-taking development financial institutions regulated by BNM would be fully guaranteed through PIDM until 31 December 2010. The Government Deposit Guarantee (GDG) extends to all domestic and locally incorporated foreign banking institutions.

PIDM remains obligated to insure deposits held by member institutions as set out in the MDIC Act. The Government under the GDG is responsible for guaranteeing deposits not directly insured by PIDM and for deposits held by non-member financial institutions. As a result, PIDM has no financial exposure under the GDG.

Given the continued soundness and strong capitalisation of these institutions, it is unlikely that the GDG would be called upon. Nevertheless, PIDM continues to risk assess and monitor the performance of these institutions on a continuous basis.

CONTINGENT LIABILITIES

Exposure to losses from insuring deposits

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring the deposits of its member institutions. As this exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability, no general or specific provisions have been recorded in the financial statements for the current financial year. Since PIDM's incorporation in 2005, no losses have been incurred which would require specific provisions to be made and reflected in the financial statements.

PIDM's continuous risk assessment and monitoring function enables it to work closely with the supervisory authorities to take prompt corrective action thereby minimising the possibility of institutional failures. Furthermore, PIDM reinforces financial discipline

FINANCIAL STATEMENTS

DIRECTORS' REPORT

through its differential premium systems which provide strong incentives for institutions to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. In the unlikely event that a failure would occur, PIDM is mandated and has the necessary powers to intervene and resolve these institutions in a manner to minimise the loss to the financial system.

While no general or specific provisions were recorded as mentioned above, PIDM continues to build its reserves in the deposit insurance funds through annual premiums assessed against its member institutions. These reserves are available to cover any potential future losses or obligations of PIDM. If the reserves were not sufficient, PIDM, as a statutory body, has the authority to borrow or raise funds, including borrowing from the Government as well as assessing higher premiums with the approval of the Minister of Finance.

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

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

- the financial statements have been prepared in accordance with the provisions of the MDIC Act and applicable Financial Reporting Standards (FRS) so as to give a true and fair view of the financial position of PIDM as at 31 December 2008 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
19 February 2009

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 2008 and of the results and the cash flows of PIDM for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, as set out in the 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
19 February 2009

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 2008 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 considered and approved by the Board of Directors.

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

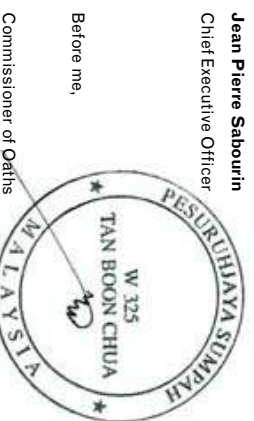
Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 19 February 2009



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



Jean Pierre Sabourin
Chief Executive Officer



Before me,

Commissioner of Oaths

20th Floor, Ambank Group
Building
No. 55, Jalan Raja Chulan
50200 Kuala Lumpur.

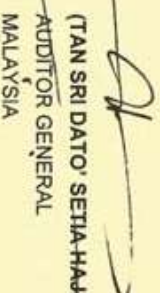


CERTIFICATE OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE MALAYSIA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 31 DECEMBER 2008

I have audited the financial statements of the Malaysia Deposit Insurance Corporation for the year ended 31 December 2008. 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 2008 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 JAMBRIN BIN BUANG)
AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
25 FEBRUARY 2009



FINANCIAL STATEMENTS

BALANCE SHEET

AS AT 31 DECEMBER

	Note	2008 RM	2007 RM
ASSETS			
Cash and cash equivalents	3	76,400,643	35,292,638
Investments			
<i>Held-to-maturity investments</i>	4	191,034,648	170,869,969
Other assets	5	1,058,056	1,465,786
Property and equipment	6	8,393,821	7,448,740
Total Assets		276,887,168	215,077,133
LIABILITIES			
Payables	7	1,540,214	3,754,586
Total Liabilities		1,540,214	3,754,586
DEPOSIT INSURANCE FUNDS AND RESERVES			
Conventional Deposit Insurance Fund	8a	242,997,356	190,399,969
Islamic Deposit Insurance Fund	8b	32,349,598	20,922,578
Total Deposit Insurance Funds		275,346,954	211,322,547
Total Liabilities and Deposit Insurance Funds		276,887,168	215,077,133

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

FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2008 RM	2007 RM
Premium revenue	9	90,078,953	110,155,613
Investment income from cash and investment securities	10	8,486,577	5,754,463
Miscellaneous income		-	39,000
		98,565,530	115,949,076
Employee benefits	11	19,170,141	13,071,515
Public relations and advertising		6,411,079	6,365,822
Depreciation	6	1,641,609	1,314,364
Operating leases		1,002,584	767,124
Other expenses	12	6,315,710	5,591,485
		34,541,123	27,100,910
Net surplus		64,024,407	88,848,166

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 2008

	Note	Islamic Deposit Insurance Fund RM	Conventional Deposit Insurance Fund RM	Total RM
At 1 January 2007	8	11,255,490	111,218,891	122,474,381
Net surplus for the year		9,667,088	79,181,078	88,848,166
At 31 December 2007	8	20,922,578	190,399,969	211,322,547
At 1 January 2008	8	20,922,578	190,399,969	211,322,547
Net surplus for the year		11,427,020	52,597,387	64,024,407
At 31 December 2008	8	32,349,598	242,997,356	275,346,954

FINANCIAL STATEMENTS

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

	Note	2008 RM	2007 RM
CASH FLOWS FROM OPERATING ACTIVITIES	9	90,078,953	110,155,613
Premium receipts from member institutions		(34,186,234)	(29,717,652)
Payments in the course of operations to suppliers and employees		6,736,631	4,323,190
Receipts of investment income		-	14,000
Miscellaneous income		-	-
Net cash flow from operating activities		62,629,350	84,775,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		296,644,905	278,000,000
Purchase of investment securities		(315,314,427)	(346,035,525)
Purchase of property and equipment		(3,151,823)	(6,563,250)
Net cash flow used in investing activities		(21,821,345)	(74,598,775)
Net increase/(decrease) in cash and cash equivalents		41,106,005	10,176,376
Cash and cash equivalents at beginning of year		35,292,638	25,116,262
Cash and cash equivalents at end of year	3	76,400,643	35,292,638

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

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

FINANCIAL STATEMENTS

CONVENTIONAL DEPOSIT INSURANCE FUND

BALANCE SHEET

AS AT 31 DECEMBER

	Note	2008 RM	2007 RM
ASSETS			
Cash and cash equivalents	3	72,918,225	32,177,249
Investments			
<i>Held-to-maturity investments</i>	4	163,048,573	152,953,961
Other assets	5	821,159	1,392,827
Property and equipment	6a	7,586,075	6,762,331
Total Assets		244,374,032	193,286,368
LIABILITIES			
Payables	7	1,376,676	2,886,399
Total Liabilities		1,376,676	2,886,399
DEPOSIT INSURANCE FUND AND RESERVES			
Conventional Deposit Insurance Fund	8a	242,997,356	190,399,969
Total Deposit Insurance Fund		242,997,356	190,399,969
Total Liabilities and Deposit Insurance Fund		244,374,032	193,286,368

FINANCIAL STATEMENTS

CONVENTIONAL DEPOSIT INSURANCE FUND

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2008 RM	2007 RM
Premium revenue	9	75,991,230	98,546,846
Investment income from cash and investment securities	10	7,533,560	5,203,432
Miscellaneous income		-	35,408
		83,524,790	103,785,686
Employee benefits	11	17,147,171	11,867,856
Public relations and advertising		5,740,619	5,771,979
Depreciation	6a	1,490,031	1,193,119
Operating leases		897,938	696,978
Other expenses	12	5,651,644	5,074,676
		30,927,403	24,604,608
Net surplus		52,597,387	79,181,078

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

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

	Note	2008 RM	2007 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium receipts from member institutions	9	75,991,230	98,546,846
Payments in the course of operations to suppliers and employees		(30,048,567)	(27,439,797)
Receipts of investment income		5,762,069	3,875,936
Miscellaneous income		-	12,711
Net cash flow from operating activities		51,704,732	74,995,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		257,700,800	255,000,000
Purchase of investment securities		(265,844,935)	(314,809,200)
Purchase of property and equipment		(2,819,621)	(6,030,408)
Net cash flow used in investing activities		(10,963,756)	(65,839,608)
Net increase/(decrease) in cash and cash equivalents		40,740,976	9,156,088
Cash and cash equivalents at beginning of year		32,177,249	23,021,161
Cash and cash equivalents at end of year	3	72,918,225	32,177,249

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

FINANCIAL STATEMENTS

ISLAMIC DEPOSIT INSURANCE FUND

BALANCE SHEET

AS AT 31 DECEMBER

	Note	2008 RM	2007 RM
ASSETS			
Cash and cash equivalents	3	3,482,418	3,115,389
Investments			
<i>Held-to-maturity investments</i>	4	27,986,075	17,916,008
Other assets	5	236,897	72,959
Property and equipment	6b	807,746	686,409
Total Assets		32,513,136	21,790,765
LIABILITIES			
Payables	7	163,538	868,187
Total Liabilities		163,538	868,187
DEPOSIT INSURANCE FUND AND RESERVES			
Islamic Deposit Insurance Fund	8b	32,349,598	20,922,578
Total Deposit Insurance Fund		32,349,598	20,922,578
Total Liabilities and Deposit Insurance Fund		32,513,136	21,790,765

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

	Note	2008 RM	2007 RM
Premium revenue	9	14,087,723	11,608,767
Investment income from cash and investment securities	10	953,017	551,031
Miscellaneous income		-	3,592
		15,040,740	12,163,390
Employee benefits	11	2,022,970	1,203,659
Public relations and advertising		670,460	583,843
Depreciation	6b	151,578	121,245
Operating leases		104,646	70,746
Other expenses	12	664,066	516,809
		3,613,720	2,496,302
Net surplus		11,427,020	9,667,088

FINANCIAL STATEMENTS

ISLAMIC DEPOSIT INSURANCE FUND CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

	Note	2008 RM	2007 RM
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium receipts from member institutions	9	14,087,723	11,608,767
Payments in the course of operations to suppliers and employees		(4,137,667)	(2,277,855)
Receipts of investment income		974,562	447,254
Miscellaneous income		-	1,289
Net cash flow from operating activities		10,924,618	9,779,455
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		39,244,105	23,000,000
Purchase of investment securities		(49,469,492)	(31,226,325)
Purchase of property and equipment		(332,202)	(532,842)
Net cash flow used in investing activities		(10,557,589)	(8,759,167)
Net increase/(decrease) in cash and cash equivalents		367,029	1,020,288
Cash and cash equivalents at beginning of year		3,115,389	2,095,101
Cash and cash equivalents at end of year	3	3,482,418	3,115,389

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

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

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 a 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.

With effect from 16 October 2008, PIDM is also responsible to administer the Government Deposit Guarantee. Details are described in Note 19.

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 19 February 2009.

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.

(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 the 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 decrease 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 assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the 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 assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to PIDM and the cost of the item can be measured reliably. The carrying amount of parts or components of an asset that are replaced is derecognised. All other repairs and maintenance are charged to the 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.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the 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



FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

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 year ended 31 December 2007. The apportionment basis used for the Islamic Deposit Insurance Fund and the Conventional Deposit Insurance Fund during the financial year was 10.54% (2007: 9.21%) and 89.46% (2007: 90.79%) respectively.

Premium revenue is recognised in a financial year 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 year.

Investment income including placements in money market repurchase agreements (SEPO) 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 Employees Provident Fund.

(f) Foreign currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

Exchange differences arising from the settlement of monetary items, and on the translation of monetary items, are included in the income statement for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in the 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.

3. CASH AND CASH EQUIVALENTS

	2008		
	Total RM	Conventional RM	Islamic RM
Deposits with Bank Negara Malaysia Cash on hand and at bank	172,202 3,483,064	155,783 3,007,531	16,419 475,533
Short-term investments: Malaysian Government Securities and Investment Issues Bank Negara Bills and Negotiable Notes	14,819,612 57,251,558 72,071,170	14,819,612 54,251,569 69,081,181	- 2,989,989 2,989,989
Add: Accretion of discounts net of amortisation of premium	674,207 72,745,377	673,730 69,754,911	477 2,990,466
	76,400,643	72,918,225	3,482,418
Market values of short-term investments held as at 31 December 2008 are as follows: Malaysian Government Securities and Investment Issues Bank Negara Bills and Negotiable Notes	14,927,010 57,877,048 72,804,058	14,927,010 54,885,925 69,812,935	- 2,991,123 2,991,123
Deposits with Bank Negara Malaysia Cash on hand and at bank	1,810,283 3,615,649	1,810,283 3,486,269	129,380 -
Short-term investments: Malaysian Government Securities and Investment Issues Bank Negara Bills and Negotiable Notes	9,742,356 19,565,496 29,307,852	8,789,156 17,607,837 26,376,993	973,200 1,957,659 2,930,859
Add: Accretion of discounts net of amortisation of premium	558,854 29,866,706	503,704 26,880,697	55,150 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 Bank Negara Bills and Negotiable Notes	9,918,740 19,943,500 29,862,240	8,926,740 17,949,150 26,875,890	992,000 1,994,350 2,986,350

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



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NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

4. INVESTMENTS

	2008		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	111,443,173	111,443,173	-
Bank Negara Bills and Negotiable Notes	77,294,251	49,332,351	27,961,900
Accretion of discounts net of amortisation of premium	188,737,424	160,775,524	27,961,900
	2,297,224	2,273,049	24,175
	191,034,648	163,048,573	27,986,075
Market values of investments are as follows:			
Malaysian Government Securities and Investment Issues	113,568,615	113,568,615	-
Bank Negara Bills and Negotiable Notes	77,267,410	49,531,030	27,736,380
	190,836,025	163,099,645	27,736,380

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
	170,497,808	152,607,705	17,890,103
Accretion of discounts net of amortisation of premium	372,161	346,256	25,905
	170,869,969	152,953,961	17,916,008
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
	170,895,020	152,980,820	17,914,200

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 year and are determined by reference to indicative market prices as provided by Bank Negara Malaysia.

5. OTHER ASSETS

	2008		
	Total RM	Conventional RM	Islamic RM
Deposits and prepayments	687,024	617,346	69,678
Investment income receivables	340,632	176,233	164,399
Other assets	30,000	27,222	2,778
Other receivables	400	358	42
	1,058,056	821,159	236,897

	2007		
	Total RM	Conventional RM	Islamic RM
Deposits and prepayments	460,475	417,993	42,482
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
	1,465,786	1,392,827	72,959



FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

6. PROPERTY AND EQUIPMENT

2008	Office equipment and computer systems RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 January 2008	3,752,417	1,667,532	412,009	2,734,800	8,566,758
Additions (i)	2,206,932	60,509	-	319,249	2,586,690
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2008	5,959,349	1,728,041	412,009	3,054,049	11,153,448
Accumulated depreciation					
Balance as at 1 January 2008	545,262	309,113	57,335	206,308	1,118,018
Charge for the year	669,972	334,643	82,402	554,592	1,641,609
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2008	1,215,234	643,756	139,737	760,900	2,759,627
Net carrying amount					
At 31 December 2008	4,744,115	1,084,285	272,272	2,293,149	8,393,821

i. Included in the office equipment and computer systems is an amount of RM3,845,937 (2007: RM1,730,563) for assets under construction consisting of Risk Assessment System of RM2,390,155, Payout System of RM1,395,581 and Human Resource Information System of RM60,201.

6. PROPERTY AND EQUIPMENT (continued)

2007	Office equipment and computer systems RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 January 2007	1,091,696	755,271	172,009	814,081	2,833,057
Additions	3,166,974	1,569,272	240,000	2,734,800	7,711,046
Reclassification	-	-	-	-	-
Write-offs	(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
Accumulated depreciation					
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
Net carrying amount					
At 31 December 2007	3,207,155	1,358,419	354,674	2,528,492	7,448,740



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NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

6. PROPERTY AND EQUIPMENT (continued)

a. Conventional Deposit Insurance Fund

2008	Office equipment and computer systems RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 January 2008	3,406,462	1,513,735	373,977	2,482,925	7,777,099
Additions	1,974,043	54,131	-	285,601	2,313,775
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2008	5,380,505	1,567,866	373,977	2,768,526	10,090,874
Accumulated depreciation					
Balance as at 1 January 2008	494,885	280,551	52,026	187,306	1,014,768
Charge for the year	608,047	303,775	74,796	503,413	1,490,031
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2008	1,102,932	584,326	126,822	690,719	2,504,799
Net carrying amount					
At 31 December 2008	4,277,573	983,540	247,155	2,077,807	7,586,075

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
Cost					
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	3,406,462	1,513,735	373,977	2,482,925	7,777,099
Accumulated depreciation					
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	494,885	280,551	52,026	187,306	1,014,768
Net carrying amount					
At 31 December 2007	2,911,577	1,233,184	321,951	2,295,619	6,762,331



FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

6. PROPERTY AND EQUIPMENT (continued)

b. Islamic Deposit Insurance Fund

2008	Office equipment and computer systems RM	Furniture and fittings RM	Motor vehicles RM	Office refurbishments RM	Total RM
Cost					
Balance as at 1 January 2008	345,955	153,797	38,032	251,875	789,659
Additions	232,889	6,378	-	33,648	272,915
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2008	578,844	160,175	38,032	285,523	1,062,574
Accumulated depreciation					
Balance as at 1 January 2008	50,377	28,562	5,309	19,002	103,250
Charge for the year	61,925	30,868	7,606	51,179	151,578
Reclassification	-	-	-	-	-
Write-offs	-	-	-	-	-
Balance as at 31 December 2008	112,302	59,430	12,915	70,181	254,828
Net carrying amount					
At 31 December 2008	466,542	100,745	25,117	215,342	807,746

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
Cost					
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)	(90,671)	-	(75,384)	(182,870)
Balance as at 31 December 2007	345,955	153,797	38,032	251,875	789,659
Accumulated depreciation					
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	50,377	28,562	5,309	19,002	103,250
Net carrying amount					
At 31 December 2007	295,578	125,235	32,723	232,873	686,409



FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2008

7. PAYABLES

	2008		
	Total RM	Conventional RM	Islamic RM
Amount due to Bank Negara Malaysia	219,950	196,767	23,183
Sundry creditors	27,000	24,154	2,846
Other payables	846,106	755,727	90,379
Provision for unutilised leave	447,158	400,028	47,130
	<u>1,540,214</u>	<u>1,376,676</u>	<u>163,538</u>

Amount due to Bank Negara Malaysia
Sundry creditors
Other payables
Provision for unutilised leave

	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>

8. DEPOSIT INSURANCE FUNDS

a. Conventional Deposit Insurance Fund:

	2008		2007	
	RM		RM	
Balance as at 1 January	190,399,969		111,218,891	
Net surplus	52,597,387		79,181,078	
Balance as at 31 December	<u>242,997,356</u>		<u>190,399,969</u>	

b. Islamic Deposit Insurance Fund:

	2008		2007	
	RM		RM	
Balance as at 1 January	20,922,578		11,255,490	
Net surplus	11,427,020		9,667,088	
Balance as at 31 December	<u>32,349,598</u>		<u>20,922,578</u>	

9. PREMIUM REVENUE

	2008		
	Total RM	Conventional RM	Islamic RM
First premiums	3,344,000	-	3,344,000
Annual premiums	86,734,953	75,991,230	10,743,723
	<u>90,078,953</u>	<u>75,991,230</u>	<u>14,087,723</u>

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

Rate for annual premium under the differential premium systems

- Subject to the transitional provisions described below, where the premium category in which a member institution is classified for an assessment year is as specified in column (1), the rate for the annual premium payable by such member institution would be the corresponding premium rate specified in column (2):

Premium category (Column 1)	Premium rate (Column 2)
1	0.03%
2	0.06%
3	0.12%
4	0.24%

- Where a member institution is classified in different premium categories with respect to its Islamic insured deposits and its conventional insured deposits, the two (2) different annual premium rates will apply with regard to the Islamic insured deposits and the conventional insured deposits respectively.

Rate for first premium

- In respect of a new member institution [as defined in regulation 2 of the MDIC (Differential Premium Systems) Regulations 2008] holding Islamic insured deposits or conventional insured deposits, the rate for the first premium for such new member institution shall be the same as the premium rate for category 1.

Transition into the differential premium systems

- In respect of the assessment year of 2008 only, the annual premium rate for premium category 3 will apply to any member institution classified in premium category 4.

	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>



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10. INVESTMENT INCOME

	2008		
	Total RM	Conventional RM	Islamic RM
Malaysian Government Securities and Investment Issues	2,920,534	2,830,620	89,914
Bank Negara Bills and Negotiable Notes	5,533,279	4,680,198	853,081
Investment income on REPO	32,764	22,742	10,022
	<u>8,486,577</u>	<u>7,533,560</u>	<u>953,017</u>

	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
Investment income on REPO	-	-	-
	<u>5,754,463</u>	<u>5,203,432</u>	<u>551,031</u>

The weighted average yield rates for the investment securities that were effective during the financial year were 3.47% (2007: 3.43%) and 3.45% (2007: 3.41%) for the Islamic and Conventional portfolio respectively.

11. EMPLOYEE BENEFIT EXPENSES

	2008		
	Total RM	Conventional RM	Islamic RM
Wages and salaries	16,251,824	14,538,881	1,712,943
Contributions to defined contribution plan	1,873,596	1,681,487	188,109
Provision for unutilised leave	228,328	201,332	26,976
Other benefits	810,393	725,451	84,942
	<u>19,170,141</u>	<u>17,147,171</u>	<u>2,022,970</u>

	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>

The number of employees at the end of the financial year was sixty seven (67) (2007: 59).

12. OTHER EXPENSES

	2008		
	Total RM	Conventional RM	Islamic RM
Audit fees	27,000	24,154	2,846
Directors' fees and remuneration*	315,241	282,015	33,226
International Association of Deposit Insurers Annual Conference	-	-	-
Printing and stationery expenses	936,424	837,738	98,686
Professional and consultancy fees	1,437,802	1,286,241	151,561
Retirements of property and equipment	-	-	-
Subscriptions and memberships	353,683	317,246	36,437
Training and development expenses	1,336,657	1,195,773	140,884
Travelling	479,439	428,906	50,533
Telecommunication and computer systems expenses	650,929	582,520	68,409
Website development and maintenance expenses	113,900	101,895	12,005
Miscellaneous expenses	664,635	595,156	69,479
	<u>6,315,710</u>	<u>5,651,644</u>	<u>664,066</u>

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

	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 expenses	788,616	714,760	73,856
Professional and consultancy fees	795,759	722,992	72,767
Retirements of property and equipment	719,851	653,330	66,621
Subscriptions and memberships	326,954	296,156	30,798
Training and development expenses	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 expenses	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>



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13. TAXATION

PIDM is exempted from income tax at the statutory level.

14. OPERATING LEASE ARRANGEMENTS

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 5 years beginning 18 April 2007 at a fixed rental rate with the option to renew for another 5 years. There are no purchase options 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 5 years and include a provision for an automatic renewal of another 5 years if PIDM does not serve a termination notice three months before the expiration of the primary term. There are no purchase options or escalation clauses included in the agreements.

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

2008	2007
RM	RM
985,632	975,192
2,332,919	3,268,961
3,318,551	4,244,153

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

15. CAPITAL COMMITMENTS

Capital expenditures
Approved and contracted for:
Property and equipment

2008	2007
RM	RM
4,271,803	316,809
4,271,803	316,809

16. 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 RM48,773 which is comparable to market prices. As at 31 December 2008, 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 had 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 RM78,750 which is comparable to market prices. As at 31 December 2008, 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.

iii. During the year, PIDM has entered into a contract with Ernst and Young, an audit and professional services firm of which one of the Directors of PIDM was also the non-executive chairman of the firm until 31 July 2008. The contract was for the provision of business consultancy works in relation to validation process for Total Insured Deposits (TID) and Differential Premium Systems (DPS). The fee charged is RM99,925 which is comparable to market prices and there is no outstanding amount for the particular engagement as at 31 December 2008. 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.

iv. During the year, one of the Directors of PIDM also became the chairman of Bank Pembangunan Malaysia Berhad, which is one of the financial institutions guaranteed under the Government Deposit Guarantee.

b. Remuneration of key management personnel

Short-term benefits	2008	2007
Post employment benefits:	RM	RM
Defined contribution plan	8,116,250	6,232,293
	637,155	443,172
	8,753,405	6,675,465

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 Corporation.

However, the above does not include Directors whose remuneration is disclosed separately in Note 12. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 11.

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17. FINANCIAL INSTRUMENTS

PIDM's financial risk management policy seeks to ensure that adequate financial resources are available for PIDM's activities whilst managing PIDM's currency, interest rate and rate of return, liquidity, market and credit risks. PIDM operates within guidelines that are approved by the Board of Directors and PIDM's policy is to only invest in short-term 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 Malaysia denominated currency.

b. Interest rate risk and rate of return risk

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

The financial assets are made up primarily of investment assets held in Malaysian Government Securities and Investment Issues; 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.

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			Total RM
			1 month RM	1>3 months RM	3>12 months RM	
31 December 2008						
Fixed rate						
Cash and Cash Equivalent	3	3.34	18,132,888	54,785,337	-	72,918,225
Investments	4	3.45	-	-	163,048,573	163,048,573
31 December 2007						
Fixed rate						
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

17. FINANCIAL INSTRUMENTS (continued)

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

Islamic Deposit Insurance Fund	Note	WAYR %	Within 1 month RM	1>3 months RM	3>12 months RM	Total RM
31 December 2008						
Fixed rate						
Cash and Cash Equivalent	3	2.90	491,952	2,990,466	-	3,482,418
Investments	4	3.55	-	-	27,986,075	27,986,075
31 December 2007						
Fixed rate						
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

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.

18. CURRENCY

All amounts are stated in Ringgit Malaysia.



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19. SIGNIFICANT EVENTS – GOVERNMENT DEPOSIT GUARANTEE

The Ministry of Finance and Bank Negara Malaysia (BNM) announced on 16 October 2008 that all Ringgit and foreign currency deposits with commercial, Islamic, investment and international Islamic banks, and deposit-taking development financial institutions regulated by BNM would be fully guaranteed through PIDM until 31 December 2010. The Government Deposit Guarantee (GDG) extends to all domestic and locally-incorporated foreign banking institutions.

PIDM remains obligated to insure deposits held by member institutions as set out in the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act). The Government under the GDG is responsible for guaranteeing deposits not directly insured by PIDM and for deposits held by non-member financial institutions. As a result, PIDM has no financial exposure under the GDG.

Given the continued soundness and strong capitalisation of these institutions, it is unlikely that the GDG would be called upon. Nevertheless, PIDM continues to risk assess and monitor the performance of these institutions on a continuous basis.

20. CONTINGENCIES

Exposure to losses from insuring deposits

Under the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act), PIDM has an inherent exposure to losses resulting from insuring the deposits of its member institutions. As this exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability, no general or specific provisions have been recorded in the financial statements for the current financial year. Since PIDM's incorporation in 2005, no losses have been incurred which would require specific provisions to be made and reflected in the financial statements.

PIDM's continuous risk assessment and monitoring function enables it to work closely with the supervisory authorities to take prompt corrective action thereby minimising the possibility of institutional failures. Furthermore, PIDM reinforces financial discipline through its differential premium systems which provides strong incentives for institutions to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. In the unlikely event that a failure would occur, PIDM is mandated and has the necessary powers to intervene and resolve these institutions in a manner to minimise the loss to the financial system.

While no general or specific provisions were recorded as mentioned above, PIDM continues to build its reserves in the Deposit Insurance Funds through annual premiums assessed against its member institutions. These reserves are available to cover any potential future losses or obligations of PIDM. If the reserves were not sufficient, PIDM, as a statutory body, has the authority to borrow or raise funds, including borrowing from the Government as well as assessing higher premiums with the approval of the Minister of Finance.

Section 5 Articles





ARTICLES

GOVERNMENT DEPOSIT GUARANTEE

In response to the challenging financial environment, many countries in Europe and Asia implemented blanket deposit guarantees as part of measures to preserve confidence in their financial systems and to ensure the normal functioning of their payment systems.

The following table shows some countries which implemented blanket deposit guarantees during the second half of 2008.

Table 2: Countries that implemented Deposit Guarantees

No.	Country	Effective Period
1	Ireland	29 September 2008 until 28 September 2010
2	Germany	5 October 2008 until further notice
3	Austria	5 October 2008 until further notice
4	Denmark	6 October 2008 until further notice
5	Iceland	7 October 2008 until further notice
6	Taiwan	8 October 2008 until further notice
7	Australia	12 October 2008 until 12 October 2011
8	New Zealand	12 October 2008 until 12 October 2010
9	United Arab Emirates	12 October 2008 until 11 October 2011
10	Hong Kong	14 October 2008 until 31 December 2010
11	Singapore	16 October 2008 until 31 December 2010
12	Malaysia	16 October 2008 until 31 December 2010
13	Brunei	23 October 2008 until 31 December 2010

Source: Various newspapers and websites

On 16 October 2008, the Ministry of Finance and Bank Negara Malaysia (BNM) announced a Government Deposit Guarantee (GDG) which will be in effect until 31 December 2010. The current explicit deposit insurance system continues to be in force and member institutions continue to pay premiums to PIDM based on the Differential Premium Systems (DPS) which apply separately to the conventional

and Islamic banks. The GDG was provided to protect depositors of member institutions holding deposit balances over and above those protected by PIDM. The Government is responsible for guaranteeing deposits not directly insured by PIDM and for deposits held in other guaranteed financial institutions. Thus, PIDM has no financial exposure under the GDG.

WHY WAS IT IMPLEMENTED?

The implementation of the GDG was a pre-emptive and precautionary measure to maintain financial stability as the Malaysian financial system is well-capitalised with ample liquidity and depositor confidence remained intact. The GDG is in line with similar initiatives taken by jurisdictions in the region to preserve confidence in financial systems.

Given the soundness and strong capitalisation of Malaysian banking institutions, it is unlikely that the GDG will be called upon. Malaysia also has a strong regulatory and supervisory framework which is reinforced by the financial discipline imposed by PIDM through its DPS which provides strong incentives for banks to adopt sound and rigorous risk management practices.

SCOPE

The GDG fully guarantees all Ringgit and foreign currency deposits placed with guaranteed financial institutions. These include:

- Fixed deposits, current accounts, savings accounts, joint and trust accounts;
- All Islamic accounts (structured or otherwise);
- Principal guaranteed conventional structured deposits; and
- Negotiable instruments of deposit held by non-banks.

The financial institutions guaranteed include domestic and locally incorporated foreign banking institutions, as follows:

- All commercial, Islamic, investment and international Islamic banks; and
- Five deposit-taking development financial institutions regulated by BNM, namely Bank Pembangunan Malaysia Berhad, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Bank Simpanan Nasional, Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) and Bank Pertanian Malaysia Berhad (AgroBank).

MANAGING THE GDG

To ensure effective administration and to mitigate moral hazard, appropriate measures have been taken. These include:

- Proposed amendments with stabilisation insurance provisions to be made to the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act);
- A prohibition against using the GDG as a device to market or attract deposits;
- Heightened supervision and reporting;
- Setting regulatory and supervisory expectations during the guarantee period;
- Working closely with BNM to ensure member institutions and other guaranteed financial institutions continue to be well capitalised and well managed;
- Assessing a fee on other guaranteed financial institutions based on total deposits held as at 31 December of the preceding assessment year and for member institutions, based on the amount in excess of the Total Insured Deposits of the preceding assessment year; and
- Executing an agreement with the Ministry of Finance, setting out terms and conditions on how the GDG would operate, including mechanisms governing the GDG, funding and information sharing.

A comprehensive transitioning framework will be developed next year to ensure a smooth transition to the explicit deposit insurance system which will be supported by a comprehensive public awareness campaign.

INTRODUCTION

Malaysia implemented a dual banking system where an Islamic banking system operates alongside a conventional banking system. At the end of 2008, the Islamic banking system accounted for 17.4% of the total assets in the banking system. Against this backdrop, the introduction of Islamic deposit insurance was deemed to be an important element in ensuring the competitiveness of the Islamic banking system.

Thus, separate deposit insurance systems for Islamic and conventional deposits were introduced in September 2005 following the enactment of the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act). The Islamic deposit insurance system operates separately, but in parallel with the conventional system, and both systems are administered by PIDM. As required by the MDIC Act, membership in the Islamic deposit insurance system is compulsory for all domestic and foreign Islamic banks licensed under the Islamic Banking Act 1983.



To ensure a Shariah-compliant system, PIDM adopted a contract-based approach where the operation is based on the contract of *kaflah bil ujah* (concept of guarantee with fee). This concept has been endorsed by the Shariah Advisory Council of Bank Negara Malaysia (BNM). Consistent with the contract, the following are the salient features of the Islamic deposit insurance system in Malaysia:

(a) Funding and premium assessment

The operation of the Islamic deposit insurance is funded by premiums received from Islamic member institutions (IMIs), comprising Islamic banks and Islamic windows of commercial banks. Annual premiums are assessed based on the amount of insured Islamic deposits held as at 31 December of the preceding year. From 2005 to 2007, the IMIs' premiums were assessed on a flat rate basis. In 2008, PIDM introduced a differential premium system whereby the IMIs are now required to pay annual premiums based on their respective risk profiles. The IMIs with higher risk profiles pay higher annual premium rates than the IMIs with lower risk profiles.

(b) Coverage

PIDM provides equitable insurance protection for Islamic and conventional deposits. As such, Islamic deposits enjoy distinct and separate protection from conventional deposits. Islamic deposits that are eligible for insurability include savings, demand and investment deposits accepted under *mudharabah* and non-*mudharabah* contracts (e.g. *wadiah qard* and *murabahah*). With the implementation of the Government Deposit Guarantee in October 2008, deposits held by the IMIs enjoy coverage over and above that provided by the explicit deposit insurance system and deposits held by guaranteed institutions are also protected until the end of 2010.

(c) Management of the Islamic Deposit Insurance Fund

Premiums less permissible expenditures are maintained and administered separately in the Islamic Deposit Insurance Fund (IDIF). PIDM keeps separate accounting records and prepares

separate financial statements for the Islamic and for the conventional deposit insurance systems. PIDM is required to invest the reserves held in the IDIF in Shariah-compliant instruments. Currently, our investments are restricted to those issued or guaranteed by the Government or BNM. Permissible expenditures are those incurred in Shariah-compliant activities only. In the event that PIDM intervenes into the affairs of a troubled IMI, PIDM is required by its statutory mandate to resolve the failure in such manner as to minimise costs to the financial system.

PIDM is also to ensure that there is no commingling of funds or cross-subsidisation between the Islamic and Conventional Deposit Insurance Funds. In the event that available funds are insufficient to carry out its mandate, PIDM would have access to Government and market funding which would be structured according to Shariah requirements.

(d) Payment and priority of payment

To maintain confidence in the financial system, PIDM is responsible, among other things, to protect the IMI depositors from the loss of their deposits in the event of an IMI failure. PIDM is required to reimburse insured depositors of a failed IMI quickly, and by law no longer than three months from the date of a winding-up order. All losses incurred by PIDM in meeting its obligations to insured depositors are to be charged to the respective Deposit Insurance Fund, as the case may be.

The priority of claims accorded to depositors would affect the level of resolution costs incurred by PIDM. As a result of the MDIC Act, depositors automatically subrogate their rights and interests but only to the extent of any deposit insurance payment made. In respect of Islamic deposits, the priority of payments is based on the underlying contracts of the deposits whereby the non-*mudharabah* deposits are given priority over *mudharabah* deposits.

PIDM ON THE INTERNATIONAL FRONT

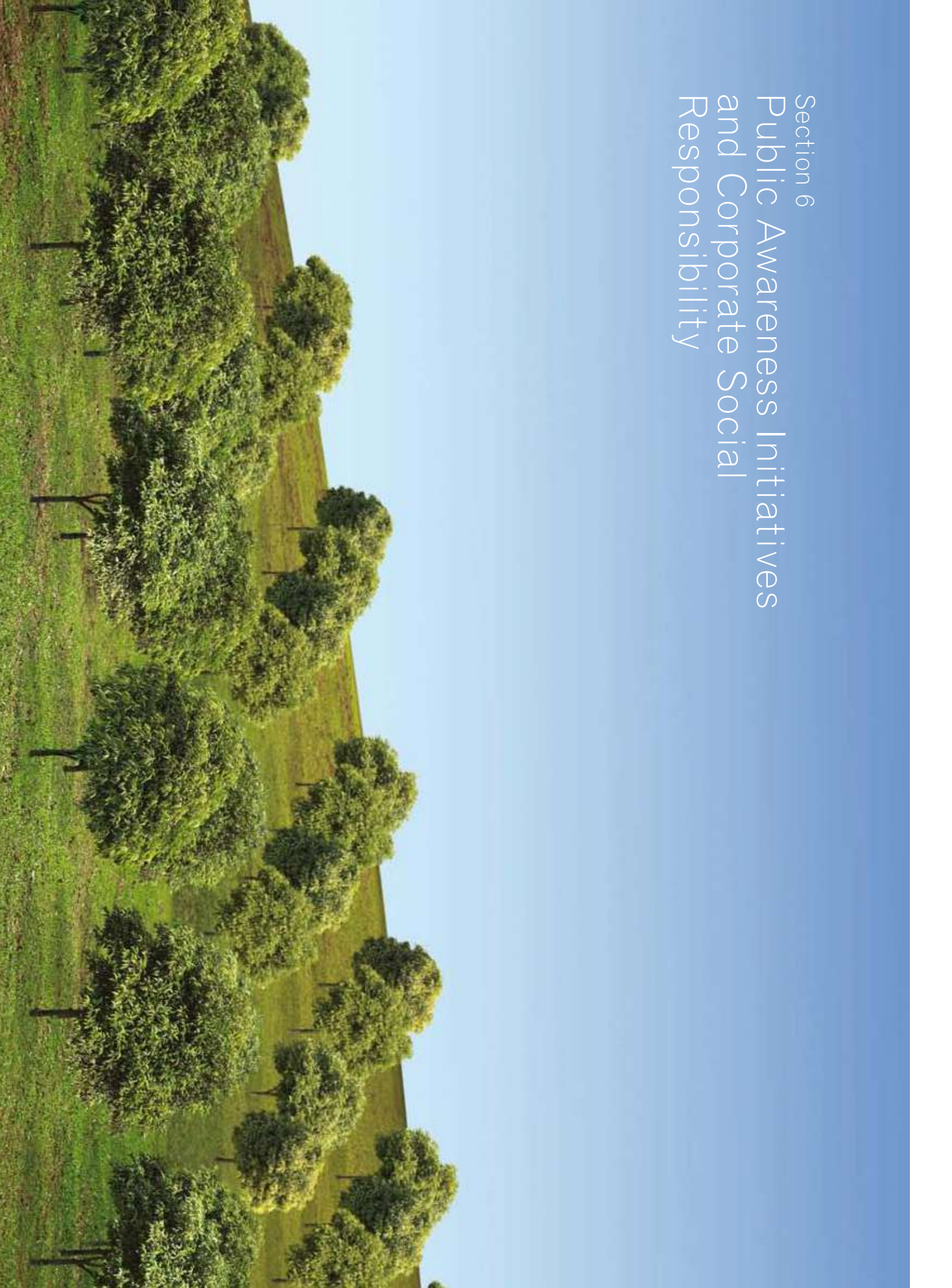
In May 2007, PIDM was entrusted to chair the Islamic Deposit Insurance Group (IDIG), a group established by the International Association of Deposit Insurers (IADI). The IDIG's terms of reference are to:

- study members' experiences in establishing and implementing Islamic deposit insurance by examining the feasibility of systems and lessons learnt;
- recommend guidance on issues relating to Islamic deposit insurance systems taking into account different circumstances, settings and structures;
- promote awareness and provide a forum for discussion on the needs of members on Islamic deposit insurance; and
- facilitate the sharing and exchange of expertise and information on Islamic deposit insurance issues.

The IDIG has embarked on several initiatives with regard to Islamic deposit insurance. One of the initiatives was the holding of a seminar on Islamic deposit insurance in August 2008 attended by participants from various IADI member countries. The objective of the seminar was to facilitate the sharing and exchange of expertise and information on Islamic deposit insurance issues amongst the participants.

With the phenomenal growth in global Islamic finance, more countries are expected to start developing Islamic financial systems. To preserve the competitiveness of the Islamic financial system, public policy makers will need to also consider the merits of introducing an effective Islamic deposit insurance system as an integral part of their financial safety net. Given the lack of guidance and experience in developing Islamic deposit insurance systems, Malaysia's expertise in this area can be a useful model for others. PIDM is therefore spearheading the IDIG's initiative in formulating the guidance and is willing to share its approach with interested parties.

Section 6 Public Awareness Initiatives and Corporate Social Responsibility





PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

INTRODUCTION

Public awareness and clear understanding of the deposit insurance system is a key element to PIDM's success as an effective best practice deposit insurer. An informed depositor who is aware and confident in the safety of his or her deposits contributes positively to the stability of the financial system.

At PIDM, we have implemented several measures to build consumer awareness about deposit insurance and its features. Since the beginning of our operations, PIDM has established various communications channels for the public including a toll free enquiry hotline, an official website offered in four languages – English, Bahasa Malaysia, Chinese and Tamil, and the distribution of public information brochures in six languages, namely English, Bahasa Malaysia, Chinese, Tamil, Iban and Kadazandusun.

We are cognisant that targeted levels of public awareness could not be achieved through *ad hoc* activities alone in the short-term. Hence, in 2007, PIDM began implementing a multi-year Integrated Communications Plan (Plan) to promote public awareness on deposit insurance and PIDM through a systematic approach and comprehensive strategies. The Plan identifies the strategic thrusts from which all PIDM's public communications activities are initiated, while the multi-year approach enables us to build on our successes.

OUR INITIATIVES IN 2008

This year marked the implementation of specific initiatives under the Plan. Given the findings of our 2007 survey, our campaign strategy in 2008 was based on a specific and targeted approach. During the year, PIDM focused its advertising and communications initiatives on three target groups which hold bank accounts:

- "The Affluent" – Malaysian professionals, managers and executives with a monthly household income of more than RM3,000;
- "General Masses – Malay" – Malaysian Malay population, aged 18 years and above; and
- "General Masses – Chinese" – Malaysian Chinese population, aged 18 years and above.

Throughout the year, PIDM also implemented initiatives to enhance deposit insurance awareness through public awareness and outreach programmes. Some of these initiatives included our Deposit Insurance Awareness Week, Corporate Outreach, media relations and our participation as presenters at conferences and seminars, both locally and abroad.

Additionally, PIDM collaborated with strategic partners including Bank Negara Malaysia (BNM), Agensi Kaunseling dan Pengurusan Kredit (AKPK), Financial Mediation Bureau (FMB) and Institut Bank-Bank Malaysia (IBBM). It was a successful strategy in enhancing the effectiveness of our public awareness initiatives, extending PIDM's reach to a wider public audience.

Among the highlights of PIDM's public awareness initiatives for the year 2008 was the "PIDM & You" Contest, which received an overwhelming response with over 1.6 million entries submitted via Short Messaging System (SMS), online and contest forms published in newspapers from 25,000 participants nationwide. PIDM was also featured in various media interviews that included interview segments on 'Good Morning Malaysia' (*Selamat Pagi Malaysia*) and 'Malaysian Business' (*Business Malaysia*), both television programmes on *Radio Televisyen Malaysia* (RTM) as well as in the print media.

Our targeted public awareness efforts in 2008 were clearly effective given the encouraging results of a nationwide consumer survey undertaken in the final quarter of the year. Based on the survey, the awareness level of deposit insurance saw a significant increase to **27%** (2007: 15%; 2006: 13%) and the awareness level of PIDM jumped to **32%** (2007: 12%; 2006: 4%).



The findings also revealed a strong overall improvement with increases in awareness of deposit insurance and knowledge of PIDM as well as its role and functions. This increase in awareness was achieved generally across all demographic groups – more specifically among the Malay population and Chinese respondents registered similar levels of deposit insurance awareness at 28%. There was also an increase in deposit insurance awareness among respondents with a monthly household income of RM3,000 and below. In previous years, it was noted that this particular group of respondents showed lower levels of interest, awareness and understanding of deposit insurance.






PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

The following are highlights of our key initiatives in 2008 to enhance public awareness of deposit insurance and PIDM.

INITIATIVE	DESCRIPTION	OBJECTIVE
ADVERTISING AND PUBLICITY (ONGOING)	<p>PIDM launched its annual advertising campaign in May 2008 which included newspaper advertisements, television commercials, radio commercials and online advertising.</p> <p>Our newspaper advertisements were featured in English, Bahasa Malaysia, Chinese and Tamil, while radio commercials were produced and aired in three languages – English, Bahasa Malaysia and Chinese.</p> <p>Two versions of the Bahasa Malaysia commercials were produced and aired on television:</p> <ul style="list-style-type: none"> • "Housewife" • "Musician" <div>   </div> <p>"Housewife"</p> <p>"Musician"</p> <p>PIDM produced and aired infomercials in the Chinese language (Mandarin and Cantonese) on ASTRO Chinese language channels such as <i>Wah Lai Toi</i> and AEC.</p> <p>PIDM also produced and aired <i>Buletin Utama TV3</i> capsules in Bahasa Malaysia on the features and benefits of the deposit insurance system.</p> <p>PIDM also embarked on online advertising via the Google search engine.</p> <p>Throughout the advertising campaign in 2008, PIDM's Call Centre (toll free 1-800-88-1266) received a significant increase in the number of enquiries from the public. A total of 2,970 calls were received in 2008 compared to the previous year when just over 700 calls were received.</p> <p>PIDM's official website (www.pidm.gov.my) also recorded a significant increase in the number of visits to 135,894 in 2008 when compared with just over 35,000 visits in 2007.</p>	<p>PIDM continued to advertise in the mass media as it is a creative approach to enhance awareness of deposit insurance and communicate to a wider target audience from diverse demographic backgrounds such as age, gender, race, occupation and education level.</p> <p>Prior to each advertising campaign, PIDM commissions focus group discussions in selected cities and demographic groups to test the acceptance, comprehension and relevance of the advertising materials and key messages.</p>


INITIATIVE	DESCRIPTION	OBJECTIVE
"PIDM & YOU" CONTEST (14 JULY TO 31 AUGUST 2008)	<p>PIDM conducted a public awareness contest known as the "PIDM & You" Contest. The contest received overwhelming response with some 1.6 million entries via SMS, online and contest forms published in newspapers from 23,000 participants nationwide.</p> 	<p>The contest was part of PIDM's efforts to educate Malaysians about deposit insurance. The contest was successful in generating interest among Malaysians about deposit insurance and encouraging them to find out more about PIDM and its role as the national deposit insurer.</p>

BRIEFINGS FOR MEMBER INSTITUTIONS AND VARIOUS STAKEHOLDERS (ONGOING)		
<p>PIDM conducted 20 training sessions for bankers in cities and towns across Malaysia to some 1,100 bank employees. This is part of our continuing effort to equip employees of PIDM's member institutions with accurate knowledge of how deposit insurance works to enable them to manage and respond to enquiries from their customers.</p> <p>PIDM also conducted 28 briefings for other stakeholders (Government agencies, universities, professional bodies and associations), including public talks.</p> <p>In conducting the training sessions for bankers, PIDM continued to work in partnership with IBBM and BNM branches.</p> <p>For a complete listing of our briefings, please refer to our Calendar of Events for 2008 (pg 157).</p> 	<p>The objective of this initiative is to create an informed public that contributes to confidence in the stability of our financial system.</p>	



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

INITIATIVE	DESCRIPTION	OBJECTIVE
DEPOSIT INSURANCE AWARENESS WEEK (5 TO 12 MAY 2008)	<p>During the Deposit Insurance Awareness Week, PIDM launched its Advertising Campaign 2008 and published special advertorials on deposit insurance in major dailies.</p> <p>PIDM conducted an outreach programme in Johor Bahru, which included a briefing session for branches of PIDM's member institutions on 9 May 2008 and a public talk on 10 May 2008. In addition to a briefing on deposit insurance, the public session also included briefings on other topics such as banking, credit card management and avenues for financial disputes conducted by representatives from BNM, AKPK and FMB.</p> <p>In organising and promoting the outreach programme, PIDM collaborated with BNM (Johor Bahru branch), the Association of Banks in Malaysia (ABM) Johor sub-committee and the Financial Planning Association of Malaysia (FPAM)'s Chapter in Johor Bahru.</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>
RELEASE OF PIDM ANNUAL REPORT 2007 (12 MAY 2008)	<p>PIDM conducted its second Annual Dialogue with the boards of directors and senior management of member institutions on 12 May 2008 in conjunction with the release of the PIDM Annual Report 2007.</p> 	<p>The purpose of this Annual Dialogue is to inform member institutions of our financial results and past year's milestones, dialogue on issues relating to member institutions, as well as exchange information and ideas on current and future initiatives involving member institutions.</p>

INITIATIVE	DESCRIPTION	OBJECTIVE
CORPORATE OUTREACH (11 TO 12 JUNE 2008)	<p>PIDM organised the second annual Corporate Outreach in Kota Kinabalu, Sabah where members of the Board of Directors and the Executive Management Committee of PIDM met with various stakeholders.</p> <p>The outreach programme included:</p> <ul style="list-style-type: none">• A media briefing for Sabah media representatives, following which articles on PIDM and the public talk were featured in most newspapers;• A dinner talk with senior Government officials and the business community in Sabah; and• A public talk on "Effective Financial Consumer Protection" together with BNM, AKPK and FMB. <p>In organising and promoting the public talk, PIDM collaborated with BNM (Kota Kinabalu branch) and the ABM sub-committee in Sabah.</p>	<p>The annual Corporate Outreach is an initiative of PIDM's Board of Directors and Executive Management Committee to actively reach out to the public in enhancing awareness of deposit insurance and financial consumer protection in Malaysia.</p> <p>By engaging the State Government officials and community leaders in its outreach efforts, PIDM aims to contribute to enhancing knowledge about deposit insurance as well as PIDM's mandate and operations generally. As such, stakeholders are able to share and disseminate knowledge to a wider target audience, particularly in Sabah.</p> <p>The objective of the public talk is to increase financial literacy and knowledge about organisations that provide consumer protection and education.</p>
PARTICIPATION IN EXHIBITIONS AND ROADSHOWS (ONGOING)	<p>PIDM collaborated with BNM and relevant agencies in various national roadshows including the Malaysian Unit Trust Week (<i>Minggu Saham Amanah Malaysia</i>), Malaysian Consumer Day (<i>Hari Pengguna Malaysia</i>) and the Financial Awareness Week (<i>Minggu Kesedaran Kewangan</i> or M2K), in which PIDM participated as co-organiser and exhibitor.</p> <p>The M2K was held from 20 to 26 October 2008 in Johor Bahru. It was a major collaborative effort between BNM, FMB, AKPK and PIDM together with support organisations namely, the Securities Commission (SC) and the State Government of Johor.</p> <p>From 20 to 21 October 2008, PIDM's representative provided briefings to academic staff and students at the Institut Perguruan Temenggong Ibrahim and students at Universiti Teknologi Malaysia, Skudai. Other presenters were from BNM, FMB, AKPK and the SC.</p> <p>PIDM participated in the M2K exhibition held from 24 to 26 October 2008 in Johor Bahru. The exhibition was officially launched by the Minister of Domestic Trade and Consumer Affairs, Datuk Shahrir Abdul Samad, on 25 October 2008. During the exhibition, PIDM conducted five public talk sessions to educate visitors about the deposit insurance system. The exhibition attracted approximately 30,000 visitors.</p> <p>For a complete listing of our exhibitions and roadshows, please refer to our Calendar of Events for 2008 (pg 151).</p>	<p>PIDM worked closely with BNM in various areas as part of the Strategic Alliance Agreement, including promoting public awareness.</p> <p>PIDM also collaborated with other strategic partners, including AKPK and FMB to maximise the efficiency of our public awareness initiatives and reach out to more people.</p>



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

INITIATIVE	DESCRIPTION	OBJECTIVE
EDUCATION PROGRAMME (ONGOING)	<p>PIDM became a member of the newly-formed Financial Literacy Strategy Working Committee (FLSWC), chaired by AFRK. The first meeting of the Committee was held in April 2008. Other members of the Committee include BNM, SC, Ministry of Education, Ministry of Higher Education, Employees Provident Fund (EPF), Malaysian Financial Planning Council (MFPC), ABM and the Federation of Malaysian Consumers Associations (FOMCA).</p> <p>PIDM commenced the development of an education programme for schools and higher learning institutions. The initial phases of the education programme are scheduled to be launched in 2009.</p>	<p>To contribute to the collaboration among FLSWC members in developing a comprehensive financial education framework under which initiatives can be effectively coordinated.</p> <ul style="list-style-type: none">• To educate students on PIDM and features of the deposit insurance system and to promote financial awareness and literacy, especially on the importance of savings.• To position financial awareness and literacy as a sustainable programme in schools and higher learning institutions through a variety of classroom teaching and enrichment activities.

NATIONWIDE CONSUMER SURVEY (MID-YEAR AND YEAR-END)	<p>PIDM commissioned an independent research agency to conduct nationwide surveys twice a year. The mid-year survey was conducted in July 2008, involving about 600 respondents and the year-end survey was conducted from October to November 2008, involving some 1,000 respondents.</p> <p>The respondents were surveyed using the quantitative method of face-to-face interviews. Similar to the past consumer surveys conducted for PIDM, the sample of respondents was nationally representative in terms of gender, age, race and region, so as to accurately represent the views of the Malaysian population.</p> <p>The findings of the surveys are used in the ongoing development and enhancement of PIDM's advertising and public awareness initiatives.</p>	<ul style="list-style-type: none">• To assess the current level of awareness and understanding of deposit insurance and PIDM.• To gauge the effectiveness of the ongoing advertising campaign and enhance the effectiveness of future campaigns.
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INITIATIVE	DESCRIPTION	OBJECTIVE
MEDIA RELATIONS (ONGOING)	<p>PIDM enhanced its media presence and educated the public about deposit insurance through media briefings, press conferences, exclusive interviews, articles, press releases and other media initiatives.</p> <p>PIDM conducted various media interviews including on 'Good Morning Malaysia' (<i>Selamat Pagi Malaysia</i>) and 'Malaysian Business' (<i>Bisnes Malaysia</i>), both television programmes on <i>Radio Televisyen Malaysia</i> (RTM), BFM 88.9 business radio as well as in the print media.</p> <p>In the second half of 2008, there was an increase in media coverage on deposit insurance and PIDM in view of the developments in the global financial markets, public concerns about deposit insurance protection and the subsequent announcement of the Government Deposit Guarantee (GDG) on 16 October 2008.</p> 	<ul style="list-style-type: none">• To enhance PIDM's profile.• To educate the public and convey key messages through the media as a highly effective and important communications channel and partner.

MOVING FORWARD

In the year 2009, PIDM will continue to conduct ongoing public awareness and outreach initiatives including advertising, briefings, participation in exhibitions and roadshows as well as media relations. With the announcement of the GDG on 16 October 2008 and the public awareness survey findings, PIDM is currently reviewing its public awareness strategy, initiatives and key messages for 2009 and 2010. The GDG, which will be in place until 31 December 2010, provides additional protection for depositors holding funds in deposit, over and above the PIDM limited coverage. Hence, PIDM is enhancing and revising its public information materials and official website to reflect the GDG and the resulting modifications to the limit and coverage.

PIDM will also continue to partner with IBBM, BNM and relevant organisations to enhance deposit

insurance knowledge among employees of those financial institutions whose deposits are now guaranteed under the GDG, particularly front-line customer service officers.

As part of its ongoing effort to ensure communications readiness in the unlikely event of a bank failure, PIDM will develop a Crisis Communications Manual and enhance its Call Centre as part of the development of the Payout System over the next two years.

The same period will also see PIDM focus efforts on the implementation of an education programme for schools and higher learning institutions to raise the awareness of deposit insurance and PIDM's role in the Malaysian financial system, as well as increase financial literacy among students towards creating a more informed and financially knowledgeable public.



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

At PIDM, we acknowledge that public sector bodies can play a greater role within our society and environment, and are committed to corporate social responsibility (CSR).

Our directors and employees are required, under the Codes of Business Conduct and Ethics, to respect and uphold our CSR Policy (Policy). Established in 2007, the Policy sets out our commitment towards good citizenry and governance as well as identifies the core themes for our CSR focus – employee well-being, community involvement and environmental protection. Our Policy, therefore, provides us with an understanding of the causes that we may choose to support.

CSR ACTIVITIES IN 2008

In 2007, we saw the development of a CSR framework comprising:

- (i) the CSR Policy;
- (ii) a procedure for handling requests by third parties for contributions; and
- (iii) a process to support employees in their CSR endeavours.

Since then, in 2008, we deliberated on how we might continue demonstrating corporate citizenship. In this regard, the CSR Task Force – a team of volunteer employees – continues to work towards selecting activities and programmes that are appropriately aligned to the three core themes identified in our Policy.

EMPLOYEE WELFARE

The Human Capital (HC) Division has been instrumental in championing the well-being of employees. In 2008, the HC Division organised a number of events to promote various aspects of employee welfare. For example, a training session on road safety and survival was conducted. The HC Division continues to inculcate our corporate values among employees. We have had two teambuilding weeks under our HC Initiative Week to promote

a healthy and friendly work environment for all employees. Also, an employee assistance programme was implemented to provide employees with access to counselling, if necessary, during periods of stress as well as to help them achieve a healthy work-life balance.

COMMUNITY INVOLVEMENT

Following our practice implemented in 2006, we continued with our "Jeans Friday" fund drive, whereby employees may wear jeans on Fridays at a nominal fee. The proceeds from the collection are intended to fund various charities like Rumah Nur Salam, a children's activity centre operating in Kuala Lumpur. This home was picked by employees of PIDM amongst a few not-for-profit organisations.

In addition, we raised money by holding a special employee auction. Employees had the opportunity to do a good deed by bidding for a variety of items and products – ranging from dinner vouchers to electronic appliances, all of which were sponsored by the senior management and employees – in a fun-filled event. The auction and the collection together raised approximately RM20,000 and this amount was then matched, Ringgit to Ringgit, by PIDM.

We intend to work with Rumah Nur Salam on how best to utilise these funds in 2009. This will necessarily involve identifying how the children are directly impacted by the lack of funding or other resources which the home needs. In line with efforts to engage employees in CSR activities, we are also looking to provide administrative or other support, where necessary, to Rumah Nur Salam as a separate capacity-building project.

ENVIRONMENTAL PROTECTION

We continued in 2008 to raise awareness on environmental issues. Following several documentary screenings on global warming and climate change, the CSR Task Force rolled out a list of energy-saving measures and other 'go green'



practices to be adopted by all employees. These simple, but effective practices, include turning off lights, water heaters, computers, printers and copiers when not in use, especially after office hours. Paper reduction measures have also been developed and the CSR Task Force is monitoring the usage of paper within PIDM. In the same vein, PIDM has ensured the use of environmental friendly paper in the publication of our Annual Report since 2007.

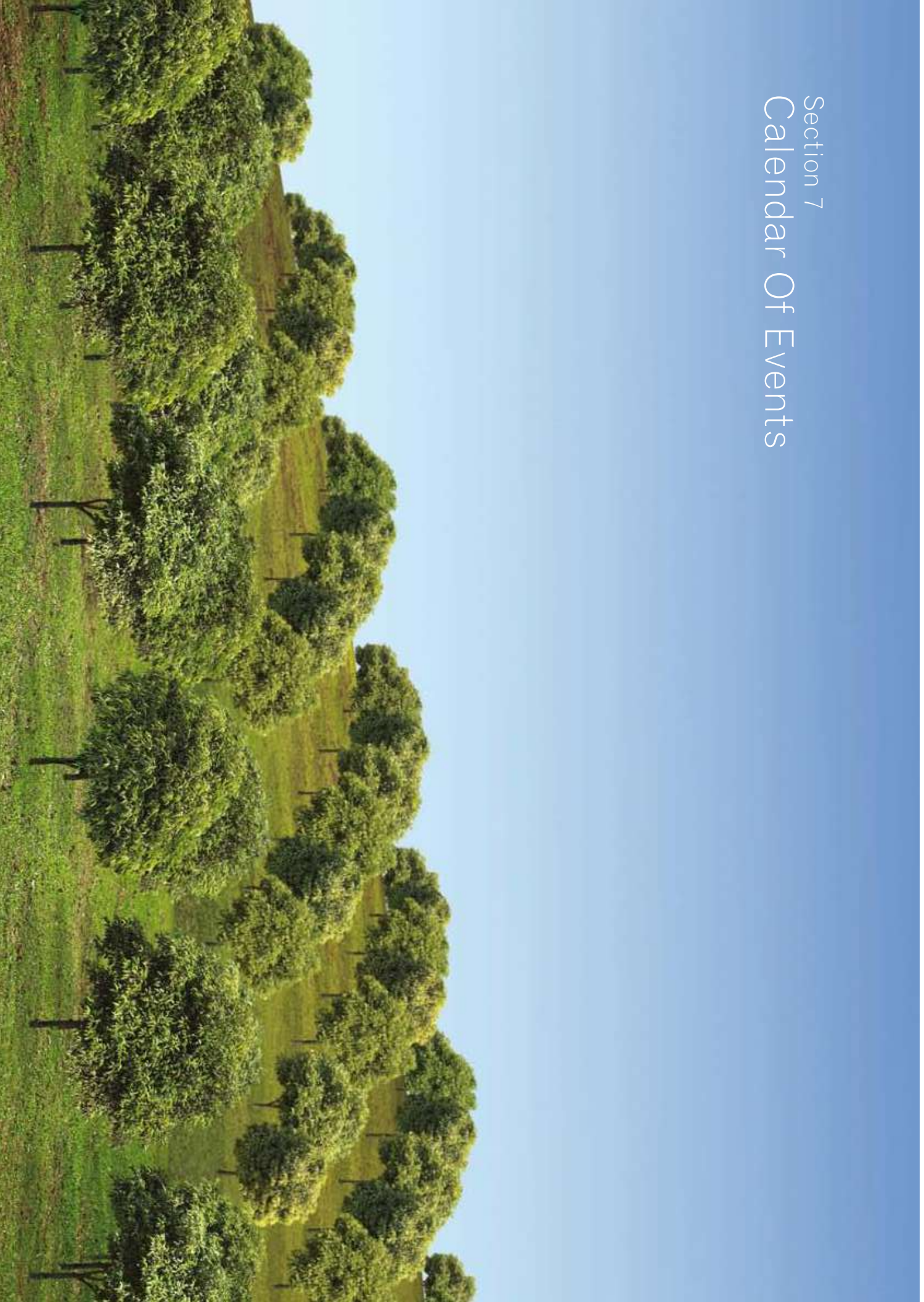
Apart from these, there was a trivia competition to test employees' general knowledge of the environment. Eco-friendly prizes were awarded to the top three winners, including an educational eco-trip to Sabah. Around the same time, the documentary film, "The 11th Hour" that focuses on how mankind is changing the global ecological landscape was screened.

MOVING AHEAD

Besides working with our charity of choice, we will be exploring the need for, and benefits of, a financial literacy programme in the future. This is an area that is not only in line with PIDM's mandate to increase depositor confidence, thereby promoting the stability of the financial system, but also one in relation to which we feel an obligation, given our organisation's mandate and our employees' experience and expertise. By researching into the areas we might be able to contribute or supplement, we believe we will be able to complement the larger financial education initiatives that are currently being provided.

Ultimately, we believe that we can make a meaningful impact on the society of which we are a part.

Section 7 Calendar Of Events





CALENDAR OF EVENTS 2008

JANUARY	7	PIDM, Kuala Lumpur	Audit Committee Meeting	FEBRUARY	4	PIDM, Kuala Lumpur	Audit Committee Meeting	FEBRUARY	21	Kuala Lumpur	Dialogue with Liaison Officers of Member Institutions	MARCH	2-4	Bangkok, Thailand	Courtesy Visit to Bank of Thailand
	11	PIDM, Kuala Lumpur	Visit by Reserve Bank of India		11	PIDM, Kuala Lumpur	Governance Committee Meeting		22-24	Sunway Pyramid Convention Centre, Selangor	International Financial Planning Advisors Conference (IFPAC) 2008		10	Kuala Lumpur	Briefing on Guidelines on the Differential Premium Systems (DPS) to Member Institutions
	25	Malaysian Bar Council, Kuala Lumpur	Briefing to Malaysian Bar Council employees		12-16	Basel, Switzerland	International Association of Deposit Insurers (IADI) Executive Council Meeting		26	Shah Alam, Selangor	Briefing on Deposit Insurance to Member Institutions		24	PIDM, Kuala Lumpur	Board of Directors Session: Advertising and Consumer Research
	25-26	Masjid Negara, Kuala Lumpur	Exhibition during the Islamic Financial Awareness Campaign (<i>Keperluan Kesedaran Kewangan Islam</i>)		14	PIDM, Kuala Lumpur	Study visit by students and academic staff of Universiti Institut Teknologi MARA (UiTM) Kampus Jenkka, Pahang		26 Feb- 1 Mar	Tokyo, Japan	3rd Deposit Insurance Corporation of Japan (DICJ) Roundtable Discussion		26-29	Bali, Indonesia	6th IADI Asia Regional Committee Annual Meeting and Conference
	30	Pulau Langkawi, Kedah	Briefing to Police Administrative and Civilian Staff Union (PACSU) Exco members		18	PIDM, Kuala Lumpur	Board of Directors Meeting								
		Pulau Langkawi, Kedah	Briefing on Deposit Insurance to Member Institutions		19	Islamic Banking and Finance Institute of Malaysia (IBFIM), Kuala Lumpur	Talk on Deposit Insurance at IBFIM I-Series Programme on Deposit and Liquidity Management								
		IBBM, Kuala Lumpur	Briefing on Deposit Insurance to Member Institutions												





CALENDAR OF EVENTS 2008

APRIL 1

Kota Kinabalu, Sabah
Briefing on Deposit Insurance
to Member Institutions

15

**Carcosa Sri Negara,
Kuala Lumpur**
Board of Directors Session:
Banking Supervision and
Intervention

17

**Mid Valley Exhibition Centre,
Kuala Lumpur**
3rd Entrepreneurship Expo

**Bank Negara Malaysia
(BNM), Kuala Lumpur**
Remuneration Committee
Meeting

APRIL 18

Melaka
Briefing on Deposit Insurance
to Member Institutions

19-28

**Melaka International
Trade Centre, Melaka**
Malaysian Unit Trust Week
(*Minggu Saham Amanah
Malaysia* - MSAM)

MAY 6-8

Basel, Switzerland
Financial Stability Institute
(FSI) and Toronto Centre
Joint Seminar on Dealing
with Problem Bank Situations

PIDM, Kuala Lumpur
Release of PIDM's DPS
Regulations

Johor Bahru, Johor

Deposit Insurance Awareness
Week – Briefing on Deposit
Insurance to Member
Institutions

Johor Bahru, Johor

Deposit Insurance Awareness
Week – Public Talk on Effective
Financial Consumer Protection

8-10

**Multimedia University,
Melaka**
Multimedia University (MMU)
Career and Entrepreneurship
Expo

11

PIDM, Kuala Lumpur
Audit Committee Meeting

14-18

PIDM, Kuala Lumpur
Human Capital Initiative Week
for PIDM employees





CALENDAR OF EVENTS 2008

MAY 12

Kuala Lumpur
Launch of PIDM Annual Report 2007
2nd Annual Dialogue with Member Institutions Press Conference

15

PIDM, Kuala Lumpur
Governance Committee Meeting

16

Kajang, Selangor
Briefing on Deposit Insurance to Member Institutions

30

PIDM, Kuala Lumpur
Audit Committee Meeting

JUNE 2

Kuala Lumpur
Briefing to students of Financial Sector Talent Enrichment Programme (FSTEP)

5-6

Kuala Lumpur
Talk on Deposit Insurance and PIDM Showcase at 12th Malaysian Banking Summit 2008 organised by Asian Strategy & Leadership Institute (ASLI)

11-13

Kota Kinabalu, Sabah
PIDM's Corporate Outreach by the Board of Directors and Executive Management Committee

20

Johor Bahru, Johor
Briefing to Regional Heads of Member Institutions, Development Financial Institutions and Insurance Companies

JUNE 21-22

Johor Bahru, Johor
My Career and Education Fair

26

Kota Bharu, Kelantan
Briefing on Deposit Insurance to Member Institutions

30

Kuala Lumpur
Meeting with Senior Management of Member Institutions on Consultation Paper on the Validation Programme for the DPS and Total Insured Deposits

JULY 5

The Mines Wonderland, Selangor
PIDM Family Day

7-10

Federal Deposit Insurance Corporation (FDIC) Training Centre, Arlington, USA
IADI Executive Training Programme on Resolution Management: Principles and Best Practices

8

Kuala Terengganu, Terengganu
Briefing on Deposit Insurance to Member Institutions

9

Bangi, Selangor
Briefing on Deposit Insurance at Institut Lathan Islam Malaysia (ILIM)

11-15

Washington DC, USA
Study Visit to the Federal Deposit Insurance Corporation (FDIC)





CALENDAR OF EVENTS 2008

JULY 14

PIDM, Kuala Lumpur
Media Briefing and Launch of
"PIDM & You" Contest



AUGUST 1

Sibu, Sarawak
Briefing on Deposit Insurance
to Member Institutions

18 **IBBM, Kuala Lumpur**

Briefing on Deposit Insurance
to Member Institutions

23 **Kuala Lumpur**

ERM Presentation at ASLI
Conference on Achieving
Effective ERM

26 **Miri, Sarawak**

Financial Club Workshop for
Primary School Students
at the National Level 2008
(Bengkel Kelab Kewangan
Pelajar Sekolah-Sekolah Rendah
Peringkat Kebangsaan 2008)



26-27 **Putra World Trade Centre,
Kuala Lumpur**

Exhibition at the Consumer Day
Carnival (*Karnival Hari Pengguna*)

31 **Kuching, Sarawak**

Briefing on Deposit Insurance
to Member Institutions



AUGUST 14

Batu Pahat, Johor
Briefing on Deposit Insurance
to Member Institutions

Batu Pahat, Johor
Briefing on Deposit Insurance
to the Chinese Chamber of
Commerce

16 **Kuala Lumpur**

Briefing on Deposit Insurance
to students of Masters of
Business Administration -
University of East London
(MBA-UEL) Programme

18-19 **Kuala Lumpur**

4th Southeast Asian Central
Banks (SEACEN) Public-
Private Dialogue

Kuala Lumpur
Hosting of Seminar on Islamic
Finance and Islamic Deposit
Insurance



21

PIDM, Kuala Lumpur
Knowledge Sharing Session
with representatives from
Deposit Insurance Fund Board
of Kenya and Philippines
Deposit Insurance Corporation

22-23

Kuala Lumpur
BNM – PIDM Friendship Games

26 **Bangi, Selangor**

Presentation on ERM at The
Malaysian Insurance Institute
(MII)'s International Risk
Management Conference 2008

28

IBBM, Kuala Lumpur
Briefing on Deposit Insurance
to Member Institutions





CALENDAR OF EVENTS 2008

SEPTEMBER 1-5

Taipei, Taiwan
IADI Executive Training on Resolutions Management: Principles and Best Practices

11
PIDM, Kuala Lumpur
Board of Directors Meeting

15
PIDM, Kuala Lumpur
PIDM's Regulations on Terms and Conditions of Membership come into force

22
Securities Commission (SC), Kuala Lumpur
Knowledge sharing with SC's Risk Management, Strategy & Development Team

OCTOBER 6-10

PIDM, Kuala Lumpur
Human Capital Initiative Week for PIDM employees

10
PIDM, Kuala Lumpur
Visit by Central Bank of Vietnam

13
University of Malaya, Kuala Lumpur
Briefing on Deposit Insurance for students of the Law Faculty, University of Malaya

16
PIDM, Kuala Lumpur
Visit by Deposit Protection Board of Zimbabwe

Kuala Lumpur
Announcement on Government Deposit Guarantee by Ministry of Finance and BNM

20
Institut Perguruan Temenggong Ibrahim (IPTI), Johor Bahru, Johor
Briefing to students and academic staff of IPTI

OCTOBER 21

Universiti Teknologi Malaysia (UTM), Skudai, Johor
Briefing on Deposit Insurance to students of the Faculty of Management and Human Resource Development, UTM

22
PIDM, Kuala Lumpur
Board of Directors Session: Strategic Planning

23
National Audit Academy (Akademi Audit Negara), Nilai, Negeri Sembilan
Presentation of the Financial Management Excellence Award (*Anugerah Pengurusan Kewangan Cemerlang*) to PIDM at the Accountability Index-Based Management Excellence Award Ceremony (*Majlis Anugerah Prestasi Pengurusan Cemerlang Berdasarkan Indeks Akuntabiliti*) by the National Audit Department (*Jabatan Audit Negara*)

24

BNM, Kuala Lumpur
Briefing on Government Deposit Guarantee to BNM's employees

24-26
Johor Bahru, Johor
Financial Awareness Week (*Minggu Kesedaran Kewangan - MKK*) Exhibition

27-31
Washington DC, USA
IADI 7th Annual General Meeting and Annual Conference

28
Washington DC, USA
Meeting with Sheila Bair, Chairman of FDIC

30
PIDM, Kuala Lumpur
PIDM's Regulations on Financial Agreements and Transactions Under Paragraph 80(n) of the MDIC Act come into force





CALENDAR OF EVENTS 2008

NOVEMBER 5

Putrajaya

Financial Education Workshop
2008 For Teachers (*Bengkel
Pendidikan Kewangan 2008 untuk
Guru-Guru*) under the BNM's
School Adoption Programme

19

Kuala Lumpur

Presentation of Certificate
of Merit to PIDM at National
Annual Corporate Report
Awards (NACRA)

DECEMBER 4

PIDM, Kuala Lumpur

Board of Directors Meeting

11

SC, Kuala Lumpur

Knowledge sharing with SC's
Risk Management, Strategy &
Development Team

10

PIDM, Kuala Lumpur

Audit Committee Meeting

20

Kuala Lumpur

Islamic Financial Services
Board (IFSB) Conference –
Enhancing the Resilience and
Stability of the Islamic Financial
System

12

Kuala Lumpur

"PIDM & You" Contest Prize
Giving Ceremony & Press
Conference

24

PIDM, Kuala Lumpur

Audit Committee Meeting

13

PIDM, Kuala Lumpur

Governance Committee
Meeting

25

BNM, Kuala Lumpur

Remuneration Committee
Meeting

16-18

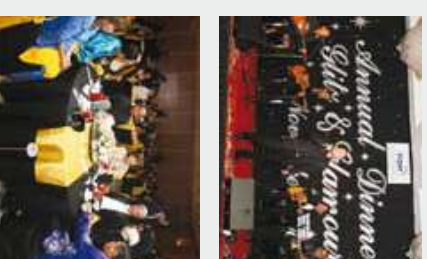
Beijing, China

FSI and Executives' Meeting of
East Asia-Pacific Central Banks
(EMEAP) Working Group on
Banking Supervision

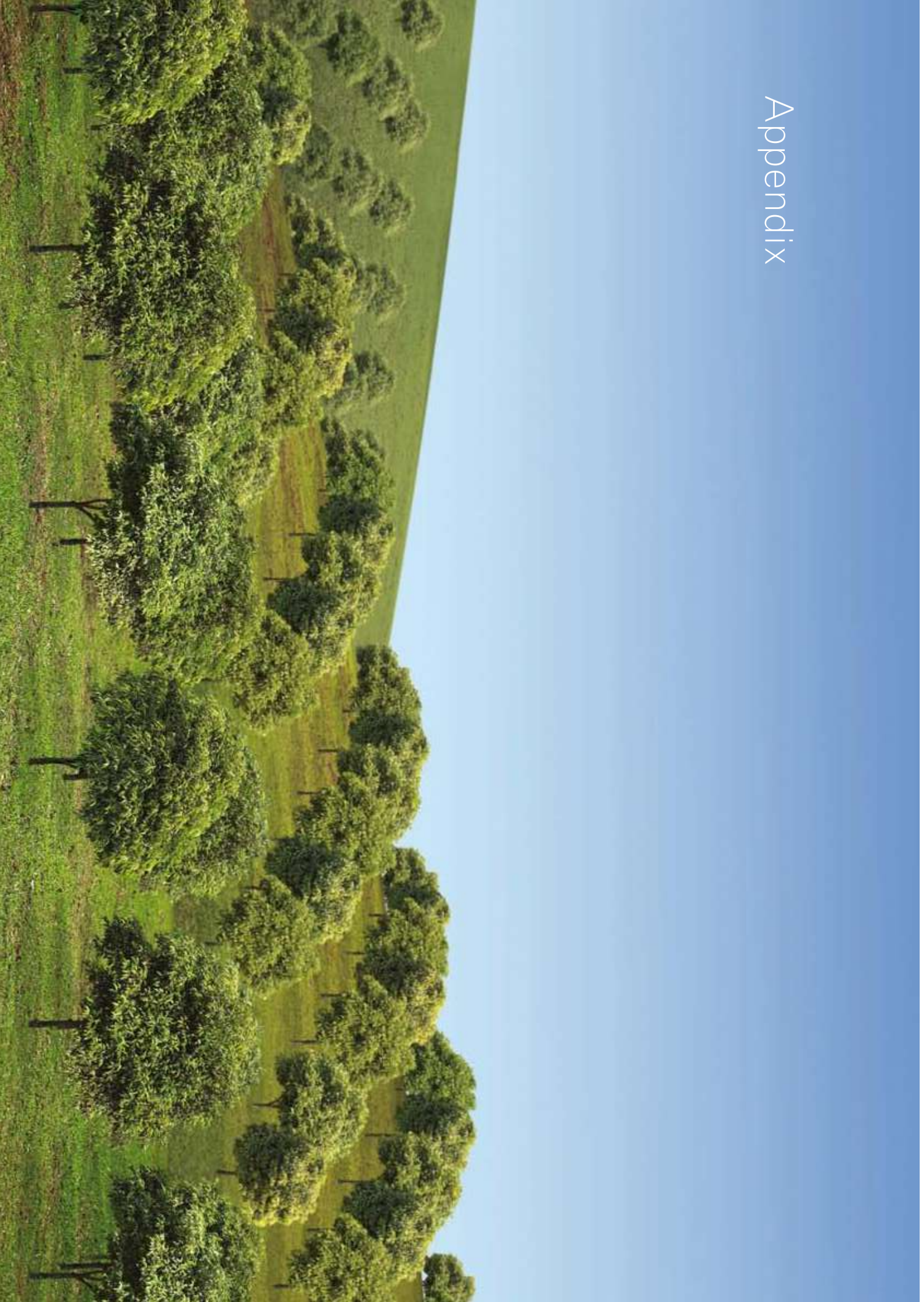
29

Kuala Lumpur

PIDM Annual Dinner



Appendix





APPENDIX

GOVERNANCE COMMITTEE CHARTER

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 (Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to direct the 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 a tie in 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 no less 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 a 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 and 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 a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

13. Review of Charter

The Committee shall review and assess the adequacy of this Charter at least once a year. 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 has 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) 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 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 mandate and responsibilities of the Board, the Chairman of the Board, the CEO, a member of the Board and the Board Committees.
- (c) Develop a process to assist the Board in determining whether the Board is satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention, as well as the appropriateness of that information.
- (d) Recommend to the Board, and annually implement, a method for regularly evaluating and assessing the effectiveness of the Board and of individual members of the Board and Board committees and recommend any appropriate changes arising therefrom.
- (e) Develop, recommend and annually review both a Board profile and a Board member profile of qualifications and skills and characteristics for individual directors so as to effectively fulfil the Board's responsibilities that take into consideration the current strengths, skills and experience on the Board, terms, retirement dates and the strategic direction of the Corporation.
- (b) Identify a list of potential Board nominees who fit the required profiles and update such list on a regular basis.
- (c) When a vacancy or vacancies on the Board occurs, consider the most recently recommended profiles and update them if required, and prepare and recommend to the Board a list of nominees to fill such vacancy or vacancies to enable the Board to make a recommendation to the Minister.
- (d) Develop and implement a strategy to communicate the profiles and potential candidate or candidates to the Minister.
- (e) Review periodically the compensation programme 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 any reports on governance that may be required or considered advisable for public disclosure be produced.

A. MANDATE

Pursuant to Section 7 of the Malaysia Deposit Insurance Corporation Act 2006, 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 (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 a tie in 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 no less 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 a 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 and 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 a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

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 has fulfilled the responsibilities and duties stated in this Charter.

15. Disclosure

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

16. Independent Counsel or Other Advisors

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

D. PRINCIPAL DUTIES AND RESPONSIBILITIES**1. Policies and Strategies**

(a) The Committee shall review key human resource policies and strategies and propose such changes as seem desirable.

(b) The Committee shall review the Corporation's compensation philosophy and its related policies, and make recommendations, if any, to the Board for approval.

(c) The Committee shall ensure that the Corporation has ongoing, appropriate and effective policies and procedures with respect to employee business conduct and ethical behaviour and shall review the policies and codes in respect of the same and make recommendations, if any, to the Board for approval.

2. Compliance and Reports

The Committee shall review reports with respect to:

(a) compliance with legal requirements and major

corporate policies pertaining to human resource matters on an annual basis; and

(b) compliance with policies on employee business conduct and ethical behaviour on an annual basis or immediately where circumstances dictate. When required, the Committee will request that Management provide a report to the Audit Committee in the event a breach occurs or a concern is raised that is of a nature that warrants such a report.

3. Matters referred by CEO

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

4. Reports to Board

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

5. Bonus Awards

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

6. CEO Objectives and Evaluation

The Committee shall:

(a) Review the annual statement of objectives for the CEO and recommend the same to the Board for approval; and

(b) Review the performance of the CEO based on an evaluation thereof by the Chairman of the Board, having regard to the aforesaid statement of objectives and any other relevant factors. The Committee shall make recommendations, if any, to the Board with respect to the CEO's compensation and bonus.

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.

A. MANDATE

Pursuant to Section 7 of the Malaysia Deposit Insurance Corporation Act 2006, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has considered it necessary to establish an audit committee.

B. OBJECTIVE

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

C. OPERATING PRINCIPLES**1. (a) Functions and Composition**

The Committee shall comprise three members of the Board of Directors, as named by the Board. Committee members shall each be independent of Management. The Committee will carry out such functions as are assigned or delegated to it by the Board.

(b) Competencies

All Committee members appointed to the Committee shall either:

(i) be financially literate upon appointment, that is, having a basic understanding of finance and accounting and being able to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows; or

(ii) undertake to be financially literate within reasonable period of time after their appointment to the Committee.

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

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

2. Chair

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

3. Quorum

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

4. Voting

A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast and in the event of an equal number 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 and conduct of meetings of the Committee.

6. Secretary and Minutes

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

7. Frequency and Calling of Meetings

The Committee will meet at the discretion of the Chair of the Committee no less than four times each year.



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8. Notice of Meetings

The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or a 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 82), 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 of the Committee's meetings.

13. Term of Appointment / Rotation of Committee members

Members of the Committee shall be changed on an appropriate and 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 a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

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 has fulfilled the responsibilities and duties stated in this Charter.

17. Disclosure

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

18. Independent Counsel or Other Advisors

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

D. PRINCIPAL DUTIES AND RESPONSIBILITIES

1. Advice and Recommendations to Board

In discharging its duties and responsibilities, the Committee relies on the expertise of Management, the Corporation's internal audit function and the AG. Although it does not carry out internal audits, the Committee shall monitor the audit and review the reports, and make reasonable inquiries to allow it to provide sound advice and recommendations to the Board.

2. Investigation

In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, AG and personnel of the Corporation. The Committee shall recommend to the Board that special

investigations be conducted into such matters as the Committee may deem appropriate based on the 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 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 and 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 these 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 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 (CFO) 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



APPENDIX

AUDIT COMMITTEE CHARTER

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 accounts, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:

(i) the assets of the Corporation are safeguarded and controlled;

(ii) the transactions of the Corporation are in accordance with the requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), other legislative requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister's Department; and

(iii) the financial, human and physical resources of the Corporation are managed economically

and efficiently and the operations of the Corporation are carried out effectively.

5. Strategic and Financial Management Oversight:

(a) Operating Budget and Capital Plans – review and recommend to the Board with respect to the Corporation's corporate plan and monitor and advise the Board with respect to Management's performance against the said plan.

(b) Financing – review and advise the Board with respect to the policies and procedures of the Corporation relating to, and the terms and conditions of, any external financing to be incurred or assumed by the Corporation, through the Corporation's debt or otherwise.

(c) Investments – review and advise the Board with respect to the policies and procedures of the Corporation relating to, and the terms and conditions of, the investment of the Corporation's cash assets in short-term and long-term securities.

(d) Chairman's and Officers' Expenses – receive reports from Management, and review reports thereon from the internal audit function and/or AG on their review of the expense accounts of the Chairman of the Board and Officers of the Corporation.

6. The Internal Audit Function

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

In order to fulfil its responsibilities, the internal audit function requires independent status and therefore, functionally reports directly to the Committee and, administratively reports to the

CEO. This relationship requires that the Committee and the internal audit function have unrestricted access to each other directly.

The Audit Committee is responsible for the oversight of the work of the internal audit function and for the compensation and oversight of the Chief Internal Auditor. The Chair of the Committee shall be consulted before the appointment of the Chief Internal Auditor and shall conduct entry and exit interviews with the same.

The Committee shall oversee any internal audit of the Corporation. The Committee's specific responsibilities include:

(a) reviewing the internal audit function's mandate on an annual basis;

(b) assessing the internal audit function's capabilities;

(c) reviewing the internal audit function's independence and reporting relationships;

(d) reviewing the internal audit function's audit plans, budgets, quality and quantity of staff and other resources it needs to do its job well;

(e) reviewing the internal audit function's performance including performance against its audit plans and budgets;

(f) reviewing the internal audit function's reports;

(g) monitoring the implementation of the internal audit function's reports and recommendations;

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

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

7. Risk Management

The enterprise risk management function provides independent advice, monitors and maintains the enterprise risk management framework of the Corporation, promotes effective management of all risk categories and fosters the establishment and maintenance of an effective risk culture throughout the Corporation.

The Chief Risk Officer (CRO), as the head of the enterprise risk management function, is responsible for the implementation, development and maintenance of the enterprise risk management framework for the Corporation. The enterprise risk management function assists and provides information to the Committee regarding all enterprise risk management activities and outcomes of the enterprise risk management process, that is, the identification, assessment, evaluation, treatment, monitoring and communication of the significant risks affecting the Corporation. The enterprise risk management function also provides independent assessments in respect of the Corporation's risk management capabilities, and provides recommendations to improve these capabilities, where appropriate. The CRO shall have regular reporting duties to the Committee as well as to the Full Board of Directors.

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

The Committee shall be responsible for the oversight of the work of the enterprise risk management function and for the performance, and oversight of the CRO, and shall ensure that the enterprise risk management function has a sufficient amount, and quality of resources to fulfil its roles. The Chair of the Committee shall be consulted before the appointment of the CRO or the termination of his or her employment and shall conduct entry and exit interviews with the same.



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

8. Ethical and Legal Compliance

The Committee shall:

- (a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- (b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management, reports on

compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a liability to the Corporation; and by reviewing any report that is received from the internal audit function, the AG and/or other Committee Chairs on their review of compliance with the same;

- (c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain reports, on an annual basis, that the Corporation is in conformity with applicable legal requirements;
- (d) review the results of Management's investigation of, and actions taken in connection with, any internal control or accounting matters that may be questionable;
- (e) establish 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 2009-2011

CORPORATE OBJECTIVES		KEY PERFORMANCE INDICATORS (KPIs)			TARGET		
					2009	2010	2011
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 (ERM) policies and practices e. Timeliness and relevance of information and quality of recommendation provided by Management for the Board to make informed decisions and fulfil responsibilities	High satisfaction High satisfaction 100% High satisfaction 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. Maintenance of ERM Framework: i. Ongoing risk assessment and review ii. ERM Board risk policies and practices iii. ERM Effectiveness Assessment Framework b. Implement the Government Deposit Guarantee (GDG) Framework	Review Develop & implement Develop & implement Implement	Review Review Review Implement	Review Review Review Implement		
		4. Public awareness index (general awareness of deposit insurance)	30%	35%	40%		
B	Educated and informed stakeholders	5. Successful completion of key initiatives: a. Review and implement the Integrated Communications Plan (including meeting the objectives of GDG): i. Implement advertising programmes ii. Implement public relations engagement programmes iii. Implement stakeholders engagement programmes b. Develop and implement education programme c. Develop and implement scholarship programme	Complete Complete Complete Complete Develop & implement Develop	Complete Complete Complete Complete Implement Implement	Complete Complete Complete Complete Implement Implement		
C	Effective partnerships	6. PIDM's relationship with: a. Bank Negara Malaysia b. Member institutions and other guaranteed financial institutions c. Suppliers d. International deposit insurers e. Government 7. Participate in international fora 8. Successful completion of key initiatives: a. Establish base of strategic partners 9. Actual vs. approved budgets	Strong Satisfactory Strong Strong Strong Strong	Strong Satisfactory Strong Strong Strong Strong	Strong Satisfactory Strong Strong Strong Strong		
D	Optimal use of resources	10. Successful completion of key initiatives: a. Develop and implement funding framework b. Develop and implement the frameworks for: i. Target Fund ii. Provisioning	Implement Phase 1 & develop Phase 2 Develop	Implement Phase 2 Develop & implement Develop	Develop & implement Develop & implement Develop & implement		

CORPORATE SCORECARD 2009-2011

CORPORATE OBJECTIVES		KEY PERFORMANCE INDICATORS (KPIs)			2009		TARGET 2010		2011		
E	Operational excellence	11. Internal Control Compliance	Strong	Strong					Strong		
		12. Internal Customer Satisfaction Survey	75%	75%					75%		
F	Competent and knowledgeable workforce	13. Successful completion of key initiatives: a. Review Guidelines on Differential Premium Systems (DPS) and Total Insured Deposits (TID) b. Develop and implement comprehensive Risk Assessment and Monitoring Frameworks (Phase 2 - Enhancement) c. Develop and implement Intervention and Failure Resolution methodology, policy, process and criteria d. Develop and implement policies and regulations for member institutions and other guaranteed financial institutions: i. Interest and dividend payable guidelines / rules ii. Other policies e. Develop and implement Payout System, policies and procedures: i. Phase 1 - Develop Depositor Liabilities Information Management and Depositor Relationship Management ii. Phase 2 - Develop Payment Management Process and System iii. Phase 3 - Develop Dynamic Deposit Database f. Implement annual IT Strategic Plan initiatives g. Develop and implement Business Continuity and Disaster Recovery (DR) Plans: i. Phase 1 - Assessment, Design and Plan Documentation ii. Phase 2 - Training, Awareness, Testing, DR Planning and Facilities Preparation iii. Phase 3 - Additional infrastructure implementation, simulation and compliance h. Develop Crisis Communications Manual i. Develop and implement Human Resources (HR) Information System	Review Develop Develop Complete Complete	Complete Implement Develop					Review & enhance Develop & implement		
		14. Implementation of annual training plan	80%	80%					80%		
		15. Successful completion of key initiatives: a. Develop and implement succession planning based on the Board-approved Succession Management Framework	Develop & implement	Review & enhance							
		16. Employee satisfaction index	75%	75%					75%		
		17. Successful completion of key initiatives: a. Implement employee-related programmes to promote a conducive corporate environment	Complete	Complete					Complete		
		G	Conducive corporate environment								
LEARNING AND GROWTH											
INTERNAL PROCESS											



APPENDIX

SUMMARY OF KEY POLICIES ESTABLISHED IN 2008

ENTERPRISE RISK MANAGEMENT POLICY STATEMENT

The Enterprise Risk Management (ERM) Policy Statement is a declaration of PIDM's approach, intentions and commitment to sound risk management. Recognising that the management of risk is an integral part of sound management, the policy sets out PIDM's commitment to ERM which includes the following:

- PIDM's ERM framework will ensure that relevant risk policies are fully communicated to employees and are effectively integrated in their daily operations.
- PIDM will ensure that the significant risks that may impact upon PIDM's objectives are being consistently and continuously identified, assessed, managed, monitored and reported on. The development of the ERM process and framework will be based on best practices in risk management.

- PIDM will regularly monitor and review the progress being made in developing an appropriate risk management culture. It will also implement and keep current risk management strategies as a basis for continuous improvement.

The ERM Policy Statement is available on PIDM's website at **www.pidm.gov.my**.

FACT SHEET ON GOVERNMENT DEPOSIT GUARANTEE

Deposits and instruments guaranteed	Deposits and instruments not guaranteed
<p>All deposits including:</p> <ul style="list-style-type: none"> • Fixed deposits, current accounts, savings accounts, joint and trust accounts • All Islamic deposits (structured or otherwise) • Principal guaranteed conventional structured deposits • Foreign currency deposits • Negotiable instruments of deposit held by non-banks 	<ul style="list-style-type: none"> • Conventional structured products that are not principal guaranteed • Deposits payable outside Malaysia • Inter-bank money market placements • Negotiable instruments of deposit held by banks • Repurchase agreements
<p>Financial institutions guaranteed</p> <ul style="list-style-type: none"> • All the 22 commercial banks and 17 Islamic banks including locally incorporated foreign banks • All the 15 investment banks • 2 international Islamic banks, namely Unicorm International Islamic Bank Malaysia Berhad and PT. Bank Syariah Muamalat Indonesia, Tbk • 5 deposit-taking development financial institutions, namely Bank Pembangunan Malaysia Berhad, Bank Perumahan Kecil & Sederhana Malaysia Berhad (SME Bank), Bank Simpanan Nasional, Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) and Bank Pertanian Malaysia Berhad (AgroBank) 	<p>Are branches and subsidiaries of domestic banks outside Malaysia guaranteed?</p> <p>No, but they may be guaranteed by a host country's temporary guarantee or their deposit insurance or protection scheme.</p> <p>Deposit guarantee limit</p> <p>The full amount of guaranteed deposits and instruments held with guaranteed financial institutions.</p> <p>Is the guarantee temporary or permanent?</p> <p>The guarantee is a temporary measure. It is effective from 16 October 2008 until 31 December 2010.</p>

FREQUENTLY ASKED QUESTIONS ON GOVERNMENT DEPOSIT GUARANTEE

- What is the new guarantee announced by the Ministry of Finance and Bank Negara Malaysia (BNM)?**
The new guarantee covers the full amount of guaranteed deposits and instruments held in specific financial institutions.
- What are the deposits or instruments guaranteed?**
All deposits including:
 - Fixed deposits, current accounts, savings accounts, joint and trust accounts
 - All Islamic deposits (structured or otherwise)
 - Principal guaranteed conventional structured deposits
 - Foreign currency deposits
 - Negotiable instruments of deposit held by non-banks
- What are the deposits and instruments not guaranteed?**
 - Conventional structured products that are not principal guaranteed
 - Deposits payable outside Malaysia
 - Inter-bank money market placements
 - Negotiable instruments of deposit held by banks
 - Repurchase agreements
- Which financial institutions are guaranteed?**
 - All the 22 commercial banks and 17 Islamic banks including locally incorporated foreign banks
 - All the 15 investment banks
 - 2 international Islamic banks, namely Unicorm International Islamic Bank Malaysia Berhad and PT. Bank Syariah Muamalat Indonesia, Tbk
- Are the branches and subsidiaries of domestic banks outside Malaysia guaranteed?**
No, but they may be guaranteed by a host country's guarantee or their deposit insurance or protection scheme.
- I am a non-resident of Malaysia, are my deposits held with banks in Malaysia guaranteed?**
Yes. Your place of residence or nationality does not matter.
- Is the guarantee a temporary or permanent measure?**
The guarantee is a temporary measure and is in place from 16 October 2008 until 31 December 2010.
- What is the role of PIDM now?**
Our role is to administer the Government guarantee and to work with BNM to ensure that our member institutions and the other guaranteed financial institutions do not engage in excessive risk taking and remain well capitalised. In addition, due to the guarantee, we now have enhanced responsibilities to exercise financial discipline over a larger number of financial institutions, to complement BNM's supervisory oversight.

APPENDIX

FREQUENTLY ASKED QUESTIONS ON GOVERNMENT DEPOSIT GUARANTEE

9. Is there going to be a change in premium rates for member institutions or a fee charged to other financial institutions covered under the guarantee?

The existing PIDM differential premium systems will remain in force. In addition, there will be a cost for the Government guarantee provided to member institutions and other guaranteed financial institutions. The details will be communicated later.

10. Do newly guaranteed financial institutions have to now be members of PIDM and comply with its rules and regulations?

No, it is not our intention for them to become members. However, PIDM and BNM will consider additional rules for guaranteed financial institutions to mitigate excessive risk taking.

11. What happens in January 2011? Will PIDM revert to the RM60,000 limit? And will all the guaranteed institutions continue to be guaranteed?

The temporary Government guarantee will expire on 31 December 2010. We plan to then revert to the explicit and limited coverage deposit insurance system. PIDM will monitor developments in the banking system and evaluate the need to increase the limit and scope of the coverage at that time.

12. Why was a temporary guarantee implemented and not an increase to the current deposit insurance limit?

The guarantee was implemented consistent with similar pre-emptive and precautionary depositor protection measures implemented in neighbouring jurisdictions to preserve confidence in our respective financial systems.

13. Is this decision to provide a temporary guarantee due to a deterioration of public confidence in the banking system?

No. Confidence of depositors remains intact. The implementation of the guarantee is strictly pre-emptive and in line with similar measures implemented in neighbouring jurisdictions.

APPENDIX

LIST OF FINANCIAL INSTITUTIONS GUARANTEED UNDER THE GOVERNMENT DEPOSIT GUARANTEE

<p>Commercial Banks (22)</p> <ol style="list-style-type: none"> 1. Affin Bank Berhad 2. Alliance Bank Malaysia Berhad 3. AmBank (M) Berhad 4. Bangkok Bank Berhad 5. Bank of America Malaysia Berhad 6. Bank of China (Malaysia) Berhad 7. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad 8. CIMB Bank Berhad 9. Citibank Berhad * 10. Deutsche Bank (Malaysia) Berhad 11. EON Bank Berhad 12. Hong Leong Bank Berhad 13. HSBC Bank Malaysia Berhad 14. J.P. Morgan Chase Bank Berhad 15. Maybank Banking Berhad 16. OCBC Bank (Malaysia) Berhad 17. Public Bank Berhad 18. RHB Bank Berhad 19. Standard Chartered Bank Malaysia Berhad 20. The Bank of Nova Scotia Berhad 21. The Royal Bank of Scotland Berhad 22. United Overseas Bank (Malaysia) Berhad <p><i>* denotes this institution provides Islamic Windows.</i></p>	<ol style="list-style-type: none"> 14. OCBC Al-Amin Bank Berhad 15. Public Islamic Bank Berhad 16. RHB Islamic Bank Berhad 17. Standard Chartered Saadiq Berhad
<p>Islamic Banks (17)</p> <ol style="list-style-type: none"> 1. Affin Islamic Bank Berhad 2. Alliance Islamic Bank Berhad 3. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad 4. AmIslamic Bank Berhad 5. Asian Finance Bank Berhad 6. Bank Islam Malaysia Berhad 7. Bank Muamalat Malaysia Berhad 8. CIMB Islamic Bank Berhad 9. EONCAP Islamic Bank Berhad 10. Hong Leong Islamic Bank Berhad 11. HSBC Amanah Malaysia Berhad 12. Kuwait Finance House (M) Berhad 13. Maybank Islamic Berhad 	<p>Investment Banks (15)</p> <ol style="list-style-type: none"> 1. Affin Investment Bank Berhad 2. Alliance Investment Bank Berhad 3. AmInvestment Bank Berhad 4. CIMB Investment Bank Berhad 5. ECM Libra Investment Bank Berhad 6. Hong Leong Investment Bank Berhad 7. Hwang-DBS Investment Bank Berhad 8. KAF Investment Bank Berhad 9. Kenanga Investment Bank Berhad 10. Maybank Investment Bank Berhad 11. MIDF Amanah Investment Bank Berhad 12. MIMB Investment Bank Berhad 13. OSK Investment Bank Berhad 14. Public Investment Bank Berhad 15. RHB Investment Bank Berhad
<p>International Islamic Banks (2)</p> <ol style="list-style-type: none"> 1. Unicorn International Islamic Bank Malaysia Berhad 2. PT. Bank Syariah Muamalat Indonesia, Tbk 	<p>Deposit-Taking Development Financial Institutions (5)</p> <ol style="list-style-type: none"> 1. Bank Pembangunan Malaysia Berhad 2. Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank) 3. Bank Kelasama Rakyat Malaysia Berhad (Bank Rakyat) 4. Bank Simpanan Nasional (BSN) 5. Bank Pertanian Malaysia Berhad (AgroBank)

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 CAR is the ratio of a bank's regulatory capital to its risk-weighted assets exposure. International standards recommend a minimum ratio of eight percent intended to permit banks to absorb losses without becoming insolvent, in order to protect depositors.

Competency Framework and Competency Model

As a subset of the Talent Management Framework, the Competency Framework outlines the development of the Competency Model. The Competency Model helps define characteristics that would differentiate PIDM from other organisations, and is aligned to the jobs, corporate objectives, corporate values, mission and vision of PIDM. The knowledge, skills and abilities needed for the different levels of employee performance are identified in the Competency Model.

Concentration Ratio

Concentration ratio measures the overall exposure of a member institution's loan portfolios in the economy, i.e. what percentage of outstanding loans are exposed to certain economic sectors. If a member institution's loans 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 any economic downturn and default in any one specific industry.

Conventional Deposit Insurance Fund

All premiums received by PIDM and interest earned minus the direct cost of operating the conventional deposit insurance system.

Differential premium system

A system to levy premiums on member institutions at differential rates, based on the member institution's risk profile.

Efficiency Ratio

Efficiency ratio measures the ability of a member institution to optimally deploy 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 and 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.

Government Deposit Guarantee

The Government Deposit Guarantee (GDG) announced by the Government of Malaysia on 16 October 2008 is a temporary deposit guarantee that covers the full amount of guaranteed deposits and instruments held in member institutions and other guaranteed financial institutions. The GDG is a pre-emptive and precautionary measure, consistent with measures taken by neighbouring jurisdictions, to preserve confidence in the financial system and continues to be in effect until 31 December 2010.

Integrated Communications Plan (Plan)

This five-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 PIDM's authority and credibility as the administrator of the deposit insurance system.

Intervention and Failure Resolution

Intervention refers to actions taken on a member institution by PIDM in order to address certain concerns with the member institution. These actions are usually taken prior to any failure resolution option being taken against the member institution. Failure resolution refers to actions in dealing with a failed member institution that has been declared non-viable.

Intervention and Failure Resolution Framework

A framework that will guide PIDM in developing intervention and failure resolution measures. It outlines PIDM's overall intervention and failure resolution approach and sets out the various actions and options available to PIDM to deal with a troubled or failed member institution.

Islamic Deposit Insurance Fund (IDIF)

All premiums received by PIDM from member Islamic banks or member commercial banks providing Islamic banking services and returns made minus the direct cost of operating the Islamic deposit insurance system.

Limited-coverage deposit insurance system

A deposit insurance system that insures eligible deposits placed in member institutions up to a legislated or specified limit.

Mandate

A mandate is a set of official instructions or statement of purpose.

Market discipline

A situation where depositors or creditors assess the risk characteristics of a bank and act upon such assessments to deposit or withdraw funds from a bank.

Member institutions

Member institutions are all commercial banks (including locally-incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983. Membership is compulsory under the Malaysia Deposit Insurance Corporation Act 2005. A full list of these banks is available on page 184.

Moral hazard

The incentive for additional risk taking that may arise from the provision of deposit insurance or deposit guarantee given that financial institutions do not suffer the adverse consequences of risk taking.

Mudharabah

A form of partnership where one party provides funds while the other provides expertise and management. Any profits accrued are shared between the two

parties on a pre-agreed basis, while the loss is borne by the provider(s) of the capital.

Mudharabah

A sale of an item on mutually agreed profit where the seller charges the buyer the cost of the item plus a profit.

Other guaranteed financial institutions

These are non-member financial institutions covered under the Government Deposit Guarantee, namely investment banks, international Islamic banks and deposit-taking development financial institutions regulated by Bank Negara Malaysia. A full list of these banks and financial institutions is available on page 184.

Payout System

A system to reimburse depositors in respect of their insured deposits in the event of a member institution failure.

Qard

A loan contract whereby the borrower is only obligated to repay the principal amount of the loan.

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 principles

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).

Talent Management Framework

The Talent Management Framework captures the key definition for talent and philosophies which relate to the management of talent. It highlights the strategic intent of acquiring the best talent, getting the best out of our employees and retaining the right talent for PIDM to ensure a consistent supply of talent which can be aligned to the right job at the right time.

Total Insured Deposits

The sum of deposits insured by PIDM and held in a member institution.

Wadiah

A contract for the safe keeping of deposits based on trust.



APPENDIX

CONTACT US

For more information about PIDM

- Contact our Customer Service Call Centre
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