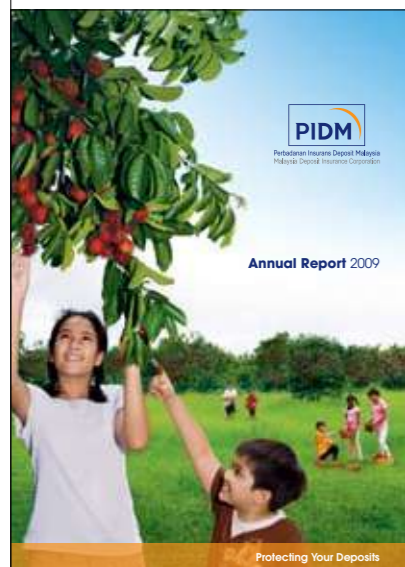


Perbadanan Insurans Deposit Malaysia
Malaysia Deposit Insurance Corporation

Annual Report 2009

Protecting Your Deposits



The cover features an orchard with children gathering fruit and playing amongst the trees. Many hours of hard work and care have gone into this orchard for the children to enjoy the fruits of the orchard keeper's efforts. Year after year, the keeper toils to ensure a thriving and abundant orchard so that the children may continue to harvest the rewards of his labour for generations to come.

As the national deposit insurer, PIDM seeks to emulate the keeper's diligence by working to promote strength and stability in the Malaysian financial system and provide depositors with the assurance that their deposits are safe. Driven by a culture of excellence and professionalism, integrity, trustworthiness and financial stewardship, and practising respect and fairness at all times, we continuously strive to fulfil our mandate and deliver on our vision of being "A best practice deposit insurer".



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 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.

Our Vision

- A best practice deposit insurer

Our Mission

- 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

Our Strategic Thrusts

- Operational excellence
- Public confidence in the financial system

Our Corporate Objectives

- Educated and informed stakeholders
- Effective partnerships
- Sound governance
- Robust risk assessment, monitoring and resolution capability
- Sound business and financial practices
- Competent and knowledgeable workforce
- Conducive corporate environment

Our Corporate Values

- 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). As part of the national financial safety net system, we administer the deposit insurance system and insure depositors against loss of part or all their deposits in a bank failure, provide incentives for sound risk management in the financial system as well as promote and contribute to the stability of the financial system.

Our 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, with a membership of 39 such banks as at end-December 2009.

The Malaysian deposit insurance system covers Islamic and conventional deposits separately. It is funded by annual premiums collected from the member institutions in respect of Islamic and conventional deposits, with the funds separately administered. The Islamic Deposit Insurance Fund is administered in accordance with Shariah principles.

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

DEPOSIT COVERAGE AND THE TEMPORARY GOVERNMENT DEPOSIT GUARANTEE

Under normal circumstances, the law provides for an explicit, limited deposit insurance coverage in relation to a bank failure.

In 2008, the Government Deposit Guarantee (GDG) was announced as a pre-emptive measure to preserve public confidence and to maintain financial stability in Malaysia, in line with developments in other jurisdictions. The GDG is effective until the end of December 2010.

During the GDG, deposit protection is unlimited, and covers certain types of deposits not ordinarily covered including foreign currency deposits. Aside from deposits held by commercial and Islamic banks, the GDG also extends to Ringgit and foreign currency deposits held by 15 investment banks, three international Islamic banks and five deposit-taking development financial institutions regulated and supervised by Bank Negara Malaysia (BNM).

As we have been entrusted with the task of administering the GDG, PIDM's scope of responsibilities has been expanded during the GDG period. Other than commercial and Islamic banks, PIDM has expanded regulatory and intervention powers over guaranteed financial institutions with the enactment of the Stabilisation Insurance powers, and will continue to monitor the state of health of all of these institutions for these purposes.

In the event of a failure of any financial institution fully under the purview of PIDM, PIDM will act promptly to reimburse depositors and take such other measures as are appropriate to promote and maintain public confidence in the stability of the Malaysian financial system.

FINANCIAL SYSTEM STABILITY

In carrying out our functions, we work closely with BNM, which is the primary regulator and supervisor. Our working relationship is mandated in the MDIC Act and detailed in a Strategic Alliance Agreement. Our partnership with BNM is critical, and ensures timely exchange of information on guaranteed financial institutions and collaboration in all significant aspects of our risk assessment and monitoring activities.

PIDM also complements the existing regulatory and supervisory framework by providing incentives for banks to implement sound risk management practices. We are also empowered to intervene early to reduce or avert losses to the financial system, and we are armed with a wide range of legislative tools to deal with distressed banks. Our intervention and resolution powers enable us, among others, to acquire assets from banks or to provide financial assistance, where appropriate. Once a member institution is deemed by the supervisor to be no longer viable, we can assume control over the institution or take such other actions to implement a least cost resolution as appropriate.

Clear communications to engender public confidence about the national deposit insurance system is key to our success in promoting and contributing to the stability of the financial system. As such, we carry out regular public awareness and education initiatives to enhance the level of awareness and understanding about the benefits deposit insurance provide.

INTRODUCTION

THE YEAR 2009 AT A GLANCE



In 2009, we continued to implement our human capital strategy, intensified our risk assessment and monitoring activities, and continued to implement our Intervention and Failure Resolution Project as well as other initiatives to ensure operational readiness to meet our mandate. We also continued to benchmark our practices to the highest of standards of governance and management so as to maintain public confidence in PIDM and to demonstrate our ability to contribute to the stability of the financial system.

HIGHLIGHTS OF OUR ACCOMPLISHMENTS IN 2009

| KEY ACCOMPLISHMENTS IN 2009 | |
|-----------------------------|---|
| Stakeholders Perspective | Best practices in corporate governance <ul style="list-style-type: none">Established the reporting line of the Chief Risk Officer (CRO) to the Board of Directors (Board) through the Audit CommitteeTook a long-term horizon in implementing our Board succession plan, to deal with leadership successionCarried out key senior management succession planningDocumented our Directors Orientation Programme including a Directors' Guide, and enhanced our corporate compliance programmeOur 2008 Annual Report won the "Best Annual Report" award in the Non-Listed Organisations Category for under the National Annual Corporate Report Awards |
| | Communications with stakeholders <ul style="list-style-type: none">Continued to implement our Integrated Communications Plan. This included carrying out advertising 'bursts' during the year through various media such as the television, radio and print, as well as educating our stakeholders through on-the-ground activitiesHeld our yearly Annual Dialogue with member institutions and other stakeholders, on release of our 2008 Annual ReportCarried out our annual Corporate Outreach in Kuching, Sarawak |
| | Stakeholder relations <ul style="list-style-type: none">Continued to maintain a good relationship with BNM, including establishing collaborations for key areas, including the strategy to exit from the GDG, and intervention and failure resolution methodologyContinued to maintain an effective working relationship with our member institutions and other guaranteed financial institutions, by regular communications and consultations as necessaryContinued to carry out our Corporate Social Responsibility activities |
| | International relations <ul style="list-style-type: none">Participated in international fora by attending, organising and hosting 14 events. Also participated and conducted six domestic events including seminars, training, knowledge-sharing meetings and briefingsNominated in 2009 for the second year in a row for the International Association of Deposit Insurers "Deposit Insurer of the Year" award |
| Financial Perspective | <ul style="list-style-type: none">Carried out all our key initiatives for the year within the approved budget in accordance with our Corporate Plan |

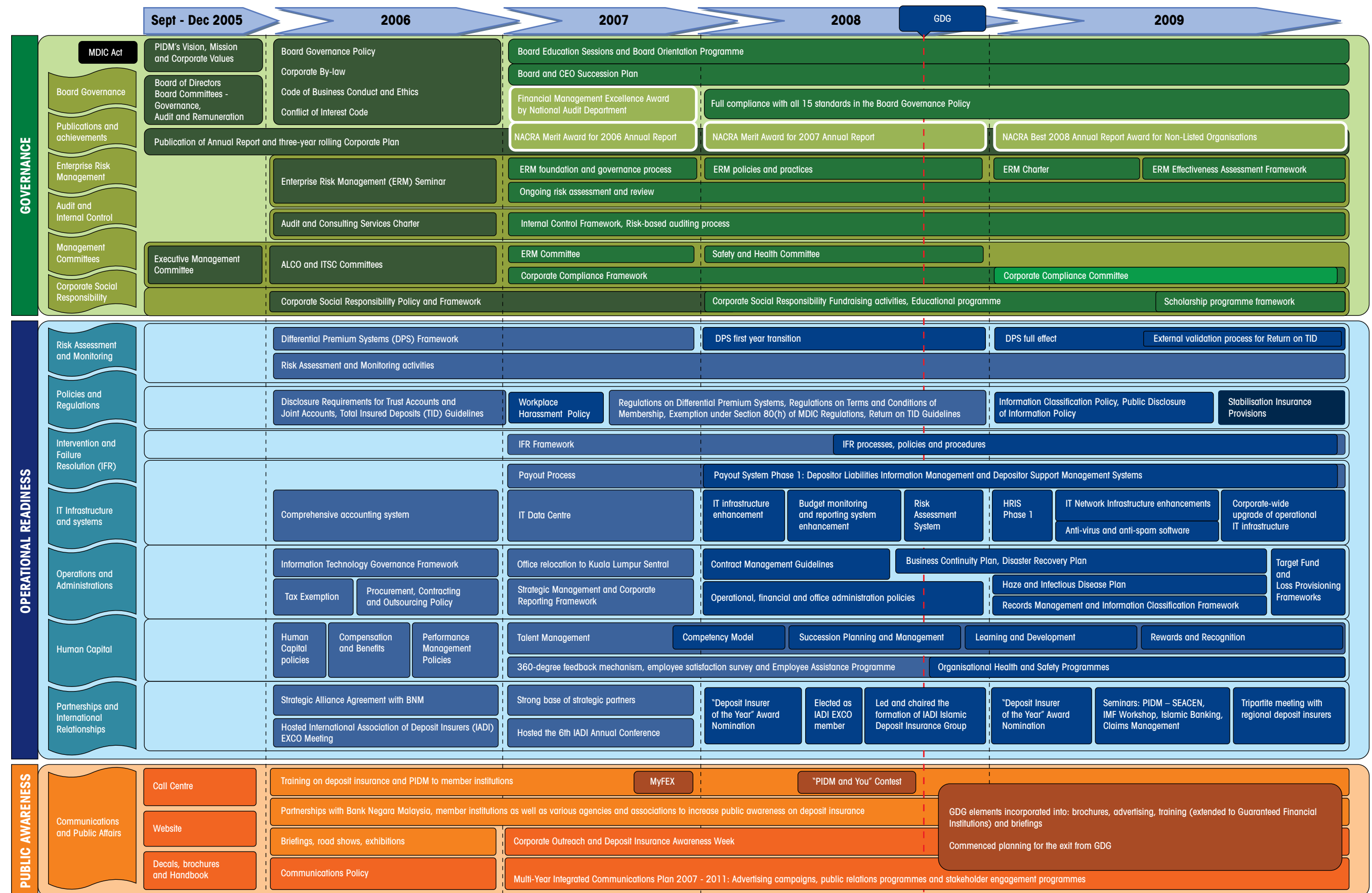
INTRODUCTION

THE YEAR 2009 AT A GLANCE

| | KEY ACCOMPLISHMENTS IN 2009 |
|---------------------------------|---|
| Internal Process Perspective | <p>Internal efficiency</p> <ul style="list-style-type: none"> • Implemented the external validation process for the Return on Total Insured Deposits submitted by member institutions • Continued the assessment and monitoring of member institutions and other guaranteed financial institutions • Commenced the development of the detailed processes, policies and procedures to support intervention and failure resolution activities • Developed a Business Continuity Plan and a Haze and Infectious Disease Plan to ensure continuity of our business <p>Enhancements</p> <ul style="list-style-type: none"> • Conducted reviews and self-assessments of our practices, including the effectiveness of our Enterprise Risk Management (ERM) Framework, and carried out Information Technology (IT) security assessments and penetration tests • Implemented the Disclosure of Information Policy and operationalised the Information Classification Policy <p>Leveraging on IT</p> <ul style="list-style-type: none"> • Completed both strategic and operational initiatives and activities as set out in our 2009 Information Technology Strategic Plan, including the corporate-wide upgrade of our operational IT infrastructure as well as the enhancement of our network and security infrastructure • Continued to build our core operations systems, including the implementation of our Depositor Liabilities Information Management System and the Depositor Support Management System • Completed the first phase of our Human Resource Information System, to promote employee self-service throughout the organisation |
| Learning and Growth Perspective | <ul style="list-style-type: none"> • Continued to implement our training programmes, both internally and at external training • Continued our work on engendering a conducive work environment, and exceeded our target employee satisfaction index at 79% (target 75%) |

INTRODUCTION

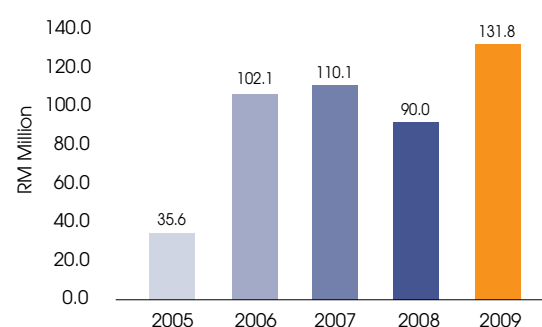
OUR FIVE YEARS IN RETROSPECT



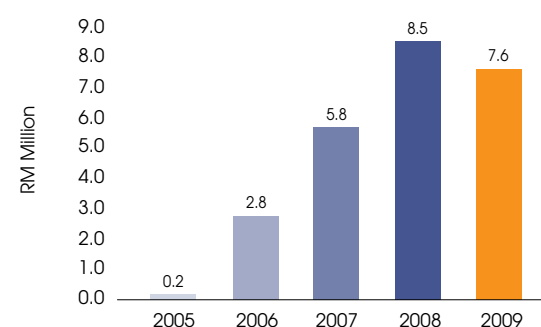
INTRODUCTION

FINANCIAL SUMMARY: PIDM'S FIVE-YEAR PERFORMANCE

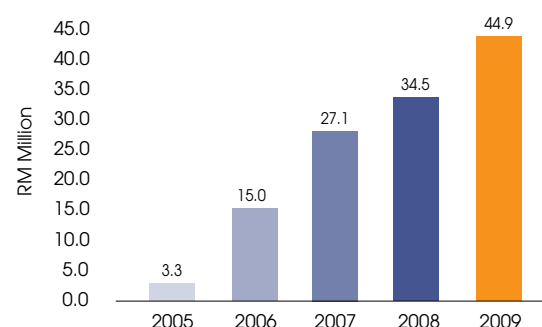
PREMIUM REVENUE



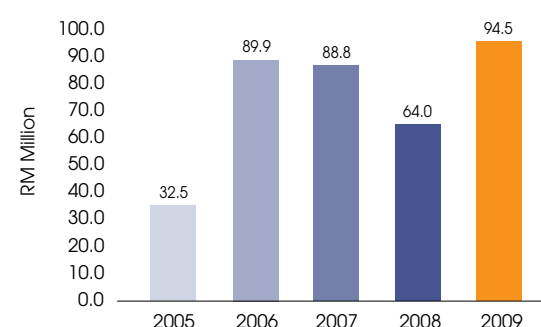
INVESTMENT INCOME



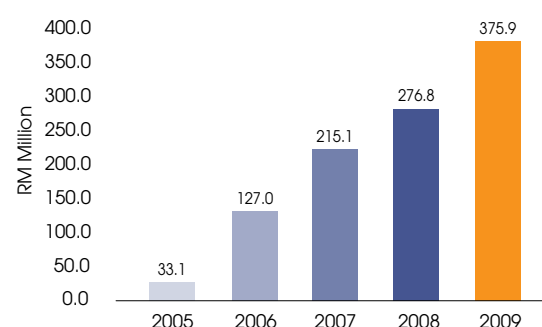
OPERATING EXPENSES



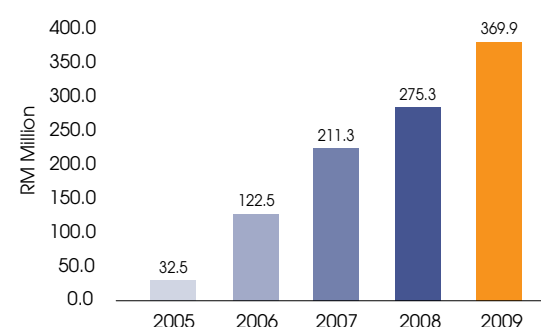
NET SURPLUS



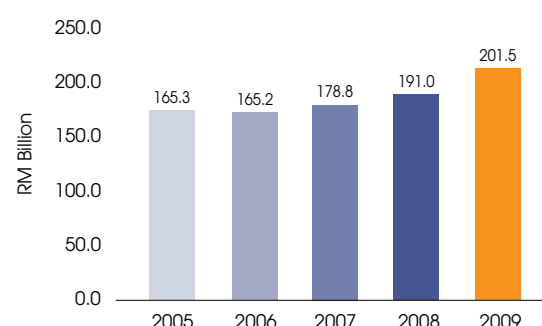
ASSETS



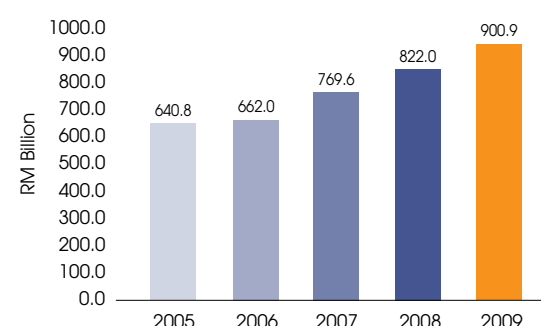
DEPOSIT INSURANCE FUNDS



TOTAL INSURED DEPOSITS



TOTAL DEPOSITS



FOR THE YEARS ENDED 31 DECEMBER

SELECTED INCOME STATEMENT ITEMS (RM Million)

Premium Revenue

| | 2009 | 2008 | 2007 | 2006 | 2005* |
|--------------|-------|------|------|------|-------|
| Conventional | 109.2 | 76.0 | 98.5 | 92.7 | 32.3 |
| Islamic | 22.6 | 14.0 | 11.6 | 9.4 | 3.3 |

Investment Income

| | 2009 | 2008 | 2007 | 2006 | 2005* |
|--------------|------|------|------|------|-------|
| Conventional | 6.7 | 7.5 | 5.2 | 2.6 | 0.2 |
| Islamic | 0.9 | 1.0 | 0.6 | 0.2 | 0.0 |

Operating Expenses

Net Surplus

SELECTED BALANCE SHEET ITEMS (RM Million)

Total Assets

Total Liabilities

Deposit Insurance Funds

| | 2009 | 2008 | 2007 | 2006 | 2005* |
|--------------|-------|-------|-------|-------|-------|
| Conventional | 320.9 | 243.0 | 190.4 | 111.2 | 29.5 |
| Islamic | 49.0 | 32.3 | 20.9 | 11.3 | 3.0 |

Total Deposit Insurance Funds and Liabilities

FOR ASSESSMENT YEAR

Total Insured Deposits (RM Billion)**

Growth Rate of Insured Deposits (%)

Total Deposits (RM Billion)**

Growth Rate of Deposits (%)

Note:

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

** Total Insured Deposits and Total Deposits for assessment year 2009 refers to deposit positions as at 31 December 2008 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

GOING FORWARD

- Our Corporate Plan 2010 - 2012 sets out our strategic direction, focus and priorities to fulfil our mandate effectively and to work towards our vision.
- Our focus over the planning period will include continuing to enhance our operational readiness in terms of policies, processes, systems and infrastructure, and in particular, on developing our core talents so that we are efficient and effective in all aspects of our work. To ensure that we are well governed and well managed, we will continue to adopt and promote best practices in governance and management practices, and we will continue our efforts to keep our stakeholders educated and informed about the deposit insurance system.





MESSAGE FROM THE CHAIRMAN

TAN SRI DATO' ABDUL AZIZ HAJI TAHA

It is an understatement to say that much has happened in the world economy in the past two years. Changes have been more abrupt with more widespread effects than many would have imagined. Looking back at 2009, we cannot but note the swings in the global economy. It was a year that began with expectations of the worse, and which rode its course to incipient recovery, interrupted intermittently with anxieties about debt-ridden countries. And, during this period, we have witnessed intense discussions on global financial regulation and an abundance of recommendations on corporate governance and risk management.

In Malaysia, like others in the region, policymakers and regulators have kept a watchful eye for the spillover effects of the global environment into our real economy and for their possible impact on member institutions. The Government temporary blanket guarantee remained in place, with no untoward incidents. We are pleased to be able to report the robust health of our member institutions and to note some positive signs for the economy going forward.

At the same time, we are increasingly conscious that we must assess our risks on a system-wide basis and watch not only for isolated member institution failures, but we must also evaluate how changes around us can affect the broader health of our financial system, and look for ways to minimise these risks. Global experiences remind us of the need for a wider and longer term view of the possible direction and needs of our financial system.

Events in the global financial world have captivated policymakers and have no doubt fascinated the Malaysian banking community. There is no longer any question that the global financial system is broken, and that it must be fixed. But what does this mean to us in Malaysia? And what lessons do we at PIDM learn as a deposit insurer?

FINANCIAL REGULATION

Globally, it would not be difficult to anticipate likely changes in capital regulation in the offing. We will see more scenario-based tests on credit, market and liquidity risks, in order to achieve a forward looking assessment of the ability of players to withstand adverse and significant macro-financial shocks. We will also see more intense supervision of banks' liquidity positions through stress-testing requirements. And we can expect much more in global financial regulation that will run counter to the previous thinking that markets are best left to police themselves.

INTRODUCTION

MESSAGE FROM THE CHAIRMAN

In Malaysia, supervisory and regulatory approaches have stood well the test of time, and remain ahead of the curve. Bank Negara Malaysia has long required stress-tests and its "New Liquidity Framework" - established since 1998 - has helped ensure bank liquidity buffers. Recent central banking legislation also enhances Bank Negara Malaysia's ability to deal with systemically important institutions and recent amendments to our own legislation enhance Malaysia's financial safety net design, allowing for the preservation of public confidence in extraordinary circumstances.

At the same time, in a globally-linked world, we must also remain vigilant to the exposures of key sectors that borrow from our financial institutions and expand our understanding of risks. In 2009, we stepped up our assessment and monitoring of all our guaranteed financial institutions; we gathered information about key industry sectors; and we commenced the development of our own early warning system, which will continue into the next planning period.

CORPORATE GOVERNANCE

It is remarkable to note that, in a short span of time since February 2009, no less than five key consultations and reports have been issued on corporate governance in the United Kingdom alone¹. In November 2009, the UK Government also introduced a new Bill to its parliament, containing various measures to support better corporate governance. If passed, it will provide more rights to consumers, including the ability to take collective actions against financial institutions for failure in practices.

In the United States, where shareholder derivative lawsuits and securities class actions have long been allowed, the spate of litigation began early on as the crisis unfolded. Many a suit was made against directors and officers of financial institutions for breaches of fiduciary duties and negligent supervision of lending practices. And the debate on the proposed new independent Consumer Financial Protection Agency for consumer financial products and services continues to rage. We await the outcomes of these, and other, more extraordinary proposals.

What resounds, plainly, is a wake-up call for directors and officers of financial institutions. Today, there are greater expectations from directors of financial institutions, and society demands that they show a greater commitment

to their roles and responsibilities and have a better understanding of the complexities of their business and related risks.

In Malaysia, our markets are beginning to liberalise, and our banks have begun venturing overseas. Bank structures are likely to become more complex, more global, and competition will no doubt intensify. And, while we hope that we have learnt from experiences elsewhere, we must remember that it is in times of boom and profits that collective "groupthink" can lead to considerably much larger consequences on many more people across society than shareholders alone.

In this context, where do we as regulators come in? In Malaysia, as in many of the Asian countries with concentrated shareholding structures, market discipline mechanisms are fledglings. And recent experiences elsewhere show the limitations of shareholder activism, even in those countries with dispersed corporate shareholdings and class actions.

Absent an environment of effective market discipline, it becomes all the more important that policymakers and regulators in Malaysia play a significant role in this area. In this context, our role is as follows:

- (a) First, as mandated by law, we must provide incentives for sound risk management in the financial system. Thus we have adopted the Differential Premiums Systems, which encourages member institutions to operate in a sound and prudent manner and manage their risks effectively.
- (b) Second, directors and officers of financial institutions must understand their roles and responsibilities and their businesses. Beginning in 2008 and throughout 2009, we have been involved in directors' education in financial institutions. PIDM and Bank Negara Malaysia jointly drive the implementation of the Financial Institutions Directors' Education Programme (FIDE) that focuses on corporate governance in financial institutions.

The objective of these initiatives is aimed at reinforcing the importance of sound risk management, and ultimately, on developing a class of directors that would be resistant to the type of "groupthink" within financial institutions that has led, in some economies, to reverberating consequences of the grandest scale.

OUR WORK AND LOOKING AHEAD

Our own business, too, inherently involves risks. Naturally, we plan according to priorities needed to reduce our greatest risks. This necessarily means that, aside from risk assessment and monitoring of the guaranteed financial institutions, we must continue to scan for changes in our environment, as well as respond to our stakeholders as needed.

By the very nature of financial markets, which perform the very essential societal functions of managing risk, allocating capital and mobilising savings, regulation will continue to be critical. As a regulator, we will also continue to monitor, with great interest, global developments in the areas of capital regulation, liquidity, derivatives and others, including mechanisms for rescuing or dismantling large, complex financial institutions and on curbing the riskiest of activities within commercial banks.

We will also continue our work to take corporate governance in financial institutions to the next level, so that our financial institutions are entrusted in the hands of stewards who understand and accept responsibility for the institutions that they lead, and explore more ways of incentivising sound risk management.

Ultimately, however, despite all regulation and efforts, total safety in a financial system can never be guaranteed. Financial institutions can and do fail. As a deposit insurer, it is imperative for us to have institutional and legal frameworks governing early warning and interventions, and to be prepared to act promptly and decisively once an institution's viability is in question.

In view of this, readiness has been at the centre of our initiatives for the planning period 2009 to 2011. As we have seen, failures can be sudden, and costly, if not handled promptly. In 2009, we carried out many readiness initiatives, including a close examination of our current legislation, and the development of documentation and the infrastructure for prompt and successful responses in the event of an institution failure. Many other initiatives were carried out to ensure our readiness, as detailed in our CEO's message and our annual report.

Going forward, we plan to press on with some urgency, including undertaking simulations to assess our ongoing capacity and effectiveness to meet our mandate. At the same time, we will also continue to invest in cementing our foundations - our people, infrastructure and processes - with a long-term investment horizon.

CONCLUSION

By focusing our investments wisely on our people to ensure their skills, competence, and readiness, and by collaborating with other safety net players and our strategic partners, I believe we can achieve significant returns on these investments, which would benefit the financial system and our society at large in the long term.

I do not forget, in closing, to welcome to PIDM our new private sector Board member, Mr. David Dass, who joined the Board in 2009. I would thank my colleagues on the Board, for their wisdom, guidance and willingness to contribute to public service - their commitment and insightful contributions are unparalleled. I would also formally thank our counterparts from the Deposit Protection Agency of Thailand and the Indonesia Deposit Insurance Corporation, for their visit to Kuala Lumpur to participate in a highly illuminating information sharing session amongst the three regional deposit insurers. I look forward to more meetings of the same ilk.

Last but not least, allow me to thank our team of highly motivated management and employees, led by our very able Chief Executive Officer, Mr. Jean Pierre Sabourin, all of whom must be commended for the perseverance, dedication and enthusiasm.

I would end my message with a quote from Sir Winston Churchill, to sum up my philosophy towards successfully meeting our goals - "The farther backward you can look, the farther forward you can see." Our efforts today must be to truly learn from a rich past of experiences, and our actions must be accompanied with a clear vision of the future.



TAN SRI DATO' ABDUL AZIZ HAJI TAHA

¹ These include the consultation (16 July 2009) and final recommendations of the Walker Review of Corporate Governance of UK Banking Industry (26 November 2009), a study of the International Institute of Chartered Secretaries and Administrators on "Boardroom Behaviours" (June 2009), a report by the Financial Reporting Council on the findings of its review of the impact and effectiveness of the Combined Code (December 2009), and most recently, a consultation paper from the Financial Services Authority (28 January 2010) headed "Effective Corporate Governance".

INTRODUCTION

BOARD OF DIRECTORS

From left to right:

Mr. George Anthony David Dass
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
Datuk Dr. Abdul Samad Haji Alias
Mr. Michael Wong Kuan Lee



INTRODUCTION

BOARD OF DIRECTORS: MEMBERS AND PROFILES

TAN SRI DATO' ABDUL AZIZ HAJI TAHA

Chairman

Tan Sri Dato' Abdul Aziz Haji Taha was appointed onto the Board of PIDM on 15 August 2005 as its Chairman, and his current term of appointment continues until 14 August 2011.

A Chartered Accountant by profession, he has 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 Bank Negara Malaysia's 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. He was 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 has also served as a member of the Boards of the Malaysian Industrial Development Finance Berhad and Perbadanan Nasional Berhad.

TAN SRI DATO' SRI DR. ZETI AKHTAR AZIZ

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, the Governor of Bank Negara Malaysia, is one of two *ex-officio* Members of the Board.

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 Master Plan, a 10-year road map for the development of the Malaysian financial system. During her term as Governor, she also oversaw the transformation of the Malaysian 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 cooperation.

In the area of Islamic finance, Dr. Zeti has been actively involved in its development both in the domestic and international Islamic financial system. She chaired the Steering Committee for the establishment of the Islamic Financial Services Board (IFSB) and served as the IFSB Council Chairman for the 2007 term. Dr. Zeti is currently the Chairman of the international taskforce on 'Islamic Finance and Global Financial Stability' and the taskforce on Liquidity Management to develop a mechanism for enhancing the efficiency of Islamic financial institutions in managing liquidity at both national and across borders.

In promoting regional integration initiatives, Dr. Zeti chaired the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Taskforce 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 one of the founding members of the Asian Consultative Council for the BIS and is currently the Chairman of the Council. Dr. Zeti had also served as a member of the United Nations General Assembly Commission of Experts on Reform of the International Monetary and Financial System, a high-level taskforce established to make recommendations 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 was appointed the Secretary General of Treasury, Ministry of Finance since 28 February 2007 and holds an *ex-officio* position on the Board of PIDM.

He has 35 years of experience in the public sector, most notably in the area of economic planning and financial management. He started his career at the Economic Planning Unit, Prime Minister's Department in 1975, serving in various capacities in macro economics, human resource and energy sectors. 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 on the board of directors for organisations such as the Federal Land Development Authority, Malaysia Airlines System Berhad, Petrolam Nasional Berhad (PETRONAS), MISC Berhad, Kumpulan Wang Persaraan (Diperbadankan), Inland Revenue Board, Syarikat Bekalan Air Selangor Sdn Bhd, Cyberview Sdn Bhd, Pembinaan BLT Sdn Bhd, Bank Negara Malaysia and Bintulu Port Holdings Bhd. 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 was appointed as a Board Member of PIDM since 15 August 2005 and his current term continues until 14 August 2010.

Tan Sri Dato' Sri Dr. Sulaiman Mahbob was previously the Director General of the Economic Planning Unit (EPU) of the Prime Minister's Department. He has extensive 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. His previous appointments also include the presidency of the Malaysian Institute of Integrity, an agency established to implement the National Integrity Plan. He was also the Executive Director of the Malaysian Institute of Economic Research and a Board Member of the Malaysian Intellectual Property Corporation, Malaysia International Shipping Corporation Berhad, Padiberas Nasional Berhad and Petrolam Nasional Berhad (PETRONAS).

He is currently the Chairman of the Malaysian Industrial Development Authority (MIDA). He is also an Adjunct Professor (Economics) at the University of Malaya and at the Universiti Utara Malaysia (Public Management and Law) and was recently appointed onto the Board of Bank Negara Malaysia on 16 November 2009.

DATUK DR. ABDUL SAMAD HAJI ALIAS

Datuk Dr. Abdul Samad Haji Alias was appointed as Board Member on 15 August 2005 and his current term continues until 14 August 2011.

Datuk Dr. Abdul Samad Haji Alias has extensive experience in auditing, accounting and business advisory services, and was the non-executive chairman of Ernst & Young Malaysia from 2005 to 2008. He was the Deputy Country Managing Partner of Arthur Andersen from 1991 to 1999 before he retired as a Partner. He has also served on the Board of the Companies Commission Malaysia and the Malaysian Communications and Multimedia Commission. His other appointments include council membership of the ASEAN Federation of Accountants and the International Federation of Accountants. In 2001, he was honoured with a Doctorate Degree from Universiti Utara Malaysia and in 2004, he was conferred the Darjah Panglima Jasa Negara by the Seri Paduka Baginda Yang di-Pertuan Agong.

He is currently Chairman of Bank Pembangunan Malaysia Berhad, Malaysia Venture Capital Management Berhad and Malaysia Debt Ventures Berhad. He also serves as a Board Member of Lembaga Tabung Haji, Perbadanan Kemajuan Iktisad Negeri Kelantan, Felda Holdings Berhad and TH Plantations Berhad. He is a member of the Malaysian Institute of Accountants and its former President, a member

of the Malaysian Institute of Certified Public Accountants and its former President, and a Fellow of the Institute of Chartered Accountants in Australia. 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 was appointed as Board Member on 15 August 2005 and his current term continues until 14 August 2010.

He was a partner of the legal firm, Messrs Shook Lin & Bok, for 23 years, and served as its Managing Partner for 19 years before retiring from active practice in December 1991.

He has extensive experience as a corporate and commercial lawyer and 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, including membership on the Higher Education Advisory Council, the Petaling Jaya Municipality, and the Tunku Abdul Rahman College Council. He was also a Director of Bank Negara Malaysia and a member of Dewan Negara on appointment by the Seri Paduka Baginda Yang di-Pertuan Agong between 1977 and 1981.

He is currently a consultant to the legal firm, Messrs Shook Lin & Bok, and holds directorships in two public listed companies.

MR. GEORGE ANTHONY DAVID DASS

Mr. George Anthony David Dass was appointed as a Board Member on 3 February 2009 for a term of three years.

He has extensive expertise in conveyancing, banking, construction, joint ventures, privatisation, contracts and corporate law. He was a partner at the legal firm, Messrs Shahrizat, Rashid & Lee (formerly Rashid & Lee) for over 25 years, before stepping down from active practice in December 2004. He has also served as a director of several public listed companies and was a director of Costain PLC, one of the oldest construction companies in the United Kingdom between 1997 and 2000.

Mr. Dass holds a law degree from the University of Singapore and a Master of Laws degree (LL.M) from Kings College, University of London. He is currently a Board member of United Bintang Berhad and the Montfort Boys Town and is a Past President of the Rotary Club of Damansara.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

JEAN PIERRE SABOURIN

I begin my message in this year's Annual Report with a quote by the celebrated Austrian-American economist, Joseph Schumpeter: "The general reader", he says, "will have to make up his mind, whether he wants *simple* answers to his questions or *useful* ones - in this as in other economic matters he cannot have both."¹ For regulators worldwide, 2009 was one of endurance and testing. It began in the thick of a global economic crisis; it anticipated a slump into another Great Depression; and it closed with a collective sigh that the dark history of the 1930s was not repeated. But do we simply remember 2009 as the year that could have been much worse?

What started as a small subprime crisis in the U.S. led to a freeze in global financial markets and lending, gradually spread to more severe effects on spending, output and employment. Even as the budgetary costs of governments' rescue plans remain unknown, we can anticipate fiscal adjustments to maintain confidence in public debt and currencies.

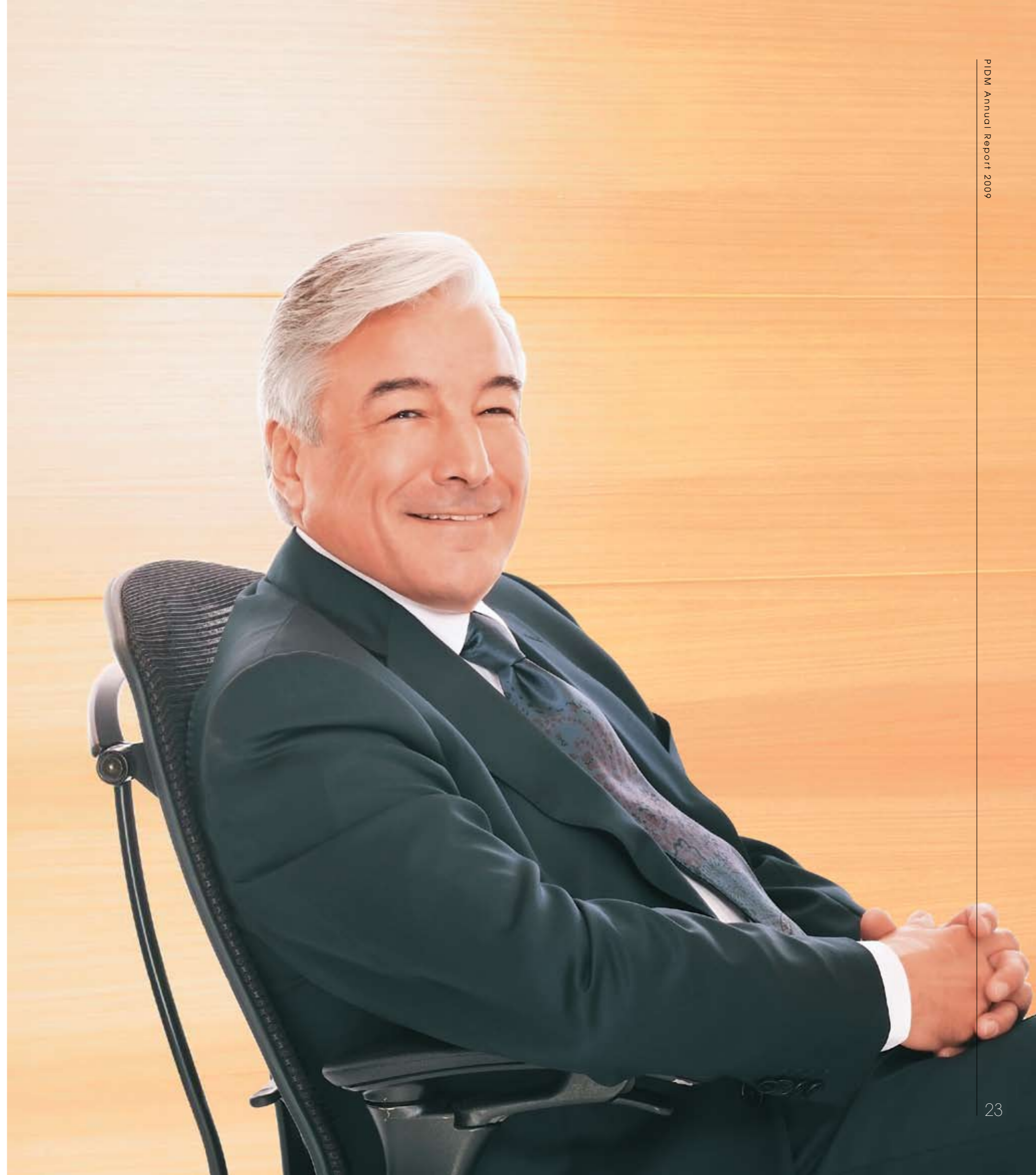
And the pain will not be stopped at the doors of just financial market participants, or at the doors of the taxpayers. Since the start of the recession in December 2007, the number of unemployed in the United States has risen by 8.2 million. Its unemployment rate stands at 10.2 per cent, up by 5.3 percentage points since the onset of the recession in December 2007.² On a worldwide basis, the International Labour Office reported the number of jobless at nearly 212 million, an unprecedented increase of 34 million from 2007 when the crisis first began.³

We have witnessed liquidity shortages spreading through a combination of market failures and regulatory weaknesses in various countries. Markets have failed as a result of poor governance, perverse executive incentives, and the opacity of financial instruments and their trading. Regulatory gaps - that are all *de rigueur* in today's debate on financial regulation - housed systemically important financial conglomerates or the shadow banking system and their market instruments, and other problems with capital regulation and accounting rules that exacerbated pro-cyclical bank leveraging and lending.

¹ Schumpeter in the introduction to 'Problems of Monopoly and Welfare', by F. Zeuthen, London Routledge, 1930.

² International Institute of Labour Studies, World of Work 2009, Snapshot of the United States.

³ Global Employment Trends Report 2009, issued January 2010.



INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I do not profess to offer simplified orthodoxy to a complex banking landscape in a harsh economic climate. Our environment in Malaysia has been less punishing, thanks to prudent regulation and less complex financial structures. However, as markets liberalise and globalise, the consequences of financial crisis can be large and damaging. It becomes almost a statement of the obvious that we must have robust financial safety nets - by definition, a set of "... institutions, laws, and procedures that strengthen the ability of the financial system to withstand bank runs and other systemic disturbances ...".⁴

Our observations of the world around us have impressed upon us an even greater sense of urgency. It strikes us that our financial safety net players - that includes PIDM - must be robust and ready to carry out our roles at any time.

Thus, as you continue turning over the pages of this Annual Report, you will see how we are gearing up our efforts on readiness, in the light of these global experiences. True to those Schumpeterian words, we have continued, and are continuing our efforts to promote and contribute to the stability of the financial system by adopting the practical and concentrating on the essential, all the while guided by our vision to be a best practice deposit insurer.

PIDM'S WORK

While, as you would surmise, there is no simple, 'one size fits all' solution to counter crisis such as those we have seen, one would observe the need for:

- A robust safety net system and market discipline that would help prevent crises in the first place; and
- In the event of an emergency, as focused and as comprehensive a rescue plan for the financial system as possible, with all financial safety net players working in a unified manner.

CRISIS PREVENTION

Encouraging sound governance and risk management

The role that PIDM plays achieves its greatest significance where it is perhaps the least obvious, by encouraging sound financial practices among financial institutions and good governance in good times.

Market discipline, together with effective supervision, offer the reduction of the risks of member institution failures in the financial sector. We encourage market discipline, through our initiatives such as the Differential Premium Systems as well as in our participation, together with Bank Negara Malaysia (BNM), in the continued development and implementation of the Financial Institutions Directors' Education Programme on corporate governance.

And, as one banker noted, if there is one lesson to be learned from the crisis, it is that good risk management is essential in banking. And I can see no better way of promoting sound risk management than for us to lead by example.

In line with leading corporate governance practices, our Chief Risk Officer now reports to the Board via the Audit Committee. In 2009, our Board approved the Enterprise Risk Management (ERM) Charter, and the ERM Division's roles and responsibilities are clearly documented. The charter further complements our existing ERM Policy Statement, which sets out our commitment to ERM. We have also intensified our risk management activities during our ERM process, and incorporated the assessment of our significant risks into our strategic planning exercise, so that our initiatives are driven and prioritised according to our significant risks.

Continued monitoring

During the year, our member institutions weathered dampened economic conditions well, with several improving their asset quality and liquidity, as reported in our Overview of Membership section. This notwithstanding, we continue to monitor our financial institutions closely, including those financial institutions that have received the benefits of the Government Deposit Guarantee, all the time keeping a watchful eye on the global as well as local economic environment and potential exposures in the various sectors to which our financial system is closely tied.

CRISIS MITIGATION

And while, together with sound regulation, we can do our best to mitigate and manage the potential for bank failures, we can nevertheless never discount its potential. Failure of banks is something which policymakers and regulators strive hard to avoid. In 2009, we stepped up our efforts to be ready to deal with distressed banks, as I will describe in the following page.

Intervention and failure resolution

We focused on our key initiatives to ensure readiness in the execution of our mandate. We commenced our work on detailing all our approaches, policies and procedures to deal with the various aspects of an intervention and failure resolution. This is so that all of PIDM can be clear as to the specific steps that need to be taken in addressing a failure or an imminent failure, or in exercise of our wide-ranging powers in the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act), and at the same time, providing the guiding principles to help ensure that we achieve our "least cost to the financial system" mandate. As a matter of priority, we have established a contingency plan manual, which outlines our response plan in unexpected or emergency situations while we continue to develop the rest of our policies and procedures for more complex resolution options.

We also continue to be on schedule with our payout system project, which aims to ensure efficient reimbursements to depositors in the event of a failure. The system will also provide information to depositors on the status of those payments, and promote confidence among depositors in relation to the safety of their deposits.

By no means do our efforts end here. In 2009, we conducted a thorough review of our MDIC Act, to ensure that our law supports a prompt and effective intervention and failure in circumstances of need. Our philosophy in this respect is to be able to step in early, to thwart, as far as possible, an individual or a number of failures from developing into a crisis of confidence.

Scenario planning

Readiness also means being clear as to our strategic direction and capitalising on our strengths and resources on the basis of reasonable assumptions. At the same time, we would need to anticipate events that, though thought to be unlikely, are not in the realm of the impossible. 2009 was significant because, in the course of our strategic and corporate planning, we also spent time envisioning the performance of our roles and functions under different conditions. By conducting scenario planning, we increased our ability to comprehend and internalise what would need to be done under various situations. This allowed us to relook at how we can make optimal use of our resources in any given eventuality.

Business continuity planning

Led by the ERM Division, we also worked to mitigate risks to our business. As a first step, we embarked on the design and development of our business continuity management plans to make certain that PIDM's critical business functions would carry on in the event of a disaster. A pilot test of our business continuity plan was carried out with success, and we will carry on improving it as we move forward. I am also pleased to report that many of our employees were certified as business continuity planners this year as part of our initiative to inculcate the necessary understanding of business continuity. As part of this exercise, in 2009, we also developed and implemented the pandemic flu business continuity plan as a reactionary measure to the H1N1 pandemic influenza. We will proceed next with the development of our disaster recovery plan in 2010.

Human capital investment

We continued to invest in human capital, our most critical resource. The emphasis on holistic human capital investment is marked by the Human Capital Division's various initiatives, including the competency project that encapsulates the rigorous documentation of all of the necessary competencies to characterise the organisation, as well as developing and implementing training and personal development plans for each employee. Our key strategy is to arm our employees with the expertise and experience needed in the area of deposit insurance - an area of banking regulation that often is described as niche but which is key to the maintenance of public confidence in financial system as has been demonstrated during this global financial crisis. We also worked hard to ensure incentives for talent retention, including the generation of a conducive work environment that would help us retain our talents.

Operational efficiency and effectiveness

Aside from our investment in Human Capital and building strategic partners that would include a competent supplier base, our initiatives have also involved identifying the best ways to achieve our objectives. This has meant leveraging on information technology (IT) systems in various critical aspects of our work, including our risk assessment and monitoring, our payout system, as well as communications and human capital. Careful development and implementation of key IT projects will continue to be a focus for us in 2010.

⁴ ADB Financial Sector Legal and Regulatory Toolkit: Part Three: Financial Regulation and Supervision

INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

CRISIS MANAGEMENT

PIDM also plays a further role in maintaining stability to a financial system during a crisis, and has powers to help in the restructuring of distressed banks or borrowers and in problem asset management. In 2009, we commenced development of the asset management policies and procedures, as part of the Intervention and Failure Resolution project earlier described.

Uniquely, PIDM as a deposit insurer also acts as the administrator of a government deposit guarantee, once such a guarantee was announced by the Government in 2008. Since the announcement, this role has now been explicitly set out in the law and would be readily available in future times of need.

CONCLUSION AND GOING FORWARD

Our continuing focus, in 2010, is to complete our initiatives to ensure PIDM is ready in all aspects of its role. Another key challenge, in 2010, will be to exit the Government Deposit Guarantee on its expiry, and to revert to a limited coverage deposit insurance system. To ensure a smooth exit, the public will need to be made aware, and understand the changes that will ensue. To this end, we will be strategising our communications initiatives and issuing regulations where necessary to enlist our banks in this effort.

The ramping up of our readiness initiatives, our communications efforts, our continued training and developing our people and recruitment, as well as ensuring the operational effectiveness of PIDM through information technology, will inevitably translate into larger expenditures for the Corporation going forward.

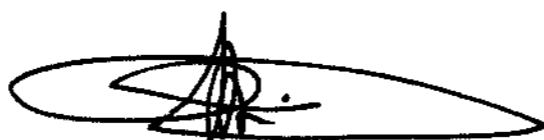
But, as we observed at the beginning, the possible repercussions of a breakdown in the financial sector can only be described as nothing short of the disastrous. In the crisis recently witnessed, "Millions...", as described by Joseph Stiglitz, "... all over the world lost their homes and jobs. Many more suffered the anxiety and fear of doing so, and almost anyone who put away money for retirement or a child's education saw those investments dwindle to a fraction of their value..."⁵

The importance of the financial system to the real side of the economy is abundantly clear, with the overall social costs so alarming that today we witness free market doctrines being turned on their heads. Costs to financial markets participants pale in comparison to the economic and social damage that financial market crises can wreak.

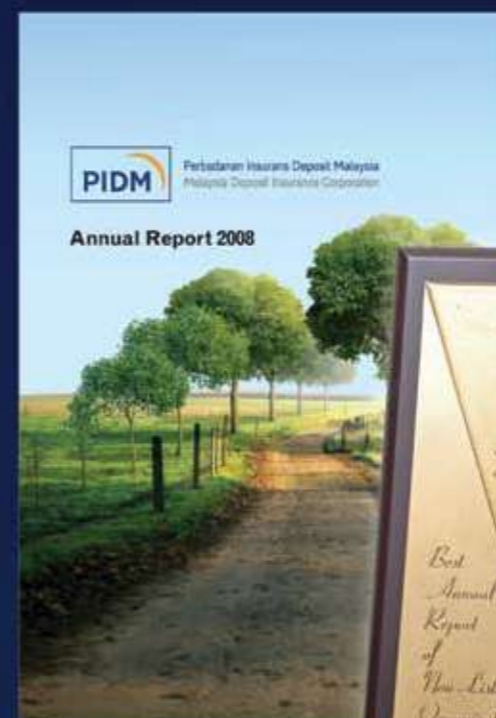
So the year 2009 is remembered, at least by us - not as a year that could have been worse - but as a year that has reinforced our resolve to be ready when called upon.

2009 proved a challenging one, but we have kept our focus. I will not end my message with a note of anxiety, but rather, I would express my confidence that, together with our key strategic partners, we can make a difference within the landscape of financial services in Malaysia.

This confidence I have, is based on the contributions I have seen from our Chairman and the exceptional members of the Board, and our team of outstanding employees. We are all committed to perform our role diligently, and to help maintain the stability of the financial system for the benefit of all Malaysians.



JEAN PIERRE SABOURIN



PIDM Annual Report 2008



2009 NACRA Best Annual Report of Non-Listed Organisations



2008 NACRA Certificate of Merit for Annual Report



2007 NACRA Certificate of Merit for Annual Report

PIDM awarded the NACRA Best Annual Report of Non-Listed Organisations for its 2008 Annual Report

At Perbadanan Insurans Deposit Malaysia (PIDM), we strive every day to be a well governed and well managed organisation, so that you can have confidence in our ability to meet our mandate as the national deposit insurer.

In upholding the principles of sound governance, we believe in demonstrating high standards of transparency and disclosure of information to our stakeholders and the public.

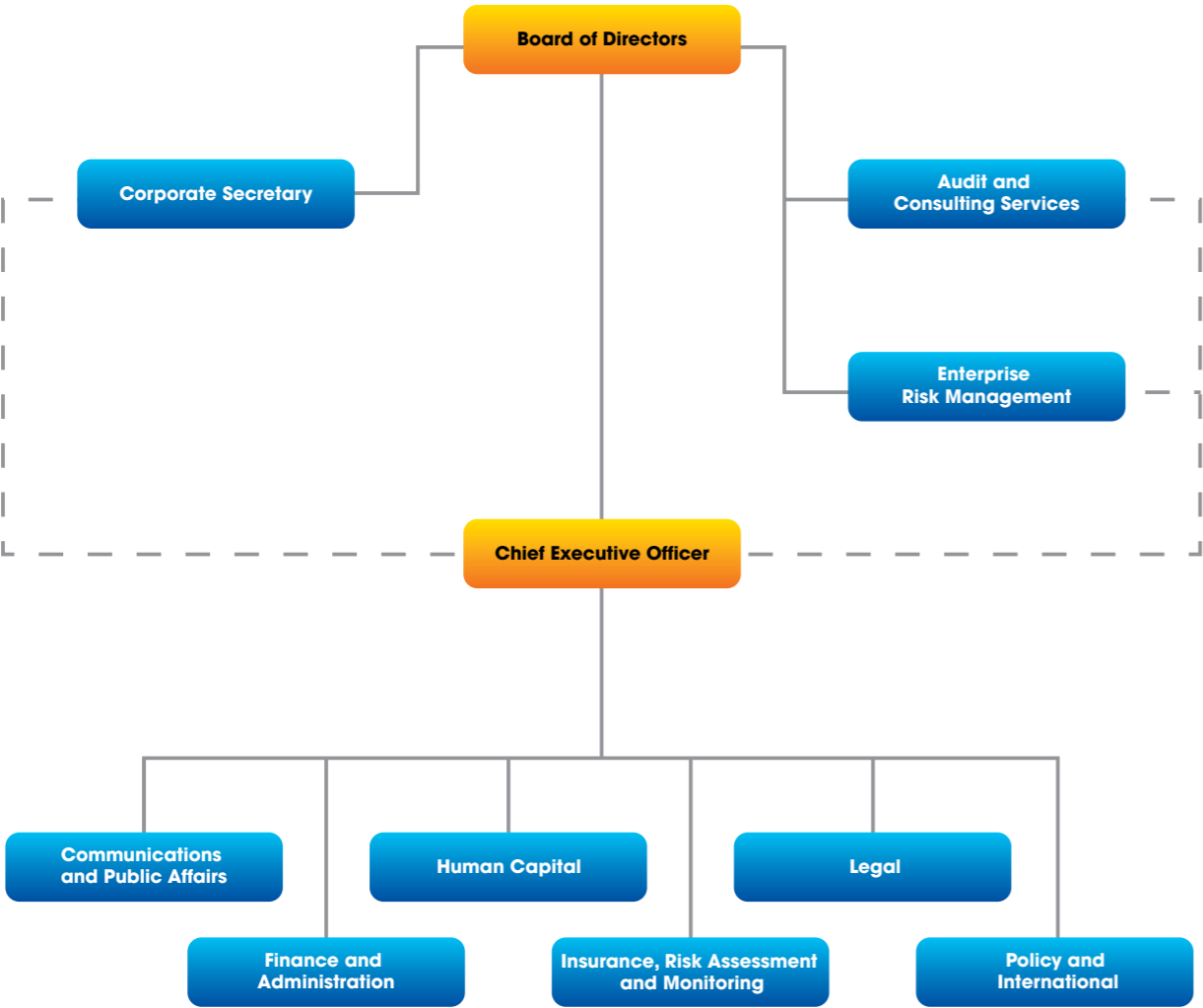
And winning the 2009 National Annual Corporate Report Awards (NACRA) for Best Annual Report of Non-Listed Organisations for our 2008 Annual Report is recognition for being just that – an exemplary organisation that stands for high governance standards as well as quality and excellence in corporate reporting.

For an organisation established just four years ago, this is no small accolade and one that represents our continued efforts to improve. This Special Award follows our Annual Reports receiving the NACRA Merit Awards for the previous two years.

Based on principles of integrity and accountability and driven by a culture of excellence, PIDM is committed to being a best practice deposit insurer.

INTRODUCTION

ORGANISATION CHART



INTRODUCTION

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.

INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE

From left to right:

Lee Yee Ming
Siti Zubaidah Haron
Lai Wai Keen
Md. Khairuddin Haji Arshad
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) from 1976, and held various positions within CDIC before becoming its President and CEO in 1990, until his retirement in 2005. Under his leadership, PIDM is focusing on becoming 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 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 Taskforce of Bank Negara Malaysia (BNM), which was set up to establish the deposit insurance system. The Taskforce 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 over ten 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 and a Business Continuity Certified Planner.

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 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 18 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 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 the 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).

S. LOGANATHAN

General Manager, Communications and Public Affairs

S. Loganathan is the General Manager of Communications and Public Affairs Division. He is responsible for communications and public relations as well as managing PIDM's public awareness programmes. He joined PIDM in 2006 with some 25 years of experience in the financial media and the securities industry. He started off his career as a journalist first with Bernama and then with 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 2001. He left the Bursa Malaysia group in 2004 to set up WeR-1 Consultants Sdn Bhd, a consultancy firm in Malaysia 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, as well as to ensure robust human capital development. She started her career in human resources in late 1990 and has exposure and experience in managing human resources functions across manufacturing, retail and hypermarket and group shared service centre in financial services, 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

INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

Diagraph Sdn Bhd and was Vice-President - Human Resources, Learning & Development and Communications at HSBC Electronic Data Processing (M) Sdn Bhd (Group Shared Service Centre, Malaysia) until she joined PIDM in August 2007.

Siti holds an honours Bachelor in Business Administration degree in Human Resource Management and a Diploma in Business Studies. She is also a fully qualified and accredited administrator of the MBTI suite of instruments (Myers-Briggs Type Indicator) and has been accepted as a Council Member for the Human Resources Council, Conference Board, Asia Pacific.

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. 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

OTHER MANAGEMENT COMMITTEES

ENTERPRISE RISK MANAGEMENT (ERM) COMMITTEE

In assisting the Audit Committee and the Board of Directors, the ERM Committee provides oversight and direction for the implementation and consistent application of the ERM system. The ERM Committee champions risk management, as well as manages and monitors the risk exposures and ERM activities of PIDM at a corporate-wide level.

The ERM Committee comprises the following members:

- CEO (Chair)
- General Manager, Insurance, Risk Assessment and Monitoring Division
- CFO
- General Counsel
- 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, Economics and Research
- 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 oversight 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)

CORPORATE COMPLIANCE COMMITTEE

The Corporate Compliance Committee is a cross-divisional committee set up in 2009 to consider ways to enhance the Corporation's procedures and processes in terms of compliance, as well as to increase awareness and understanding of key policies and procedures applicable throughout all divisions of PIDM.

Its members are:

- General Counsel (Chair)
- CFO
- Manager, Audit and Consulting Services Division
- Manager, Enterprise Risk Management Division
- Manager, Communications and Public Affairs Division
- Manager, Human Capital Division

Section 2: Corporate Governance



CORPORATE GOVERNANCE

MANAGING OUR RISKS



OVERVIEW

Since its early inception in 2007, our Enterprise Risk Management (ERM) Framework has developed and matured. The key challenge has been to inculcate a culture of enterprise risk management in all our activities.

In 2009, the ERM function has focused its efforts in the following four key areas:

- (a) implementing ERM initiatives to maintain and enhance the ERM Framework;
- (b) providing risk advisory services;
- (c) engaging in information and knowledge sharing; and
- (d) implementing Business Continuity Management.

KEY ACHIEVEMENTS IN ERM FOR 2009

In 2009, we intensified our ERM activities and although the ERM process in place works smoothly to ensure the systematic sharing of information and internal knowledge about risks within PIDM, we also continued to work on ways to enhance the ERM function and corporate governance practices.

Some of the key initiatives we completed in 2009 are set out below.

ERM Charter

The Board approved the ERM Charter, which clearly articulates the ERM Division's mission, accountability and responsibilities.

The Charter also specifies that the Chief Risk Officer (CRO), who heads the ERM function, reports to the Audit Committee, and administratively to the Chief Executive Officer (CEO). This is consistent with leading practices in corporate governance.

The CRO reports regularly to the Board on ERM activities, the outcomes of PIDM's ERM process so as to enable the Board to understand the management of the Corporation's significant risks including the significant risk profiles, the mitigation plans and controls and the overall effectiveness of our risk management process.

The ERM Division brings forward recommendations for the Board's approval on significant risks affecting PIDM including the Corporation's risk appetite and tolerance as well as risk management policies.

Ongoing Risk Assessment and Review

In terms of ongoing risk assessment and review, the Corporation has:

- completed another full cycle of the ERM process, namely, risk identification, assessment, evaluation and treatment, monitoring, reporting and communicating;
- reviewed the ERM Framework and Guidelines;
- conducted the annual ERM Risk Identification and Assessment Workshop; and
- facilitated divisional risks discussions.

The two Committees, the ERM Committee and the Strategic Planning and ERM Working Committee (PERM Working Committee), met four and six times respectively, to facilitate the monitoring, update and discussions of various risks related issues. The ERM Division also reported to the Audit Committee and the Board regularly on the status of implementing our action plans to address significant risks.

ERM Effectiveness Assessment Framework

The Board approved the ERM Effectiveness Assessment, which delineates the attributes or characteristics and maturity levels of our ERM practices. This is discussed in detail on page 43.

Business Continuity Management

The ERM Division's function expanded to include Business Continuity Management. In 2009, the plan was to ensure the continuity of the Corporation's critical business functions in the event of a disaster. The initial testing of the Business Continuity Plan has been carried out successfully.

As part of Business Continuity Management, we developed and implemented the Pandemic Flu Business Continuity Plan, to manage the risks posed by the H1N1 Pandemic flu.

To ensure clear understanding of the business continuity plans, 42 employees were certified as Business Continuity Certified planners in 2009.

Risk Advisory Services

The ERM Division also provided risk advisory services on key corporate projects and initiatives. ERM provided input on the key policies and procedures, participated in the vendor evaluation processes, and served as a member in cross-divisional committees, such as the Asset and Liability Management Committee, Corporate Compliance Committee, Information Technology Steering Committee, Corporate-wide Records Management System Taskforce, among others.

Information and Knowledge Sharing

The ERM Division also shared experiences with other organisations, for benchmarking purposes, as well as in order to learn from challenges and practical situations faced by others. In 2009, the ERM Division also hosted a five-day ERM attachment programme for Nigeria Deposit Insurance Corporation, held numerous information sharing sessions, and participated in study visits.



PIDM's Business Continuity Management simulation exercise

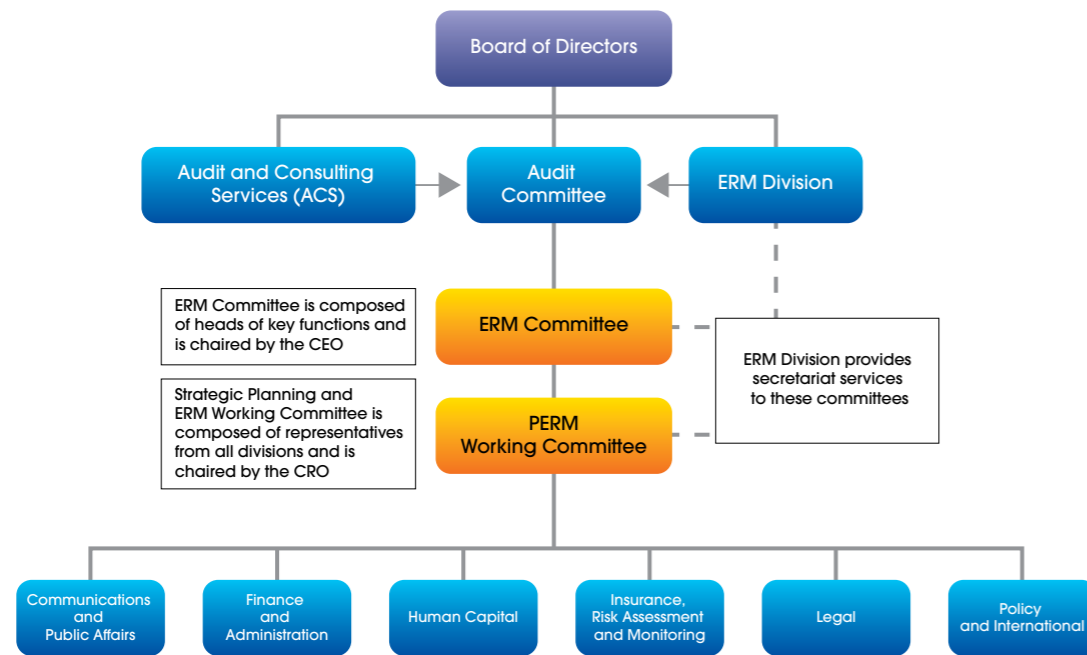
ERM OVERSIGHT STRUCTURE

Our ERM Oversight Structure provides clear accountabilities and responsibilities for risk management. This ensures that the risk management activities remain appropriate and prudent, and that significant risks are managed and monitored continuously.

CORPORATE GOVERNANCE

MANAGING OUR RISKS

Diagram: 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 CRO reports to the Board of Directors through the Audit Committee. The CRO is also a member of the Executive Management Committee.

The Audit Committee is also responsible for the oversight of the work of the ERM function and for the compensation, performance and oversight of the CRO. The Audit Committee also ensures that the ERM function has a sufficient amount and quality of resources to fulfil its roles. The Chair of the Audit Committee is to be consulted before the appointment of the CRO or the termination of employment, and must conduct entry and exit interviews with the same.

The CRO, as the head of the ERM function, is responsible for the implementation, development and maintenance of the ERM Framework. The ERM function assists and provides information to the Audit Committee on all ERM activities and outcomes of the ERM process (i.e. to identify, assess, evaluate, treat, monitor and communicate the significant risks affecting PIDM). The ERM function also provides assessments of PIDM's risk exposures and recommends to the Audit Committee ways to improve the Corporation's risk management capabilities. The CRO provides regular reports to the Audit Committee as well as the full Board.



The ERM function also acts as secretariat for both the ERM Committee and PERM Working Committee. The CRO is an *ex-officio* member of both committees.

The ERM Committee is a senior management committee. It provides oversight and direction for the implementation and consistent application of the ERM system, on a corporate-wide basis. This management committee champions risk management, as well as manages and monitors the risk exposures and ERM activities of PIDM at a corporate-wide level.

At each meeting, the ERM Committee will consider whether there are any significant matters that should be brought to the attention of the Audit Committee and the Board.

The PERM Working Committee supports the ERM Committee. It facilitates and coordinates ERM and

strategic planning activities at an operational level corporate-wide. 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. The PERM Working Committee comprises representatives from every division.

The Audit and Consulting Services (ACS) Division is responsible for performing independent assessment on and validation of the effectiveness and compliance of the ERM process, and for providing assurance to the Audit Committee and the Board of Directors that PIDM has an effective ERM process and that risk management policies are being adhered to.

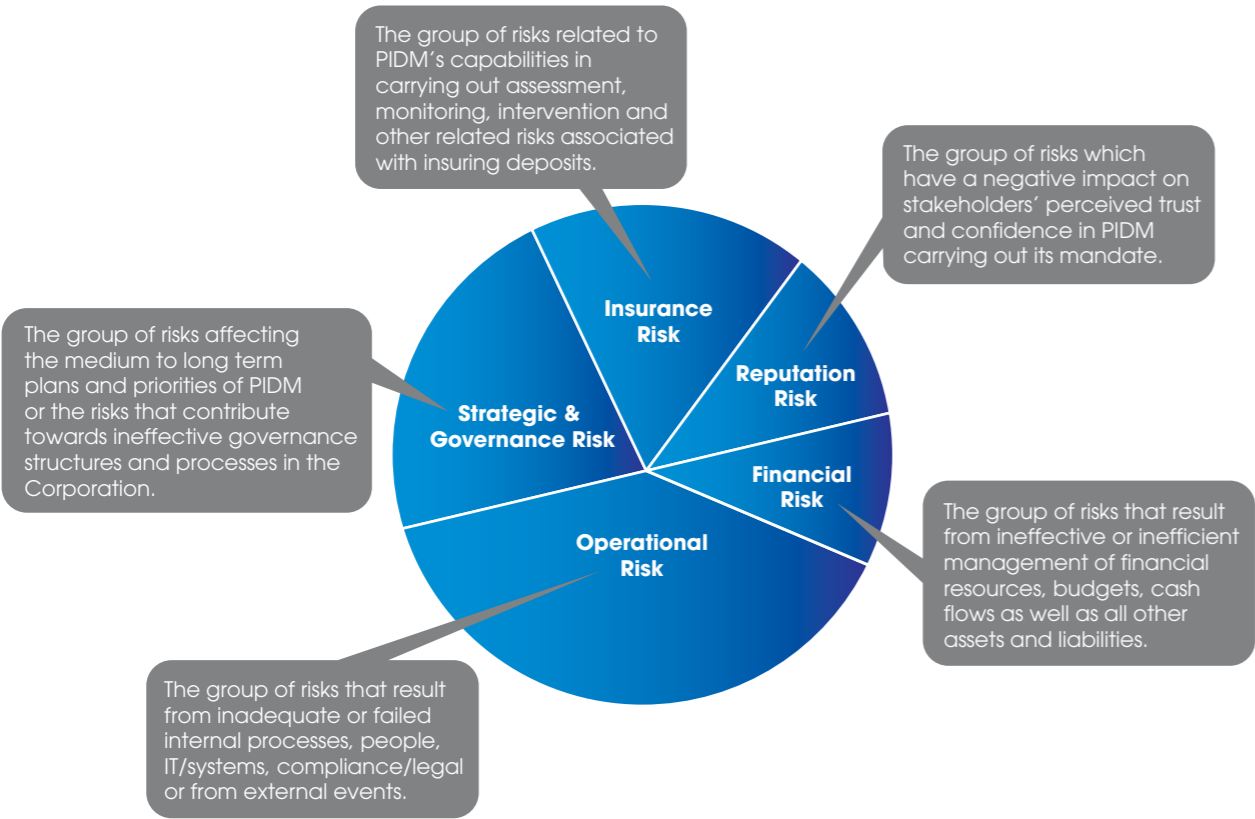
PIDM employees are responsible for managing and reporting risks at source. Risk management is everyone's responsibility at PIDM.

CORPORATE GOVERNANCE

MANAGING OUR RISKS

RISKS AFFECTING PIDM

We have categorised the areas of risks to which PIDM is exposed, as depicted in the chart below:



Key initiatives and action plans, which form part of our Corporate Plan 2010-2012, were developed to address the significant risks identified, as summarised below.

Insurance Risk

PIDM continued to develop policies, processes and systems to deal with payout, intervention and failure resolution. In the interim, we have developed a contingency plan to deal with any issues that may arise before the completion of the policies, processes and systems.

We plan to embark on the development of a compliance programme, linked to the premium surcharge framework, to ensure our member institutions and guaranteed financial institutions comply with the MDIC Act, regulations and guidelines.

Reputation Risk

We have enhanced our public awareness programmes from the previous years, and will continue to tailor our communications programmes towards achieving the desired level of awareness through our Integrated Communications Plan.

Operational Risk

Following the successful completion of our Business Continuity Plan in 2009, we are developing the Disaster Recovery Plan and its infrastructure. We will conduct training, awareness sessions and tests to ensure continuity of PIDM's critical business functions in the event of a disaster.

One of the key areas of focus for the planning period is talent management. While we continue to build capability and expertise internally through our annual learning and development programme, we will also develop and implement a Knowledge Management Framework.

The Information Classification Policy aims to ensure that confidential and sensitive information are properly managed. This Policy will therefore be built into our Corporate Enterprise Portal, which integrates information, people and processes across the Corporation.

ERM EFFECTIVENESS ASSESSMENT FRAMEWORK

In 2009, we developed and implemented our ERM Effectiveness Assessment Framework, to enable us to measure the effectiveness of our ERM programme and practices. This framework was developed to enhance our ERM capabilities, and will help us identify the attributes that will make ERM effective, measurable, and provide us with the roadmap to continuously improve our ERM practices.

The framework was developed based on the Risk and Insurance Management Society (RIMS) Risk Maturity Model (RMM), customised with criteria and attributes that best suit the operations of PIDM.

The eight attributes are the "core competencies", which measure how well risk management is embraced by Management and embedded within PIDM. There are five maturity levels for each of the attributes from Ad-hoc (the most basic level) to Leadership (the most advanced level) in ERM process and practices. The framework provides us with a tool to assess the effectiveness of our ERM programme and practices. This is to ensure that we have a best practice, effective and continuous risk management process. The definitions of each of the attributes are summarised in the following Table.

| MATURITY LEVEL ATTRIBUTES | LEVEL 1 AD-HOC | LEVEL 2 INITIAL | LEVEL 3 REPEATABLE | LEVEL 4 MANAGED | LEVEL 5 LEADERSHIP |
|---|---|--------------------|-----------------------|--------------------|-----------------------|
| 1. Enterprise Perspective | The degree of executive support for an ERM-based approach within the corporate culture. • How strategic is ERM in the Corporation? | | | | |
| 2. Process Management | The degree to which the ERM process is integrated into business processes, using both qualitative and quantitative methods to execute the ERM process. • How pervasive is ERM in the Corporation? | | | | |
| 3. Risk Appetite Management | The boundaries of acceptable risk and measure of risk tolerance that Management deems acceptable. • How detailed do we measure our risk appetite and tolerance level, qualitatively and quantitatively? | | | | |
| 4. Root Cause Discipline | The degree of detail involved in measuring a problem's root cause. • How sure are we that the root cause of the issues has been addressed? | | | | |
| 5. Uncovering Risks | The quality and penetration coverage of risk assessment activities in documenting risks and opportunities. • Have we identified all risks? | | | | |
| 6. Performance Management | The degree of linking risk management to performance and remuneration. • How is risk management responsibilities linked to your performance, increment and bonus? | | | | |
| 7. Business Continuity and Sustainability | The extent to which the ERM process' sustainability aspects are integrated into operational planning. • How well do the operations consider business continuity in their planning or in their new processes? | | | | |
| 8. Risk Infrastructure and Intelligence | The use of a risk management system and data to document, monitor and report risk. • Are we equipped with sufficient tools and resources to perform ERM activities? | | | | |

We performed the assessment through questionnaires that were filled in by the members of the PERM Working Committee and the ERM Committee. The results indicate that our overall maturity is at "Level 3: Repeatable".

CORPORATE GOVERNANCE

MANAGING OUR RISKS

This result indicates that PIDM has built risk processes integral to the organisation and that they are consistently and routinely applied to most, if not all, projects. PIDM's risk policies and procedures are formalised and widespread, and the benefits of ERM are understood at all levels.

An organisation needs to find the level sufficient and most suitable for managing business uncertainties. The progression to a higher level may take a long time, as it involves inculcating a risk culture at all levels, across discipline and divisions, incorporating risk considerations in all processes at all levels, and formally linking risk management to performance evaluation. As the Corporation is still evolving, the ERM process is being continuously enhanced.

CONCLUSION

We are pleased to report that PIDM has achieved considerable progress in 2009, especially in formalising the ERM Charter, carrying out the ERM effectiveness assessment, and in implementing business continuity management. ERM is gaining importance and the ERM function is increasingly being involved, on the invitation of other divisions, in all the key initiatives and projects at PIDM. We regard this as a testimony that a strong risk culture is being inculcated within the Corporation.

ERM is still an emerging management discipline. The International Organisation for Standardisation (ISO), the first international standard on ERM - ISO 31000:2009, was just published on 15 November 2009. We plan to benchmark our current practices against the ISO standards in 2010. At PIDM, we are committed to building an ERM system that makes sense for our line of business, is effective, and well integrated within PIDM functions. This is part of our efforts in building a well governed and well managed organisation.



CORPORATE GOVERNANCE

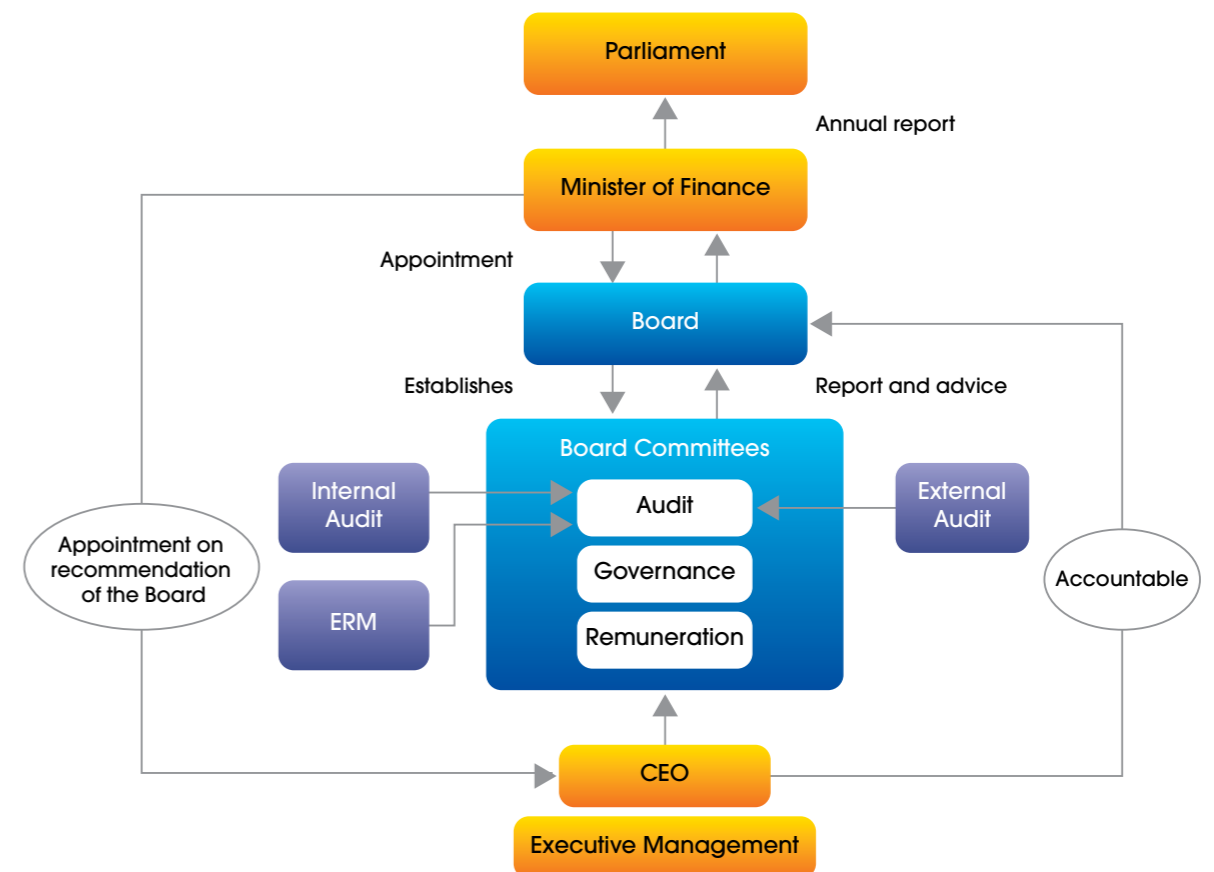
STATEMENT ON GOVERNANCE

INTRODUCTION

Established since 2006, our Board Governance Policy (Policy) sets out 15 standards drawn from best corporate governance principles or practices. The Board operates in line with the Policy and annually reports to its stakeholders against these standards.

This statement is the Board's report on the manner in which PIDM has applied principles and complied with best practices set out in each standard in the Policy.

OUR GOVERNANCE STRUCTURE



CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

OUR STATEMENT

The Board is pleased to report full compliance with all 15 standards of the Policy in 2009.

BOARD OF DIRECTORS

Composition, Appointment and Remuneration

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 (BNM) and the Secretary General of the Treasury. All Directors are non-executive, in order to maintain the independence of the Board, and the CEO is not a member of the Board.

The Minister of Finance appoints all the five non *ex-officio* Directors, on recommendation of the Board of Directors. Of these, one of the Directors is from the public sector. The Chairman must have private sector experience, and the remaining three Directors are from the private sector, at least one of whom shall have relevant banking and financial sector experience. Persons with conflicting interests are not allowed, under the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act), to be Directors. These are, for example, officers of member institutions, any person who holds office or positions in a political party, or any member of any legislative assembly.

In February 2009, the Minister of Finance appointed a new non *ex-officio* Director to fill an unexpected vacancy. Four of the five original non *ex-officio* Directors (whose first terms of appointment had expired in August 2008) also continued in office in line with the terms of their re-appointments by the Minister of Finance.

In 2009, Directors collectively received a total of RM432,403 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 PIDM, and the Directors' duties of honesty, independence and diligence. Expectations from the Board are further set out in position descriptions, as well as in the Board Governance Policy. The MDIC Act, the Policy, and the job descriptions are found on PIDM's website, www.pidm.gov.my, in the section headed "How PIDM is Governed".

Board Meeting Attendances

In 2009, there were six Board meetings (including one special Board meeting on legislation) and one strategic planning session. Attendances were as follows:

| BOARD OF DIRECTORS | BOARD MEETING ATTENDANCES | STRATEGIC PLANNING SESSION |
|---|---------------------------|----------------------------|
| Tan Sri Dato' Abdul Aziz Haji Taha (Chairman, non <i>ex-officio</i>) | 5/6 | ✓ |
| Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (<i>ex-officio</i>) | 5/6 | X |
| Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah (<i>ex-officio</i>) | 4/6 | X |
| Tan Sri Dato' Sri Dr. Sulaiman Mahbob (Non <i>ex-officio</i>) | 4/6 | X |
| Datuk Dr Abdul Samad Haji Alias (Non <i>ex-officio</i>) | 4/6 | X |
| Mr. Michael Wong Kuan Lee (Non <i>ex-officio</i>) | 6/6 | ✓ |
| Mr. David Dass (Non <i>ex-officio</i>) | 5/6 | ✓ |

THE WORK OF THE BOARD

The following sections describe the manner in which the Board has complied with principles and standards in the Board Governance Policy in 2009.

Early Years 2006 - 2008

Following the initial years of establishment, for 2008 the Board was able to report full compliance with all of the 15 principles and standards in the Policy.

Overview of Board Work in 2009

The Board is also able to report full compliance with all the 15 standards for the financial year ending December 2009.

In 2009, 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. The Board continued to carry on its work in relation to all of the standards. Nevertheless, as is its usual practice, early on in the year the Board also identified certain specific areas of focus for the Board for the year in question. In 2009, the two key areas chosen by the Board to focus on related to the following standards:

- (i) Board succession (Standard No. 4)
- (ii) Succession plans for key senior management (Standard No. 8).

The Board considers these areas important and involve a continuous process, and the Board will continue to work on these areas in the coming years.



CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

| DESCRIPTION OF STANDARDS | REPORT ON COMPLIANCE IN 2009 |
|--|---|
| Standard 1: Independence of the Board | |
| Board members will exercise independent judgment. | The MDIC Act separates the roles of the Chairman and the CEO, so as to ensure independence. All Directors are also 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>(i) Process for evaluating its effectiveness. In line with best practices, the Board and the respective Committees evaluate their effectiveness each year, as do individual directors. In line with its usual practice, the Board re-evaluated this process in December 2009 and considered ways of enhancing or reviewing the process going forward.</p> <p>Led by the Chairman, in February 2010, the Board met to complete the effectiveness evaluation for the year of performance 2009. Individual Directors also conducted a self-assessment of his or her performance by completing evaluation forms developed based on their duties and responsibilities.</p> <p>(ii) Orientation. In 2009, the Board formalised the Board Orientation Programme, to ensure that the process for orientating new Board Members was properly documented. The key objective was to ensure that new Directors could be orientated and integrated into the Board as quickly as possible, so that the Board could effectively benefit from his or her valuable input. As part of the programme, the Board also approved a "Directors' Guide", which aims to provide a new Director with key information on how the Board works and highlights key expectations.</p> <p>(iii) Education sessions. As in previous years, the Board agreed on the education sessions that it would participate in at the beginning of the year, and in 2009, the Board members continued to participate in education sessions for its development and understanding of the organisation and its operating environment. In particular, information sessions were held on various aspects of the Corporation's operations including the Payout framework, the Intervention and Failure Resolution Project, and its Business Continuity Plan. There was a session on economic conditions in Malaysia. Members of the Board were also invited to attend any of the Financial Institutions Directors' Education Programme (FIDE) sessions as observers, and to attend talks from key speakers organised by FIDE. Established in 2008, the FIDE programme is a joint initiative of PIDM and BNM that focuses on enhancing corporate governance practices in financial institutions in Malaysia.</p> <p>(iv) First Tripartite Meeting with Deposit Insurers in the region. PIDM also hosted an event for information exchange with two deposit insurers in the region. At this meeting, Board Members and Management met with their counterparts of the Deposit Protection Agency of Thailand and the Indonesia Deposit Insurance Corporation, for the purposes of exchanging information, knowledge and experiences in deposit insurance as well as building relationships. This was a significant event, as it was the first meeting of its kind. The next meeting is to be held in 2010 at a venue to be determined.</p> |

| DESCRIPTION OF STANDARDS | REPORT ON COMPLIANCE IN 2009 |
|--|--|
| Standard 3: Roles and responsibilities of Committee | |
| Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them. | <p>The responsibilities, authority and accountability requirements of Board Committees are detailed in their respective charters.</p> <p>The charters were reviewed in 2009 to ensure currency and relevance. The key change was to the Audit Committee Charter, which was amended to reflect the new reporting line of the CRO to the Audit Committee.</p> |
| 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 their responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non <i>ex-officio</i> Board vacancies;</p> <p>(ii) have a Board succession plan to recommend to the Minister of Finance the orderly turnover of Directors.</p> | <p>Background. In 2007, the Board established a Board succession plan, which comprises a Policy on Tenure, Retirement and Succession, and a process to develop a Board profile and an individual Board Member's 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>Implementation of Board succession planning. In early 2009, the Board had planned to make recommendations to the Minister of Finance regarding the upcoming vacancy on the Board in August 2009, following the Board succession plan process. The Board maintains a list of candidates that could potentially fit the required profile for the Board membership. The list is updated from time to time, for the purposes of recommending the appointment of Directors as the need arises. Following this process, the Board successfully implemented the Board succession plan to address an unexpected vacancy arising in January 2009.</p> <p>Skills gap analysis. In 2009 (as in 2008) the Board also carried out its yearly skills gap analysis, taking into consideration our statutory mandate, objectives, strategic direction, and current needs of PIDM. This was to ascertain if there was an appropriate mix of skills and capabilities presently contained within the Board.</p> <p>Focus on long term planning. In 2009, given that many of the non <i>ex-officio</i> Directors will soon have completed their second terms of appointments (albeit on a staggered basis), the Board also decided to take a long term time horizon in its succession planning so as to anticipate, and to address, critical changes to the Board and Board Committee composition, leadership, as well as possible changes to the operating environment. This long term plan will be reviewed annually to ensure its relevance and adequacy. The Board plans to continue its focus on Board succession planning in 2010 and onwards.</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. In this connection, the Board will:</p> <p>(i) develop a position description for the CEO;</p> <p>(ii) develop a set of corporate objectives at least annually for which the CEO is responsible for achieving, and evaluate the performance of the CEO against those objectives; and</p> <p>(iii) establish an accountability relationship for the CEO to the Board.</p> | <p>These have been distinguished and documented with clarity in the position descriptions for both roles.</p> <p>In this connection:</p> <p>(i) The position description for the CEO has been reviewed annually since 2006. In 2009, the Board made a few amendments to the position description to be specific as to his responsibilities to provide the Board with information, and to reflect the practices adopted in providing information to the Board. Annually, as was carried out for the year 2009, the Board provides an assessment of its satisfaction with Management's support in terms of providing information to the Board, and in 2010, adopted the practice of providing a specific rating to indicate its level of satisfaction.</p> <p>(ii) The Key Performance Indicators (KPIs) for the CEO are determined based on the corporate objectives of PIDM. His performance against those KPIs is tracked and considered by the Board, with the assistance of the Remuneration Committee, 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> |

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

| DESCRIPTION OF STANDARDS | REPORT ON COMPLIANCE IN 2009 |
|--|--|
| 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. The Board also approved the position of a Chief Operating Officer at the end of 2009. |
| Standard 7: Compensation of officers | |
| The Board will satisfy itself, on a regular basis, that the compensation of PIDM'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, have been approved by the Board. The policies are in line with our business model, which requires a lean and specialised team with the ability to achieve our mandate and leverage on key strategic partners and suppliers when needed. The Board benchmarks regularly against industry salaries in order for PIDM to remain competitive in terms of compensation, and the yearly employee survey results show employee satisfaction with compensation and benefits. |
| The Board will review the compensation programme for all Directors, and make recommendations to the Minister of Finance in that regard. | The Board reviewed the compensation programme for all Directors and made recommendations to the Minister of Finance in 2008. In view of the recent review in 2008, no further review was carried out in 2009. The Minister of Finance determines the Board's remuneration, on recommendation of the Board. Each Board member is paid an annual fee, with allowances for meetings attended. |
| Standard 8: Succession planning | |
| The Board will plan for the succession of the CEO and review succession plans for key senior management. | The Board considered and approved a plan for CEO succession in February 2009. The succession planning process is a continuous exercise, calling for the development of high potential candidates. As such, the Board continued to oversee the implementation of these plans in 2009 and succession plans for key senior management positions were developed. |
| 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. | <p>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 corporate values. Under the Policy for Disclosure of Information Concerning Wrongdoing in the Workplace, there is also a mechanism to allow employees and suppliers to make reports of wrongdoing.</p> <p>There is also a Board-approved formal compliance programme, which can be found on PIDM's website at www.pidm.gov.my in the section headed "How PIDM is Governed". This compliance programme has also included the establishment of a Corporate Compliance Committee, with the objective of ensuring the fulfilment of corporate governance and oversight responsibilities in relation to PIDM's compliance with laws, regulations, industry codes, policies and procedures, contractual obligations and organisational standards that are applicable to the Corporation. Annual Reports on compliance are made to the Board through the Remuneration Committee and the Audit Committee, on adherence with these standards.</p> <p>There is also a Policy on Engagement of Separate Independent Legal and Other Counsel, which allows the Board and Committees to appoint independent advisors.</p> <p>Accordingly, the Board has a degree of assurance that systems are in place and are being adhered to.</p> |

| DESCRIPTION OF STANDARDS | REPORT ON COMPLIANCE IN 2009 |
|---|--|
| Standard 10: Significant risks to the Corporation | |
| <p>The Board will:</p> <p>(i) obtain an understanding of the principal risks of the Corporation's business;</p> <p>(ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly; and</p> <p>(iii) obtain reasonable assurance, on a regular basis, that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed.</p> | <p>(i) The Board obtains an understanding of the principal risks to PIDM by receiving and reviewing regular reports on the soundness of member institutions. The Board also receives and reviews regular reports from Management and the ERM Division on risks to its business and affairs, to gain an understanding of the nature and magnitude of significant risks to PIDM.</p> <p>(ii) In 2009, the Board ensured that appropriate and prudent risk management systems to manage risks were implemented. Amongst others, and in line with its commitment to the ERM Policy Statement, the Board:</p> <ul style="list-style-type: none"> monitored compliance with the ERM programme to ensure consistent application of risk management practices throughout PIDM; monitored Management's undertaking of another complete cycle of the ERM process, and received regular risk reports that identify policies, controls, and mitigation plans to treat the risks identified; noted the results of the application of the ERM Effectiveness Assessment Framework, and identified areas for improvement going forward; and considered and agreed to the key significant risk profiles of PIDM in the annual risk report. <p>With effect from 2009, the CRO functionally reports 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 Division 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 systems are in place and are being adhered to.</p> |

CORPORATE GOVERNANCE

STATEMENT ON GOVERNANCE

| DESCRIPTION OF STANDARDS | REPORT ON COMPLIANCE IN 2009 |
|--|--|
| Standard 11: Control environment and internal audit | |
| <p>The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.</p> <p>In this connection, the Board will:</p> <p>(i) allocate resources for, and establish an internal audit group, setting out its mandate;</p> <p>(ii) approve its audit plan each year; and</p> <p>(iii) seek, from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and the compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.</p> | <p>The Board accepts overall responsibility for PIDM's system of internal control and risk management and obtains assurance from Management, the CRO and the ACS Division in this regard. In this connection:</p> <p>(i) The Board has established an internal audit function, approved its mandate, and provided resources to ensure that it can fulfil its responsibilities. This has been reviewed in 2009.</p> <p>(ii) The Board has put in place a process to approve rolling three-year audit plans each year. The Board has, in 2009, approved the plan for 2010 to 2012. Performance to the audit plan is reported and reviewed on a semi-annual basis.</p> <p>(iii) The Corporation's internal control framework was completed in February 2007. In February 2009, the Board considered the internal audit's report on its assessment of Management's compliance with internal controls using agreed upon criteria. The ACS Division 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 60).</p> |
| Standard 12: In control | |
| <p>The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".</p> <p>(Note: The concept of being "in control" refers to a state where the Corporation's operations are subject to effective governance by the Board and are being managed in accordance with an ongoing strategic and risk management process in an appropriate control environment and where significant weaknesses related to those matters will be identified, addressed and brought forward to the Board's attention.)</p> | <p>In 2009, the Board obtained, in line with the criteria set out in the frameworks, reasonable assurance that PIDM's business and affairs are being managed effectively in accordance with the strategic and risk management processes in place within an appropriate control environment. See the Statement on Internal Control on page 60 below, and the article on "Managing Our Risks" on page 38.</p> |

| DESCRIPTION OF STANDARDS | REPORT ON COMPLIANCE IN 2009 |
|--|--|
| 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> <p>(i) periodically assess the Corporation's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister of Finance;</p> <p>(ii) adopt a strategic planning process;</p> <p>(iii) at least annually, approve operating objectives and strategies, the operating budget, capital budget, borrowing plan, corporate plan and premium rates that are appropriate and prudent in light of the Corporation's objects, current and anticipated environment, risks, resources and financial position;</p> <p>(iv) regularly evaluate the Corporation's performance in implementing its approved plans, and budgets; and</p> <p>(v) obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process.</p> | <p>A Board strategic planning session was held in October 2009, to consider and set the strategic direction of the Corporation for the corporate planning period 2010 - 2012. A risks and opportunities analysis was also carried out.</p> <p>The Board assessed PIDM's objects to consider its continued relevance in the review of the MDIC Act.</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 and distributed to key stakeholders.</p> <p>Regular reports on progress against the Corporate Plan are circulated to Board Members, and this is considered in detail by the Audit Committee.</p> <p>The ACS Division 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. Each year, PIDM's Corporate Plan is distributed to key stakeholders. In conjunction with the release of our annual report, annual dialogue sessions are held with our stakeholders. A number of Directors were also present in Kuching during the Corporate Outreach Programme in July 2009.</p> <p>The Board also continues to monitor the communication efforts by Management and quarterly reports are provided to the Board.</p> |
| Standard 15: Review of Board Governance Policy | |
| <p>The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject to, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.</p> | <p>In its review of the Board Governance Policy in May 2009, the Board has found that the policy is current and relevant to the needs and circumstances of PIDM. The Board also noted the governance arrangements were satisfactory, benchmarked against the International Federation of Accountants' checklist in its report 'Governance in the Public Sector - A Governing Body's Perspective' (August 2001). Additionally, the Board through the Governance Committee also reviewed its governance arrangements against the U.S. Companies' 'Key Agreed Principles to Strengthen Corporate Governance' published by the U.S. National Association of Corporate Directors in January 2009 and found our practices in line with these.</p> |

CORPORATE GOVERNANCE

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COMMITTEES

The Board has established three Board Committees, namely: the Audit Committee, the Remuneration Committee and the Governance Committee. Their Charters are found in the Appendix of the Annual Report.

Audit Committee

Members and Meeting Attendances

The Audit Committee held five regular Audit Committee meetings in total in 2009. Attendances of Audit Committee members at meetings were as follows:

| AUDIT COMMITTEE | MEETING ATTENDANCES |
|---|---------------------|
| Datuk Dr. Abdul Samad Haji Alias (Chairman) | 5/5 |
| Tan Sri Dato' Sri Dr. Sulaiman Mahbob | 2/5 |
| Mr. Michael Wong Kuan Lee | 5/5 |
| Mr. David Dass | 2/5* |

*Mr. Dass was only appointed from June 2009

In June 2009, the Board appointed one additional member on the Audit Committee. This was for Committee member succession planning purposes.

Audit Committee Charter

The Audit Committee Charter is set out in the Appendix on page 189. The Audit Committee Charter requires that meetings be held at least four times a year. The Committee must satisfy itself that the financial statements follow approved accounting principles and give 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 of PIDM's control and audit procedures. It advises the Board on other financial reporting, accounting and internal control issues as well as financial management, and 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 within the ERM Framework and Guidelines.

Summary of Activities in 2009

The following is a summary report of the work of the Audit Committee in 2009:

- (a) **Reliance on internal audit.** In 2009, the Audit Committee considered three internal audit reports issued by the ACS Division. These included the audit on PIDM's publicity management; the audit on security assessments and penetration tests; and on PIDM's financial reporting for the year ending 31 December 2008. The Audit Committee also considered semi-annual 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 2008 financial statements. The report on the external auditor's audit of the 2009 financial statements will be considered in February 2010. The Audit Committee also considered the annual internal control review, which is published on our website under the section "How PIDM is Governed".
- (b) **Information.** The Audit Committee considered all matters brought to its attention during 2009. It has unfettered access to the external auditor and Management of PIDM as well as to external independent counsel. In 2009, it held two *in camera* sessions with Management and one session with external auditors as part of good governance practices. These *in camera* sessions are also 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) **Its direct reports.** The Chief Internal Auditor and the CRO report directly to the Audit Committee. The Audit Committee also reviews their performance.
- (d) **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 provided to PIDM's stakeholders in a timely manner, and tabled in Parliament as required by law.

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

The Audit Committee considered accounting policies and noted no significant changes in accounting policy for 2009. 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 and 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. In relation to the internal accounting controls, the Audit Committee obtained a written certification from the Chief Internal Auditor addressing the organisation's system of internal controls.

- (f) **Financial management oversight.** In 2009, the Audit Committee has fulfilled its responsibilities with regard to financial management oversight, i.e., 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 2009. In particular, the Audit Committee considered the Corporate Plan 2010 - 2012 that included the annual operating budget and capital plan, and advised the Board on the same.

- (g) **Internal audit function.** The Audit Committee reviewed the internal audit charter in 2009. 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. Changes to the ACS Division Charter are highlighted in the Statement of Internal Control, page 62.

- (h) **Risk management.** In relation to risk management, the Audit Committee provided advice and support to the Board in respect of the matters reported against Standards Nos. 10 to 12 of the Board Governance Policy, on page 51 of the Annual Report. The Audit Committee also considered and recommended to the Board the ERM Charter, which incorporated,

among other matters, the reporting structure of the CRO and the ERM Division to the Audit Committee. The Audit Committee also agreed with the ERM Effectiveness Assessment Framework. More detail is discussed in the "Managing Our Risks" section, on page 38.

- (i) **Ethical and Legal Compliance.** In 2009, the Audit Committee reviewed the Conflict of Interest Code and agreed that no changes were necessary. The Audit Committee also reviewed the Code of Business Conduct and Ethics for employees and made recommendations to the Board to amend the same to provide guidance to employees on dealing with persons seeking information that they do not otherwise need. In January 2009, the Audit Committee also reviewed PIDM's compliance programme and the enhanced programme was published on PIDM's website at www.pidm.gov.my. The Audit Committee also reviewed the report on compliance with the applicable laws and regulations, as well as the Code on Business Conduct and Ethics and the Conflict of Interest Code. There were no incidences of non-compliances with applicable laws and regulations, as well as the Codes.

- (j) **Policy on Disclosure of Public Information.** One of the key responsibilities of the Audit Committee is to review PIDM'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 Management's Discussion and Analysis). In the course of fulfilling this responsibility, the Audit Committee also recommended to the Board the approval of a wider Policy on Disclosure of Public Information. The objective of the Policy is to clarify PIDM's position on what public disclosures of information may be made in the course of performance of an officer's or Director's duties or the exercise of his functions under the MDIC Act. The Policy is found on our website.

- (k) **Review of Charter.** Certain amendments to the Audit Committee Charter to reflect the ERM practices were also recommended by the Audit Committee for Board approval in February 2009. The next annual review of the Charter will take place in February 2010.

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Remuneration Committee

Members and Meeting Attendances

The members of the Remuneration Committee and the number of meetings each member attended in 2009 are as follows:

| REMUNERATION COMMITTEE | MEETING ATTENDANCES |
|---|---------------------|
| Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (Chairman) | 2/2 |
| Mr. Michael Wong Kuan Lee | 2/2 |
| Mr. David Dass* | 2/2 |

*appointed to Committee on 18 February 2009

Remuneration Committee Charter

The Remuneration Committee Charter is set out in the Appendix at page 187. 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 resource issues, such as compensation, compliance with human resource-related legal requirements, personnel policies, training, succession planning, complaints and other human resource-related matters.

Summary of Activities in 2009

Some of the key matters carried out or reviewed by the Remuneration Committee in 2009 are outlined below. The Committee:

- (a) continued to monitor the implementation of the Human Capital Strategy. This included the development of PIDM's 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;

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

- (c) assessed the 2009 CEO performance against the approved objectives and KPIs and made appropriate recommendations to the Board. The Committee also considered the 2010 statement of objectives and key performance indicators for the CEO and recommended the same to the Board;

- (d) considered the market competitive study to benchmark current employee remuneration packages against the existing market, and addressed compensation matters in relation to employees. It also approved bonus awards in line with the Board-approved compensation and benefits policy;

- (e) considered the succession management plan to ensure current and potential leaders are encouraged to remain in the organisation and develop in their careers to ensure readiness to assume critical positions;

- (f) reviewed the employee voice survey results for 2008; and

- (g) considered and recommended a scholarship programme for Malaysians in need of financial assistance to the Board for approval. This programme will commence in 2010.

Governance Committee

Members and Meeting Attendances

The members of the Governance Committee, and the number of meetings each member attended in 2009, 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 at page 184. The Governance Committee Charter requires the Committee to meet at least twice a year. The Governance Committee's principal responsibilities include ensuring that appropriate structures and processes are in place to provide effective oversight of, and direction for, PIDM's activities. It also ensures 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 recommend future appointments for non *ex-officio* positions on the Board.

Summary of Activities in 2009

The Governance Committee supported the work of the Board on corporate governance, as highlighted in the report above. Apart from that work, the following are some of the key highlights in relation to the Governance Committee's work done in 2009:

- (a) the development of the annual Board education plan for the Directors' continuing training and education about the operations of the Corporation and its governance responsibilities;

- (b) the implementation of the Board objectives for the year 2009, which included succession planning for the Board and key senior management;

- (c) the review of the current membership of all three Board Committees;

- (d) the review of PIDM'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;

- (e) reviewed and recommended to the Board, a formal Board Orientation Programme, which includes a Directors' Guide for new Directors;

- (f) reviewed and recommended the CEO succession plan process, and oversaw the succession planning for key senior management;

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(g) helped develop the Board profiles, both collectively and individually, as well as the implementation of the Board succession plan. In particular, the Governance Committee also noted the need to obtain a long-term focus in planning over the next three to five years, which are critical years in terms of anticipated changes in leadership on the Board as well as the Committees; and

(h) reviewed and refined the processes for evaluation of the Board and the Board Committees, as well as for assessing the effectiveness of Management's support to the Board in terms of its provision of information to the Board.

The Governance Committee also continued to track developments in corporate governance, and reviewed all its key governance policies with such developments in mind.

COMMITTEES' PROGRESS

All of the Committees adopt the practice of tracking their progress against their key responsibilities in their Charter at each meeting, and considering action plans going forward in respect of key responsibilities under the Charter. At the end of the year, the Committees review their work over the entire year, and each member fills in a questionnaire to assess the effectiveness of the Committee, which is then discussed at Board level.

OTHER INFORMATION

Stakeholders Communications

The Corporation's Communications Policy sets out its objectives, i.e., among others, to:

(a) create awareness and understanding of the Corporation's mandate by disseminating accurate, timely and relevant information in response to stakeholders' and the public's needs to assist them in making informed decisions about their savings and investments; and

(b) promote transparency and accountability by providing information and being accessible to the public and stakeholders to gain their trust and support.

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

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

Our communications strategy also involves the dissemination of PIDM-related materials to members of the public. These include our corporate plans, annual reports and information brochures in four main languages. Our brochures are also available in Kadazandusun and Iban. More information about our communications initiatives is found in Section 7.

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 2009 and the accompanying Statement of Directors are found at page 94 onwards.

Internal Control

The Statement on Internal Control is found at page 60 of this Annual Report.

Risk Management

The section on PIDM's risk management is found at page 38 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. In this regard, they have attended three out of the five Audit Committee meetings held in 2009. Their annual fees can be found at page 123 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 their respective functions, and the Chief Financial Officer, the General Manager, Insurance Risk Assessment and Monitoring, the General Counsel, as well as the Chief Internal Auditor 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 Chief Financial Officer also provide an enhanced statutory declaration on the financial statements and quality of internal controls.

Directors have access to company records and information, to the Corporate Secretary and to 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. They also receive regular updates on information affecting PIDM's operating environment, and on key developments in deposit insurance elsewhere.

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

- (i) Executive Management Committee
- (ii) ERM Committee and Strategic Planning and ERM Working Committee
- (iii) Assets and Liability Management Committee
- (iv) Information Technology Steering Committee
- (v) Safety and Health Committee
- (vi) Corporate Compliance Committee.

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



CORPORATE GOVERNANCE

STATEMENT ON INTERNAL CONTROL



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

INTRODUCTION

As a statutory body, unlike listed entities, there is no requirement for PIDM to make a statement of internal control in our annual reports. However, our Board of Directors is committed to maintaining a sound system of internal control, and acknowledges that it is good corporate governance practice to make a statement of internal control. Such a statement is also consistent with expectations from the Board under Standards No. 11 and 12 of the Board Governance Policy.

This Statement has been prepared, where applicable, in accordance with the 'Statement on Internal Control - Guidance for Directors of Public Listed Companies', which was published as guidance for companies complying with the Listing Requirements of Bursa Malaysia and the Malaysian Code on Corporate Governance.

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

RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

Board of Directors

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

The Board recognises that PIDM's system of internal control as designed by Management is intended to manage and mitigate risks, rather than to eliminate entirely the risk of failure to achieve the Corporation's statutory mandate and objectives.

The review of the effectiveness, integrity and adequacy of PIDM's system of internal control is a concerted and continuing process, and involves the Audit Committee, Management, the ERM Division, the ACS Division and PIDM's external auditors as follows:

(a) Audit Committee

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

Further details about the Audit Committee are set out in the Statement on Governance at page 54.

(b) Management

The CEO derives his authority from the MDIC Act and the Board-approved job description. He is accountable and answerable to the Board for the performance of his responsibilities, and is not a member of the Board.

The CEO fulfils his responsibilities by providing leadership and direction to the rest of Management. He ensures that PIDM's organisational structure is adequately segregated by functions, and ensures that there is a proper assignment of authority and responsibilities. This enables employees at the right levels of the Corporation to make decisions, correct problems or implement improvements to effectively manage their operations.

Appropriate checks and balances have been implemented within PIDM. This is represented by the establishment of reporting relationships, whereby operational divisions report directly to the CEO, and independent divisions such as the ACS and ERM Divisions report directly to the Audit Committee.

During the financial year under review, Management continued to assist the Board in the implementation of PIDM's ERM and Internal Control frameworks. Management continued to strengthen PIDM's financial and operational capabilities and integrity through the introduction, and continuous enhancement, of key financial and operational systems, policies, procedures and processes. Management also ensured that, prior to implementation, the systems, policies, procedures and processes are reviewed by the Legal Division, the ERM Division and the ACS Division. This was to

ensure that PIDM continues to comply with the applicable laws and regulations, risks are mitigated, and controls are built into these policies, procedures and processes.

(c) Enterprise Risk Management Division

The ERM Division continues to implement the ERM Framework and Guidelines. This Framework and Guidelines serves as the foundation for the ERM programme to ensure that risk management becomes the responsibility of all employees and risk management practices are applied consistently throughout PIDM.

Annually, through the ERM process, PIDM carries out a corporate-wide risk identification and assessment exercise through a workshop to identify and assess the significant risks affecting the Corporation for the planning period. Further details on this exercise are set out on page 38.

The Board-approved ERM Charter details the responsibilities, authority and accountability requirements of the Board, Audit Committee, CRO, ERM Committee, Strategic Planning and ERM Working Committee and employees in respect of ERM. The Charter is subject to periodic review to ensure continuing relevance.

An ERM Effectiveness Assessment Framework has also been implemented, that enables the assessment of the effectiveness, and maturity level, of PIDM's ERM Framework.

The ACS Division regularly audits the ERM processes and activities. In view of the strong controls inherent within the ERM system and processes and, on the basis of the satisfactory audit results from the last audit performed on the ERM system and processes, from 2010 onwards, the audit on ERM will be conducted once in every two years.

(d) Employees of the Corporation

PIDM recognises that each employee has a responsibility to help maintain a sound system of internal control. Management continues to promote an internal control culture, by emphasising training and awareness on the Corporation's values, avoidance of conflict of interests, application of the Code of Business Conduct and Ethics and, by requiring an annual declaration of personal assets and liabilities from employees.

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Through the Human Capital (HC) Division, Management reinforces corporate values through employee-related activities. Among others, HC Division has dedicated specific weeks during the year for the Corporation to focus on employee and team-building activities (called "HC Weeks"), organised health and safety awareness talks, carried out various in-house training programmes and organised occasions such as PIDM's Family Day and Annual Dinner.

Management recognises that information is pertinent for the purpose of effecting controls that improve business processes and operations. In this respect, Management ensures that there are proper and adequate communication channels for all employees. An intranet has been established to enable employees to access the latest business news, archived business information, employee events and relevant published articles to ensure that employees are kept informed of latest developments in the financial system. In addition, all employees have access to the Internet, subject to the E-mail and Internet Usage Policy. The Information Technology (IT) Department restricts access to unauthorised sites, social networking sites and controls incoming e-mails from unknown sources.

(e) Audit and Consulting Services (ACS) Division

Board's responsibilities for control

Standard No. 11 of the Board Governance Policy on Control Environment and Internal Audit states that 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 and has effective policies and practices to ensure the integrity of internal controls and management of information systems. Standard No. 12 of the Board Governance Policy refers to the Board responsibility to obtain, on a regular basis, reasonable assurance that the Corporation is "in control".

The role of the ACS Division in assisting the Board and evaluating internal controls

The ACS Division assists the Board to comply with these Board Governance Policy Standards by supporting the oversight role of the Audit Committee. Further details on the Audit Committee are set out in the Statement on Governance at page 54.

The CEO and Management have ultimate responsibility for the adequate design and effective operations of the system of internal control. The ACS

Division, on the other hand, plays a significant role in verifying and validating whether Management has met its responsibility. This is by evaluating controls, risk management, business and governance processes as well as monitoring whether Management has recommended improvements in controls, risk management, business and governance processes. The ACS Division provides an update on the status of implementation of recommended improvements to the Audit Committee twice a year.

Risk-based audit planning

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

Consulting and advisory services

Throughout 2009, the ACS Division has also met internal demands for consulting and advisory services. A significant proportion of its audit-person days were allocated to providing consulting and advisory services to various working committees, taskforces and individual divisions in relation to PIDM's projects or the Corporate Plan initiatives.

The ACS Charter

The ACS Charter was reviewed in 2009 to ensure consistency with the applicable standards of best practices, and the changes were duly approved by the Audit Committee and the Board. The revised ACS Charter incorporates the Division's responsibility to maintain and foster an effective working relationship with the National Audit Department (NAD) - PIDM's external auditors, as well as the responsibilities of the Chief Internal Auditor to consult with the CEO and the Audit Committee for any appointment of external consultants for audit co-sourcing or out-sourcing. The revisions also reflect the Chief Internal Auditor's practice (adopted since the financial reporting for the year ending 31 December 2006) of providing an annual representation to the Audit Committee in respect of the state of internal control of PIDM.

The effectiveness of ACS Division

In 2009, the Audit Committee reviewed the overall performance and operations of the ACS Division for 2009 twice. This was to ensure that the ACS Division

continued to function effectively, and that its performance was monitored and assessed against the Board-approved audit and consulting activities for the year. As a matter of practice, the ACS Division also seeks auditee's feedback and recommendations on each audit performed, so that it might enhance the Division's performance. The survey results for 2009 have also been reviewed by the Audit Committee.

(f) External Auditors

The NAD serves as PIDM's external auditors, as set out in the MDIC Act. The ACS Division and the NAD coordinate their audit work and continued, in 2009, to co-operate for efficiency and effectiveness.

In particular, in 2009, the external auditor continued to place some reliance on the audit work of the ACS Division. During the financial year under review, the external auditors relied on the results of an audit performed by the ACS Division (the Audit of the Corporation's Publicity Management) in considering an audit of the management of PIDM's public affairs and public relations activities. The extent of the external auditors' reliance on the work of the ACS Division was formally communicated to Management and the Audit Committee.

INTERNAL CONTROL ENVIRONMENT OF THE CORPORATION IN 2009

Information Technology

Management continued with its efforts to strengthen its information security infrastructure. During the financial year under review, the ACS Division undertook a co-sourcing approach to perform security assessments on PIDM's IT systems as well as the Corporation's information systems (IS) assets. The audit was selected on the basis of the risks identified by the ERM Division. These are:

- the information risk pertaining to the disclosure of confidential information to non-authorised personnel or the public; and
- the IT risk associated with the breach of IT application systems - either virtual or physical.

The objectives of the audit were two-fold:

- to identify and address the risks and gaps relating to PIDM's IT security system and environment, physical security, logical security and operational controls designed to protect the Corporation's hardware, software and data against unauthorised access and

- accidental or intentional destruction or alterations; and
- to perform the internal and external penetration tests and vulnerability analysis on selected critical IT systems and IS assets of PIDM to ensure that the Corporation's information systems are functioning in an efficient and effective manner.

To add value to the audit work, the audit recommendations to address the audit issues and related risks were based, where applicable, on internationally accepted and adopted standards, in line with PIDM's vision to be a best practice deposit insurer.

PIDM's IT governance continued to be enhanced with a specific focus on addressing IT risks. In supporting these improvement efforts, new IT controls have been employed encompassing the following:

- hardening the IT infrastructure and systems;
- implementing initiatives to control access to Internet resources such as unauthorised sites and social networking sites to prevent leakage of confidential information;
- enhancing the anti-virus infrastructure and controlling in-coming e-mails from unknown sources to safeguard from any unauthorised intrusions into the IT systems;
- improving PIDM's network security infrastructure to ensure reliable and secured connectivity; and
- tightening the controls on physical access to PIDM's premise and assets.

Awareness on Risks and Controls

PIDM continued to promote an internal control culture, as described earlier in section (d), on page 61.

In particular, PIDM organised IT security awareness training for all employees to reinforce the concept that information security is an important part of the business processes. The programme was also intended to motivate and remind employees of PIDM's expectations in ensuring the Corporation's information is adequately secured and protected. This programme will continue to be organised on an annual basis.

A training session on the implementation of the Committee of Sponsoring Organisations of the Treadway Commission (COSO) internal control and ERM frameworks was held from 16 to 18 March 2009. Employees of PIDM attended the training, and invitations were extended to auditors and risk professionals from the regulatory bodies, the NAD, accounting firms as well as regional deposit

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insurance corporations. The Corporation also organised (in conjunction with the Financial Institutions Directors' Education Programme jointly promoted by BNM and PIDM), a dinner talk on 'Board Responsibilities for ERM and Internal Controls' on 18 March 2009, which was well-attended by the directors of member institutions.

Key Systems, Policies, Practices and Processes

In 2009, the following key systems, policies, practices and processes were established as part of our system of internal control:

- Management continued to emphasise the importance of accountability, governance and compliance with laws, regulations, industry codes, policies and procedures, contractual obligations and organisational standards that are applicable to PIDM. In this regard, PIDM enhanced its compliance programme to:
 - promote a culture of compliance within the Corporation;
 - prevent, identify and respond to breaches of laws, regulations, industry codes, policies and procedures, contractual obligations or organisational standards occurring in the organisation; and
 - assist the Corporation in being a good corporate citizen.

- A Compliance Committee was established to provide assistance to PIDM's Board in fulfilling its corporate governance and oversight responsibilities in relation to the Corporation's compliance obligations.
- In addition to the annual representations provided by the CEO, the Chief Financial Officer, the Chief Internal Auditor, the Head of Insurance, Risk Assessment and Monitoring Division, in respect of financial year end 2009, and under the ERM Charter, the CRO will also be providing a letter of representation to the Board with regard to her responsibilities and accountabilities.
- In developing the Corporate Plan, PIDM adopts an integrated approach, whereby significant risks facing the Corporation are identified and assessed using the ERM Framework. In view of the complexity and dynamism of the financial industry landscape this year, PIDM adopted a scenario planning approach in the strategic planning process. This approach aimed to stretch the Corporation's thinking on how to respond effectively if events occur that derail PIDM from its original plan.

- PIDM's annual budget was prepared based on the Corporate Plan and tabled to the Board for approval. The corporate initiatives for the year have been implemented within the Board-approved financial plans and targets. Financial results are tracked and monitored and reported to the Board and the Audit Committee on a quarterly basis.
- Reporting of progress against Divisional Scorecards was carried out on a quarterly basis. The Corporate Planning Unit, in turn, provides Management and the Board with the updates on the Corporate Scorecard on a quarterly basis. This is consistent with the Scorecard reporting requirement as agreed by Management and the Board.
- PIDM strives to be operationally ready. In this regard, a Business Continuity Plan and a Haze and Infectious Disease Plan have been developed to ensure continuity of business processes in the event of a disaster or pandemic. The development of a Disaster Recovery Plan and assessment of a suitable disaster recovery site and infrastructure have also commenced.
- Management continues to develop its core operations systems. The first phase of the Depositors' Payout System (an IT system to ensure effective payouts to depositors of insured sums on a failure) has been implemented this year; whilst the second phase has commenced.
- PIDM has developed the first phase of the Corporate Enterprise Portal. The objective of the Portal is to improve and enhance PIDM's document management system, tasks and enterprise calendar management system and to centralise corporate contacts.
- The Corporate-Wide Records Management System has been implemented following the implementation of the Information Classification Policy.
- PIDM has implemented the Human Resource Information System (HRIS), which automates the human capital related processes such as leave applications and employees' claims management (previously done on a manual basis).

- A dynamic and systematic employees' performance appraisal system has been implemented, which allows for the assessment of individual employee's performance against his KPIs. Apart from assessment of technical or core competencies, the HC Division has incorporated behavioural competencies and ethical values as the criteria in performance appraisals.
- PIDM fosters a conducive corporate environment, by promoting a safe, healthy and harassment-free work environment. A Safety and Health Committee has been established to assist Management to ensure that there is continuous improvement of occupational safety and health performance and prevention of accidents, as well as a commitment to meet and/or exceed relevant Occupational Safety and Health (OSH) legislation and other requirements. PIDM's policy on OSH is reviewed annually by Management, communicated to all employees and made available to the public in accordance with the OSH Communications. PIDM may appoint an external OSH audit consultant to perform the OSH audit for the Corporation, should the need arise.
- A Change Champion taskforce has been established to encourage employees to raise questions and/or issues via these codes, policies and procedures and promote better communications and relationships between supervisors and team members.
- The selection of accounting policies and principles in relation to PIDM's financial management and reporting is in accordance with the requirements of applicable laws and standards and these policies and principles are consistently applied. This is evidenced by the achievement of the "Best Annual Report" of Non-Listed Organisations awarded by the National Annual Corporate Report Awards (NACRA).
- PIDM's key policies and operational procedures have been implemented, and some are still being developed. Newly drafted policies and procedures continued to be reviewed by relevant divisions, to ensure applicable laws and regulations are addressed, risks are mitigated and controls are built into the policies and procedures. The Board and the Audit Committee were kept updated on the progress of the development of these policies



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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 and integrity continued to be strengthened and remained consistent with the applicable standards of best practices.

- Management is receptive to employees' suggestions of ways to enhance productivity, quality or other similar improvements through the Employee Voice Survey (corporate-wide) and Customer Satisfaction Survey (conducted by each division for feedback on the division).

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:

- As a matter of practice, the Board considers the reports of various Board Committees on a regular basis. These would include 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 Division; the report from the Remuneration Committee on compliance with key human capital policies and related laws; and the report from the Governance Committee on compliance with key governance policies.

- The Board considered, on a quarterly basis, (i) PIDM's financial reports; (ii) the utilisation of resources as compared to the approved budget; (iii) the implementation of the ERM Framework and the update on PIDM's risks and measures to mitigate significant risks; and (iv) the update and progress of Management's overall performance against approved initiatives as set out in the Corporate Plan, as well as Management's assessments of internal and external factors that may impair the performance of the Corporate Plan.
- At each Committee meeting, the Board Committee considers its progress against its Charter and Management's proposed action plans for Management to support the Committee in fulfilling its key responsibilities. The progress is reported to the Board.

STATEMENT ON EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL

The effectiveness of PIDM's compliance with internal controls as of 31 December 2009 has been assessed by Management and validated by the ACS Division based on the criteria set out in the Corporation's internal control framework. PIDM's internal control framework is founded on the framework set forth by the COSO 'Internal Control - Integrated Framework'.

Based on that assessment and the effectiveness of PIDM's systems, policies, practices and processes established in 2009, the Board is pleased to report that a sound system of internal control within the Corporation has been established. The Board is committed to ensuring that Management continuously takes proactive measures to:

- (a) create a conducive corporate culture and environment that emphasises accountability for control and risk management;
- (b) identify, assess and address the various risks facing PIDM that could hinder the achievement of the Corporation's corporate objectives during the corporate planning period; and
- (c) review and monitor the entire system of internal control and address issues or problems adequately on a timely basis.

The Board is also pleased to report that, for the year 2009, 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, and there were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in internal controls.

This Statement is made in accordance with the Board's resolution dated 23 February 2009.



Section 3: Management's Discussion and Analysis



MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR OPERATING ENVIRONMENT

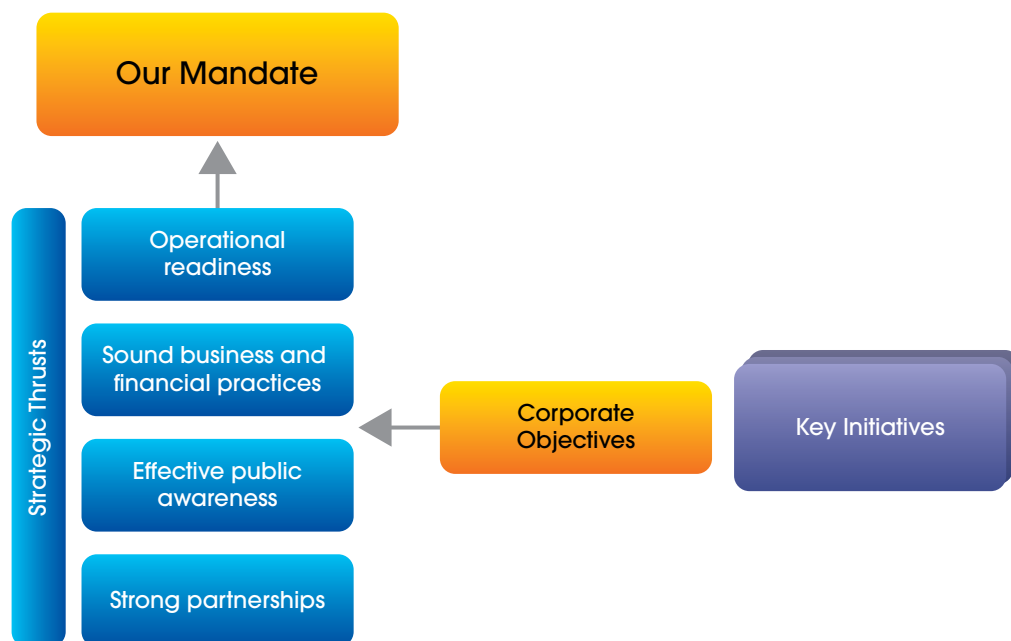
The year 2009 started on a cautious note against the backdrop of heightened global financial crisis. The Malaysian economy and the financial system nevertheless showed relative resilience and the economy staged a modest recovery in the second half of 2009, largely underpinned by the pre-emptive measures taken by the Government in 2008. Towards the end of third quarter 2009, the outlook appeared to improve, though developments in the Middle East towards the end of the year had a moderate impact on global markets.

The Malaysian economy is expected to achieve a stronger footing in 2010, in tandem with a modest recovery in the global economy. The outlook for our operating environment, therefore, continues to improve, though PIDM continues to keep a watchful eye for external risks. A major challenge for PIDM in 2010 will be to work closely with other safety net players to ensure a smooth exit out of the current Government Deposit Guarantee (GDG) with minimal impact on public confidence.

REVIEW OF OPERATIONS

Our Achievements in 2009

In fulfilling our mandate, we continued to focus on our strategic thrusts, which are operational readiness, sound business and financial practices, effective public awareness and strong partnerships.



Our Key Performance Indicators (KPIs) and initiatives support our strategic thrusts and corporate objectives, which ultimately support the achievement of our mandate.

For the year 2009, we focused on building our capacity and capabilities, and on our role in administering the GDG. Our strategic direction was to:

- Develop our human capital;
- Intensify risk assessment and monitoring activities;

- Ensure ongoing operational effectiveness;
- Develop readiness to handle intervention and failure resolution activities; and
- Continue our efforts on raising public awareness and understanding of PIDM as well as maintaining confidence in the financial system.

Highlights of our achievements are described on the following pages.

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REVIEW OF 2009 OPERATIONS AND ACHIEVEMENTS

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

Y Not yet initiated/future date
R Target not achieved, major slippage-time to completion; and/or below target; and/or >±10% (full year) budget variance

| CORPORATE OBJECTIVES | | KEY PERFORMANCE INDICATORS (KPIs) | TARGET 2009 | RESULTS DEC 2009 | REMARKS |
|----------------------|--|--|-----------------------------|------------------|--|
| Stakeholders | A Well governed and well managed organisation | 1. Board assessment on: | | | |
| | | a. Best practices of governance adopted | High satisfaction | A | We continued to adopt best practices in governance, including the following. We: <ul style="list-style-type: none"> Made changes to the Chief Risk Officer's reporting line from the Chief Executive Officer (CEO) directly to the Board through the Audit Committee, to enhance our information architecture in line with leading practices. Focused on Board and CEO succession planning as well as commenced succession planning for key positions. Reviewed and enhanced the process for evaluating the Board and Committees' performance. Formalised our Board orientation programme and implemented the programme for our new Director. Continued our Board education sessions. Reviewed all key governance policies for relevance and currency. Enhanced the Corporate Compliance Programme. Established a Policy on Disclosure of Information to the Public. Held a tripartite meeting with the governing bodies and management of the Deposit Protection Agency of Thailand and the Indonesia Deposit Insurance Corporation. Carried out several corporate social responsibility initiatives. |
| | | b. Management practices adopted | High satisfaction | A | We maintained a sound internal control system. In particular, we: <ul style="list-style-type: none"> Reviewed key processes for ensuring the Board's satisfaction with Management's provision of information to the Board and suggested enhancements to the processes. Continued to incorporate the Enterprise Risk Management (ERM) process and conducted scenario planning in the development of our Strategic and Corporate Plans for 2010 - 2012 (production completed). Continued to enhance Management practices to ensure adequate internal controls and internal audits were carried out. Our 2008 Annual Report won the Best Annual Report for Non-Listed Organisations under the National Annual Corporate Report Awards (NACRA). |
| | | c. Compliance with significant policies | 100% | A | We reviewed our significant policies, including the Policy on Procurement, Contracting and Outsourcing. In line with our enhanced Compliance Programme, we have set up a Corporate Compliance Committee, and explored ways to ensure continued compliance with key policies and procedures, ethics and the law. |
| | | d. Effectiveness of ERM policies and practices | High satisfaction | A | Our internal audit function continued to provide us assurance that our ERM policies and practices are effective and carried out in accordance with our ERM Framework. |
| | | 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 | A | We continued to provide relevant information to the Board to keep them informed of the Corporation's activities and progress. The Board has assessed and rated its satisfaction with Management's provision of information to the Board. |
| | | 2. Engagement and responsiveness to other stakeholders' needs | Action on feedback received | A | We continued to respond effectively to our stakeholders including our member institutions, guaranteed financial institutions, Government agencies, various public and private organisations as well as the general public through various mediums such as our Call Centre, website, general e-mail, briefings, exhibitions, road shows and the media. |
| | | 3. Successful completion of key initiatives: | | | |
| | | a. Maintenance of ERM Framework: | | | |
| | | i. Ongoing risk assessment and review | Review | A | We continued to perform ongoing risk assessments and reviews throughout the year. We also conducted an annual ERM Risk Identification and Assessment Workshop for Management and employees to identify and assess significant risks affecting the Corporation. |
| | | ii. ERM Board Risk policies and practices | Develop & implement | G | We have commenced development of the ERM Board Risk policies and practices and these will be implemented in 2010. |
| | | iii. ERM Effectiveness Assessment Framework | Develop & implement | A | We developed an ERM Effectiveness Assessment Framework to gauge the maturity level of the organisation's ERM practices. As part of its implementation, we conducted an ERM Effectiveness Assessment Survey. |
| | | b. Implement the Government Deposit Guarantee framework | Implement | A | We have implemented the Government Deposit Guarantee framework. We work closely with Bank Negara Malaysia to monitor the performance of the guaranteed financial institutions and engage them regularly. |
| | B Educated and informed stakeholders | 4. Public awareness index (general awareness of deposit insurance) | 30% | R | The awareness level of deposit insurance at the end of 2009 was 21% (2008: 27%). The decrease in awareness level of deposit insurance can be attributed to the implementation of the Government Deposit Guarantee and therefore reduced interest in deposit insurance. In addition, the improved global financial situation in 2009 has resulted in less concerns and thus, lower public relations and media coverage on deposit insurance. However, among those who are aware of deposit insurance, their understanding of deposit insurance has significantly increased (2009: 53%, 2008: 39%). |
| | | 5. Successful completion of key initiatives: | | | |
| | | a. Review and implement Integrated Communications Plan (including meeting the objectives of the Government Deposit Guarantee): | | | |
| | | i. Implement advertising programme | Complete | A | We implemented our planned annual advertising campaign including publicity in print, broadcast and electronic media. |
| | | ii. Implement public relations programme | Complete | A | We implemented our planned public relations programmes which included media briefings, interviews, published articles and our 2009 Corporate Outreach in Kuching, Sarawak. |
| | | iii. Implement stakeholder engagement programme | Complete | A | We implemented our planned annual stakeholder engagement programme which comprises nationwide briefings for member institutions, guaranteed financial institutions and other stakeholders as well as participated in nationwide exhibitions and road shows. |
| | | b. Develop and implement education programme | Develop & implement | G | We have completed the development of our education programme for students and will commence the pilot implementation at selected secondary schools and higher learning institutions in the first quarter of 2010. |
| | | c. Develop and implement scholarship programme | Develop | A | We have finalised our scholarship programme for undergraduate studies at local universities in Malaysia and implementation will commence in 2010. |
| | C Effective partnerships | 6. PIDM's relationship with: | | | |
| | | a. Bank Negara Malaysia | Strong | A | Our relationship with Bank Negara Malaysia remained strong as we continued to work closely to monitor and regulate member institutions and other guaranteed financial institutions. |
| | | b. Member institutions and other guaranteed financial institutions | Satisfactory | A | Our relationship with member institutions and other guaranteed financial institutions remained good and collaborative, as we frequently engage them via annual dialogues and consultative processes on policies and regulations that affect such institutions. |
| | | c. Suppliers | Strong | A | We continued to build and maintain a good working relationship with our key suppliers. |
| | | d. International deposit insurers | Strong | A | Our relationship with other deposit insurers continued to be strong through our active participation in the International Association of Deposit Insurers (IADI). We hosted several study visits at the request of other deposit insurers. We were also nominated again for the 2009 IADI Deposit Insurer of the Year Award. |
| | | e. Government | Strong | A | We continued to provide information and support to the relevant Government agencies. |
| | | 7. Participate in international fora | Active participation | A | We actively participated in international fora by attending, organising and hosting various events. |
| | | 8. Successful completion of key initiatives: | | | |
| | | a. Establish base of strategic partners | Develop | A | We continued to develop the base of key strategic partners as part of building our operational readiness. |

| CORPORATE OBJECTIVES | | | KEY PERFORMANCE INDICATORS (KPIs) | TARGET 2009 | RESULTS DEC 2009 | REMARKS |
|----------------------|---|---------------------------------------|---|-------------------------------------|------------------|--|
| Financial | D | Optimal use of resources | 9. Actual vs. approved budgets | - 10% variance +15% variance | A | We achieved positive variance for both operating and capital expenditures. Our net surplus is lower than budget by RM9.5 million or 9% due to lower premiums received during the year. More details on financial results are described on pages 94 to 129. |
| | | | 10. Successful completion of key initiatives: | | | |
| | | | a. Develop and implement funding framework | Implement Phase 1 & develop Phase 2 | A | We have drafted Master Loan Facility Agreements (for conventional and Shariah financing facilities respectively) for execution with the Government. We have also commenced Phase 2 of our funding framework on raising funds from the capital markets. |
| | | | b. Develop and implement the frameworks for: | | | |
| | | | i. Target Fund | Develop | A | We have commenced the development of our Target Fund and Loss Provisioning frameworks, which are expected to be implemented in 2010. We completed the tasks planned for 2009. |
| | | | ii. Provisioning | | A | |
| Internal Process | E | Operational excellence | 11. Internal control compliance | Strong | A | We continued to maintain sound internal controls in our operations. |
| | | | 12. Internal customer satisfaction survey | 75% | A | We continuously review the performance and service levels of our internal support functions and put in place action plans to deal with any gaps that may arise. Overall, all functional areas achieved the targeted satisfaction level of 75%. |
| | | | 13. Successful completion of key initiatives: | | | |
| | | | a. Review guidelines on Differential Premium Systems (DPS) and Total Insured Deposits | Review | A | We have issued the External Auditor Validation Guidelines in April 2009 and implemented the External Auditor Validation Programme to verify the Total Insured Deposits and premiums paid by all member institutions. The review of the DPS is ongoing and we have sought feedback from member institutions on areas to be reviewed and enhanced. A consultation paper will be issued in 2010. |
| | | | b. Develop and implement comprehensive Risk Assessment and Monitoring Frameworks (Phase 2 - Enhancement) | Develop | A | We have completed reviewing existing key ratios and key indicators to assess risks of our member institutions. We decided to discontinue the project on enhancements for Basel II of our Risk Assessment System due to uncertainties in obtaining finalised copies of complete and stable data. Commenced research on the Early Warning System project, to be developed in 2010. |
| | | | c. Develop and implement Intervention and Failure Resolution methodology, policy, process and criteria | Develop | A | This three-year project to develop policies and procedures for the Intervention and Failure Resolution Framework is progressing as scheduled. The overall framework and related documentation for four out of 13 areas have been completed as planned for 2009. |
| | | | d. Develop and implement policies and regulations for members and other guaranteed institutions: | | | |
| | | | i. Interest and dividend payable guidelines/rules | Develop | G | We have commenced drafting the interest and dividend payable rules and they are expected to be completed in 2010. We have commenced discussions to review the different types of structured deposits offered by member institutions and also received inputs and information on the current structured products from Bank Negara Malaysia. |
| | | | ii. Other policies | Develop | A | Developed the Guidelines on Deposit Information System and Submission and a Consultative Paper was issued. We have also developed regulations for sound practices. |
| | | | e. Develop and implement Payout system, policies and procedures: | | | |
| | | | i. Phase 1 – Develop Depositor Liabilities Information Management and Depositor Support Management systems | Develop & implement | A | Phase 1 of the Payout System was completed as planned with the development and implementation of the Depositor Liabilities Information Management and the Depositor Support Management systems. |
| | | | ii. Phase 2 – Develop Payment Management Process and System | Develop | G | We have identified the vendor for the Phase 2 project on Payout Payment Management System and Product Repository System. The project is scheduled to be completed by end-2010. |
| | | | f. Implement annual IT Strategic Plan initiatives | Complete | A | We have completed all the initiatives and activities as set out in PIDM's Information Technology (IT) Strategic Plan, including: • Phase 1 of the "Redundant Network Infrastructure" project. • Installation of new anti-virus and corporate anti-spam software. • Corporate-wide upgrade of operational IT infrastructure. • Key IT projects as set out in the Corporate Scorecard. |
| | | | g. Develop and implement Business Continuity and Disaster Recovery Plan: | | | |
| | | | i. Phase 1 – Assessment, Design and Plan Documentation | Develop & implement | A | Phase 1 is completed and PIDM's Business Continuity Plan is in place. Simulation exercises were conducted including a table-top exercise and 'notification call tree'. In addition, we also developed a specific Haze and Infectious Disease Business Continuity Plan. |
| | | | ii. Phase 2 – Training, Awareness, Testing and Disaster Recovery Planning and Facilities Preparation | Develop & implement | G | Phase 2 is ongoing and a disaster recovery site and infrastructure will be identified and developed during this phase. Training, awareness and testing will be conducted to support PIDM's operations in the event of a disaster. |
| | | | h. Develop Crisis Communications Manual | Develop | A | We have established a joint task force with Bank Negara Malaysia for the development of the Crisis Communications Manual. The framework is completed as planned and the manual is expected to be completed in 2010. |
| | | | i. Develop and implement Human Resource (HR) Information System | Implement Phase 1 & develop Phase 2 | G | Phase 1 of the HR Information System has gone 'live' as scheduled in 2009. Development for Phase 2 has commenced and is expected to be completed in 2010. |
| | | | j. Develop and implement Knowledge Management (KM) Framework and System: | | | |
| | | | i. Phase 1 – Develop KM Framework | Complete | G | The KM Framework is being developed and implementation is expected to commence in 2010. |
| | | | ii. Phase 2 – Develop KM policies, processes and infrastructure | Develop | Y | Development of the policies, processes and infrastructure will commence in tandem with the implementation of the KM Framework in 2010. |
| | | | k. Implement a Corporate Enterprise Portal | Develop & implement Phase 1 | G | Phase 1 of the Corporate Enterprise Portal project is scheduled to be completed in the first quarter of 2010. |
| | | | l. Implement Records Management and Information Classification policies, processes and infrastructure | Implement | A | We established programmes to ensure information is properly classified and kept within the Corporation. |
| | | | m. Review of coverage limit | Review | A | We have reviewed the coverage limit on deposit insurance and will incorporate the results into the plan for the exit of the Government Deposit Guarantee. |
| | | | n. Review and recommend amendments to MDIC Act | Implement | A | The Stabilisation Insurance provisions within the MDIC Act were approved by Parliament in 2009. We have also completed the review of the MDIC Act for robustness and operational effectiveness as well as to enhance the resolution tools available to the Corporation. We will recommend a package of legislative amendments to the MDIC Act in 2010. |
| | | | o. Review operational requirements to effectively administer the Government Deposit Guarantee and subsequently transition from the Government Deposit Guarantee when required | Develop & implement | A | We have successfully administered the Government Deposit Guarantee and will commence development of the plan to revert to a limited coverage deposit insurance system when the Government Deposit Guarantee expires. |
| Learning and Growth | F | Competent and knowledgeable workforce | 14. Implementation of annual training plan | 80% | A | We have implemented the annual training plan based on training needs analysis. We continuously review our training plan based on feedback from the individual development plan, performance assessment and competency mapping assessment. |
| | | | 15. Successful completion of key initiatives: | | | |
| | | | a. Develop and implement succession planning based on the Board-approved Succession Management Framework | Develop & implement | A | A succession plan for all key positions has been developed and will commence on 1 January 2010. |
| | G | Conducive corporate environment | 16. Employee satisfaction index | 75% | A | The Employee Voice Survey for 2009 was conducted on 21 December 2009 and we have achieved a satisfaction index of 79%. |
| | | | 17. Successful completion of key initiatives: | | | |
| | | | a. Implement employee-related programmes to promote a conducive corporate environment | Complete | A | The Corporation continued to promote a conducive corporate environment by conducting employee-related activities and implementing the Employee Assistance Programme. |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2009 OPERATIONS AND ACHIEVEMENTS

DIVISIONAL OPERATIONS REVIEW

All of the key 2009 initiatives were rolled out and completed through the eight divisions in PIDM. The following section provides a brief description of the functions of our respective divisions and their key activities and accomplishments in 2009 as well as their ongoing initiatives.

Audit and Consulting Services Division (ACS)

- provides independent assurance services
- works in partnership with the Management, adding value through the provision of consulting and advisory services for key projects

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|---|--|
| <ul style="list-style-type: none"> • Audit: Implemented the Board-approved Audit Plan 2009 - 2011, applying a risk-based auditing approach. Carried out several internal audits in 2009, including an Information Technology (IT) security assessment and audit on publicity management. Assessed PIDM's state of internal control. More details can be found in the Internal Control Statement, on page 60 of this Annual Report. • Effective partnerships: Carried out its first audit on a co-sourcing basis with an external audit firm, with regard to security assessment of PIDM's IT systems including penetration testing and vulnerability analysis. • Consultancy and advisory services: Continued to support all divisions in PIDM's key projects including intervention and failure resolution activities and the Payout project. Participated in the review of several requests for proposal processes to ensure best practices were applied. • ACS effectiveness assessment: Developed a quality assurance review programme for the division. • Knowledge sharing: Hosted an international seminar on COSO internal controls and ERM frameworks for internal audit professionals from the regulatory agencies and regional deposit insurers, as well as for directors of financial institutions. | <ul style="list-style-type: none"> • Audit: Continue to comply with the approved audit plan and continue to implement risk-based auditing. In addition, internal control improvements will be implemented where necessary. • Effective partnerships: A key internal audit planned for 2010 relates to the risk assessment and monitoring function, for which a co-sourcing approach is planned. The development of audit manuals for the Payout project (Depositor Liabilities Information Management System and the Depositor Support Management System) will be carried out on a co-sourcing basis. • Consultancy and advisory services: Develop audit manuals for intervention and failure resolution activities. • ACS effectiveness assessment: Implement the Quality Assurance Review framework for a third party assessment on the effectiveness of the ACS Division. |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2009 OPERATIONS AND ACHIEVEMENTS

Communications and Public Affairs Division (COMMS)

- carries out 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

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|---|---|
| <ul style="list-style-type: none"> Advertising and public relations: Carried out three advertising 'bursts' through television, radio and print media. Activities such as briefings and road shows were also conducted to educate our stakeholders. More details can be found in Section 7, page 162. Operational readiness: Developed the Crisis Communications Framework and commenced work on a Crisis Communications Manual. Stakeholder management: The Call Centre continued to service the public and received positive feedback on customer responses provided by Call Centre employees. Coordinated disclosures from various divisions and ensured publication of the Annual Report within the statutory timeline. Public awareness and education on GDG: Revamped brochures and carried out briefings on the GDG. | <ul style="list-style-type: none"> Advertising and public relations: Continue to implement the multi-year Integrated Communications Plan. Operational readiness: Work with Bank Negara Malaysia (BNM) on the development of a Crisis Communications Manual. Public awareness on deposit insurance and financial literacy: Implement the education programme at selected secondary schools and higher learning institutions in 2010. Public awareness and education on GDG: A critical area in 2010 will be to ensure the public is properly informed so as to manage the exit from the GDG smoothly, and to provide awareness about the deposit insurance limit and coverage. |

Enterprise Risk Management Division (ERM)

- implements and maintains leading ERM processes and procedures within PIDM, so that PIDM can manage its diverse internal and external risk exposures
- supports and provides risk advisory services to all divisions within PIDM and for all major projects

The ERM Framework and how PIDM manages its enterprise risks is described in Section 2, page 38.

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|---|--|
| <ul style="list-style-type: none"> Leading practices: Implemented the ERM Charter. ERM provided regular risk reports to the Audit Committee and the Board, continued to co-ordinate and ensured compliance with ERM policies and practices in accordance with the ERM Framework throughout PIDM. To gauge the level of maturity and effectiveness of the ERM programme and practices in PIDM, the ERM Division implemented an ERM Effectiveness Assessment Framework in 2009. Business Continuity Management: Completed a Business Continuity Plan and a Haze and Infectious Disease Business Continuity Plan to ensure the continuity of critical business functions in the event of a disaster. <p>More details can be found on pages 38 to 44 of this Annual Report.</p> | <ul style="list-style-type: none"> Leading practices: Continue to perform ongoing identification, assessment, review, monitoring and reporting of PIDM's risks with an initiative to benchmark the ERM Framework to ISO31000. Continue to support and provide risk advisory services to all divisions within PIDM. ERM will also be reviewing and enhancing the ERM Effectiveness Assessment Framework. Key projects: Include the development of Board risk policies, automation of the ERM processes and collaboration with ACS Division to implement the Risk and Control Self Assessment to assess the understanding and awareness of employees on risks and controls. Business Continuity Management: Test and enhance the Business Continuity Plan. |

Finance and Administration Division (FINAD)

- the units in FINAD namely, Corporate Planning, Finance, Administration, Information Technology (IT) and Organisation and Methods, focus on financial management, as well as the internal processes to ensure the smooth operations of PIDM and to help the effective monitoring of performance

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|---|---|
| <ul style="list-style-type: none"> Corporate planning and financial management: Continued to co-ordinate the corporate planning, track and monitor monthly operational and financial results on a monthly basis. On a quarterly basis, reports are tabled to the Audit Committee and the Board. Funding and provisioning: <ul style="list-style-type: none"> Completed the funding framework in order to ensure that PIDM can readily source funding should it need to. Developed a concept (underlying principles) for the target fund, which aims to set the principles for an optimal level of funds given its operating environment. Developed a concept (underlying principles) for a provisioning framework to address the methods of provisioning for losses on a failure of a member institution. IT strategy: Completed the initiatives planned in our 2009 Information Technology Strategic Plan, including the corporate-wide upgrade of the operational IT infrastructure as well as enhancement of PIDM's network and security infrastructure. | <ul style="list-style-type: none"> Financial management: Review and enhance financial management processes including the review and enhancement of financial and treasury management systems to improve effectiveness and efficiency. Funding and provisioning: Complete the development and implementation of the funding framework, target fund and loss provisioning framework. IT strategy: Continue to support the implementation and maintenance of IT systems throughout PIDM. Also to continue carrying out key IT projects which include the Payout Payment Management and Product Repository systems under Phase 2 of the Payout System, the Corporate Enterprise Portal as well as the Disaster Recovery Plan and Disaster Recovery Centre. Administration: Continue to provide the necessary support to PIDM. Enhance office infrastructure including the acquisition of additional office space. Continue the implementation of records management as well as knowledge management processes and infrastructure. |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2009 OPERATIONS AND ACHIEVEMENTS

Human Capital Division (HC)

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

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|---|---|
| <ul style="list-style-type: none"> • Talent management: Implemented key initiatives in talent management (i.e., integrating the Competency Model into key processes - Performance Management, where the Total Performance Management (TPM) form and process was enhanced and off-site meetings were organised to cascade TPM based on a top-down approach; Leadership Development continued with the 360 degree feedback which has been customised based on our core behavioural competencies and Harrison Assessment as tools for the Personal Development Plan), succession planning as well as focused on training and development programmes. Pilot Competency assessment was also initiated for INRAM Division and will continue to cover all other divisions in 2010. An article on PIDM's talent management philosophy is found in Section 6, page 156. • Conducive work environment: <ul style="list-style-type: none"> - Continued to conduct internal customers' satisfaction survey, the annual employee satisfaction survey; to get feedback from employees and address gaps arising, in order to promote a conducive work environment. - Promoted a conducive work environment through various activities, and organised "Human Capital Weeks" where talks were held for employees on health and wellness. Hosted a talent time and charity fund raising competition, as well as organised the Annual Dinner, together with volunteers from other divisions. - Completed development of a scholarship programme for undergraduate studies in Malaysia, in line with PIDM's corporate social responsibility efforts. • Contribution to public awareness: <ul style="list-style-type: none"> - Gave a presentation to a group of MBA students on 'Change Management and Relevant Change Intervention' at the Graduate School of Management, Universiti Putra Malaysia (UPM). - Hosted the first Human Resource Practitioners' Knowledge Sharing and Networking Forum for HR practitioners across industries. - Gave a presentation at a regional conference on 'Compensation and Benefits Design for the Financial Sector' held in Singapore. • Automating human capital processes: Completed the first phase implementation of the Human Resource Information System (starting with the payroll system which went 'live' in January 2009) that enables employee self-service throughout PIDM. | <ul style="list-style-type: none"> • Talent management: Implement a Knowledge Management Framework for PIDM. A key initiative in 2010 is the implementation of the scholarship programme for the benefit of selected Malaysians in need of financial assistance, so that they may undertake undergraduate studies at local universities in Malaysia. • Conducive work environment: Continue on ensuring a conducive work environment. • Automating human capital processes: Develop Phase 2 of the Human Resource Information System which focuses on automating the employee performance management process. |

Insurance, Risk Assessment and Monitoring Division (INRAM)

- monitors and assesses the insurance risks of our member institutions, premium and surcharge administration, compliance by member institutions with the MDIC Act and regulations
- develops and implements intervention and failure resolutions
- develops and promotes Islamic Deposit Insurance

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|---|--|
| <ul style="list-style-type: none"> • Monitoring risks: Aside from monitoring member institutions, in 2009, INRAM continued to also monitor the other guaranteed financial institutions covered under the GDG. • Intervention and Failure Resolution Project (IFR Project): Formed a project team together with representatives from various divisions, to develop processes, policies and procedures to support an intervention and failure resolution of a member institution. Considerable progress has been achieved to date. • Payout Project: <ul style="list-style-type: none"> - Involves a three-phased development of an IT system to automate the process of computing depositors' payout entitlement and facilitate an effective payout in the event of a failure of a member institution. - Completed Phase 1 of the Payout System with the development of the Depositor Liabilities Information Management and Depositor Support Management systems. • External validation: Successfully implemented the External Auditor Validation process for the Differential Premium Systems Submissions, Returns on Total Insured Deposits and Returns on Total Guaranteed Deposits submitted by member institutions. • Islamic Deposit Insurance: <ul style="list-style-type: none"> - Finalised the Shariah concept to be used by PIDM for the Islamic Deposit Insurance operations in which the concept of <i>kafalah bil ujr</i> is used. - Organised the second Seminar on Islamic Deposit Insurance in November 2009 which reinforced PIDM's leading role in the development of Islamic Deposit Insurance globally. - Developed the Discussion Paper on 'Deposit Insurance from the Shariah Perspective' for the International Association of Deposit Insurers (IADI) Islamic Deposit Insurance Group. - Completed a survey on Islamic Deposit Insurance among IADI members. | <ul style="list-style-type: none"> • Monitoring risks: Continue to focus on enhancement of its Risk Assessment and Monitoring Frameworks. Key focus areas include the review and enhancement of the Differential Premium Systems, the development and implementation of an early warning system in phases, as well as the development of a compliance programme for member institutions in relation to the MDIC Act and regulations. • IFR Project: Complete the remaining parts of the development of the IFR processes, policies and procedures, as part of our readiness efforts. The project is scheduled to be completed by 2011. • Payout Project: Commenced Phase 2 development of the Payout System which includes the Payment Management System and a Product Repository System. These systems will allow for the integration of the depositors' payment list with the relevant payment agents and capturing insurability status of member institutions' deposit products. • Islamic Deposit Insurance: <ul style="list-style-type: none"> - Develop Discussion Papers on 'Approaches in Designing Islamic Deposit Insurance' and 'Islamic Deposits and Their Insurability'. - Organise the third Seminar on Islamic Deposit Insurance and a roundtable discussion for selected countries with Islamic deposit insurance to share their practices. |

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2009 OPERATIONS AND ACHIEVEMENTS

Legal Division (LEGAL)

Legal services

- advises on all legal matters relating to PIDM
- reports on compliance by PIDM with applicable laws and other key regulations and policies
- reviews and maintains the MDIC Act
- assists with the drafting of subsidiary legislation

Secretariat services

- provides secretariat services to the Board and is responsible for all matters relating to the proceedings and administration of Board and Board Committees
- monitors and keeps the Governance Committee and the Board apprised of corporate governance developments and advises on governance-related matters

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|--|--|
| <ul style="list-style-type: none">• Legislation: A major preoccupation for LEGAL was reviewing the MDIC Act with a view to ensuring that it is updated in line with developments in other jurisdictions, as well as on ensuring that the powers of PIDM remained adequate to perform its mandated role. It also saw through the amendments to the MDIC Act for the purposes of the GDG.• Legal services: Enhanced the compliance programme and formed the Compliance Committee with representatives from other divisions. Reviewed, advised on and drafted 55 key contracts for the Corporation.• Corporate governance: Continued to maintain a strong accountability regime and effective working relationship with our Board, supporting the Board in its corporate governance work. See page 45 in the Annual Report, on corporate governance.• Confidentiality of information: Developed the Public Disclosure of Information Policy. | <ul style="list-style-type: none">• Legislation: Take the MDIC Act amendments through the legislative process and help ensure issuance of subsidiary legislation.• Legal services: Complete certification of new deposit products pre-GDG exit. Continue to adopt and ensure compliance with governance best practices. Continue to develop contract templates in conjunction with the IFR Project.• Corporate governance and information architecture: Develop and report on action plans to meet the Board's expectations as to its information needs. Support the Board to achieve its annual goals and in its continuing corporate governance work.• Automating legal processes: Automate processes including the automation of the legal knowledge management system and the filing and retrieval system, as well as the process for submission of deposit products for certification (Product Repository System).• Continue involvement in the Financial Institutions Directors' Education Programme (FIDE). |

Policy and International Division (POLICY)

- assesses and develops policies that concern the mandate and operations of PIDM
- leads and coordinates the international activities of PIDM

| KEY ACHIEVEMENTS IN 2009 | WORK IN PROGRESS / GOING FORWARD |
|--|--|
| <ul style="list-style-type: none">• Maintained relationships with other deposit insurers, through the IADI. PIDM was nominated, for the second consecutive year for the IADI "Deposit Insurer of the Year" award.• Participated in 14 international fora and in six domestic events, involving local or international participants - in various capacities including co-sponsoring events with Warwick University and the International Monetary Fund (IMF), co-hosting a deposit insurance course with the South East Asian Central Banks (SEACEN), promoting knowledge sharing through meetings, attachments and training with our counterparts within the region, as well as providing resource persons to speak at conferences. | <ul style="list-style-type: none">• Continue to maintain good international relationships.• Continue to develop and implement policies and procedures on information regulations. |

ADMINISTERING THE GOVERNMENT DEPOSIT GUARANTEE (GDG)

PIDM has administered the GDG since its announcement on 16 October 2008. Since then, we have been monitoring a larger number of financial institutions. In our briefings to financial institutions covered under the GDG, we also highlighted the prohibition of using the GDG as a device to solicit deposits, attract business or to market their institutions.

In 2009, PIDM proposed amendments to the MDIC Act to incorporate Stabilisation Insurance provisions which were enacted in January 2010. The Stabilisation Insurance provisions allow PIDM, in extraordinary circumstances with the approval of the Minister of Finance, to protect some or all deposits to a greater amount, expand the scope of coverage to include additional deposit products, or extend coverage to other financial institutions.

The Government is responsible for the guarantee provided under the GDG and PIDM has no financial exposure. PIDM is entering into a Loss Coverage Agreement with the Government that sets out the terms and conditions of the GDG, including the mechanisms for funding and reimbursing losses incurred as a result of PIDM providing the GDG. PIDM, as the administrator of the GDG, will assess annual guarantee fees on behalf of the Government.

PREPARING FOR THE EXIT FROM THE GDG

In preparing for the expiry of the GDG, we have developed a transition framework to exit the GDG and have carried out a comprehensive review of the deposit insurance limit and scope of coverage. We are also working closely with BNM and regional financial safety net players to develop coordinated regional responses to exit out of government guarantees including the timing for the transition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2009 FINANCIAL OVERVIEW AND ANALYSIS

OPERATING RESULTS

| INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009 | 2009 Actual RM'000 | 2009 Budget RM'000 | Variance (Budget vs. Actual) RM'000 | % | 2008 Actual RM'000 |
|---|-----------------------------------|-----------------------------------|--|-------------|-----------------------------------|
| Premium revenue | 131,795 | 147,000 | (15,205) | (10) | 90,079 |
| Investment income | 7,594 | 11,000 | (3,406) | (31) | 8,487 |
| Miscellaneous income | 27 | - | 27 | 100 | - |
| Total Revenues | 139,416 | 158,000 | (18,584) | (12) | 98,566 |
| Operating Expenditures | | | | | |
| Employee benefits | 22,209 | 24,425 | 2,216 | 9 | 19,170 |
| Public relations and advertising | 5,708 | 6,950 | 1,242 | 18 | 6,411 |
| Depreciation | 2,450 | 1,800 | (650) | (36) | 1,642 |
| Operating lease | 1,080 | 1,199 | 119 | 10 | 1,002 |
| Other expenses | 13,428 | 19,627 | 6,199 | 32 | 6,316 |
| Total Operating Expenditures | 44,875 | 54,000 | 9,126 | 17 | 34,541 |
| Net Surplus | 94,541 | 104,000 | (9,459) | (9) | 64,025 |

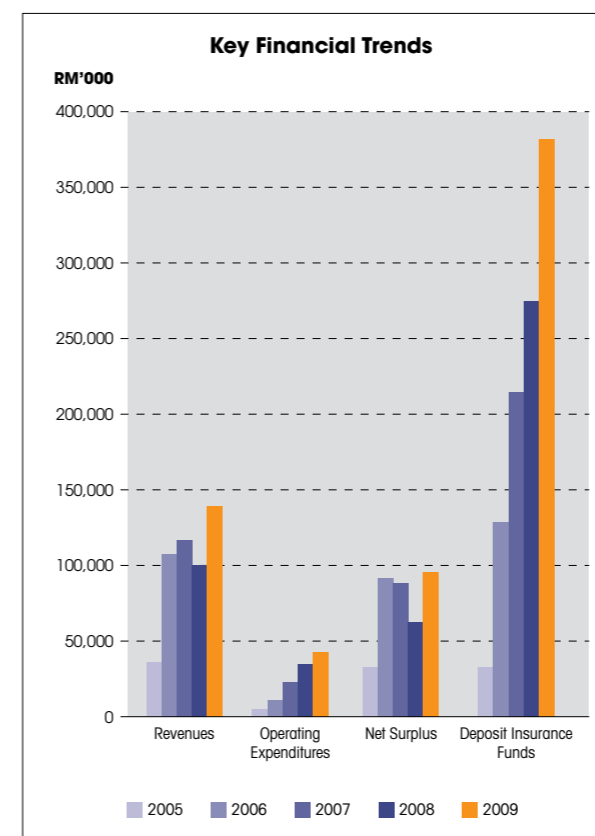
CAPITAL EXPENDITURES

| CAPITAL EXPENDITURES CONTRACTED IN 2009 | 2009 Actual RM'000 | 2009 Budget RM'000 | Variance (Budget vs. Actual) RM'000 | % | 2008 Actual RM'000 |
|--|-----------------------------------|-----------------------------------|--|-----------|-----------------------------------|
| Furniture, fittings and office refurbishment | 195 | 480 | 285 | 59 | 380 |
| Computer systems and office equipment | 8,736 | 15,100 | 6,364 | 42 | 6,162 |
| Total Capital Expenditures | 8,931 | 15,580 | 6,649 | 43 | 6,542 |

COMMENTARY ON 2009 FINANCIAL PERFORMANCE

In 2009, we recorded total revenues of RM139 million and operating expenditures of RM45 million, resulting in a net surplus of RM94 million.

Chart 1: Key Financial Trends from years 2005 to 2009



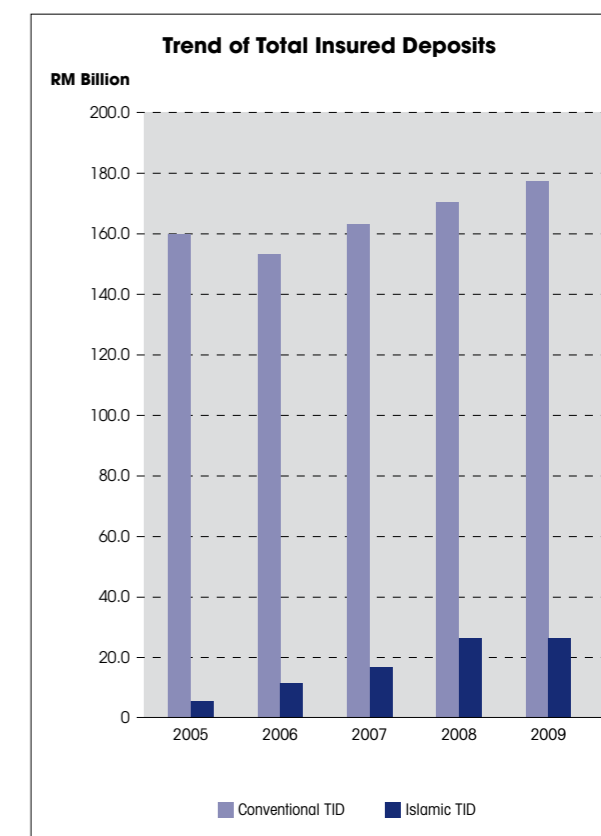
Note: The 2005 financial period was a period of 4 months ended 31 December 2005.

REVENUES

Premium Revenue

Annual premiums are assessed against Total Insured Deposits (TID) held by member institutions. The level of TID has been on an increasing trend since PIDM's incorporation in 2005. In 2009, the TID of RM201.5 billion saw a slower growth rate of 5.5%, compared with the previous year's growth rate of 6.9%.

Chart 2: Trend of TID from years 2005 to 2009



MANAGEMENT'S DISCUSSION AND ANALYSIS

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In 2008, we introduced the Differential Premium Systems (DPS). The DPS differentiates member institutions according to their risk profiles 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% |

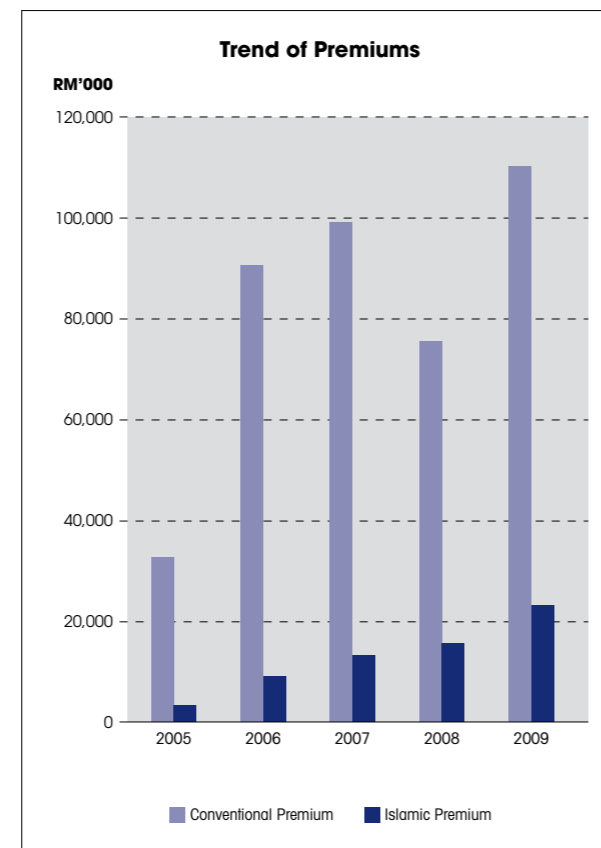
The DPS is aimed at providing incentives to member institutions to adopt sound and rigorous risk management practices including maintaining strong capital positions. Under the DPS, member institutions with lower risk profiles pay lower premiums.

For the 2008 assessment year only, PIDM allowed a transitional arrangement whereby DPS scores were adjusted upwards by 20% of their quantitative scores, and any member institution rated 4 was assessed at the same rate as those in premium Category 3.

With the DPS in full force in 2009, total premiums assessed against member institutions increased to RM131.8 million, from RM90.0 million in the previous year.

In 2009, we also implemented the External Auditor Validation Programme to ensure the accuracy of information provided by member institutions on which the DPS score and premiums are calculated. Under this programme, external auditors of a member institution are required to provide to PIDM an independent validation that the information submitted relating to DPS and TID are accurate for the period of assessment.

Chart 3: Trend of Premiums from years 2005 to 2009



For 2010, we have budgeted a premium revenue of RM122 million with expected TID growth of 3.5%. PIDM utilises its premiums to fund its operations and surpluses are credited to its Deposit Insurance Funds (DIFs) to provide it with financial resources to meet future obligations as the national deposit insurer.

Investment Income, Cash and Cash Equivalents

In 2009, our investment income was lower, largely attributable to the lower interest rate during the year with an average yield of 2.39% (Islamic 2.25% and Conventional 2.42%), compared with an average yield of 3.47% in 2008. The generally lower interest rate environment reflects the monetary policy stance taken by BNM.

As at 31 December 2009, income generating assets comprising of cash, cash equivalents and investments stood at RM313 million (2008: RM236 million) for Conventional and RM48 million (2008: RM31 million) for Islamic.

Chart 4: Investment Income from years 2005 to 2009

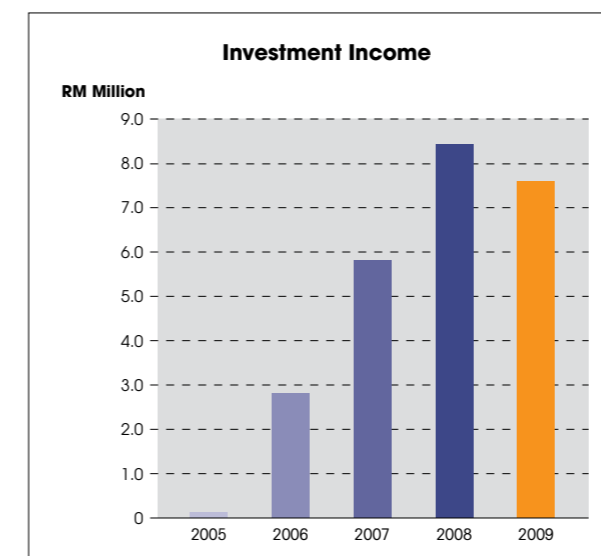
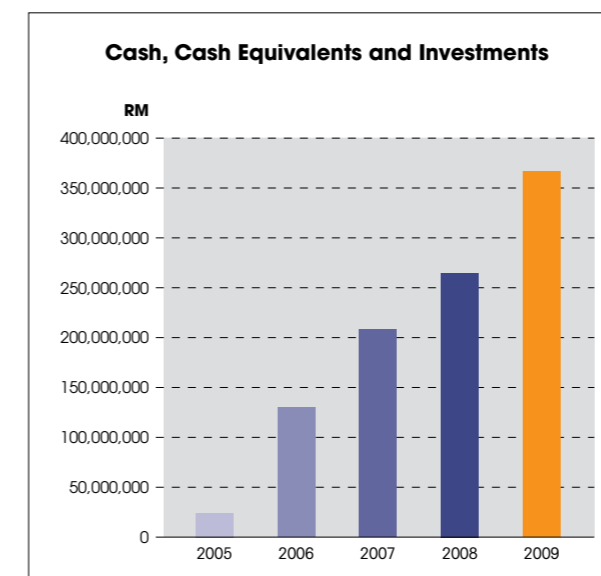


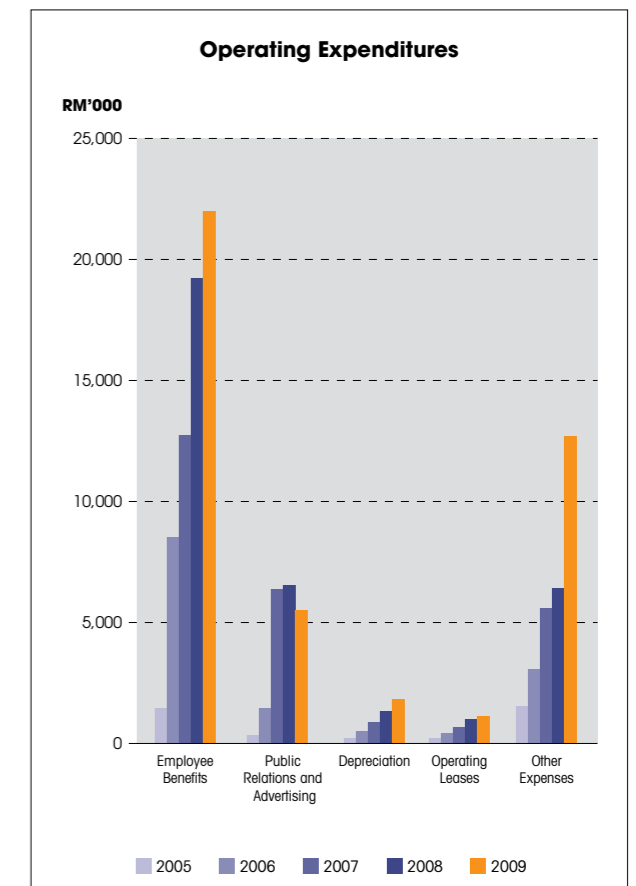
Chart 5: Cash, Cash Equivalents and Investments from years 2005 to 2009



OPERATING EXPENDITURES

Our operating expenditures for the year 2009 totalled RM45 million. The following chart depicts the trend of our operating expenditures.

Chart 6: Operating Expenditures Trend from years 2005 to 2009



The total operating expenditures up to 31 December 2009 of RM45 million was RM9 million or 17% lower than budget, but RM10 million or 30% higher compared with 2008. The positive variance against budget is mainly due to the lower expenditures for employee-related expenses, general and administration expenditures as well as communications expenditures as compared with the budget. The increasing trend from prior years is primarily due to PIDM's efforts to build its capacity and capabilities including systems, processes and human resources.

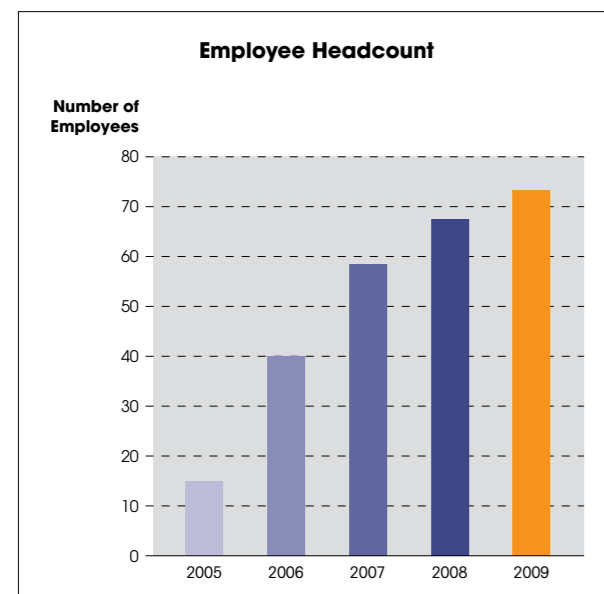
MANAGEMENT'S DISCUSSION AND ANALYSIS

2009 FINANCIAL OVERVIEW AND ANALYSIS

Employee Benefits

Our employees are our critical assets. We continued to adopt a lean organisation structure supported by employees with the right skills, knowledge, experience and behaviour. The large number of initiatives undertaken as well as the building of capacity and capabilities to ensure operational readiness has necessitated an increase in the number of employees over the years. We expect this trend to continue, as we continue to strengthen our capacity and capabilities in all areas of our organisation so as to be ready to effectively fulfil our mandate.

Chart 7: Employee Headcount from years 2005 to 2009



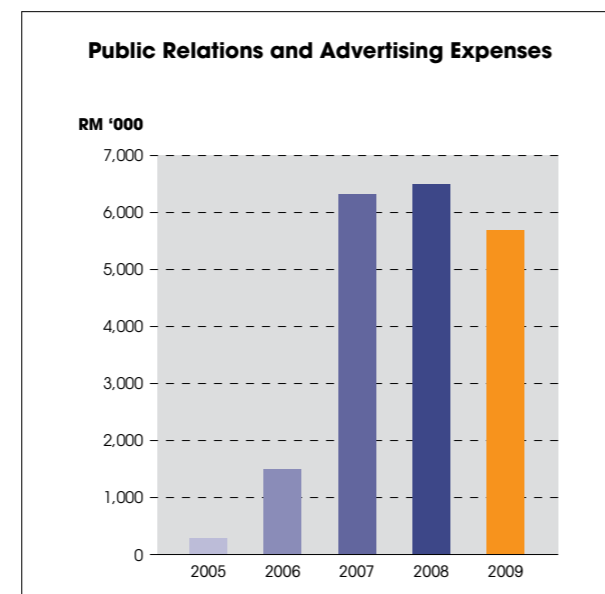
The main increase in the numbers of employees in 2009 was in our key areas of operations including risk assessment and monitoring, intervention and failure resolution as well as legal functions. As a result, our employee benefits expense has increased to RM22.2 million in 2009 from RM19.2 million in 2008. However, it is RM2.2 million or 9% lower than budget, mainly due to the timing of recruitment during the year.

Public Relations and Advertising

Communications and public awareness is essential to ensure 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 awareness of the public on the deposit insurance system. We have established an Integrated Communications Plan that deals with our communication activities with various stakeholders. We

have also implemented our advertising campaign, which includes publicity in print, broadcast and electronic media. Our public relations programmes in 2009 included media briefings, interviews, published articles and our Corporate Outreach in Kuching, Sarawak. We also implemented our stakeholder engagement programme which comprises nationwide briefings for member institutions, guaranteed financial institutions and other stakeholders, as well as participation in nationwide exhibitions and other road shows.

Chart 8: Public Relations and Advertising Expenses from years 2005 to 2009



Expenditures incurred in 2009 for public relations and advertising of RM5.7 million were reduced by 11%, compared with RM6.4 million in 2008. The decrease was largely attributable to the implementation of the GDG and therefore, a refocusing of our communications initiatives which led to reduced advertising and refocused public relations programmes.

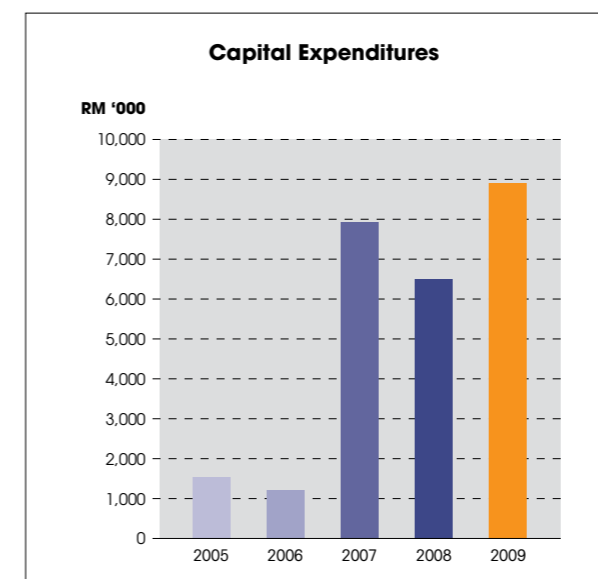
For 2009, the expenditures for public relations and advertising were 18% lower than budget due to the timing of the educational programmes and public relations initiatives, as well as the development of the Crisis Communications Manual, which has been reprioritised to 2010. The positive variance was also attributable to cost savings derived from our partnerships with BNM and other government agencies for road shows as well as various stakeholders' engagement programmes.

Capital Expenditures and Depreciation

We continue to build strong and effective operational infrastructure, in particular, Information Technology (IT). In 2009, we implemented core systems such as the Phase 1 of our Payout System comprising of the Depositor Liabilities Information Management System and the Depositor Support Management System. We also commenced development of Phase 2, comprising of the Payout Payment Management System and the Product Repository System.

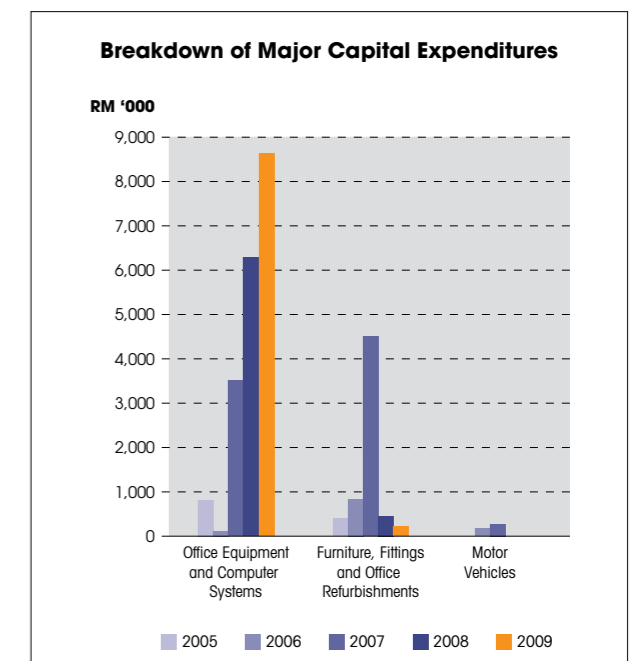
Apart from the core systems, we completed the implementation of key business systems such as the first phase of our Human Resource Information System. We commenced development of the Corporate Enterprise Portal, which aims to integrate information, people and processes across PIDM, and we completed the corporate-wide upgrade of our operational IT infrastructure as well as enhanced our network and IT security infrastructure.

Chart 9: Capital Expenditures Trend from years 2005 to 2009



For 2009, capital expenditures increased by 36.9% to RM8.9 million from RM6.5 million in the previous year. However, this represented only 57% of the capital expenditures budgeted for 2009 of RM15.6 million. The positive variance was primarily due to savings arising from key IT projects including the Payout System Phase 2, the Corporate Enterprise Portal and IT infrastructure enhancements.

Chart 10: Breakdown of Major Capital Expenditures from years 2005 to 2009



Depreciation expenses for the year amounted to RM2.4 million or 36% above budget due to the capitalisation of assets under construction, in particular for the Risk Assessment System Phase 1, which was completed during the year earlier than planned.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2009 FINANCIAL OVERVIEW AND ANALYSIS

Other Expenses

Other expenses relates to our general and administration expenses, such as office rental, professional and consultancy fees, training and development expenses, travelling expenses, printing and stationery costs, allowances and telecommunication costs. As our resources and initiatives increase over the years, general and administration costs also increase.

Chart 11: Other Expenses Trend from years 2005 to 2009

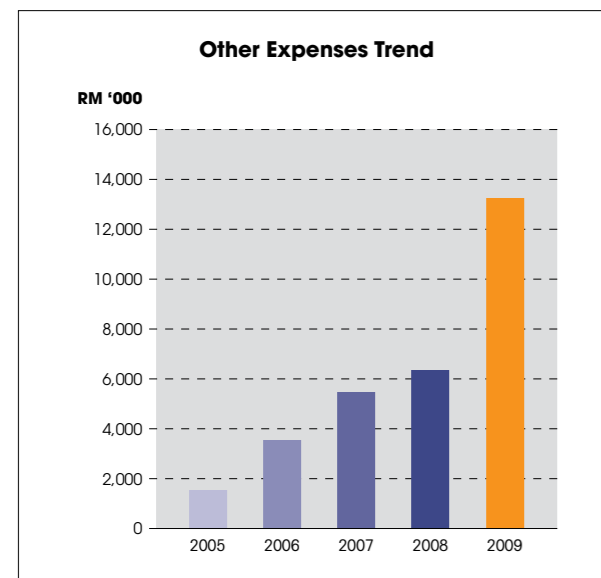
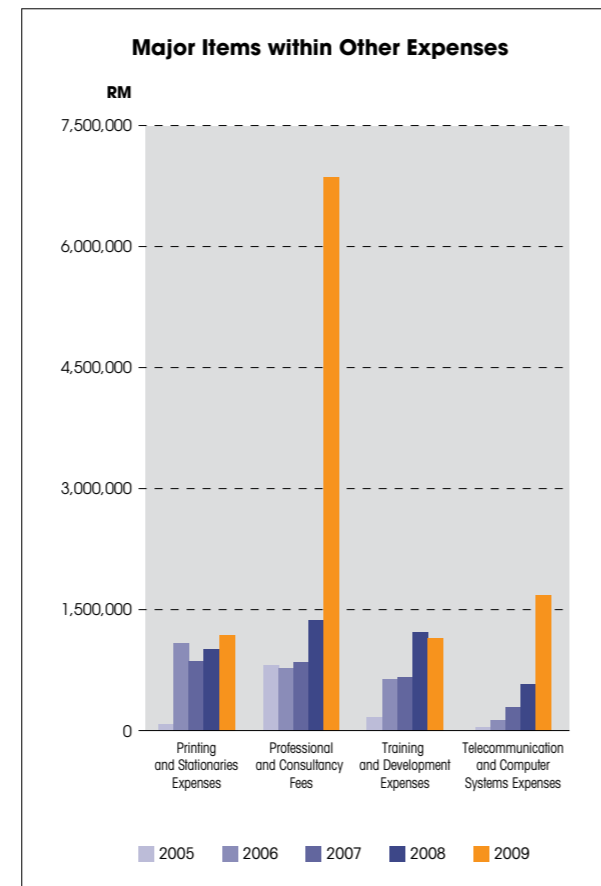


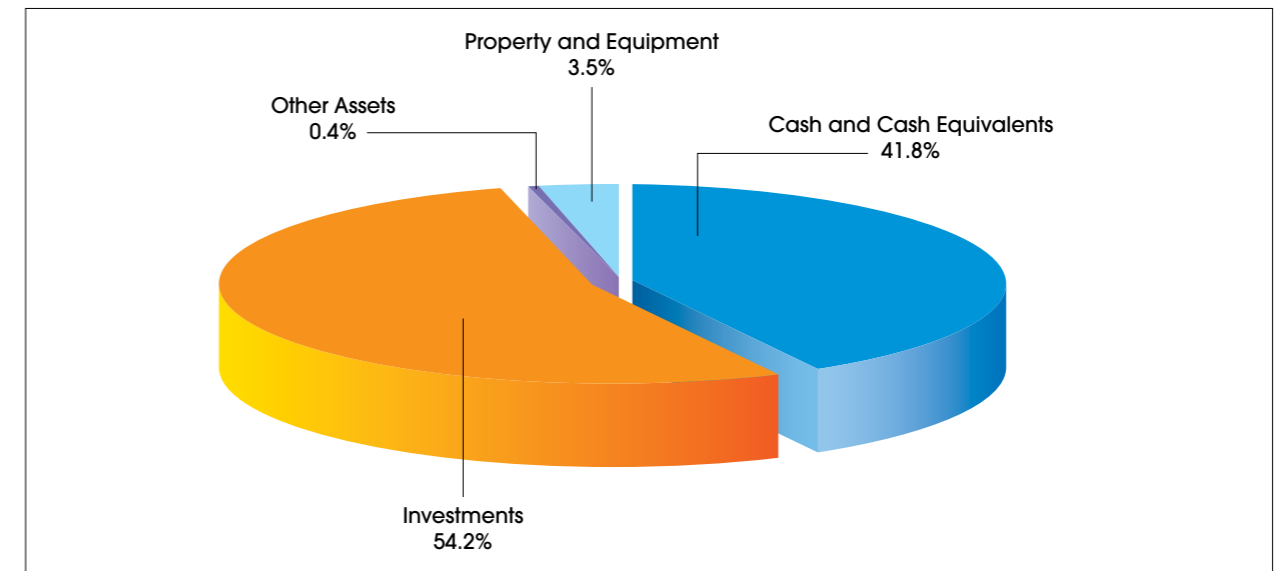
Chart 12: Major items within Other Expenses from years 2005 to 2009



In 2009, other expenses increased by 113% to RM13 million, mainly due to the engagement of consultants for the development of the intervention and failure resolution framework and processes. Another item under other expenses that saw a significant increase was telecommunication and computer system expenditures, which related to IT security systems and hardening services, IT infrastructure upgrades as well as licensing and maintenance costs for applications. However, we expended only 32% of our budget.

BALANCE SHEET HIGHLIGHTS

Chart 13: Asset Composition



Cash and Cash Equivalents as at 31 December 2009

Our combined cash and cash equivalents (short-term investments of less than 90 days) stood at RM157.2 million as at 31 December 2009.

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 6.2% to RM204 million, compared with RM191 million in 2008. We continued to follow our Board-approved investment policy, which 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 2009 comprised BNM and Government investment securities with short-term tenures ranging from 98 days to 315 days.

Property and Equipment and Other Assets as at 31 December 2009

Our property and equipment as at 31 December 2009 amounted to RM13 million with an increase of RM4.9 million or 37% from previous year, primarily due to development of IT systems as well as office refurbishments.

Other assets comprised deposits and prepayments, investment income receivables, other assets and other receivables amounting to RM1.5 million, which was 31% higher than the previous year.

Deposits and prepayments of RM0.2 million were mainly the rental and utility deposits for rented properties and rental prepayments as well as licensing for software and other maintenance. Interest receivables of RM0.2 million as at 31 December 2009 comprised accrued interest arising from investments in BNM Notes with coupons.

Liabilities as at 31 December 2009

Total liabilities of RM5.9 million in 2009 comprised payables for utilities, communication services, IT systems, provision for unutilised leave as well as services rendered in respect of consultancy engagements and the supply of goods. The increase of 74% from the previous year was mainly due to accrued purchases of fixed assets, professional services and other year-end accruals on utilities and miscellaneous expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Deposit Insurance Funds as at 31 December 2009

Total Deposit Insurance Funds (DIFs) amounted to RM370 million, an increase of 25% from the previous year. However, the DIF is 1.9% lower than the budget of RM377.1 million, due to lower premium revenue but offset by lower operating expenditures. Our total DIFs of RM370 million is made up of the Conventional Deposit Insurance Fund of RM321 million and the Islamic Deposit Insurance Fund of RM49 million.

Contingencies

Under the MDIC Act 2005, PIDM has an inherent exposure to losses resulting from insuring the deposits of its member institutions. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability. Since PIDM's incorporation in 2005 up to the date of these financial statements, there have been no events that would require specific provisions to be made and reflected in the financial statements in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

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 risk management practices. In the unlikely event of a failure, PIDM is mandated to intervene and resolve distressed institutions in a manner so as to minimise losses to the financial system.

While no provisions were recorded as mentioned above, PIDM continues to build its reserves in 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 were not sufficient, PIDM, as a statutory body, has the authority to borrow from the Government or issue public debt securities to raise funds, as well as to assess higher premiums, with the approval of the Minister of Finance.

A key initiative in this area is the development of a loss provisioning framework. The development of this framework will be aligned with our intervention and failure resolution framework, so that the estimation of a provision will be consistent and not materially different from the eventual outcome. In 2009, we also commenced the development of a target fund framework that will set out our long-term internal funding plan based on our exposure to expected net losses. We expect to establish target funds for Conventional and Islamic Deposit Insurance Funds by 2010.

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 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 also developing a framework to outline a structured process to raise funds from the capital market as and when required.

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. Should further funding be required, premium rates could, under the MDIC Act, be increased with the approval of the Minister.

Our net surpluses of RM94.5 million as at the end of 2009 are credited to our DIFs. Our policy is to build reserves over time to provide us with readily available internal 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

SUMMARY OF OUR CORPORATE PLAN 2010 - 2012

In summary, we have continued to take an integrated approach in our development of our Corporate Plan, identifying and assessing the significant risks facing PIDM using the ERM Framework.

This year, in view of the complexity and dynamic environment in which we operate, we also carried out scenario planning during our strategic planning process. This approach was aimed to stretch our thinking on how to respond effectively, should events occur that derail us from our original plan.

We also performed a comprehensive review of our strategic management framework. Our initiatives are fully aligned to our corporate strategy, adopting a Balanced Scorecard approach to measure the organisation's performance. The Corporate Plan will continue to allow us to track and report on our progress against our corporate initiatives and ultimately our mandate.

OUR STRATEGY

Corporate and Financial Plans

Our strategy

For the 2010 - 2012 planning period, our key focus and initiatives will be to continue raising public awareness on deposit insurance; ensuring operational effectiveness and readiness to manage intervention and failure resolution activities; enhancing governance; continuing our risk assessment and monitoring activities and talent management and development. We will enhance our infrastructure to ensure operational readiness and continue to develop and implement strategies and initiatives for the expected exiting of the GDG at the end of December 2010.

Key focus

The following nine Board-approved areas will be the focus of our work in the 2010 - 2012 planning period:

| KEY FOCUS | KEY INITIATIVES |
|--|---|
| 1. Enhancing public awareness and understanding of deposit insurance and PIDM. | <ul style="list-style-type: none">Review and implement our Integrated Communications Plan for 2010Implement the annual education programmeImplement and administer the scholarship programme |
| 2. Develop and implement strategies and initiatives for transitioning from the GDG to a limited coverage deposit insurance system. | <ul style="list-style-type: none">Implement a transition package to exit the GDGImplement the Information Regulations |
| 3. Maintain existing partnerships and grow the supplier base. | <ul style="list-style-type: none">Actively engage and build capacity with key stakeholders and partnersParticipate in international foraEstablish and maintain a base of key strategic partners |
| 4. Apply best practices in governance and deposit insurance. | <ul style="list-style-type: none">Assess Board and Management effectivenessDevelop and implement ERM Board Risk PoliciesRecommend amendments to the MDIC Act and related lawsContribute to the FIDE ProgrammeImplement a compliance programme for member institutions to comply with the MDIC Act and regulations |

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF OUR CORPORATE PLAN 2010 - 2012

| KEY FOCUS | KEY INITIATIVES |
|---|---|
| 5. Develop and implement components of the Intervention and Failure Resolution Framework including capacity building and readiness. | <ul style="list-style-type: none">• Continue to develop and implement components of Intervention and Failure Resolution Framework including processes, policies and procedures |
| 6. Review and enhance existing Risk Assessment System and DPS. | <ul style="list-style-type: none">• Review the DPS and TID frameworks including the validation process• Review and enhance the Risk Assessment and Monitoring Frameworks• Develop and implement an Early Warning System• Develop and implement policies and regulations for member institutions including:<ul style="list-style-type: none">- Interest and dividends payable rules- Premium surcharge- Research the need for core principles for sound business and financial practices for member institutions• Develop and implement the Payout system, policies and procedures:<ul style="list-style-type: none">- Phase 2 - Develop Payout Payment Management and Product Repository systems- Phase 3 - Develop Dynamic Deposit Database• Establish an Asset Management Company |
| 7. Continue to develop and enhance infrastructure to ensure operational effectiveness and compliance. | <ul style="list-style-type: none">• Develop and implement Phase 2 of the funding framework - funding from the capital market• Develop and implement the frameworks for:<ul style="list-style-type: none">- Target Fund- Loss provisioning• Implement annual Information Technology Strategic Plan initiatives• Develop and implement a Business Continuity, Disaster Recovery Plan and infrastructure• Develop a Crisis Communications Manual• Develop and implement Phases 2 and 3 of the Human Resource Information System• Develop and implement the Knowledge Management framework and system• Acquire additional infrastructure (office space, IT systems, processes and other organisational requirements)• Continue to implement the Corporate Enterprise Portal• Develop an executive information management system |

| KEY FOCUS | KEY INITIATIVES |
|---|---|
| 8. Implement a robust talent management framework. | <ul style="list-style-type: none">• Continue to implement a robust talent management framework |
| 9. Reinforce corporate values and performance culture in the Corporation. | <ul style="list-style-type: none">• Implement employee-related programmes to promote a conducive work environment |

Details of areas of focus and key initiatives in support of our corporate objectives for 2010 - 2012 are described in our Corporate Scorecard depicted in the Appendix.

Supporting Financial Plan

The Financial Plan for 2010 has been developed to support the achievement of the 2010 initiatives. Premium revenues are budgeted at RM122.0 million. Combined with a budgeted interest and investment income of RM8.0 million, PIDM's total revenues are expected to amount to RM130.0 million for year 2010. Total operating expenditures are budgeted at RM65.0 million whilst capital expenditures are budgeted at RM6.5 million. At the end of 2010, we expect a net surplus of RM65.0 million, which will increase the total Deposit Insurance Funds to RM431.0 million.



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 2009.

PRINCIPAL ACTIVITIES

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

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

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

FINANCIAL RESULTS

| | 2009 RM | 2008 RM |
|--|--------------------|--------------------|
| Net surplus for the financial year: | | |
| Conventional Deposit Insurance Fund | 77,897,239 | 52,597,387 |
| Islamic Deposit Insurance Fund | 16,644,141 | 11,427,020 |
| Total net surplus | 94,541,380 | 64,024,407 |
| Deposit Insurance Funds | | |
| Conventional Deposit Insurance Fund | 320,894,595 | 242,997,356 |
| Islamic Deposit Insurance Fund | 48,993,739 | 32,349,598 |
| Total Deposit Insurance Funds | 369,888,334 | 275,346,954 |

DIRECTORS

The names of the Directors of PIDM in office as at 31 December 2009 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' Sri Dr. Sulaiman Mahbob
- Datuk Dr. Abdul Samad Haji Alias
- Mr. Michael Wong Kuan Lee
- Mr. George Anthony David Dass (appointed on 3 February 2009)

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz and Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah are *ex-officio* 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

Apart from the net surpluses that are credited into the respective Conventional and Islamic Deposit Insurance Funds, 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.

As 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

As 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

As 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.

GOVERNMENT DEPOSIT GUARANTEE

On 16 October 2008, the Ministry of Finance and Bank Negara Malaysia (BNM) announced that all Ringgit Malaysia 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.

Subsequent to financial year-end, the MDIC Act was amended to incorporate stabilisation insurance provisions relative to the GDG.

CONTINGENT LIABILITIES

Exposure to Losses from Insuring Deposits

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring the deposits held by member institutions. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability. Since PIDM's incorporation in 2005, there have been no events that occurred which would require specific provisions to be made and reflected in the financial statements in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

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 member institutions' failures. Furthermore, PIDM reinforces financial discipline through its differential premium system which provides strong incentives for member 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 member institutions in a manner to minimise the loss to the financial system.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

While no 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 from the Government or issue public debt securities to raise funds, 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:

- i) The financial statements have been prepared in accordance with the provisions of MDIC Act and applicable Financial Reporting Standards (FRS) so as to give a true and fair view of the financial position of PIDM as at 31 December 2009, the results of its operation and its cash flows for the year ended on that date. The FRS are the Malaysian Accounting Standard Board Approved Accounting Standards in Malaysia for Entities Other Than Private Entities.
- ii) 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
23 February 2010

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 (PIDM), 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 (MDIC Act) and applicable Financial Reporting Standards, which are the Malaysian Accounting Standard 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 2009, the results of its operations and its cash flows for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund is maintained and administered in accordance with Shariah requirements, as set out in the MDIC Act.

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



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

Kuala Lumpur
23 February 2010



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

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, 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 financial position of PIDM as at 31 December 2009, the results of its operations and its cash flows 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. In carrying out the audit, the auditors have access to all documents and records of PIDM. The auditors also have free access to the Audit Committee of the Board, which oversees Management's responsibilities for maintaining adequate control systems and the quality of financial reporting and 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 Lotfi, being the two officers primarily responsible for the financial management of PIDM, do solemnly and sincerely declare that the financial statements, to the best of our knowledge and belief, are correct, and we make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the above named at Kuala Lumpur on 23 February 2010



Jean Pierre Sabourin
Chief Executive Officer



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

Before me,

Commissioner of Oaths



Level 16, Menara TM Asia Life,
189, Jalan Tun Razak,
50400 Kuala Lumpur.



CERTIFICATE OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PERBADANAN INSURANS DEPOSIT MALAYSIA FOR THE YEAR ENDED 31 DECEMBER 2009

I have audited the financial statements of the Perbadanan Insurans Deposit Malaysia for the year ended 31 December 2009. These financial statements are the responsibility of the management. My responsibility is to audit and to express an opinion on these financial statements.

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 or omission. 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, significant estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements give a true and fair view of the financial position of the Perbadanan Insurans Deposit Malaysia as at 31 December 2009 and of the results of its operations and its cash flows for the year ended in accordance with the approved accounting standards.


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

PUTRAJAYA
24 FEBRUARY 2010



FINANCIAL STATEMENTS

BALANCE SHEET
AS AT 31 DECEMBER

| | Note | 2009 RM | 2008 RM |
|--|------|--------------------|-------------|
| ASSETS | | | |
| Cash and cash equivalents | 3 | 157,177,285 | 76,400,643 |
| Investments | | | |
| <i>Held-to-maturity investments</i> | 4 | 203,810,575 | 191,034,648 |
| Other assets | 5 | 1,536,199 | 1,058,056 |
| Property and equipment | 6 | 13,334,745 | 8,393,821 |
| Total Assets | | 375,858,804 | 276,887,168 |
| LIABILITIES | | | |
| Payables | 7 | 5,970,470 | 1,540,214 |
| Total Liabilities | | 5,970,470 | 1,540,214 |
| DEPOSIT INSURANCE FUNDS AND RESERVES | | | |
| Conventional Deposit Insurance Fund | 8a | 320,894,595 | 242,997,356 |
| Islamic Deposit Insurance Fund | 8b | 48,993,739 | 32,349,598 |
| Total Deposit Insurance Funds | | 369,888,334 | 275,346,954 |
| Total Liabilities and Deposit Insurance Funds | | 375,858,804 | 276,887,168 |

FINANCIAL STATEMENTS

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

| | Note | 2009 RM | 2008 RM |
|---|------|--------------------|------------|
| Premium revenue | 9 | 131,794,707 | 90,078,953 |
| Investment income from cash and investment securities | 10 | 7,593,900 | 8,486,577 |
| Miscellaneous income | | 27,944 | - |
| Total revenues | | 139,416,551 | 98,565,530 |
| Employee benefits | 11 | 22,208,574 | 19,170,141 |
| Public relations and advertising | | 5,708,410 | 6,411,079 |
| Depreciation | 6 | 2,450,297 | 1,641,609 |
| Operating leases | | 1,079,691 | 1,002,584 |
| Other expenses | 12 | 13,428,199 | 6,315,710 |
| Total expenses | | 44,875,171 | 34,541,123 |
| Net surplus | | 94,541,380 | 64,024,407 |

FINANCIAL STATEMENTS

STATEMENT OF CHANGES IN FUNDS AND RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2009

| | Note | Conventional Deposit Insurance Fund RM | Islamic Deposit Insurance Fund RM | Total RM |
|---------------------------------|----------|--|---|--------------------|
| As at 1 January 2008 | 8 | 190,399,969 | 20,922,578 | 211,322,547 |
| Net surplus for the year | | 52,597,387 | 11,427,020 | 64,024,407 |
| As at 31 December 2008 | 8 | 242,997,356 | 32,349,598 | 275,346,954 |
| As at 1 January 2009 | 8 | 242,997,356 | 32,349,598 | 275,346,954 |
| Net surplus for the year | | 77,897,239 | 16,644,141 | 94,541,380 |
| As at 31 December 2009 | 8 | 320,894,595 | 48,993,739 | 369,888,334 |

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

FINANCIAL STATEMENTS

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER

| | Note | 2009 RM | 2008 RM |
|---|------|---------------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Premium receipts from member institutions | 9 | 131,765,633 | 90,078,953 |
| Payments in the course of operations to suppliers and employees | | (39,871,061) | (34,186,234) |
| Receipts of investment income | | 8,502,775 | 6,736,631 |
| Miscellaneous income | | 27,944 | - |
| Net cash flow from operating activities | | 100,425,291 | 62,629,350 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of investment securities | | 474,857,104 | 296,944,905 |
| Purchase of investment securities | | (488,784,219) | (315,314,427) |
| Purchase of property and equipment | | (5,721,534) | (3,151,823) |
| Net cash flow used in investing activities | | (19,648,649) | (21,521,345) |
| Net increase in cash and cash equivalents | | 80,776,642 | 41,108,005 |
| Cash and cash equivalents at beginning of year | | 76,400,643 | 35,292,638 |
| Cash and cash equivalents at end of year | 3 | 157,177,285 | 76,400,643 |

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

FINANCIAL STATEMENTS

CONVENTIONAL DEPOSIT INSURANCE FUND BALANCE SHEET
AS AT 31 DECEMBER

| | Note | 2009 RM | 2008 RM |
|---|------|--------------------|-------------|
| ASSETS | | | |
| Cash and cash equivalents | 3 | 133,885,842 | 72,918,225 |
| Investments | | | |
| <i>Held-to-maturity investments</i> | 4 | 179,129,211 | 163,048,573 |
| Other assets | 5 | 1,413,387 | 821,159 |
| Property and equipment | 6a | 11,510,239 | 7,586,075 |
| Total Assets | | 325,938,679 | 244,374,032 |
| LIABILITIES | | | |
| Payables | 7 | 5,044,084 | 1,376,676 |
| Total Liabilities | | 5,044,084 | 1,376,676 |
| DEPOSIT INSURANCE FUND AND RESERVES | | | |
| Conventional Deposit Insurance Fund | 8a | 320,894,595 | 242,997,356 |
| Total Deposit Insurance Fund | | 320,894,595 | 242,997,356 |
| Total Liabilities and Deposit Insurance Fund | | 325,938,679 | 244,374,032 |

FINANCIAL STATEMENTS

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

| | Note | 2009 RM | 2008 RM |
|---|------|--------------------|------------|
| Premium revenue | 9 | 109,177,754 | 75,991,230 |
| Investment income from cash and investment securities | 10 | 6,649,080 | 7,533,560 |
| Miscellaneous income | | 23,574 | - |
| Total revenues | | 115,850,408 | 83,524,790 |
| Employee benefits | 11 | 18,719,735 | 17,147,171 |
| Public relations and advertising | | 4,815,189 | 5,740,619 |
| Depreciation | 6a | 2,169,263 | 1,490,031 |
| Operating leases | | 911,219 | 897,938 |
| Other expenses | 12 | 11,337,763 | 5,651,644 |
| Total expenses | | 37,953,169 | 30,927,403 |
| Net surplus | | 77,897,239 | 52,597,387 |

FINANCIAL STATEMENTS

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

| | Note | 2009 RM | 2008 RM |
|---|------|---------------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Premium receipts from member institutions | 9 | 109,148,680 | 75,991,230 |
| Payments in the course of operations to suppliers and employees | | (33,546,297) | (30,048,567) |
| Receipts of investment income | | 7,613,197 | 5,762,069 |
| Miscellaneous income | | 23,574 | - |
| Net cash flow from operating activities | | 83,239,154 | 51,704,732 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of investment securities | | 383,237,213 | 257,700,800 |
| Purchase of investment securities | | (400,682,064) | (265,844,935) |
| Purchase of property and equipment | | (4,826,686) | (2,819,621) |
| Net cash flow used in investing activities | | (22,271,537) | (10,963,756) |
| Net increase in cash and cash equivalents | | 60,967,617 | 40,740,976 |
| Cash and cash equivalents at beginning of year | | 72,918,225 | 32,177,249 |
| Cash and cash equivalents at end of year | 3 | 133,885,842 | 72,918,225 |

FINANCIAL STATEMENTS

ISLAMIC DEPOSIT INSURANCE FUND BALANCE SHEET
AS AT 31 DECEMBER

| | Note | 2009 RM | 2008 RM |
|---|------|-------------------|------------|
| ASSETS | | | |
| Cash and cash equivalents | 3 | 23,291,443 | 3,482,418 |
| Investments | | | |
| <i>Held-to-maturity investments</i> | 4 | 24,681,364 | 27,986,075 |
| Other assets | 5 | 122,812 | 236,897 |
| Property and equipment | 6b | 1,824,506 | 807,746 |
| Total Assets | | 49,920,125 | 32,513,136 |
| LIABILITIES | | | |
| Payables | 7 | 926,386 | 163,538 |
| Total Liabilities | | 926,386 | 163,538 |
| Deposit Insurance Fund And Reserves | | | |
| Islamic Deposit Insurance Fund | 8b | 48,993,739 | 32,349,598 |
| Total Deposit Insurance Fund | | 48,993,739 | 32,349,598 |
| Total Liabilities and Deposit Insurance Fund | | 49,920,125 | 32,513,136 |

FINANCIAL STATEMENTS

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

| | Note | 2009 RM | 2008 RM |
|---|------|-------------------|------------|
| Premium revenue | 9 | 22,616,953 | 14,087,723 |
| Investment income from cash and investment securities | 10 | 944,820 | 953,017 |
| Miscellaneous income | | 4,370 | - |
| Total revenues | | 23,566,143 | 15,040,740 |
| Employee benefits | 11 | 3,488,839 | 2,022,970 |
| Public relations and advertising | | 893,221 | 670,460 |
| Depreciation | 6b | 281,034 | 151,578 |
| Operating leases | | 168,472 | 104,646 |
| Other expenses | 12 | 2,090,436 | 664,066 |
| Total expenses | | 6,922,002 | 3,613,720 |
| Net surplus | | 16,644,141 | 11,427,020 |

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

FINANCIAL STATEMENTS

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

| | Note | 2009 RM | 2008 RM |
|---|------|-------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Premium receipts from member institutions | 9 | 22,616,953 | 14,087,723 |
| Payments in the course of operations to suppliers and employees | | (6,324,764) | (4,137,667) |
| Receipts of investment income | | 889,578 | 974,562 |
| Miscellaneous income | | 4,370 | - |
| Net cash flow from operating activities | | 17,186,137 | 10,924,618 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of investment securities | | 91,619,891 | 39,244,105 |
| Purchase of investment securities | | (88,102,155) | (49,469,492) |
| Purchase of property and equipment | | (894,818) | (332,202) |
| Net cash flow used in investing activities | | 2,622,888 | (10,557,589) |
| Net increase in cash and cash equivalents | | 19,809,025 | 367,029 |
| Cash and cash equivalents at beginning of year | | 3,482,418 | 3,115,389 |
| Cash and cash equivalents at end of year | 3 | 23,291,443 | 3,482,418 |

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2009

1. PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (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 held by a member institution, provide incentives for sound risk management in the financial system and to promote or contribute to the stability of the financial system. PIDM is to carry out its functions and activities in such manner that will minimise the costs to the financial system.

MDIC Act provides for separate coverage for Islamic and Conventional deposits. To ensure proper governance as well as compliance to Shariah requirements, PIDM maintains and administers two separate funds for Islamic and Conventional deposits.

With the 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 23 February 2010.

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 are being prepared in accordance 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. This includes short term investments with maturities of less than 90 days.

(ii) Investments

Investments comprise primarily of marketable Malaysian Government Securities and Bank Negara Malaysia investment securities. PIDM invests in short-term and medium-term Ringgit Malaysia denominated securities which are intended to be held to maturity and are not traded. These securities with fixed or determinable payments and fixed maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the date of purchase to the maturity date. 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 dispose 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 asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than

goodwill is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase. Impairment loss on goodwill is not reversed in subsequent period.

(c) Property and Equipment and Depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to PIDM and the cost of the item can be measured reliably. The carrying amount of parts or components of an asset that are replaced is 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 reduce the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

| | |
|---------------------------------------|-------|
| Furniture and fittings | 20% |
| Motor vehicles | 20% |
| Office 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. The unutilised portion of the revaluation surplus on that item is taken directly to the Deposit Insurance Funds and Reserves.

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(d) Recognition of income and expenditure

All income and operating expenditures are recognised on an accrual basis. In accordance with the MDIC Act, the expenditures of PIDM which could not be directly attributed to the Islamic Deposit Insurance Fund or Conventional Deposit Insurance Fund are apportioned based on the proportion of the Islamic and Conventional premiums received against total annual premiums immediately prior to the year in which such expenditures are incurred. For the current financial year, the apportionment basis was determined based on the proportion of actual premiums received during the financial year ended 31 December 2008. The apportionment basis used for the Islamic Deposit Insurance Fund and the Conventional Deposit Insurance Fund during the financial year was 15.64% (2008: 10.54%) and 84.36% (2008: 89.46%) respectively.

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

Investment income including income from placements in money market repurchase agreements (REPO) 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.

PIDM will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current or preceding financial years. Such contributions are recognised as an expense in the income statements as incurred. As required by law, PIDM makes contributions to the statutory national pension scheme, the Employees Provident Fund as well as the Social Security Organisation.

(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

| | 2009 | | |
|---|--------------------|--------------------|-------------------|
| | Total RM | Conventional RM | Islamic RM |
| Deposits with Bank Negara Malaysia | 820,500 | 389,887 | 430,613 |
| Cash on hand and at bank | 7,598,056 | 3,696,123 | 3,901,933 |
| Short-term investments: Malaysian Government Securities and Investment Issues | 82,928,277 | 64,162,170 | 18,766,107 |
| Bank Negara Malaysia Bills and Negotiable Notes | 65,208,000 | 65,208,000 | - |
| | 148,136,277 | 129,370,170 | 18,766,107 |
| Add: Accretion of discounts net of amortisation of premium | 622,452 | 429,662 | 192,790 |
| | 148,758,729 | 129,799,832 | 18,958,897 |
| Total cash and cash equivalents | 157,177,285 | 133,885,842 | 23,291,443 |

Market values of short-term investments held as at 31 December 2009 are as follows:

| | | | |
|--|-------------|-------------|------------|
| Malaysian Government Securities and Investment Issues | 83,726,292 | 64,763,584 | 18,962,708 |
| Bank Negara Malaysia Bills and Negotiable Notes | 64,874,096 | 64,874,096 | - |
| Total market values of short-term investments | 148,600,388 | 129,637,680 | 18,962,708 |

| | 2008 | | |
|---|-------------------|-------------------|------------------|
| | Total RM | Conventional RM | Islamic RM |
| Deposits with Bank Negara Malaysia | 172,202 | 155,783 | 16,419 |
| Cash on hand and at bank | 3,483,064 | 3,007,531 | 475,533 |
| Short-term investments: Malaysian Government Securities and Investment Issues | 14,819,612 | 14,819,612 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 57,251,558 | 54,261,569 | 2,989,989 |
| | 72,071,170 | 69,081,181 | 2,989,989 |
| Add: Accretion of discounts net of amortisation of premium | 674,207 | 673,730 | 477 |
| | 72,745,377 | 69,754,911 | 2,990,466 |
| Total cash and cash equivalents | 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 | 14,927,010 | 14,927,010 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 57,877,048 | 54,885,925 | 2,991,123 |
| Total market values of short-term investments | 72,804,058 | 69,812,935 | 2,991,123 |

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

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4. INVESTMENTS

| | 2009 | | |
|--|--------------------|--------------------|-------------------|
| | Total RM | Conventional RM | Islamic RM |
| Malaysian Government Securities and Investment Issues | 202,612,783 | 177,976,306 | 24,636,477 |
| Bank Negara Malaysia Bills and Negotiable Notes | - | - | - |
| | 202,612,783 | 176,976,306 | 24,636,477 |
| Accretion of discounts net of amortisation of premium | 1,197,792 | 1,152,905 | 44,887 |
| Total investments | 203,810,575 | 179,129,211 | 24,681,364 |
| Market values of investments held as at 31 December 2009 are as follows: | | | |
| Malaysian Government Securities and Investment Issues | 203,760,584 | 179,064,765 | 24,695,819 |
| Bank Negara Malaysia Bills and Negotiable Notes | - | - | - |
| Total market values of investments | 203,760,584 | 179,064,765 | 24,695,819 |

| | 2008 | | |
|--|--------------------|--------------------|-------------------|
| | Total RM | Conventional RM | Islamic RM |
| Malaysian Government Securities and Investment Issues | 111,443,173 | 111,443,173 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 77,294,251 | 49,332,351 | 27,961,900 |
| | 188,737,424 | 160,775,524 | 27,961,900 |
| Accretion of discounts net of amortisation of premium | 2,297,224 | 2,273,049 | 24,175 |
| Total investments | 191,034,648 | 163,048,573 | 27,986,075 |
| Market values of investments held as at 31 December 2008 are as follows: | | | |
| Malaysian Government Securities and Investment Issues | 113,568,615 | 113,568,615 | - |
| Bank Negara Malaysia Bills and Negotiable Notes | 77,267,410 | 49,531,030 | 27,736,380 |
| Total market values of investments | 190,836,025 | 163,099,645 | 27,736,380 |

Investments are 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

| | 2009 | | |
|-------------------------------|------------------|------------------|----------------|
| | Total RM | Conventional RM | Islamic RM |
| Deposits and prepayments | 873,399 | 758,539 | 114,860 |
| Investment income receivables | 570,644 | 570,644 | - |
| Other assets | 30,000 | 27,222 | 2,778 |
| Other receivables | 62,156 | 56,982 | 5,174 |
| Total other assets | 1,536,199 | 1,413,387 | 122,812 |

| | 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 |
| Total other assets | 1,058,056 | 821,159 | 236,897 |

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6. PROPERTY AND EQUIPMENT

| 2009 | Office equipment and computer systems RM | Furniture and fittings RM | Motor vehicles RM | Office refurbishments RM | Total RM |
|---|---|------------------------------------|-------------------------|--------------------------------|-------------------|
| Cost | | | | | |
| Balance as at 1 January 2009 | 5,959,349 | 1,728,041 | 412,009 | 3,054,049 | 11,153,448 |
| Additions (i) | 7,196,677 | - | - | 194,544 | 7,391,221 |
| Balance as at 31 December 2009 | 13,156,026 | 1,728,041 | 412,009 | 3,248,593 | 18,544,669 |
| Accumulated depreciation | | | | | |
| Balance as at 1 January 2009 | 1,215,234 | 643,756 | 139,737 | 760,900 | 2,759,627 |
| Charge for the year | 1,392,521 | 345,580 | 82,401 | 629,795 | 2,450,297 |
| Balance as at 31 December 2009 | 2,607,755 | 989,336 | 222,138 | 1,390,695 | 5,209,924 |
| Net carrying amount as at 31 December 2009 | 10,548,271 | 738,705 | 189,871 | 1,857,898 | 13,334,745 |

i. Included in the cost of office equipment and computer systems as at 31 December 2009 is an amount of RM8,546,563 (2008: RM3,845,937) for assets under construction consisting of Risk Assessment System of RM580,075, Payout System of RM6,082,655, Human Resource Information System of RM293,945, Enterprise Portal of RM1,497,238 and System Infrastructure Hardening of RM92,650.

6. PROPERTY AND EQUIPMENT (continued)

| 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 | 2,206,932 | 60,509 | - | 319,249 | 2,586,690 |
| 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 |
| Balance as at 31 December 2008 | 1,215,234 | 643,756 | 139,737 | 760,900 | 2,759,627 |
| Net carrying amount as at 31 December 2008 | 4,744,115 | 1,084,285 | 272,272 | 2,293,149 | 8,393,821 |

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6. PROPERTY AND EQUIPMENT (continued)

a. Conventional Deposit Insurance Fund

| 2009 | Office equipment and computer systems RM | Furniture and fittings RM | Motor vehicles RM | Office refurbishments RM | Total RM |
|---|---|------------------------------------|-------------------------|--------------------------------|-------------------|
| Cost | | | | | |
| Balance as at 1 January 2009 | 5,380,505 | 1,567,866 | 373,977 | 2,768,526 | 10,090,874 |
| Additions | 5,929,310 | - | - | 164,117 | 6,093,427 |
| Balance as at 31 December 2009 | 11,309,815 | 1,567,866 | 373,977 | 2,932,643 | 16,184,301 |
| Accumulated depreciation | | | | | |
| Balance as at 1 January 2009 | 1,102,932 | 584,326 | 126,822 | 690,719 | 2,504,799 |
| Charge for the year | 1,211,187 | 313,559 | 74,795 | 569,722 | 2,169,263 |
| Balance as at 31 December 2009 | 2,314,119 | 897,885 | 201,617 | 1,260,441 | 4,674,062 |
| Net carrying amount as at 31 December 2009 | 8,995,696 | 669,981 | 172,360 | 1,672,202 | 11,510,239 |

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 |
| 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 |
| Balance as at 31 December 2008 | 1,102,932 | 584,326 | 126,822 | 690,719 | 2,504,799 |
| Net carrying amount as at 31 December 2008 | 4,277,573 | 983,540 | 247,155 | 2,077,807 | 7,586,075 |

6. PROPERTY AND EQUIPMENT (continued)

b. Islamic Deposit Insurance Fund

| 2009 | Office equipment and computer systems RM | Furniture and fittings RM | Motor vehicles RM | Office refurbishments RM | Total RM |
|---|---|------------------------------------|-------------------------|--------------------------------|------------------|
| Cost | | | | | |
| Balance as at 1 January 2009 | 578,844 | 160,175 | 38,032 | 285,523 | 1,062,574 |
| Additions | 1,267,367 | - | - | 30,427 | 1,297,794 |
| Balance as at 31 December 2009 | 1,846,211 | 160,175 | 38,032 | 315,950 | 2,360,368 |
| Accumulated depreciation | | | | | |
| Balance as at 1 January 2009 | 112,302 | 59,430 | 12,915 | 70,181 | 254,828 |
| Charge for the year | 181,333 | 32,021 | 7,606 | 60,074 | 281,034 |
| Balance as at 31 December 2009 | 293,635 | 91,451 | 20,521 | 130,255 | 535,862 |
| Net carrying amount as at 31 December 2009 | 1,552,576 | 68,724 | 17,511 | 185,695 | 1,824,506 |

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 |
| 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 |
| Balance as at 31 December 2008 | 112,302 | 59,430 | 12,915 | 70,181 | 254,828 |
| Net carrying amount as at 31 December 2008 | 466,542 | 100,745 | 25,117 | 215,342 | 807,746 |

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7. PAYABLES

| | 2009 | | |
|------------------------------------|------------------|------------------|----------------|
| | Total RM | Conventional RM | Islamic RM |
| Amount due to Bank Negara Malaysia | 250,220 | 211,086 | 39,134 |
| Sundry creditors | 29,700 | 25,055 | 4,645 |
| Other payables | 5,182,299 | 4,379,183 | 803,116 |
| Provision for unutilised leave | 508,251 | 428,760 | 79,491 |
| Total payables | 5,970,470 | 5,044,084 | 926,386 |

| | 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 |
| Total payables | 1,540,214 | 1,376,676 | 163,538 |

8. DEPOSIT INSURANCE FUNDS

a. Conventional Deposit Insurance Fund:

| | 2009 RM | 2008 RM |
|---------------------------|-------------|-------------|
| Balance as at 1 January | 242,997,356 | 190,399,969 |
| Net surplus | 77,897,239 | 52,597,387 |
| Balance as at 31 December | 320,894,595 | 242,997,356 |

b. Islamic Deposit Insurance Fund:

| | 2009 RM | 2008 RM |
|---------------------------|------------|------------|
| Balance as at 1 January | 32,349,598 | 20,922,578 |
| Net surplus | 16,644,141 | 11,427,020 |
| Balance as at 31 December | 48,993,739 | 32,349,598 |

9. PREMIUM REVENUE

| | 2009 | | |
|------------------------------|--------------------|--------------------|-------------------|
| | Total RM | Conventional RM | Islamic RM |
| First premiums | - | - | - |
| Annual premiums | 131,794,707 | 109,177,754 | 22,616,953 |
| Total premium revenue | 131,794,707 | 109,177,754 | 22,616,953 |

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

Rate for annual premium under the differential premium systems

- 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) as follows:

| 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 premium annual premium rates will apply with regard to the Islamic insured deposits and the Conventional insured deposits respectively.

- The annual premiums payable by a new member institution shall not be lower than RM250,000.

Rate for first premium

- In respect of a new member institution (as defined in Regulation 2 of the Malaysia Deposit Insurance Corporation (Differential Premium System) 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 premium category 1.

- The first premiums payable by a new member institution shall not be lower than RM250,000.

| | 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 |
| Total premium revenue | 90,078,953 | 75,991,230 | 14,087,723 |

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10. INVESTMENT INCOME

| | 2009 | | |
|---|------------------|------------------|----------------|
| | Total RM | Conventional RM | Islamic RM |
| Malaysian Government Securities and Investment Issues | 5,377,737 | 4,880,111 | 497,626 |
| Bank Negara Malaysia Bills and Negotiable Notes | 2,132,961 | 1,719,092 | 413,869 |
| Placements in Money Market Repurchase Agreements | 83,202 | 49,877 | 33,325 |
| Total investment income | 7,593,900 | 6,649,080 | 944,820 |

| | 2008 | | |
|---|------------------|------------------|----------------|
| | Total RM | Conventional RM | Islamic RM |
| Malaysian Government Securities and Investment Issues | 2,920,534 | 2,830,620 | 89,914 |
| Bank Negara Malaysia Bills and Negotiable Notes | 5,533,279 | 4,680,198 | 853,081 |
| Placements in Money Market Repurchase Agreements | 32,764 | 22,742 | 10,022 |
| Total investment income | 8,486,577 | 7,533,560 | 953,017 |

The weighted average yield rates for investment securities that were effective during the financial year were 2.25% (2008: 3.47%) and 2.42% (2008: 3.45%) for the Islamic and Conventional portfolio respectively.

11. EMPLOYEE BENEFIT EXPENSES

| | 2009 | | |
|--|-------------------|-------------------|------------------|
| | Total RM | Conventional RM | Islamic RM |
| Wages and salaries | 18,436,383 | 15,552,933 | 2,883,450 |
| Contributions to defined contribution plan | 2,274,357 | 1,918,647 | 355,710 |
| Provision for unutilised leave | 80,882 | 45,427 | 35,455 |
| Other benefits | 1,416,952 | 1,202,728 | 214,224 |
| Total employee benefit expenses | 22,208,574 | 18,719,735 | 3,488,839 |

| | 2008 | | |
|--|-------------------|-------------------|------------------|
| | Total RM | Conventional RM | Islamic RM |
| Wages and salaries | 16,251,824 | 14,538,881 | 1,712,943 |
| Contributions to defined contribution plan | 1,879,596 | 1,681,487 | 198,109 |
| Provision for unutilised leave | 228,328 | 201,352 | 26,976 |
| Other benefits | 810,393 | 725,451 | 84,942 |
| Total employee benefit expenses | 19,170,141 | 17,147,171 | 2,022,970 |

The number of employees at the end of the financial year was seventy two (72) (2008: 67).

12. OTHER EXPENSES

| | 2009 | | |
|--|-------------------|-------------------|------------------|
| | Total RM | Conventional RM | Islamic RM |
| Audit fees | 29,700 | 25,055 | 4,645 |
| Directors' fees and remuneration* | 432,403 | 364,775 | 67,628 |
| Parking space rental | 281,437 | 237,420 | 44,017 |
| Printing and stationery | 1,063,848 | 897,918 | 165,930 |
| Professional and consultancy fees | 7,023,814 | 5,925,391 | 1,098,423 |
| Subscriptions and memberships | 343,917 | 291,437 | 52,480 |
| Training and development | 1,302,626 | 1,101,942 | 200,684 |
| Travelling | 547,970 | 462,267 | 85,703 |
| Telecommunication and computer systems | 1,678,447 | 1,418,888 | 259,559 |
| Website development and maintenance | 28,587 | 24,116 | 4,471 |
| Miscellaneous | 695,450 | 588,554 | 106,896 |
| Total other expenses | 13,428,199 | 11,337,763 | 2,090,436 |

| | 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 |
| Parking space rental | 249,318 | 223,041 | 26,277 |
| Printing and stationery | 936,424 | 837,738 | 98,686 |
| Professional and consultancy fees | 1,437,802 | 1,286,241 | 151,561 |
| Subscriptions and memberships | 353,683 | 317,246 | 36,437 |
| Training and development | 1,336,657 | 1,195,773 | 140,884 |
| Travelling | 479,439 | 428,906 | 50,533 |
| Telecommunication and computer systems | 650,929 | 582,520 | 68,409 |
| Website development and maintenance | 113,900 | 101,895 | 12,005 |
| Miscellaneous | 415,317 | 372,115 | 43,202 |
| Total other expenses | 6,315,710 | 5,651,644 | 664,066 |

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

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13. TAXATION

PIDM is exempted from income tax at the statutory level.

14. OPERATING LEASES

PIDM has entered into a non-cancellable lease contract 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 option or escalation clauses included in the contract. There are also no restrictions placed upon PIDM by entering into this lease contract.

PIDM has also entered into leases for various office equipment under non-cancellable operating lease contracts. 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 termination notice three months before expiration of the primary term. There are no purchase option or escalation clauses included in the contracts.

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:

| | 2009 RM | 2008 RM |
|--|------------------|------------|
| Future minimum lease payments: | | |
| Not later than 1 year | 998,736 | 985,632 |
| Later than 1 year and not later than 5 years | 1,349,471 | 2,332,919 |
| Total operating lease commitments | 2,348,207 | 3,318,551 |

15. CAPITAL COMMITMENTS

Approved and contracted for:
Property and equipment

| | 2009 RM | 2008 RM |
|--|------------------|------------|
| Approved and contracted for: Property and equipment | 5,810,697 | 4,271,803 |
| Total capital commitments | 5,810,697 | 4,271,803 |

16. RELATED PARTY DISCLOSURES

a. Transactions with related parties

- During the year, PIDM engaged the legal firm, Shook Lin & Bok (SLB), for the provision of legal advisory services to PIDM. One of PIDM's directors, Mr. Michael Wong, is a contracted advisor to SLB. The fee charged is RM136,236 which is comparable to market prices. As at 31 December 2009, the amount due to the firm is RM117,697. 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.
- PIDM's Audit Committee Chairman, Datuk Dr. Abdul Samad is also the Chairman of Bank Pembangunan Malaysia Berhad (Bank Pembangunan) since 1 August 2008. Bank Pembangunan is one of the financial institutions guaranteed under the Government Deposit Guarantee.

b. Remuneration of key management personnel

| | 2009 RM | 2008 RM |
|---|------------------|------------|
| Short-term benefits | 7,911,922 | 8,116,250 |
| Post employment benefits: Contributions to defined contribution plan | 656,949 | 637,155 |
| Total remuneration of key management personnel | 8,568,871 | 8,753,405 |

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 PIDM.

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.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2009

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 and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia securities of varying maturities. In relation to the day-to-day operational cash management, PIDM may place excess funds in money market or overnight placements with its banker(s). No investments are made with member 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 and medium-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 1 month RM | 1-3 months RM | 3-12 months RM | Total RM |
|-------------------------------------|------|--------|-------------------|---------------|----------------|-------------|
| 31 December 2009 | | | | | | |
| Fixed rate | | | | | | |
| Cash and Cash Equivalent | 3 | 1.83 | 4,086,010 | 129,799,832 | - | 133,885,842 |
| Investments | 4 | 1.90 | - | - | 179,129,211 | 179,129,211 |
| 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 |

17. FINANCIAL INSTRUMENTS (continued)

| Islamic Deposit Insurance Fund | Note | WAYR % | Within 1 month RM | 1-3 months RM | 3-12 months RM | Total RM |
|--------------------------------|------|--------|-------------------|---------------|----------------|------------|
| 31 December 2009 | | | | | | |
| Fixed rate | | | | | | |
| Cash and Cash Equivalent | 3 | 1.88 | 4,332,546 | 18,958,897 | - | 23,291,443 |
| Investments | 4 | 2.05 | - | - | 24,681,364 | 24,681,364 |
| 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 |

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 and medium-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 as 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.

FINANCIAL STATEMENTS

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31 DECEMBER 2009

19. GOVERNMENT DEPOSIT GUARANTEE

On 16 October 2008, the Ministry of Finance and Bank Negara Malaysia (BNM) announced that all Ringgit Malaysia 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.

Subsequent to financial year-end, the MDIC Act was amended to incorporate stabilisation insurance provisions relative to the GDG.

20. CONTINGENT LIABILITIES

Exposure to Losses from Insuring Deposits

Under the MDIC Act, PIDM has an inherent exposure to losses resulting from insuring the deposits held by member institutions. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability. Since PIDM's incorporation in 2005, there have been no events that occurred which would require specific provisions to be made and reflected in the financial statements in accordance with FRS 137 Provisions, Contingent Liabilities and Contingent Assets.

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 member institutions' failures. Furthermore, PIDM reinforces financial discipline through its differential premium system which provides strong incentives for member 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 member institutions in a manner to minimise the loss to the financial system.

While no 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 from the Government or issue public debt securities to raise funds, as well as assessing higher premiums with the approval of the Minister of Finance.

Section 5: Overview Of Membership - 2009



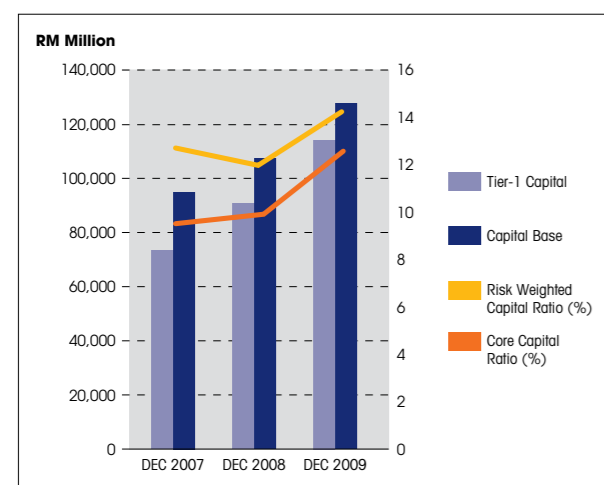
OVERVIEW OF MEMBERSHIP - 2009

Despite the economic environment in 2009, we are pleased to report that our membership has remained strong, with very little negative changes in the risk profiles of the individual members.

Our financial indicators in relation to the membership up to December 2009 have shown that the member institutions had strong and resilient financial positions. This was reflected by strong asset quality, solid capital and ample liquidity. Profitability, as expected, trended downwards, but remained respectable.

SOLID CAPITAL POSITION

Chart 14: Capital Position



The capital position of the member institutions strengthened during the year with the risk weighted capital ratio (RWCR) of 14.2% as at end-December 2009, compared with 12.2% as at end-December 2008. The core capital ratio was also higher at 12.6% than 10.1% previously. Currently, there is a capital buffer of more than RM50 billion before the RWCR would breach the minimum regulatory requirement of 8%.

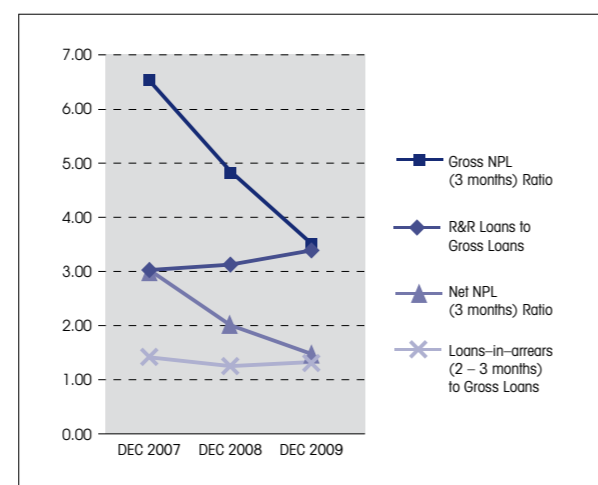
The stronger capital position is mainly attributable to the capital raising exercises initiated by several member institutions either in the form of new equity or issuance of papers that qualify as Tier-1 capital. With the increased size of issuances of Tier-1 capital, the quality of capital in the membership has improved, with 76% of total capital in the form of Tier-1 capital (2008: 70%). Several reasons

brought about the capital raising exercises - certain member institutions replenished their capital due to larger investment in subsidiaries domestically or overseas. Others, raised capital for better buffers against potential losses and others raised additional capital, so that they would be better capitalised.

The leverage ratio of the member institutions measuring the capital available to back assets has also improved to 11.9 times as at end-December 2009, compared with 13.5 times as at end-December 2008.

ASSET QUALITY REMAINED RESILIENT

Chart 15: Selected Asset Quality Indicators

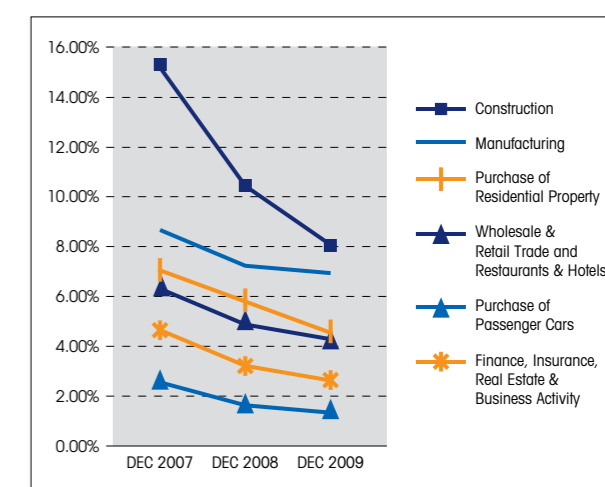


Despite the operating environment, the asset quality of the member institutions continued to improve with lower non-performing loans (NPLs) ratios. Absolute NPLs declined by RM6.1 billion in 2009. One of the factors that contributed to the lower NPL was the sale of NPL by member institutions. Apart from that, close monitoring and proactive measures to address problematic loans helped contain further deterioration in asset quality. This was reflected from the increase in restructured and rescheduled loans (R&R loans), which accounted for 3.5% of total loans (2008: 3.0%) as at end-December 2009. The level of loans-in-arrears (2 to 3 months past due) also remained stable and consistently below 2% of total loans. The net NPL ratio (3-month classification) has remained below 2% since May 2009, which is a very strong position. Taking into account the capital position, the ratio of net NPL to capital base was at a low of 9.3% as at end-December 2009; in other words, the current capital base covers almost 11 times the current net NPL of the member institutions.



The member institutions' lending and financing activities moderated in 2009 with a year-on-year growth of 8.2% as at end-December 2009 (end-December 2008: 13.7%). We note the resilience in demand in the household segment, which accounted for 55.4% of the total loans outstanding as at end-December 2009. This segment recorded a consistent annual growth of about 10% for two consecutive years. The default rates (NPLs against loans outstanding) of the major segments within the household sector also continued to show an improving trend. Taking aside the effect of the expanded loan base, the absolute NPLs from this segment were also stable. This could be attributed to the stable employment, strong consumer confidence and the conducive interest rate environment. We will continue to monitor the trend closely in 2010. Meanwhile, it is encouraging to note that the default rates for the major lending sectors also depict a gradually improving trend.

Chart 16: Default rates of selected sectors / segments



OVERVIEW OF MEMBERSHIP - 2009



EARNINGS PERFORMANCE TRENDED LOWER

The member institutions remained profitable, albeit at lower numbers than those recorded in 2008. Unaudited profit before tax for 2009 stood at RM16.1 billion, down 11.4% compared with RM18.1 billion in 2008. As a result, the annualised Return on Assets was lower at 1.3% compared to 1.6% in 2008. Return on Equity also declined from 19.3% in 2008 to 14.2% in 2009 due to the lower profitability, coupled with the enlarged equity arising from the member institutions' capital raising exercises.

The lower profitability was attributable to the combination of lower income generation and higher expenses and loan loss allowance. On the income side, slower overall business activities, coupled with lower underlying interest rate (the Overnight Policy Rate (OPR) was reduced to 2.0% in February 2009) led to lower gross income. Consequently, the member institutions' net interest margin deteriorated marginally from 2.4% in 2008 to 2.3% in 2009. On the costs side, certain member institutions have incurred higher overheads as they invested in information technology to cater for expanded and more complex business functions, while others have either embarked on branch expansion or branch upgrading to better serve their customers. As a result, the cost-to-income ratio deteriorated to 51.0% in 2009 from 44.7% in 2008. Allowance for loan losses also rose,

because, apart from providing allowance for losses on its non-performing loans and investments, several member institutions made higher allowances in anticipation of a deteriorating business environment.

AMPLE LIQUIDITY AND FUNDING

The liquidity of the member institutions remained ample. All member institutions maintained a surplus over the compliance requirement under Bank Negara Malaysia's New Liquidity Framework. Loans to deposits ratio stood at 76.1% as at end-December 2009 (2008: 77.4%), an indication that the member institutions are able to accommodate further loan growth without facing funding constraints.

Deposits from customers accounted for close to 90% of the funding sources. As at end-December 2009, customer deposits grew by RM94.0 billion or 10.1% year on year, in spite of the low interest rate environment during the period. We note, however, that bulk of the growth arose from domestic business enterprises, which formed about 37% of customer deposits and these deposits have increased by 14.0% or RM46.8 billion (2008: 12.6% or RM37.7 billion). On the other hand, deposits from individuals grew by only 3.9% or RM14.2 billion year-on-year compared to 10.6% growth or RM35.0 billion recorded in 2008.

PERFORMANCE OF OTHER GUARANTEED FINANCIAL INSTITUTIONS UNDER THE GOVERNMENT DEPOSIT GUARANTEE (GDG)

Commencing October 2008, PIDM has also been monitoring other guaranteed financial institutions other than member institutions, following the GDG. In addition to the 39 member institutions, the other guaranteed financial institutions comprised 15 investment banks, five deposit-taking development financial institutions and three international Islamic banks.

Based on the financial indicators up to December 2009, the overall position of these other guaranteed financial institutions remained stable and intact. Investment banks as a whole are strongly capitalised, although there was some pressure on their profitability. This was due to slower investment banking-related business as a result of the economic moderation. Nevertheless, we note a renewed interest in business activities, especially towards the end of 2009, in tandem with the more conducive business environment.

With regard to the development financial institutions, their overall conditions remained stable, despite pressures on asset quality, given their specific roles and objectives as development financial institutions. The overall capital position is nonetheless viewed as adequate. The international Islamic banks, meanwhile, are relatively new, and there are no major issues at this juncture.

CONCLUSION

Against concerns, early on in the year, about the potential effects of the global financial crisis on the state of health of our member institutions, member institutions have survived 2009 largely unaffected. Certain member institutions show a stronger position than they did a year ago, especially in terms of capital strength and risk management capabilities. This can be attributed to proactive initiatives by the member institutions and regulators to address the potential risks to the system as a whole. From our continuous monitoring of the risk profiles of the member institutions, we do not anticipate any issues that would affect their viability in the intermediate term.

The year 2010 is expected to be brighter than 2009 in terms of business prospects and economic recovery. However, PIDM remains vigilant to any possible spill-over and lagging effects of the moderation experienced in 2009. This includes the impact of a higher interest rate scenario going forward. In addition, there will be more competition in the marketplace with the introduction of new players, as the Malaysian banking system liberalises in the immediate term. We also anticipate many new measures and initiatives from regulators in an effort to further strengthen the overall risk management practices of member institutions, following the after-effects of the global financial crisis. On our part, PIDM will strive to uphold its mandate, especially in promoting the financial stability of the system through depositor protection and incentives for member institutions to improve their risk management capabilities in line with industry best practices.



Section 6: Articles



ARTICLES

COMPLIANCE WITH THE CORE PRINCIPLES FOR
EFFECTIVE DEPOSIT INSURANCE SYSTEMS: A SELF-ASSESSMENT

INTRODUCTION

In 2009, the International Association of Deposit Insurers (IADI), in collaboration with the Basel Committee on Banking Supervision (BCBS), issued an internationally agreed set of joint Core Principles for Effective Deposit Insurance Systems (Core Principles).

The Core Principles provide an international benchmark for effective deposit insurance systems, which can be used by countries considering the adoption or the reform of their deposit insurance systems. To achieve our vision to be “A Best Practice Deposit Insurer”, PIDM benchmarks itself against best international standards, such as the Core Principles, to identify gaps and areas for improvement.

METHODOLOGY

Our assessment methodology is based on the November 2009 version of the methodology jointly developed by BCBS and IADI for the purposes of the Core Principles (work on the draft methodology is still under discussion). The methodology involves an assessment against a list of “essential criteria” and “additional criteria”. Compliance with essential criteria demonstrates compliance with a Core Principle, whilst the additional criteria are intended for deposit insurers with broader mandates. Compliance grading is based solely on the essential criteria.

The methodology follows a four-grade scale: “compliant”, “largely compliant”, “materially non-compliant” and “non-compliant”.

The results of PIDM’s self assessment of its compliance with the Core Principles are as follows:

| CORE PRINCIPLES | ASSESSMENT |
|--|---|
| Principle 1 - Public policy objectives The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors. | |
| Essential criteria 1. The public policy objectives of the deposit insurer are clearly defined and formally specified, for example, through legislation or preamble to legislation. | <p>Compliant</p> <p>The public policy objectives of PIDM were articulated in a policy paper prior to its establishment in 2005 and are clearly set out in the preamble to the Malaysia Deposit Insurance Corporation Act (MDIC Act) and are integrated into the design of the deposit insurance system.</p> <p>The preamble sets out the role of the deposit insurance system as an important component of the financial safety net, as it promotes and contributes to the stability of the financial system, which in turn is a key determinant of the economic growth and prosperity of Malaysia.</p> <p>PIDM is to protect depositors against the loss of their deposits in the event of a bank failure, carry out its mandated functions with speed and efficiency and promote sound risk management in the financial system. Special provisions empower PIDM to implement resolution options at minimum costs to the financial system.</p> <p>The statutory objects of PIDM are defined in the MDIC Act, as follows: (i) administer a deposit insurance system; (ii) provide insurance against the loss of part or all deposits of a member bank; (iii) provide incentives for sound risk management in the financial system; and (iv) promote and contribute to the stability of the financial system.</p> <p>In respect of achieving objects (ii) and (iv), PIDM must act in such manner as to minimise costs to the financial system.</p> |

| CORE PRINCIPLES | ASSESSMENT |
|---|---|
| 2. The deposit insurer publicly discloses its objectives and is accountable through a transparent framework for the discharge of its duties in relation to those objectives. | PIDM publishes annually and distributes publicly its three-year rolling Corporate Plan and its Annual Report. The Plan sets out PIDM’s annual initiatives and how these are aligned to its mandate, objectives and functions. The Annual Report provides extensive information about the performance of PIDM against its stated objects, corporate initiatives and provides in-depth details of its financial performance during the reported period and is tabled in Parliament. |
| 3. There should be an assessment of the extent to which a deposit insurance system is meeting its public policy objectives on a regular basis. | PIDM undertakes assessments of the extent to which it meets its public policy objectives. For this purpose, the Board has established a Governance Committee to advise on the implementation of sound corporate governance in PIDM. One of its principal duties and responsibilities is to review, on a periodic basis, PIDM’s mandate as set out in the MDIC Act and to make any recommendation it sees fit. |
| Principle 2 - Mitigating moral hazard Moral hazard should be mitigated by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety net. | |
| Essential criteria 1. The deposit insurance system has specific design features that mitigate the risk of moral hazard. These may include limited deposit insurance coverage and scope and, when appropriate, deposit insurance premiums that are assessed on a differential or risk-adjusted basis, and minimising the risk of loss through timely intervention and resolution for deposit insurers with such powers. | Compliant There are a number of design features to mitigate moral hazard. The limit and coverage is set out in law; PIDM’s statutory mandate includes promoting sound risk management in the financial system; and the MDIC Act provides extensive powers for it to intervene early and resolve troubled banks in a manner that would minimise costs to the financial system. In 2008, PIDM implemented the Differential Premium Systems (DPS), so that differential premiums are charged on banks depending on the risk categories into which they fall, so as to provide a financial incentive for banks to enhance risk management practices. |
| 2. The financial safety net creates and supports appropriate incentives to mitigate moral hazard through good corporate governance and sound risk management of individual banks, effective market discipline and frameworks for strong prudential regulation, supervision and laws. | PIDM has the authority to issue regulations, rules and guidelines on deposit insurance matters for member banks. PIDM supports the supervisor, Bank Negara Malaysia (BNM), through the imposition of PIDM’s Terms and Conditions of Membership, which sets out PIDM’s expectations on member banks’ safety and soundness, as well as liquidity requirements and information to be provided to PIDM. |
| | There exists a strong and robust prudential regulatory and supervisory system in Malaysia with prompt corrective action powers. PIDM also promotes discipline by educating depositors with a view towards financial literacy and greater deposit insurance knowledge. It may also terminate membership and petition for the winding-up of a member bank. |

ARTICLES

COMPLIANCE WITH THE CORE PRINCIPLES FOR
EFFECTIVE DEPOSIT INSURANCE SYSTEMS: A SELF-ASSESSMENT

| CORE PRINCIPLES | ASSESSMENT |
|--|---|
| Principle 3 - Mandate It is critical that the mandate selected for a deposit insurer be clear and formally specified and that there be consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer. | |
| Essential criteria 1. The deposit insurance system has a mandate that is clearly defined and formally specified, for example, in law or regulation. 2. The deposit insurance system mandate clarifies the role and responsibilities of the deposit insurance system within the financial safety net. The deposit insurance system mandate is consistent with the stated objectives and the powers and responsibilities given to the deposit insurer. | Compliant PIDM's mandate is clearly and formally specified in the MDIC Act and the powers, role and responsibilities of PIDM are well defined in the MDIC Act. PIDM is a statutory corporation, operationally independent and has the powers to fulfil its mandate. It is governed by a Board of Directors with legislative powers to ensure PIDM fulfils its mandate. Its mandate clearly sets out its role in relation to BNM, which includes complementing BNM to "promote and contribute to the stability of the financial system." The law requires PIDM to function as a "risk minimiser" and its mandate clearly provides that it is responsible and accountable for the administration of the deposit insurance system, and the early intervention and resolution of troubled banks, subject to the determination by the supervisor that a bank has ceased or is likely to cease to be viable. In the unlikely event that PIDM should intervene in a non-viable bank, PIDM must act in such manner as to minimise costs to the financial system. PIDM assesses its deposit insurance risks independently from the supervisor, based on financial data and information, including examination findings provided by the supervisor. PIDM also taps on the examination function of the supervisor. The interrelationship between the supervisor and PIDM is addressed in the MDIC Act. PIDM and BNM have executed a Strategic Alliance Agreement (SAA), which details the expectations of both parties and their ongoing relationship. |

| CORE PRINCIPLES | ASSESSMENT |
|--|--|
| Principle 4 - Powers A deposit insurer should have all powers necessary to fulfil its mandate and these powers should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly. | |
| Essential criteria 1. The powers (legal authority) and responsibilities of the deposit insurance system are clearly defined and formally specified in law or regulation. 2. The deposit insurer has all powers necessary to fulfil its mandate. The deposit insurer can: (a) enter into contracts; (b) finance reimbursements to depositors; (c) set internal operating budgets and procedures; and (d) access timely and accurate information to promptly meet their obligations to depositors. | Compliant The powers of PIDM are well defined in the MDIC Act. They include, among others, powers to: (i) assess and collect premiums from member banks; (ii) make payments to depositors; (iii) issue regulations and guidelines on deposit insurance related matters; (iv) borrow or raise funds in such manner as PIDM thinks fit; (v) set up internal operating budgets and procedures; (vi) enter into contracts with any person in furtherance of PIDM's objects or in relation to the performance of its functions; (vii) obtain financial data on member banks from the supervisor for PIDM to independently assess its deposit insurance risks; (viii) obtain written reports following examinations conducted by BNM, including any information that comes to the attention of BNM of any change in the circumstances of a member bank that may materially affect the position of PIDM as a deposit insurer; (ix) obtain any information from a member bank in furtherance of its mandate; (x) conduct a special examination to access timely and accurate information in the event of an imminent bank failure. The aim is to assess accurately the true financial condition of the bank for PIDM to determine the appropriate resolution option, including a payout to depositors; (xi) assume control of a member bank and to appoint persons or agents to manage the business and affairs of the member bank under an assumption of control; (xii) acquire assets from a troubled member bank; (xiii) recapitalise a troubled member bank; (xiv) petition for the winding-up of a member bank; and (xv) resolve troubled banks in such manner as to minimise costs to the financial system. |

ARTICLES

COMPLIANCE WITH THE CORE PRINCIPLES FOR
EFFECTIVE DEPOSIT INSURANCE SYSTEMS: A SELF-ASSESSMENT

| CORE PRINCIPLES | ASSESSMENT |
|---|---|
| Principle 5 - Governance The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence. | |
| Essential criteria 1. The deposit insurer is able to use the powers and means assigned to it without undue influence from external parties, including political forces, the financial services industry or other safety net participants. There is, in practice, no significant evidence of government or industry interference in the operational independence of the deposit insurer and its ability to obtain and deploy the resources needed to carry out its mandate. 2. The deposit insurer is financed in a manner that does not undermine its autonomy or independence and permits it to fulfil its mandate. This includes, among other things: (a) salary scales that allow it to attract and retain qualified staff; (b) the ability to hire outside experts to deal with special situations; (c) a training budget and programme that provides regular training opportunities for staff; (d) a budget for computers and other equipment sufficient to equip its staff with tools needed to fulfil its mandate; and (e) a travel budget that allows appropriate on-site work. | Compliant PIDM was established as an operationally independent statutory body. The MDIC Act provides that the Board is "responsible for the conduct of the business and affairs of the Corporation, and shall exercise all powers and do all acts which may be exercised or done by the Corporation". The Board comprises seven non-executive directors as follows: (a) a Chairman with relevant private sector experience; (b) two <i>ex-officio</i> directors namely, the Governor of BNM and the Secretary General to the Treasury; (c) a director from the public sector; and (d) three directors from the private sector with relevant banking and financial sector experience. To minimise influence from external parties, the MDIC Act has, among others, the following provisions: <ul style="list-style-type: none"> it prohibits directors in paragraphs (b) and (c) from being appointed Chairman of the Board; it prohibits members of any legislative assembly, existing bankers and politicians from being a Board member; there is clear specification of the grounds for termination or suspension of any director by the Minister in the MDIC Act; any director may resign by giving written notice to the Minister; and high standards of independence and integrity by requiring members of the Board, at all times, to act honestly and in the best interest of the Corporation. Autonomy and independence of policy decisions and operations are protected through the following: <ul style="list-style-type: none"> PIDM did not receive any start-up capital and is funded through annual premiums assessed on member banks which are used for funding its operations and building a reserve deposit insurance fund; The MDIC Act empowers the Board to retain outside experts to assist it in any matter; and PIDM's Board sets the strategic direction of PIDM. In this regard, the Board, among others, approves the following: <ul style="list-style-type: none"> - PIDM's annual Corporate Plan. The Board is responsible for setting the annual operating budget to meet the year's planned corporate initiatives and operating costs. These costs are determined each year based on the operational needs of PIDM and include, among others, salaries, training budget, capital expenditure for building the infrastructure of the Corporation, computer equipment and IT software for employees as well as for meeting its mandate, such as the development of the Payout System; and - Salary scales for employees that are reviewed annually against market benchmarks to enable PIDM to attract and retain qualified employees. In respect of accountability, the Board is responsible for the conduct of the business and affairs of PIDM while the Management, led by the Chief Executive Officer (CEO), is responsible for the day-to-day administration of the business and affairs of PIDM. To minimise conflict of duties, the MDIC Act provides that the CEO shall be answerable and accountable to the Board for the exercise of his powers and the performance of his duties. |

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| 3. The governing body and management of the deposit insurance system are held accountable through a transparent framework for the discharge of the system's duties in relation to its objectives and mandate. 4. The deposit insurer operates in a transparent manner and discloses appropriate information on its activities, governance practices, structure and financial results. 5. The deposit insurance system is structured such that the potential for conflicts of interest respecting members of the governing body and management is minimised. 6. The members of the governing body can be removed from office during their term only for reasons specified or defined in law. These reasons should be publicly disclosed. | There is a separation of the roles of the Board and CEO, whose respective responsibilities are set out in the MDIC Act and PIDM's progress against its corporate initiatives are reported in our Annual Report. Additionally, the Board and all employees are required to comply with comprehensive codes of conduct and conflict of interest codes. Compliance with these codes is required and annual filings of compliance must be made. PIDM maintains an official website and publishes an Annual Report which is required under the MDIC Act to be tabled to the Parliament, and an annual rolling three-year Corporate Plan that discloses information on its performance including a report of its financial results, performance against budgets, achievements against the stated objectives and corporate initiatives and disclosures of its governance practices, among others. PIDM reports annually on its compliance with 15 Board Governance Policy Standards that are based on international best practices in governance where appropriate. Please refer to the assessment in Item 1 of this section. |
| Principle 6 - Relationships with other safety net participants A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety net participants. Such information should be accurate and timely (subject to confidentiality when required). Information-sharing and coordination arrangements should be formalised. | |
| Essential criteria 1. The powers and responsibilities of each safety net participant are clearly delineated. Each safety net participant understands its respective roles and policy objectives. 2. Information-sharing mechanisms and the coordination of actions among safety net participants are explicit and formalised through legislation, memoranda of understanding, legal agreements or a combination of these techniques. | Compliant The mandate, powers, roles and responsibilities of the safety net participants are clearly delineated. PIDM's public policy objectives and mandate are set out in the MDIC Act with clear accountability. The MDIC Act provides for PIDM to exercise its resolution powers only upon a written notification from BNM that a bank has ceased or is likely to cease to be viable. Until such notification is given, BNM remains accountable for dealing with the troubled bank and all related costs. In 2006, we entered into a formal SAA with BNM, which is provided for in the MDIC Act. The SAA specifies the areas of cooperation and information-sharing between our two agencies, including timely exchange of financial information of member banks, consultation and collaboration on proposed regulations, guidelines and policy initiatives and, where relevant, sharing of resources and coordination of communications. |

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| <p>3. A deposit insurer's information needs vary significantly according to its mandate and powers. However, all deposit insurers need information to be able to reimburse depositors' claims promptly including information on the amount of insured deposits held by individual depositors.</p> <p>4. Rules regarding confidentiality of information apply to all safety net participants.</p> <p>5. The safety net participants make the relevant information available to the deposit insurer in advance and in regard to professional secrecy or where pertinent information is not available from other safety net participants, the deposit insurer has the power to collect information directly from member banks.</p> | <p>PIDM conducts independent assessments of its member banks in respect of its deposit insurance risks and has access to supervisory and banking information of member banks which is provided by BNM. In addition, the MDIC Act empowers PIDM to obtain any information from member banks.</p> <p>PIDM may also require member banks to provide it with information about their business and affairs, if it is for the purpose of the exercise of any of PIDM's powers, functions or duties under the MDIC Act.</p> <p>In respect of depositor information, the MDIC Act provides PIDM with the statutory power to conduct a special examination if it is of the opinion that a bank failure is imminent, so as to access timely and accurate information. The aim is to assess accurately the true financial condition of the bank for PIDM to determine the appropriate resolution option, including facilitating preparations for making a payout to depositors.</p> <p>Confidentiality of information is set out in legislation and both the prudential supervisor and PIDM are not restricted from any information relating to member banks and depositors. PIDM and all its employees and agents are prohibited under the MDIC Act from disclosing any such information except as required by law, a court order or in the performance of its duties.</p> |
| <p>Principle 7 - Cross-border issues Provided confidentiality is ensured, all relevant information should be exchanged between deposit insurers in different jurisdictions and possibly between deposit insurers and other foreign safety net participants when appropriate. In circumstances where more than one deposit insurer will be responsible for coverage, it is important to determine which deposit insurer or insurers will be responsible for the reimbursement process. The deposit insurance already provided by the home country system should be recognised in the determination of levies and premiums.</p> | |
| <p>Essential criteria</p> <p>1. Appropriate bilateral/multilateral agreements are in place in circumstances where the host country system provides supplementary coverage for foreign bank branches.</p> <p>2. Information provided to depositors on the reimbursement process (coverage limits, claims procedures) in the jurisdictions covered is done so in a clear and easily understood manner.</p> | <p>Not applicable</p> <p>This is not applicable as foreign banks are required to establish subsidiaries in Malaysia. PIDM also does not provide deposit insurance coverage for Malaysian banks' branches operating outside Malaysia.</p> |

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| <p>Principle 8 - Compulsory membership Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (example, retail and small business depositors) to avoid adverse selection.</p> | |
| <p>Essential criteria</p> <p>1. All financial institutions accepting deposits (traditional and non-traditional banks) included in a deposit insurance system are subject to strong prudential regulation and supervision and are financially viable.</p> <p>2. Policymakers have determined whether eligible banks will be given membership automatically or upon application to the deposit insurer.</p> <p>3. Criteria for membership that detail the conditions, process and time frame for attaining membership are explicitly stated and transparent.</p> <p>4. If membership in the deposit insurance system is a condition for engaging in the business of banking, but the deposit insurer does not control membership (cannot refuse membership), the deposit insurer is consulted or informed in advance about newly authorised banks.</p> <p>5. When a member bank has its authorisation to conduct business (operating licence) withdrawn by the bank's supervisory or chartering authority, the bank's deposit insurance is terminated immediately. When deposit insurance membership is terminated by the deposit insurer, the bank's operating licence is withdrawn immediately by the relevant authority.</p> | <p>Compliant</p> <p>Membership is compulsory for all commercial banks and Islamic banks licensed under the Banking and Financial Institutions Act 1989 and the Islamic Banking Act 1983, respectively.</p> <p>There exists a strong and robust prudential regulatory and supervisory system in Malaysia.</p> <p>Membership in PIDM is automatic once an applicant receives a bank licence.</p> <p>Not applicable.</p> <p>PIDM, through an agreed process with BNM and, as part of the scope of cooperation under the SAA, provides its views with regard to applicants for a banking licence.</p> <p>PIDM has the opportunity to meet with applicants to ensure they understand the requirements of PIDM regulations.</p> <p>As provided under the MDIC Act, PIDM shall cancel the membership of a member bank if its licence has been surrendered or revoked by BNM.</p> <p>When deposit insurance membership is terminated, the implicit inference is that BNM will withdraw the bank's operating licence since deposit insurance membership is mandatory for the conduct of banking business.</p> |
| <p>Principle 9 - Coverage Policymakers should define clearly in law, prudential regulations or by-laws what an insurable deposit is. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the large majority of depositors to meet the public policy objectives of the system and be internally consistent with other deposit insurance system design features.</p> | |
| <p>Essential criteria</p> <p>1. The deposit products that are covered by the deposit insurance system (insured deposits) are clearly defined in law or private contract.</p> <p>2. The definition of "insured deposit" reflects the importance of different deposit instruments in relation to public policy objectives.</p> | <p>Compliant</p> <p>The limit and the deposit products that are covered by PIDM are specified in the MDIC Act. PIDM also has powers to insure new deposit products or exclude products from deposit insurance coverage.</p> <p>The MDIC Act specifies the priority of payment, which requires that depositors be paid in priority over all other unsecured liabilities. In addition, the MDIC Act specifies that Islamic deposits based on custody are to be paid in priority over other Islamic deposits.</p> |

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| 3. The level of coverage is consistent with the deposit insurer's mandate and public policy objectives. The adequacy of the level of coverage can be objectively assessed. | In determining the statutory limit for deposit coverage (set in 2005), PIDM took into account the results of the survey conducted at that point in time, which indicated that the protection limit of RM60,000 per depositor per bank covered almost 85% of depositors in full or 35% of the total value of deposits. PIDM's internal policy is to review the limit and coverage once every five years to ensure that it remains credible and in line with the Corporation's mandate and public policy objectives. The Corporation is currently reviewing the limit and the scope of coverage as part of the exit strategy from the temporary Government Deposit Guarantee (GDG). |
| 4. The coverage limit applies equally to all banks in the deposit insurance system. | The MDIC Act provides that the statutory limit and scope of coverage are applied equally to all commercial and Islamic member banks. |
| Principle 10 - Transitioning from a blanket guarantee to a limited coverage deposit insurance system When a country decides to transition from a blanket guarantee to a limited coverage deposit insurance system, or to change a given blanket guarantee, the transition should be as rapid as a country's circumstances permit. Blanket guarantees can have a number of adverse effects if retained too long, notably moral hazard. Policymakers should pay particular attention to public attitudes and expectations during the transition period. | |
| Essential criteria 1. A situational analysis of the economic environment as it affects the banking system should be conducted before a country begins a transition from a blanket guarantee to a limited coverage. | Compliant Malaysia implemented a Government blanket guarantee in January 1998 as part of the measures to combat the Asian financial crisis. A situational analysis was undertaken starting in 2002 to assess the structure and soundness of the banking system, the strength of the existing prudential regulation and supervision, the effectiveness of the legal system and the soundness of the accounting and disclosure regimes. |
| 2. The situational analysis should assess the structure and soundness of the banking system including an evaluation of the condition of banks' capital, liquidity, credit quality, risk management policies and practices, and the extent of any problems; and an evaluation of the number, type and characteristics of banks. | Following the situational analysis, there was a transition out of the Government blanket guarantee on 1 September 2005 with the launch of the explicit limited coverage deposit insurance system. A GDG was implemented on 16 October 2008, which is scheduled to expire on 31 December 2010. Under the GDG, PIDM continues to provide coverage up to the statutory limit of RM60,000 with the Government providing coverage in excess of RM60,000 per depositor per bank. |
| 3. The situational analysis should assess the strength of prudential regulation and supervision, the effectiveness of the legal framework, and the soundness of the accounting and disclosure regimes. | The GDG was implemented in line with similar pre-emptive measures taken by other Asian countries to maintain financial stability. At the time of the implementation of the GDG, the banking system was sound and well capitalised. |
| 4. Policymakers are aware of the trade-offs between the length of time it takes to transition to the limited-coverage system and the degree of moral hazard in the system, and have planned the transition accordingly. | PIDM is drafting a strategic plan to exit the GDG. Part of the exit strategy would include a review of the current limit and the scope of coverage. All safety net players would closely monitor public sentiments, cross-border funds flow and the state of the banking industry during the transition period. Part of the review would include taking into consideration current and planned cross-border protection levels and related policies. |

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| 5. Policymakers are aware of and anticipate the reaction of the public to a reduction in coverage levels. | The transition in December 2010 is expected to be smooth as we are reverting to an existing limited coverage deposit insurance system. |
| 6. Where there is a high level of capital mobility, and/or a regional integration policy, the decision to lower coverage levels (and/or scope) should consider the effects of different countries' protection levels and related policies. | |
| 7. The new limited-coverage deposit insurance system must have access to adequate funding during and after the transition. Policymakers should consider the capacity of the banking system to fund a limited-coverage deposit insurance scheme. If the banking system is unable to fund the cost of the blanket guarantee, government funding may be needed. | |
| 8. The pace of the transition to limited coverage must be consistent with the state of the banking industry, prudential regulation and supervision, legal framework and accounting and disclosure regimes. | PIDM has at its disposal different funding mechanisms to meet its obligations at all times. It collects annual premiums through its DPS and may borrow from the Government or issue debt through the capital markets with the approval of the Minister of Finance. The existing temporary GDG was implemented as a pre-emptive measure as the banking industry, prudential regulation and supervision, legal framework and accountability and disclosure regimes are sound and robust. |
| Principle 11 - Funding A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by banks since they and their clients directly benefit from having an effective deposit insurance system. For deposit insurance systems (whether ex-ante, ex-post or hybrid) utilising risk-adjusted differential premium systems, the criteria used in the risk-adjusted differential premium systems should be transparent to all participants. As well, all necessary resources should be in place to administer the risk-adjusted differential premium systems appropriately. | |
| Essential criteria 1. Funding arrangements for the deposit insurance system are clearly defined and established in law or regulation. Funding can be assured in many ways, including government appropriations, levies or premiums assessed against member banks, market or government borrowings, or a combination thereof. Funding can be provided on an ex-ante or ex-post basis or some (hybrid) combination thereof. | Compliant PIDM's funding arrangements are clearly defined in its legislation. PIDM assesses annual premiums based on its DPS. Premiums are assessed using a combination of both quantitative (financial ratios) and qualitative (mainly supervisory ratings) criteria. The quantitative criteria are accorded higher weighting to achieve higher objectivity and transparency. The DPS is established by regulation and the framework is transparent. Member banks will be informed of their DPS scoring by PIDM. An appeal process provides an avenue for any member bank to request for a review of its final scores in certain specified circumstances. |
| 2. Funding arrangements for the deposit insurance system are sufficient to ensure the prompt reimbursement of depositors' claims. | |

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| 3. Funding arrangements include a source(s) of back-up funding for liquidity purposes such as a funding agreement with the central bank or a line of credit with the government treasury. Additional sources of funding may be required in the event of a systemic crisis. Policymakers have considered and arranged for additional sources of funding to be used in such circumstances. | The law provides the authority for PIDM to borrow from the Government and raise funds through the issuance of debt instruments, guaranteed by the Government, through the capital markets. |
| 4. Member banks are responsible for funding the deposit insurance system in ordinary times. | Annual premiums are assessed on member banks based on the Total Insured Deposits held by member banks as at 31 December of the preceding assessment year. |
| 5. If a deposit insurance fund is established (ex-ante funding), the size of the fund (the fund reserve ratio) should be appropriately set. | PIDM is currently establishing a Target Fund Framework, which will be in place by the end of 2010. |
| 6. The deposit insurance fund should have sound investment policies and procedures, internal controls and disclosure and reporting systems. | Annual premiums fund PIDM's operations and build reserves. All surpluses are recorded in the respective Conventional and Islamic Deposit Insurance Funds. Section 31 of the MDIC Act defines what instruments PIDM can invest in. The investment activities of PIDM are also governed by the Board-approved investment policy which is reviewed annually. Strict internal controls have been put in place while the sources and uses of funds are clearly disclosed in our Annual Report. |
| 7. For deposit insurers that utilise differential or risk-adjusted premium systems, the system utilised should be effective at differentiating banks and the criteria used transparent to all participants. | The criteria and factors used in PIDM's DPS are fully transparent and the details are available on PIDM's website. The DPS is highly effective at incentivising banks given the differentiation in premiums paid in each category. Each member bank is provided with details of their scores under the DPS. |
| 8. The adoption of differential premium systems requires policymakers to ensure that the deposit insurance authority has the necessary authority, resources and information in place to administer the system appropriately. In doing so, a balance needs to be struck between requiring necessary information for the classification of banks into premium categories and concern that the demands for information not be unduly burdensome. | PIDM has the necessary authority, resources and required information to administer the DPS appropriately. In developing the DPS, PIDM took into consideration the need for adequate information to administer the programme effectively as well as concerns over the administrative burden that the DPS may impose. In balancing the above, PIDM developed a number of guiding principles in its development of the DPS which are disclosed in PIDM's Annual Report 2007. |

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| Principle 12 - Public awareness In order for a deposit insurance system to be effective it is essential that the public be informed on an ongoing basis about the benefits and limitations of the deposit insurance system. | |
| Essential criteria 1. The deposit insurer promotes public awareness of the deposit insurance system and how the system works, including its benefits and limitations, on an ongoing basis. 2. The objectives of the public awareness programme are clearly defined and consistent with the public policy objectives and mandate of the deposit insurance system. 3. The public awareness programme conveys information about the following: (a) which financial instruments are covered by deposit insurance and which are not (example, whether the system covers foreign deposits); (b) which financial institutions offer insured deposits and how they can be identified; (c) deposit insurance coverage limits and the potential for losses on deposits in excess of those limits or if they are subject to co-insurance; and (d) the reimbursement process - how, when and where depositors may file claims and receive reimbursements in the event of a bank failure. 4. The deposit insurer is the primary party responsible for promoting public awareness about the deposit insurance system. The deposit insurer works closely with member banks and other safety net participants to ensure consistency in the information provided to maximise synergies. | Compliant Since our establishment in 2005, PIDM has been undertaking, on an ongoing basis, publicity activities to promote awareness and understanding of the benefits and limitations of a deposit insurance system. A comprehensive multi-year integrated communications plan has been put in place and this guides PIDM in undertaking its public awareness. Our public awareness programme is consistent with our public policy objectives and mandate to promote and contribute to public confidence in the stability of our financial system. We employ a wide range of communication channels, including broadcast, print and online advertising, a website, a toll free enquiry Call Centre, exhibitions, briefings, road shows, outreach programmes, information brochures and other publications, as well as the mass media. Information provided to depositors include the following: • Our information brochure details, among others, information on: - benefits and limitations of the deposit insurance system; - the financial institutions which are our member banks; - deposit products which are covered or not covered and the statutory deposit insurance limit and scope of coverage; and - what depositors would need to do in the unlikely event of a bank failure and this does not require depositors to file a claims form to PIDM. • The brochure is printed in six languages to ensure widest possible access to deposit insurance information while our Call Centre operates in the four main languages as well as a few other dialects. • Each member bank must display prominently our PIDM membership decal at each entrance way of their offices and branches. They must also display prominently the PIDM information brochure so that the costumers can collect a copy. • Our official website is in the four main languages. We conduct training for bank staff, on an ongoing basis, to ensure the consistency and accuracy of information provided by banks to depositors as well as to participate in exhibitions and road shows jointly with other safety net players. We have also developed training materials such as a handbook and Info CD on the deposit insurance system as detailed reference materials for bank branches employees. We also provide toll-free information lines to the public and respond to queries on deposit insurance. PIDM is the primary party responsible for promoting public awareness about the deposit insurance programme it administers. PIDM works closely with member banks and BNM to ensure consistency in messaging and to maximise communication synergies. Towards this end, PIDM also trains bank employees on deposit insurance matters on an ongoing basis. We conduct nationwide opinion surveys twice annually to monitor the level of public awareness and understanding of deposit insurance and PIDM. The findings of the surveys are used in the ongoing development and enhancement of PIDM's advertising and public awareness initiatives. PIDM has also developed 'Information Regulations', which requires banks to provide timely and accurate information on deposit insurance and PIDM to their customers. The Regulations will come into force in early 2011. |

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| Principle 13 - Legal protection The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in "good faith" while discharging their mandates. However, individuals must be required to follow appropriate conflict-of-interest rules and codes of conduct to ensure they remain accountable. Legal protection should be defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified. | |
| Essential criteria 1. A legal protection scheme is clearly defined in law or administrative procedure that protects the deposit insurer and those individuals working for the deposit insurer from lawsuits for their decisions and actions (or decisions taken not to act) taken in good faith while discharging their mandates. Legal protections are not extended to individuals that have acted in bad faith (for example, where they have acted fraudulently or maliciously). 2. The legal protection scheme does not require individuals to establish that their actions and decisions (including decisions not to act) were reasonable or not negligent. 3. Appropriate conflict-of-interest rules and codes of conduct have been established that the deposit insurer and those individuals working for the deposit insurer are required to follow. 4. The legal protections are compatible with the right of individuals to be compensated by the deposit insurer or other authorities according to the country's liability regime. | Compliant The MDIC Act provides that no action, suit, prosecution or other proceeding whatsoever shall lie or be brought, instituted or maintained in any court or before any other authority against: (a) the Government of Malaysia or a State Government; (b) the Minister; (c) PIDM; (d) BNM; (e) any director, officer, employee or agent of the Government, PIDM or BNM, either personally or in their official capacity; (f) receiver, manager, liquidator or conservator appointed under the MDIC Act; or (g) any person lawfully acting on behalf of any such Government, PIDM or BNM, any such director, officer, employee or agent, either personally or in his capacity as a person acting on such behalf, for or on account of any act done or statement made or omitted to be done or made in pursuance of this Act, provided that such act or statement was done, made or was omitted in good faith. PIDM also has in place procedures to cover legal costs that may be incurred by our directors, officers, employees and agents. In turn, employees of PIDM are required to adhere to the following codes of conduct and ethical behaviour established by the Corporation: (a) Conflict of Interest Code for the Board of Directors and employees including the requirement for an annual declaration of relevant matters; (b) Code of Business Conduct and Ethics for the Board of Directors and employees; and (c) Policy for Disclosure of Information Concerning Wrongdoing at Workplace. To ensure compliance, our Board obtains, on a regular basis, reasonable assurance that PIDM has an ongoing appropriate and effective process for ensuring adherence to these codes. In respect of depositors, PIDM's obligation to make payment in respect of a deposit insured under the MDIC Act, is not affected by the provision for legal immunity. |

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| Principle 14 - Dealing with parties at fault in a bank failure A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure. | |
| Essential criteria 1. The deposit insurer, or other relevant authority, has the power to investigate and litigate against those parties at fault in a bank failure, such as officers, directors, managers, auditors and related parties of the failed bank. | Compliant PIDM may take action against the directing minds of the failed institution as a creditor. The MDIC Act also contains offence provisions for non-compliance and wrongdoing by the bank or its director or officer. There is also a general offence provision in respect of any person that does not comply with, for example, any direction or instruction given by PIDM pursuant to any provision in the MDIC Act. PIDM may apply to the court for a compliance or restraining order against any person that does not comply with any provision in the MDIC Act. The MDIC Act also provides for an additional fine, as determined by the court, if a convicted person had acquired monetary benefit or monetary benefit had accrued to his or her benefit. |
| Principle 15 - Early detection and timely intervention and resolution The deposit insurer should be part of a framework within the financial system safety net that provides for the early detection and timely intervention and resolution of troubled banks. The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well defined criteria by safety net participants with the operational independence and power to act. | |
| Essential criteria 1. An effective failure resolution framework is essential for maintaining financial stability. The financial safety net has a framework, established in law or regulation for the early detection and timely intervention and resolution of troubled banks (failure resolution framework). 2. Policymakers have determined whether the failure resolution framework should be governed by bankruptcy/insolvency law or by a special resolution regime. The deposit insurer has sufficient authority and resources to ensure prompt reimbursement of insured depositors. If the deposit insurer is unable to perform on the deposit guarantee in a timely fashion, policymakers may wish to consider developing a separate insolvency regime for insured depository institutions. | Compliant The MDIC Act empowers the Corporation to implement promptly the resolution actions set out in the Act at minimum costs to the financial system. In order to minimise costs to the financial system, PIDM's Intervention and Failure Resolution Framework is premised on early detection and timely intervention and resolution of troubled banks. As a risk minimiser, PIDM, through its Risk Assessment and Monitoring System, is able to identify deterioration in banks' soundness and is able to promptly assess the need to intervene troubled institutions. In addition, there are established processes in place to ensure coordination of action and the sharing of timely information in the resolution of failed banks. The supervisor provides all relevant information on the safety and soundness of member banks to PIDM. PIDM may also request the supervisor to examine the operations of a member bank, and PIDM has the authority to conduct a special examination on member banks when a payout is imminent. These early intervention actions include allowing for PIDM to conduct due diligence on the bank to determine its viability, to acquire and dispose assets of the troubled bank, to provide financial assistance and to appoint a conservator to administer an entity such as a borrower of the bank whose loan has defaulted. |

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| 3. The respective roles of the safety net participants in the failure resolution framework are clearly defined and well understood. | Extended resolution powers will also apply upon PIDM receiving a notification from BNM that a bank has ceased or is likely to cease to be viable. The supervisor and PIDM have agreed on a set of criteria for the non-viability trigger that would determine whether a bank has ceased, or is likely to cease, to be viable. This notification of non-viability is specified in the MDIC Act. Once a non-viability notification has been issued, PIDM can then exercise the range of intervention and resolution powers before a troubled member bank becomes insolvent. |
| 4. The safety net participants have the operational independence and power to perform their respective roles in the failure resolution framework. | PIDM is operationally independent to perform its role in intervention and failure resolution. |
| 5. The failure resolution framework includes a set of criteria that are used as a basis to initiate some form of corrective action. The criteria: (a) are clearly defined in law or regulation and are well understood by banks and their stakeholders; and (b) will be country specific and may reflect concerns about a bank's capital, liquidity, and asset quality, among other factors. | There exists a prompt, corrective action and early intervention and resolution legal framework. In addition, PIDM and the supervisor have agreed to a set of criteria that would be considered in determining non-viability. |
| Principle 16 - Effective resolution processes Effective failure resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly and accurately and on an equitable basis; minimise resolution costs and disruption of markets; maximise recoveries on assets; and, reinforce discipline through legal actions in cases of negligence or other wrongdoings. In addition, the deposit insurer or other relevant financial system safety-net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank. | |
| Essential criteria 1. There are three primary processes for resolving a failed or failing bank: liquidation and reimbursement of depositors' claims, purchase and assumption transactions (sales) and open-bank assistance. Policymakers have identified which processes are available for resolving a failed or failing bank. The role of each safety net participant in each process is clearly defined. | Compliant The MDIC Act provides PIDM with substantial powers to resolve non-viable banks early and promptly, using a number of resolution options including assumption of control, financial assistance, purchase and assumption, restructuring, agency arrangements and liquidation. In addition, the MDIC Act provides for PIDM to undertake a preparatory examination to establish the deposit liability and prepare for payout prior to failure of the bank. PIDM is currently developing detailed policies, procedures and processes to ensure that it is well positioned to undertake and assess all available intervention and failure resolution options and tools as mentioned above. |
| 2. The failure resolution framework includes a flexible mechanism to help preserve critical banking functions. The deposit insurer or other safety net participant has the authority to establish a bridge bank or related resolution mechanism to acquire the assets and assume the liabilities of a failed bank until a final resolution can be accomplished. | A review of the MDIC Act is currently being undertaken to enhance PIDM's intervention and failure resolution powers, including bridge bank power. |

| CORE PRINCIPLES | ASSESSMENT |
|--|--|
| Principle 17 - Reimbursing depositors The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions under which a reimbursement may be required and be provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits. | |
| Essential criteria 1. The time frame for accomplishing the reimbursement process is clearly stated and made public. (a) Depositors are provided information on when and under what conditions the deposit insurer will start the reimbursement process and when the process is expected to be completed. (b) Information on coverage limits and whether advance or interim payments will be made is provided. | Compliant PIDM has developed a Payout System for prompt and accurate determination of payout entitlement for each depositor. The compensation limit and scope of coverage entitled by depositors, is clearly specified in legislation. PIDM is to make compensation to depositors as soon as possible and not later than three months from the date of the winding-up order. At its own discretion, PIDM may make advance payments to depositors. |
| 2. The deposit insurer is able to reimburse depositors within a time frame that meets the expectations of depositors. Once made aware of the possibility of a bank failure, the deposit insurers should have: (a) adequate time to prepare for reimbursing depositors of the failed bank; (b) access to the necessary data, including deposit account records; and (c) access to adequate funding to meet its obligations under the established time frames. | PIDM is able to reimburse depositors within days of a bank failure. To meet this purpose, the MDIC Act removes a number of impediments to facilitate prompt payouts and PIDM has also put in place the necessary processes and procedures to ensure that it has adequate time to prepare for reimbursing depositors of a failed bank. These include: <ul style="list-style-type: none"> • early intervention powers; • early access to depositor data; • reimbursement of depositors based on the troubled bank's records; • funding is available from the Government or from the capital markets to enable PIDM to meet its obligations; • no co-insurance or right of set-off; • depositors need not file claim forms with PIDM; • insurability certification by PIDM for all deposit products; and • access to all depositor information and records if a payout is imminent. |
| 3. The deposit insurer should have established consistent administrative practices and procedures that are readily accessible and can be followed by in-house staff and contractors. | PIDM has never had to intervene or resolve a troubled bank since its establishment in 2005. Notwithstanding this, and as part of its readiness to meet its mandate, PIDM is developing practices and procedures in this area and employees and suppliers are being trained to deal with interventions, including reimbursement of depositor claims. |
| 4. The deposit insurer should have adequate resources to carry out the reimbursement process in a timely manner, including: (a) adequate computer capabilities; and (b) adequate personnel (in-house or contractor). | PIDM has all the necessary resources available to it to carry out payout in a timely manner. As set out in its annual Corporate Plan, PIDM has provided for adequate budget for computer facilities and capabilities, in-house personnel as well as outside service providers. |
| 5. The reimbursement process is audited by an independent authority. | PIDM's intervention and resolution processes and procedures provide for PIDM to retain an independent audit firm to audit the payout process and validate payouts made. |

ARTICLES

COMPLIANCE WITH THE CORE PRINCIPLES FOR
EFFECTIVE DEPOSIT INSURANCE SYSTEMS: A SELF-ASSESSMENT

| CORE PRINCIPLES | ASSESSMENT |
|--|---|
| Principle 18 - Recoveries The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits. | |
| Essential criteria 1.The role played by the deposit insurer in the management and liquidation of failed bank assets and settlement of bona-fide claims is clearly defined in law or regulation. 2.Regardless of that role, the deposit insurer shares in the proceeds of the asset management and recoveries arising from the failure of its member banks. | <p>Compliant</p> <p>PIDM has the legislative authority to directly assume control of a non-viable bank and implement a least-cost resolution. Upon notification of non-viability by BNM, PIDM is also able to petition for the winding up of a troubled bank, with the approval of the Minister.</p> <p>Section 82 of the MDIC Act provides for a priority ranking amongst the unsecured creditors of the failing bank. PIDM is subrogated to the rights and interests of the insured depositors on making payments to insured depositors. The MDIC Act provides that PIDM's claims rank pari passu with all other uninsured deposits and before other unsecured creditors.</p> <p>As a matter of policy, PIDM will, as a major creditor, monitor the assets in liquidation to ensure they are disposed off in a manner to optimise recoveries. Furthermore, as PIDM is mandated to undertake resolution action at least cost to the financial system, management of the intervention and failure resolution action and recovery process would be subject to commercial considerations so as to maximise recovery of the assets and to minimise impact on the financial system.</p> |

CONCLUSION

By benchmarking our system against the Core Principles, we are able to gauge how well we are meeting our mandate. Based on this self assessment, PIDM is compliant with the essential criteria listed in the Core Principles. PIDM will nonetheless continue to drive towards ongoing adjustments and improvements to ensure that our policies, systems, practices, procedures and powers remain current and relevant, so that we may perform optimally in the pursuit of our mandate, vision and mission.



ARTICLES

TALENT MANAGEMENT IN PIDM

BACKGROUND

Gone are the days when organisations would entrust the needs of employees to a 'Staff Administration Division' or a 'Personnel Department'. These types of functions - often regarded merely as "cost centres" or "post-boxes" - provided little direct or significant contribution to the business.

Today, the importance of people as the organisation's key assets is reflected in the rebranding of the division that would otherwise deal with human resources. Today, the 'Staff Administration Division' or even 'Human Resources Division' are better known as the 'Human Capital Division', or 'Resource Centre', and their focus is on exactly that - all aspects of human capital management in an organisation.

PIDM's Human Capital Division naturally plays an important role within the organisation, since we regard our human resources as assets critical to our success. A key area of focus of the Human Capital Division within PIDM's human capital strategy has been on talent management.

INTRODUCTION TO TALENT MANAGEMENT

The term "talent management" means different things in different organisations. One set of definitions for "talent" and "talent management" is as follows:

"Talent consists of those individuals who can make a difference to organisational performance, either through their immediate contribution or in the longer term by demonstrating the highest levels of potential."¹

Talent management can be defined as a process that aims to achieve the "systematic attraction, identification, development, engagement or retention and deployment of those individuals with high potential who are of particular value to an organisation."²

In the broadest terms, talent management is the strategic management of the flow of talent through an organisation. Its purpose is to ensure that the supply of talent is available to align the right people with the right jobs at the right time, based on strategic business objectives, consistent with employees' capabilities and interests.

In PIDM, talent management is an overarching philosophy that integrates all the key Human Capital processes. Our talent management framework ensures that we remain focused, deliberate and consistent in how we manage our talent. We believe that talent management is a lot more than just another Human Capital process. It begins with developing the right mindset, and going beyond just rhetoric. Our talent management strategy involves leveraging on our people to achieve success in the achievement of our objectives.

COMPONENTS OF OUR TALENT MANAGEMENT FRAMEWORK

Our Talent Management Framework provides a systematic method for the development, deployment and retention of talent, and will help integrate the following Human Capital processes:

1. Strategic Direction
2. Competency Management
 - (a) Talent Acquisition
 - (b) Performance Management
 - (c) Succession Planning
 - (d) Leadership Development
3. Learning and Development
4. Total Rewards
5. Human Resources Management System.

HUMAN CAPITAL STRATEGY

Our overall Human Capital strategy is as follows: "to attract, recruit and develop the best and retain the right talent who can drive professionalism and excellence in achieving PIDM corporate objectives."

Talent Management Strategy

Our Talent Management Strategy will focus on the following main objectives:

- (i) attracting, selecting and hiring the best talents;
- (ii) getting the best value out of these talents through planned developmental initiatives; and
- (iii) retaining the right talents who will drive business performance, through various initiatives to provide sense of ownership and belonging, including (among others) a competitive total rewards package, the opportunity to provide input through Employee Voice Surveys, Work Life Coaching³ and Corporate Social Responsibility (CSR) activities.

Building Culture

Talent management is also about developing and establishing an organisational culture to achieve short and long term successes. We believe that the right culture is what will differentiate PIDM from others, benefitting both the individual and the Corporation as a whole.

Accordingly, PIDM will continue to build a conducive working environment. By doing so, it will build a strong employer brand or "employer of choice" image, which will encourage outstanding talents to want to join the Corporation. This means seeking to understand and identify the factors that would motivate outstanding talent to consider PIDM an employer of choice, as well as identify the factors that keep them motivated and highly engaged.

Talent Management Mindset

A "talent" mindset should be embedded in the entire Corporation - championed by the leaders, exemplified by Management's behaviour, and supported by a range of initiatives jointly developed by the business units and the Human Capital Division. The right talent management mindset should be underpinned by trained competence in four major areas of leadership and management capability, namely, coaching, mentoring, empowering and sponsoring.

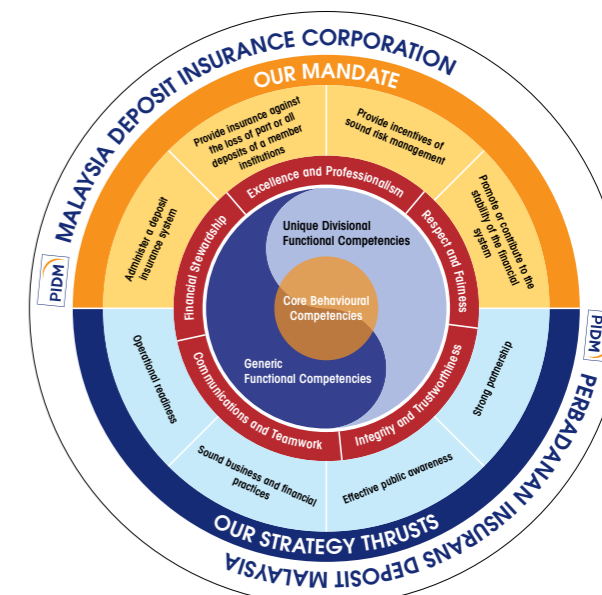
COMPETENCY MANAGEMENT

Talent management is supported by a very important building block, which is Competency Management. Competency Management ensures that an organisation is able to clearly define the required behavioural competencies and the functional competencies of employees. This is the sum of knowledge, skills and experience that must be demonstrated by each employee at all times. Our Competency Management will provide a guide for the development and maintenance of a highly skilled, dedicated and diverse workforce that promotes excellence and professionalism. This is in line with the Human Capital Strategy to increase capacity and capabilities and ensure readiness of talent.

Competency Model Development

In developing PIDM's Competency Model in 2008, we carried out extensive desktop research and benchmarking exercises. We also involved members of our Board of Directors to provide us with insights from the perspective of industry leaders, and interviewed various internal stakeholders including the Chief Executive Officer (CEO) and all Heads of Division. This was done to ensure that our Competency Model is aligned to our mandate, vision, mission, corporate values, corporate objectives and the requirements of each job within PIDM.

The resulting Competency Manual is a "living" document, and as such, validation of the same is a crucial and continuous process, and much time is spent on ensuring that our Competency Model remains relevant and current.



¹ Based on the findings from a 'Research into Practice' report by the Chartered Institute of Personnel and Development (CIPD), *Talent: Strategy, Management and Measurement* showcased for the first time at the Talent Management Conference on 19 June 2007.

² from *Talent Management: Understanding the Dimensions*, CIPD 2006, www.cipd.co.uk/researchinsights.

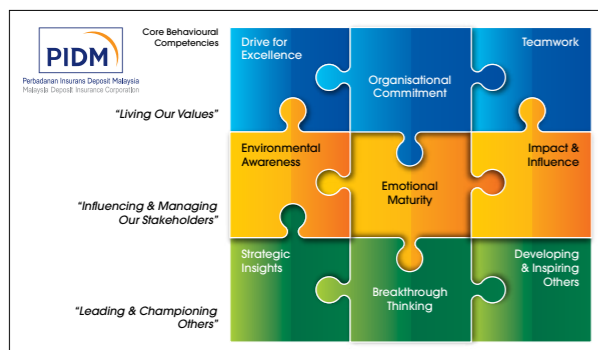
³ An employee assistance programme to help employees gain skills and insight to improve their performance, better manage job transitions, stress, personal issues or work-related challenges.

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TALENT MANAGEMENT IN PIDM

Our Competency Model encompasses two main categories:

- (i) Nine Core Behavioural Competencies, broken down into three different clusters:
 - (i) Living Our Values
 - (ii) Influencing and Managing Our Stakeholders
 - (iii) Leading and Championing Others



- (ii) Functional Competencies
 - a. Seven **Generic Functional Competencies** that apply across all Divisions; and
 - b. A total of 48 **Unique Functional Competencies** that is unique to each Division and/or function.

The challenge in Competency Management is to integrate the competencies into the key Human Capital processes, namely, Recruitment, Performance Management, Succession Planning and Leadership Development. These are discussed in greater detail below.

In 2009, our validation of Functional Competencies began with the Pilot Competency Assessment for our Insurance, Risk Assessment and Monitoring Division. This pilot project will continue for the rest of the divisions in 2010 before a corporate-wide competency assessment is implemented in the fourth quarter of 2010.

RECRUITMENT

We have successfully integrated the nine Core Behavioural Competencies into our competency-based interviewing techniques for recruiting managers in late 2008. This will continue to be enhanced and repeated.

Talent Acquisition

Talent retention starts with an effective recruitment strategy. This includes the identification of key positions and turnover risks associated with these positions. We also have a set of competency or behavioural-based selection criteria that supports the recruitment and retention strategy based on identified capabilities required for success in the role. Our recruitment and selection policy and procedures (Recruitment Policy) is aimed at attracting high calibre individuals to the Corporation.

The processes described in the Recruitment Policy are designed to ensure that all appointments are made on the basis of suitability for the position against the appropriate selection criteria, and all that hiring decisions are fair and candidates are treated equitably and consistently.

Induction Program

High calibre talent recruited into PIDM, especially specialised talent and those with leadership potential, will also come with their own expectations of the Corporation. Accordingly, we believe that new talent must be inducted with care.

We adopt an "open" approach in our recruitment initiatives, especially for senior positions. In sourcing for such position, candidates will be asked to conduct their own research on PIDM and submit a brief, free-format report based on certain questions developed by us. By adopting this approach, new employees will come ready with a high level understanding on the Corporation's mandate, mission, vision, corporate values and objectives and structure. An in-house induction program for new employees has been developed and was rolled out in April 2008.

PERFORMANCE MANAGEMENT

In line with our continuous effort to fully implement the competency-based approach, in 2009, we enhanced our Total Performance Management (TPM) system and incorporated our newly developed Core Behavioural Competencies. The cascading of Key Performance Indicators (KPIs) was also done in a more open and guided manner, with off-site meetings organised for both Executive Management Committee members and the 2nd level supervisors before the KPIs were cascaded to the rest of the employees.

SUCCESSION PLANNING

The Succession Management Framework is another sub-set of the overall Talent Management Framework. We have developed a key or mission critical identification matrix to identify key positions to be placed within the succession planning exercise. Key positions have been identified in discussion with the Heads of Division and in consultation with the CEO. An internal talent audit by using the competency skills profile and assessment resulting from the Competency Assessment would normally follow.

While we plan to promote talent from within PIDM, wherever possible, we will also carry out an external talent audit or market mapping exercise. This will help identify potential talent from the external market for succession management, in the event that internal promotion is not possible.

LEADERSHIP DEVELOPMENT

The supply of leadership talent is critical to any organisation's prosperity and is, therefore, a central element of talent management.

As it is PIDM's intent to continuously nurture and develop talent, we have incorporated two different tools for Leadership Development. These provide both an extrinsic and an intrinsic perspective to the managers on their behaviours and allow them to ascertain how those behaviours may have an impact on themselves and others.

The tools are first, the 360 degree feedback process, with all statements customised to our nine Core Behavioural Competencies, and second, the Harrison Assessment. Feedback is then provided to managers, so as to allow them an opportunity to reflect on the same. Each individual is asked to discuss their profiles with their supervisor, and to identify the main areas for leadership development that he or she needs to focus on in the coming year. As a rule of thumb, this should not be more than three areas. The areas for development are then documented in a personal development plan and reviewed every quarter.

LEARNING AND DEVELOPMENT

We are also fully committed to the continuous learning and development of our employees and every effort will be made to ensure that we make the right investments and selection in talent development initiatives.

Accordingly, we adopt a "blended" approach to learning including coaching, mentoring, empowerment, sponsorship, knowledge transfers, both locally and internationally, cross functional training, on-the-job training and job rotation, job sharing, relationship building and sharing of best practices with local and international bodies, participation in international fora, in-house training programmes and secondment opportunities. We also encourage continuous self-development and learning by providing Employee Education and Development Assistance as well as paid study and examination leave.

TOTAL REWARDS

We encourage a culture driven by high performance. Accordingly, employees' performance and attitude have a direct link to total rewards, especially performance bonus awards.

HUMAN RESOURCES INFORMATION SYSTEM

To support the areas discussed above, it is important for us to have an efficient and reliable tool that captures and retains all the relevant information for all its key decision making process. A Human Resource Information System is currently being implemented in phases.

GOING FORWARD

Talent management is a dynamic process that must be continuously reviewed and adjusted to changing business priorities. The Human Capital Division, therefore, conducts regular evaluation of the talent management processes, so that key changes can be identified, reported and dealt with. Going forward, talent management will remain a critical aspect of our work, since it is pivotal to the management of the most significant intellectual capital for PIDM – our people.

Section 7: Public Awareness Initiatives and
Corporate Social Responsibility



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES



INTRODUCTION

A key element of PIDM's statutory mandate is to promote and contribute to the stability of the financial system; and as experience has shown us, a high level of public confidence in our financial system is critical to maintaining financial stability. Knowing that deposits are protected against bank failures helps the public feel confident in entrusting their savings to banks.

Thus, creating awareness and informing depositors about deposit insurance is one of the ways in which PIDM contributes to stability in the Malaysian financial system. Through public awareness, we seek to empower consumers to make informed financial decisions so they are less susceptible to bank runs.

Educating the public is an ongoing process and efforts in this area have been implemented through PIDM's ongoing public awareness and outreach initiatives as set out in our Integrated Communications Plan 2007 - 2011. PIDM advertises, holds stakeholder and public briefings, participates in financial exhibitions and road shows as well as builds media relations.

With the implementation of the temporary Government Deposit Guarantee (GDG), we conducted a review of PIDM's ongoing public awareness strategies, initiatives and key messages for 2009. While the primary aim of our public awareness initiatives remains the same, in that we will continue to enhance awareness of deposit insurance and build confidence in PIDM's role as the national deposit insurer, we also publicised the coverage provided by the GDG.

OUR INITIATIVES IN 2009

PIDM began the year with the issuance of new public information brochures and we revamped the official website (www.pidm.gov.my) to reflect the temporary limit and coverage arising from the GDG. All public communication channels were used to provide updated information on deposit protection including the toll free enquiry hotline, our website which provides information in four languages (English, Bahasa Malaysia, Chinese and Tamil), and our public information brochures which were distributed to all branches of guaranteed institutions in six languages (English, Bahasa Malaysia, Chinese, Tamil, Iban and Kadazandusun). We also continued to partner with Institut Bank-Bank Malaysia (IBBM), Bank Negara Malaysia (BNM) and relevant organisations to enhance deposit insurance knowledge among employees of other financial institutions, particularly front-line customer service officers.

Similar to previous years, PIDM continued to reach out to the general public in Malaysia through our advertising and communications efforts and emphasised a multi-lingual approach in our initiatives. Towards this end, PIDM introduced radio commercials in Tamil, in addition to Bahasa Malaysia and Chinese.

In 2009, PIDM also commenced development of the strategy and implementation plan for an education

programme for secondary schools and higher learning institutions to raise students' awareness of deposit insurance and PIDM's role in the Malaysian financial system, as well as contribute to the enhancement of financial literacy among the younger generation in Malaysia.

During the year we also commissioned a nationwide consumer survey to gauge the level of public awareness of deposit insurance and of PIDM, an annual practice in place since 2006. The results of the year-end survey for 2009 registered the level of awareness of deposit insurance at 21% (2008: 27%; 2007: 15%; 2006: 13%) and the level of awareness of PIDM at 22% (2008: 32%; 2007: 12%; 2006: 4%).

The decrease in the awareness levels can be attributed to the existence of the GDG and hence reduced general interest in deposit insurance. In addition, the improving global financial landscape in the later part of 2009 contributed to greater assurance among the public on the strength of the financial system.

The survey results clearly indicate that educating depositors is not an easy task and one that requires a long-term effort. Increasing deposit insurance awareness will continue to be one of our key priorities going forward.



PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

The following are highlights of our key initiatives in 2009 to enhance public awareness and understanding of deposit insurance and PIDM.

| INITIATIVE | DESCRIPTION | APPROACH |
|--|---|---|
| ADVERTISING AND PUBLICITY (ONGOING) | <p>PIDM launched its annual advertising campaign in conjunction with the International Deposit Insurance Week in May 2009.</p> <p>Given the implementation of the GDG, this year's campaign featured a new set of print advertisements, television and radio commercials.</p> <p>The print advertisements were developed in English, Bahasa Malaysia, Chinese and Tamil and published in newspapers and selected publications. The new print advertisements also stated that all ringgit and foreign currency deposits are fully protected under the GDG until 31 December 2010.</p> <p>PIDM produced new radio commercials and aired the commercials in Bahasa Malaysia and Chinese, and in the second half of 2009, PIDM introduced radio commercials in Tamil for the first time.</p> <p>Two versions of the <i>Buletin Utama TV3</i> capsules or special commercials in Bahasa Malaysia were produced and aired. The capsules featured conversations between a father and child on the features and benefits of deposit insurance in two different settings.</p> <p>PIDM revised its infomercials in the Chinese language (Mandarin and Cantonese) and aired the updated infomercials on ASTRO Chinese language channels such as <i>Wah Lai Toi</i> and AEC.</p> <p>PIDM continued its online advertising via the Google search engine.</p> | <p>In light of the GDG, PIDM revised its advertising strategy, initiatives and messages to enable effective public understanding of the details of the GDG.</p> <p>It was important that the public dissemination of information on the GDG be made in an expedient and effective manner in order to maintain public confidence and minimise confusion.</p> <p>PIDM continued to utilise the mass media as an important channel to publicise the features and benefits of deposit insurance protection due to the audience reach and influence of the media in disseminating vital information.</p> <p>We maintained our communications approach of ensuring that our messages are kept simple, clear and direct.</p> |

| INITIATIVE | DESCRIPTION | APPROACH |
|---|--|---|
| ENHANCING THE WEBSITE AND NEW PUBLIC INFORMATION BROCHURES | <p>PIDM launched its enhanced website in English, Bahasa Malaysia, Chinese and Tamil. The look and content of the website has been enhanced to make it more user-friendly, strengthen the branding of PIDM and present the messages in a direct, simple and clear manner.</p> <p>PIDM issued new public information brochures entitled "Your Deposits Are Protected" in the six languages including Iban and Kadazandusun, for depositors in Sarawak and Sabah. Similarly, the new information brochures provide explanation, in plain layman terms, on the key features of deposit insurance and how it benefits depositors.</p> <p>Although this initiative was identified as part of PIDM's annual communications initiatives planning, its initiative to enhance its website and public information brochures was timely in light of the announcement of the GDG.</p> <p>The new public information brochures are available at all member banks and guaranteed financial institutions' branches. The public is encouraged to request a copy of the information brochure at their bank branch and visit PIDM's revamped website at www.pidm.gov.my for comprehensive information about deposit insurance and PIDM.</p> | <p>PIDM continues to take a multi-lingual approach in its communications so that the public understands the benefits of deposit insurance protection in the language of their choice.</p> |
| BRIEFINGS FOR MEMBER INSTITUTIONS AND VARIOUS STAKEHOLDERS (ONGOING) | <p>PIDM conducted 23 training sessions for bankers in cities and towns across Malaysia to some 1,150 bank employees.</p> <p>PIDM also conducted 30 briefings for some 4,000 stakeholders including Government agencies, universities, professional bodies and associations, as well as held public talks.</p> <p>In conducting the training sessions for bankers, PIDM continued to work in partnership with IBBM and BNM branches. PIDM also worked with the Malaysia Investment Banking Association (MIBA) in its effort to enhance awareness of deposit insurance among investment banks.</p> <p>For a complete listing of our briefings, please refer to our Calendar of Events for 2009 (pg 174).</p> | <p>The training sessions for bankers are part of our continuous effort to equip employees of member institutions with accurate knowledge of how deposit insurance works to enable them to respond to enquiries from depositors and customers.</p> <p>In 2009, PIDM expanded its training sessions to include employees from other guaranteed financial institutions including investment banks and deposit-taking development financial institutions.</p> |

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

| INITIATIVE | DESCRIPTION | APPROACH |
|---|--|---|
| INTERNATIONAL DEPOSIT INSURANCE WEEK (11 TO 15 MAY 2009) | <p>During the International Deposit Insurance Week, PIDM launched its public awareness campaign for the year 2009, which included new advertisements for 2009, enhanced website and new public information brochures, at a media briefing held on 12 May 2009.</p> <p>For the purpose of building good working relationships and enhancing deposit insurance knowledge among investment banks, PIDM conducted a dialogue with liaison officers of investment banks and a briefing for investment banks on 14 May 2009. The dialogue and briefing was organised in collaboration with MIBA.</p> <p>During the week, PIDM also published special advertorials in English, Bahasa Malaysia and Chinese in major dailies to update and educate the public on deposit insurance protection.</p> | <p>The International Deposit Insurance Week is an annual initiative by the International Association of Deposit Insurers (IADI) to promote awareness activities by member deposit insurers around the world. During this week, deposit insurers carry out specific campaigns and activities to heighten the awareness of deposit insurance.</p> <p>In line with global initiatives, PIDM conducts specific public awareness activities in Malaysia throughout the week including advertising, stakeholder education and media engagement.</p> |
| RELEASE OF PIDM ANNUAL REPORT 2008 (21 MAY 2009) | <p>PIDM conducted its third Annual Dialogue on 21 May 2009 in conjunction with the release of the PIDM Annual Report 2008. Besides members of the boards of directors and senior management of member institutions, this year's Annual Dialogue also included representatives from guaranteed financial institutions in view of the GDG.</p> <p>Following the Annual Dialogue, PIDM also conducted a press conference on the release of its Annual Report 2008.</p> | <p>The Annual Dialogue is a platform for PIDM to provide an update on its financial performance and achievements and discuss issues relating to member institutions, as well as exchange information and ideas on current and future initiatives involving the industry.</p> |
| CORPORATE OUTREACH (1 TO 2 JULY 2009) | <p>PIDM organised its third annual Corporate Outreach in Kuching, Sarawak where members of the Board of Directors and the Executive Management Committee of PIDM met with various stakeholders in the region.</p> <p>Similar to the Corporate Outreach conducted in previous years, the outreach programme included:</p> <ul style="list-style-type: none"> • A media briefing for the press based in Sarawak, 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 Sarawak; and • A public talk on 'Effective Financial Consumer Protection' together with BNM, the Financial Mediation Bureau (FMB) and Agensi Kaunseling dan Pengurusan Kredit (AKPK). <p>In organising and promoting the public talk, PIDM collaborated with BNM (Kuching branch), the Sarawak branch of the Ministry of Domestic Trade, Cooperatives and Consumerism (<i>Kementerian Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan</i>), the Association of Banks in Malaysia (ABM) sub-committee in Sarawak and IBBM (Sarawak branch).</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 and engage the State community leaders in enhancing awareness of deposit insurance and financial consumer protection in Malaysia.</p> |

| INITIATIVE | DESCRIPTION | APPROACH |
|--|--|---|
| PARTICIPATION IN EXHIBITIONS AND ROAD SHOWS (ONGOING) | <p>PIDM continued to collaborate with BNM and relevant agencies in various national road shows 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 18 to 24 October 2009 in Kuala Terengganu. It was a major collaborative effort between BNM, FMB, AKPK and PIDM together with the support of the State Government of Terengganu.</p> <p>From 18 to 21 October 2009, PIDM's representative provided briefings to universities, the Nursing Colleges of Terengganu, The Royal Malaysian Police Head Quarters in Terengganu and Royal Malay Army Regiment.</p> <p>PIDM participated in the M2K exhibition held from 22 to 24 October 2009 in Kuala Terengganu. The exhibition was officially launched on 22 October 2009 by the Chief Minister of Terengganu, Dato' Ahmad Said, and Deputy Governor of BNM, Dato' Mohd. Razif Abdul Kadir. The exhibition attracted some 26,000 visitors.</p> <p>During the exhibition, PIDM conducted seven public talk sessions to the representatives of the seven districts of Terengganu to educate them about deposit insurance protection.</p> <p>For a complete listing of our exhibitions and road shows, please refer to our Calendar of Events for 2009 (pg 174).</p> | <p>PIDM continued to work closely with BNM and other strategic partners, including AKPK and FMB to maximise the efficiency of our public awareness initiatives and to increase our reach.</p> <p>PIDM also participated in various other exhibitions and road shows in collaboration with organisations such as IBBM, the Financial Planning Association of Malaysia (FPAM), the Malaysian Financial Planning Council (MFPC) and the Islamic Banking and Finance Institute of Malaysia (IBFIM).</p> |
| EDUCATION PROGRAMME (ONGOING) | <p>PIDM commenced the development of an education programme for secondary schools and higher learning institutions.</p> <p>The implementation of the education programme will promote financial awareness and literacy, especially on the importance of savings. The programme will comprise the following activities and tools designed to educate students on PIDM:</p> <ul style="list-style-type: none"> • Briefings and talks for students • Road shows • Online game accessed via the Internet • Supporting materials, including illustrated comic books and board games. <p>The pilot implementation of the education programme in selected secondary schools and higher learning institutions is scheduled for the first half of 2010 and the full nationwide implementation is scheduled for the second half of 2010.</p> | <p>The education programme will cover schools and higher learning institutions in Peninsular Malaysia, Sabah and Sarawak.</p> <p>PIDM is working with several partner agencies and consultants in the development and implementation of the programme. This work includes content development, creative development, production, research, public and stakeholder relations as well as publications.</p> |

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

| INITIATIVE | DESCRIPTION | APPROACH |
|---|--|--|
| NATIONWIDE CONSUMER SURVEY (MID-YEAR AND YEAR-END) | <p>As an annual practice to gauge the level of public awareness, PIDM conducted two consumer surveys in 2009.</p> <p>The mid-year survey was conducted in July 2009 and involved about 600 respondents while the comprehensive year-end survey was conducted from October to November 2009, involving some 1,000 respondents.</p> <p>The findings of the survey are used in the ongoing development of PIDM's advertising and public relations initiatives.</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> |
| MEDIA RELATIONS (ONGOING) | <p>PIDM continued to enhance its profile as the national deposit insurer through conducting media briefings, press conferences, interviews, articles, press releases and other media initiatives.</p> <p>PIDM conducted the following media events in 2009:</p> <ul style="list-style-type: none"> • Media briefing in conjunction with the International Deposit Insurance Week in May 2009 • Press conference in conjunction with the release of the PIDM Annual Report 2008 in May 2009 • Media briefing to the press based in Sarawak in conjunction with the Corporate Outreach in Kuching, Sarawak in July 2009 • Media briefing to the press based in Sabah in conjunction with our visit to Kota Kinabalu, Sabah to conduct a briefing for bankers in August 2009. <p>PIDM provided various interviews in the year 2009, particularly in the print media including <i>The Star</i>, <i>Berita Harian</i>, <i>China Press</i>, <i>Harian Metro</i>, <i>The Edge</i> and <i>The Malaysian Reserve</i>. PIDM also provided interviews with newspapers based in East Malaysia, including the <i>United Daily News</i> based in Sarawak as well as the <i>New Sabah Times</i> and <i>Morning Post</i> based in Sabah.</p> <p>In conjunction with the recognition of the PIDM Annual Report 2008 as the Best Annual Report of Non-Listed Organisations by the National Annual Corporate Reports Award (NACRA), PIDM was featured in <i>The Star NACRA Supplement</i> published in December 2009. The article highlighted PIDM's continuous commitment and efforts towards good corporate governance.</p> <p>In the final quarter of 2009, there was media coverage on deposit insurance and PIDM arising from the tabling of the Malaysia Deposit Insurance Corporation (Amendment) Act 2009 to the Parliament relating to the Stabilisation Insurance Bill.</p> | <p>PIDM continued to enhance its profile and media presence throughout Malaysia. Its aim is to educate the public and disseminate key messages through the media as a highly effective and important communications channel and partner.</p> |

MOVING FORWARD

In the first half of the year 2010, PIDM will continue to plan and implement its ongoing public awareness and outreach initiatives. At the same time, we will design and plan public relations and communications activities to ensure an effective exit from the GDG.

The communications strategy and plan for exiting the GDG will be driven by an intensive and comprehensive advertising and public relations campaign to be carried out in the second half of the year 2010, with focus on:

- educating the public on the benefits and importance of the deposit insurance system in promoting market discipline and financial system stability;
- ensuring public awareness and understanding of the features of the deposit insurance system, particularly with regards to the limit and scope of the deposit coverage; and
- maintaining and enhancing public confidence in the stability of the financial system.

During 2010, PIDM will enhance its Call Centre infrastructure and operations, as part of our ongoing effort to ensure communications readiness and continuity.

In the first half of the year 2010, PIDM will conduct a pilot implementation of the education programme in selected secondary schools and higher learning institutions. As part of the pilot programme, we shall assess its effectiveness and will refine and enhance the programme initiatives and tools, if necessary. The education programme is scheduled for nationwide launch and implementation in the second half of 2010.

For PIDM, we shall focus on increasing depositor awareness in the years ahead by carrying out public awareness initiatives through a targeted, long-term approach, building on past years' initiatives and refining our annual plan based on research results.

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

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.

As the national deposit insurer, our mandate involves providing insurance to depositors, and the promotion of awareness about the deposit insurance system among the public is a function of our responsibility to promote the stability of the financial system. In carrying out our functions, we engage in various educational and awareness programmes throughout Malaysia, including publications and advertising about deposit insurance and our role.

Our mandate, clearly, is aligned with the idea of giving back to the community, and enhancing the environment in which we operate, and it is for this reason that the Corporate Social Responsibility (CSR) Policy has been developed as part of PIDM's commitment to conducting our business and affairs in a socially responsible, sustainable and meaningful way. Furthermore, we actively encourage our employees to take into account society's expectations and our environment, and we are pleased to find our employees very much engaged in these endeavours.

Our CSR Policy is available on our website, at www.pidm.gov.my, and sets out the three core themes on which PIDM focuses its CSR activities. These themes are: community involvement, employee well-being, and environmental protection.

CSR ACTIVITIES FOR 2009

In 2009, PIDM continued to work towards designing activities and programmes that are in line with the three core themes identified in the CSR Policy.

Community Involvement

PIDM is committed to encouraging our employees' involvement in the community in line with the CSR Policy, including in the area of education. CSR activities are conducted with the engagement of our CSR Taskforce - a group of volunteer employees - and our Human Capital (HC) Division as well as other employees within our organisation.

Rumah Nur Salam. As part of the PIDM's social outreach to the community at large, we continued our support to the *Pusat Jagaan Kanak-kanak Nur Salam* (or popularly known as Rumah Nur Salam) in the Chow Kit area of Kuala Lumpur. Following a vote by employees, Rumah Nur Salam was chosen to be the beneficiary of the proceeds raised from an auction held in 2008. Funds raised by employees, matched by the Corporation in line with our CSR Policy, amounted to RM43,390. These proceeds went towards the following:

(a) Sponsorship of Sunday lunches

Rumah Nur Salam, through its Pantry Programme, offers meals to the children it hosts each day. In 2009, we stepped in as a contributor for the months of March and April by funding the cost of the caterer supplying the Sunday meals. Our sponsorship of the children's Sunday lunches for these two months amounted to RM2,700.

(b) Purchase of furniture for its new Youth Hub

With the assistance from the Ministry of Women, Family and Community Development as well as other participating organisations, Rumah Nur Salam has recently piloted a Youth Hub project for the benefit of the older children of Rumah Nur Salam i.e. youths aged 13 and above. The objectives of this special initiative are, amongst others, to empower the teenagers through the application of experiential programmes as well as to motivate and cultivate an interest in education and vocational skill sets such as running a simple enterprise. We funded the acquisition of furniture for this hub, to enable it to commence operations, at a cost of RM42,000.

Hari Raya Aidilfitri Treat. PIDM also provided a treat for the children of Rumah Nur Salam at McDonalds on 10 October 2009 in conjunction with *Hari Raya Aidilfitri*. Buses were chartered to bring 105 children to the McDonalds outlet in Bandar Utama for the half-day event. We organised lunch and games to keep the children entertained. Token "*duit raya*" were also distributed among the children at the event.

Fund Raising. Employees also participated enthusiastically in a "Talent Time" event, organised by the HC Division, which raised more funds for various charities. We intend to continue our community work going forward.

Financial Literacy Programme. As part of our CSR efforts, in 2009, we undertook a study to consider whether there were needs to implement a financial literacy programme for certain parts of the community. The results of the study

showed that there are gaps in the access to financial information by the disabled community notwithstanding the various initiatives undertaken by non-profit organisations and other private entities.

PIDM Scholarship Programme for Undergraduate Studies. Our report on HC activities on page 76 also describes the proposed PIDM Scholarship Programme for Undergraduate Studies, approved by the Board in 2009. This programme is for deserving Malaysians who are in need of financial aid and who meet our criteria for scholarship. The programme will be launched in 2010.

Employee Well-being

The HC Division, through its signature "HC Weeks" and various other employee-related activities, is our champion of employee well-being. Our report on the many HC activities carried on in 2009 is on page 76 of this Annual Report.

In particular, PIDM supports a culture of health in which the Corporation and its employees mutually invest in programmes and activities that support long-term employee well-being. Not only do we comply with statutory requirements on health and safety, but in 2009, with the H1N1 pandemic concerns, extra steps were taken to place particular emphasis on employee health programmes. Our precautionary measures include providing our employees with face masks, putting in place hand sanitisers at various areas in the office and temperature scanning for all employees and visitors. We also arranged for flu vaccination for employees.

Environmental Protection

Given the size and nature of our business, the environmental impact from the business of the Corporation is naturally minimal. However, where we can, we commit to sound business practices to minimise our impact on the environment.

Paper and Electricity Consumption. The CSR Taskforce, in 2009, begun measuring our paper and electricity consumption, to see if we can develop better savings practices and improve energy reduction measures. We measure paper consumption by tracking and weighing the paper shredded and collected before it is sent for recycling, and electricity consumption is calculated by tracking the cost of electricity each month. The Taskforce

identified certain energy saving measures which were posted on PIDM's intranet to encourage all employees to reduce the consumption of energy. We will continue to improve our measurement methodology and monitor both paper and electricity consumption on an ongoing basis.

Greenest Person on the Planet. In March, we invited Matthias Gelber, voted the 'Greenest Person on the Planet' in an online poll in 2008, as a guest speaker to share his passion for the environment. Among other things, he spoke about green investments, getting around Kuala Lumpur without a car, and provided employees with insightful ideas on "going green".

Going forward, the CSR Taskforce is also exploring appropriate activities to build greater environmental awareness of employees, such as mangrove tree-planting initiatives to be organised with the help of the Selangor Forestry Department and other participants.

CONCLUSION

We note the recommendation in a Guidance published by the International Federation of Accountants,¹ that the creation and optimisation of sustainable stakeholder value should be the objective of governance. In the context of the public sector, we note that the Guidance encourages satisfying stakeholder expectations by enhancing the environment in which a public sector institution operates, or by giving back to the community.² This is, indeed PIDM's CSR philosophy, which is well aligned with our mandate.



¹ 'Evaluating and Improving Governance in Organisations', an International Good Practice Guidance (February 2009) by the International Federation of Accountants.

² Paragraph A.3, *ibid*.

Section 8: Calendar Of Events 2009



CALENDAR OF EVENTS 2009

JANUARY

| DATE | VENUE/LOCATION | EVENT |
|-----------------|--|--|
| 13 January | PIDM, Kuala Lumpur | Audit Committee Meeting |
| 20 January | Kuala Lumpur | Briefing on Deposit and Liquidity Management at Islamic Banking and Finance Institute Malaysia (IBFIM) |
| 20 - 21 January | PIDM, Kuala Lumpur | Visit by Deposit Protection Agency of Thailand |
| 22 January | PIDM, Kuala Lumpur | Governance Committee Meeting |
| 22 - 25 January | Mid Valley Exhibition Centre, Kuala Lumpur | Exhibition at Islamic Economic Development Festival (<i>Pesta Pembangunan Ekonomi Islam</i>) |
| 29 January | PIDM, Kuala Lumpur | Visit by Bhutan Central Bank |

FEBRUARY

| DATE | VENUE/LOCATION | EVENT |
|-----------------------|--------------------|---|
| 5 February | PIDM, Kuala Lumpur | Audit Committee Meeting |
| 8 - 11 February | Kuala Lumpur | Panel Presentation by PIDM at Central Bank Governors' Forum in conjunction with Bank Negara Malaysia (BNM)'s 50th Anniversary Celebration |
| 10 - 12 February | Basel, Switzerland | International Association of Deposit Insurers (IADI) Executive Council Meeting |
| 18 February | Kuala Lumpur | Briefing on Deposit Insurance to students of Universiti Teknologi MARA (UiTM) Kampus Jengka |
| 19 February | PIDM, Kuala Lumpur | Board of Directors Meeting |
| 24 February | Kuala Lumpur | Dialogue with Liaison Officers of Member Institutions |
| 25 February | Bangi, Selangor | Briefing on Deposit Insurance at Islamic Training Institute of Malaysia (<i>Institut Latihan Islam Malaysia</i>) |
| 25 - 26 February | Tokyo, Japan | Participation at the 4th Deposit Insurance Corporation of Japan (DICJ) Roundtable Discussion |
| 27 February | Kuantan, Pahang | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 28 February - 1 March | Kuantan, Pahang | Talk and Exhibition on Deposit Insurance at Save and Invest 2009 Expo |

MARCH

| DATE | VENUE/LOCATION | EVENT |
|---------------|--|--|
| 2 March | Putrajaya | Exhibition at Youth Day (<i>Hari Bersama Belia</i>) organised by Ministry of Youth and Sports |
| 4 March | Paris, France | Participation at Islamic Financial Services Board (IFSB) and Financial Stability Institute (FSI) 3rd Islamic Financial Services Forum: The European Challenge |
| 5 March | Kuala Lumpur | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 10 March | PIDM, Kuala Lumpur | Environmental Talk by Matthias Gelber, Greenest Person on the Planet Award 2008 Recipient |
| 10 March | Alor Setar, Kedah | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 11 March | Georgetown, Penang | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 13 March | Bangkok, Thailand | Knowledge Sharing Session with Deposit Protection Agency of Thailand |
| 16 - 18 March | Kuala Lumpur | Hosting of COSO Internal Controls and Enterprise Risk Management (ERM) Frameworks Seminar |
| 17 March | Kota Kinabalu, Sabah | Briefing on Deposit Insurance at Financial Planning Association of Malaysia (FPAM) Financial Education Roadshow 2009 |
| 18 March | Universiti Malaysia Sabah (UMS), Kota Kinabalu | Briefing on Deposit Insurance to students of UMS |
| 18 March | Kuala Lumpur | Talk on Board Responsibilities for Internal Controls and ERM |
| 22 March | Petaling Jaya, Selangor | Exhibition at Launch of 'One Voice, One Association, One Community' (<i>Satu Suara, Satu Persatuan, Satu Komuniti</i>) organised by Ministry of Youth and Sports |
| 27 March | Bintulu, Sarawak | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 28 - 29 March | Kuching, Sarawak | Talk and Exhibition on Deposit Insurance at Save and Invest 2009 Expo |
| 30 March | Kuching, Sarawak | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 31 March | Universiti Malaya (UM), Petaling Jaya | Talk on Deposit Insurance at Institut Bank-Bank Malaysia (IBBM) Banking and Finance Career Day |



CALENDAR OF EVENTS 2009

APRIL

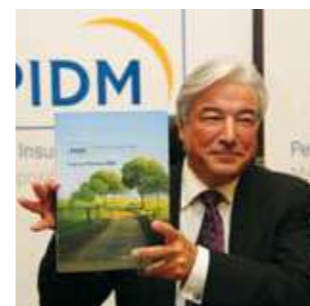
| DATE | VENUE/LOCATION | EVENT |
|---------------|---|--|
| 1 April | Kuala Lumpur | Briefing to Member Institutions and Other Guaranteed Financial Institutions on the Government Deposit Guarantee (GDG) Guidelines, amendments to Differential Premium Systems Guidelines and Deposit Profile Survey |
| 1 April | Kuala Lumpur | Briefing on Deposit Insurance to National Co-operative Organisation of Malaysia (<i>Angkatan Koperasi Kebangsaan Malaysia</i>) Trainers |
| 2 April | Kuala Lumpur | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 4 - 6 April | Brunei Darussalam | Meeting with Ministry of Finance, Brunei |
| 7 April | Universiti Tun Abdul Razak (UNITAR), Kelana Jaya, Selangor | Talk on Deposit Insurance at IBBM Banking and Finance Career Day |
| 10 April | PIDM, Kuala Lumpur | Business Continuity Plan - Development Workshop |
| 10 April | Monash University, Sunway, Selangor | Talk on Deposit Insurance to members of Monash University - Banking and Finance Club |
| 14 - 15 April | London, United Kingdom (UK) | Meeting with Financial Services Compensation Scheme (FSCS) |
| 16 April | Kangar, Perlis | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 16 - 17 April | Warwick, UK | Presentation by PIDM at Symposium on Financial Crisis Management and Bank Resolution |
| 17 - 26 April | Johor Bahru, Johor | Malaysian Unit Trust Week (<i>Minggu Saham Amanah Malaysia</i> - MSAM) |
| 20 April | Universiti Putra Malaysia (UPM), Selangor | Talk on Change Management by PIDM to students of the Graduate School of Management |
| 21 - 23 April | Federal Deposit Insurance Corporation Training Centre, Arlington, USA | IADI Seminar on Claims Management: Reimbursement to Insured Depositors |
| 24 - 25 April | Phuket, Thailand | Meeting with Board of Directors of the Deposit Protection Agency of Thailand |
| 27 April | Kuala Lumpur | Talk on Deposit Insurance to members of the Rotary Club of Pantai Valley |
| 28 April | Kuala Lumpur | Briefing to Member Institutions on the Guidelines on Validation Programme: Differential Premium Systems, Total Insured Deposits and Total Deposits |
| 29 April | Kuala Terengganu, Terengganu | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 30 April | Kuala Lumpur | Knowledge Sharing Session and Networking Forum with Human Resource (HR) Practitioners |
| 30 April | PIDM, Kuala Lumpur | Board of Directors Meeting |

MAY

| DATE | VENUE/LOCATION | EVENT |
|-------------|----------------------------|---|
| 6 - 7 May | Kuala Lumpur | Exhibition at Malaysian International Halal Showcase (MIHAS) |
| 10 - 13 May | Johannesburg, South Africa | Institute of Internal Auditors International Conference |
| 12 May | Kuala Lumpur | Deposit Insurance Awareness Week - Media Briefing on Deposit Insurance |
| 14 May | Kuala Lumpur | Deposit Insurance Awareness Week - Briefing on Deposit Insurance to Investment Bankers |
| 19 May | PIDM, Kuala Lumpur | Audit Committee Meeting |
| 21 May | Kuala Lumpur | Launch of PIDM Annual Report 2008 Annual Dialogue with Member Institutions and Other Guaranteed Financial Institutions Press Conference |
| 22 May | PIDM, Kuala Lumpur | Business Continuity Plan - Test and Exercise Workshop |
| 26 May | Johor Bahru, Johor | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 27 May | PIDM, Kuala Lumpur | Business Continuity Plan - Scenario Exercise |
| 27 - 29 May | Almaty, Kazakhstan | 7th IADI Asia Regional Committee Meeting and Conference |

JUNE

| DATE | VENUE/LOCATION | EVENT |
|--------------|--------------------|---|
| 3 June | PIDM, Kuala Lumpur | Governance Committee Meeting |
| 10 June | PIDM, Kuala Lumpur | Board of Directors Session - Intervention and Resolution |
| 11 - 12 June | PIDM, Kuala Lumpur | Study Visit by Ministry of Finance, Brunei and Deposit Protection Agency of Thailand |
| 15 - 19 June | Kuala Lumpur | South East Asian Central Banks (SEACEN) Research and Training Centre and PIDM Joint Course on the Role of Deposit Insurance as an Important Component of the Safety Net |
| 22 - 26 June | PIDM, Kuala Lumpur | Human Capital Initiative Week for PIDM employees |
| 23 June | PIDM, Kuala Lumpur | Board of Directors Meeting |
| 25 - 26 June | PIDM, Kuala Lumpur | Study Visit by Bank of Thailand |
| 30 June | Kuala Lumpur | Malaysia Deposit Insurance Corporation (Amendment) Bill first tabled in Parliament |
| 30 June | Kuching, Sarawak | Media Briefing on Deposit Insurance |



CALENDAR OF EVENTS 2009

JULY

| DATE | VENUE/LOCATION | EVENT |
|--------------|---------------------------|---|
| 1 July | London, UK | Presentation by PIDM at Islamic Development Bank (IDB) and IFSB Conference on Emerging Financial Stability Framework |
| 1 July | Kuching, Sarawak | Board of Directors Session - Business Continuity Planning |
| 1 - 2 July | Kuching, Sarawak | PIDM Corporate Outreach by the Board of Directors and Executive Management Committee |
| 8 - 9 July | Petaling Jaya, Selangor | Presentation by PIDM at World Continuity Congress |
| 9 July | Kuala Lumpur | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 11 July | Putrajaya | PIDM Family Day |
| 16 - 19 July | Ipoh, Perak | Exhibition at National Cooperatives Day (<i>Hari Koperasi Negara</i>) |
| 17 July | Seremban, Negeri Sembilan | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 21 - 23 July | Basel, Switzerland | 27th IADI Executive Council Meeting |
| 23 - 26 July | Kuantan, Pahang | Exhibition at the Consumer Day Carnival (<i>Karnival Hari Pengguna</i>) |
| 24 July | PIDM, Kuala Lumpur | Audit Committee Meeting |
| 27 - 28 July | Bangkok, Thailand | Presentation by PIDM at the 5th Public - Private Dialogue for the Asia-Pacific Region organised by SEACEN, APEC Business Advisory Council (ABAC), Asian Bankers Association (ABA) and Pacific Economic Cooperation Council (PECC) |
| 28 July | Kota Bharu, Kelantan | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |

AUGUST

| DATE | VENUE/LOCATION | EVENT |
|----------------|----------------------|---|
| 3 - 7 August | PIDM, Kuala Lumpur | Study Visit by Nigeria Deposit Insurance Corporation |
| 4 - 5 August | Shah Alam, Selangor | Exhibition at National Seminar of the Malaysian Consumer and Family Economics Association (MACFEA) |
| 6 August | Tawau, Sabah | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 7 August | Kota Kinabalu, Sabah | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 7 August | Kota Kinabalu, Sabah | Media Briefing on Deposit Insurance |
| 10 August | Kuala Lumpur | Remuneration Committee Meeting |
| 20 August | PIDM, Kuala Lumpur | Briefing on Deposit Insurance to students of UiTM Kampus Jengka |
| 20 August | Kuala Lumpur | Exhibition at Association of Islamic Banking Institutions Malaysia (AIBIM) Corporate Conference |
| 24 - 25 August | PIDM, Kuala Lumpur | Business Continuity Plan - Haze and Infectious Disease Recovery Strategies and Plan Development Workshop |
| 27 - 28 August | Hanoi, Vietnam | National Financial Supervisory Commission of Vietnam and PIDM Joint Workshop on Global Financial Stability: The Role Of Safety Net Players Meeting with Vietnam First Vice Prime Minister and Economic Committee |

SEPTEMBER

| DATE | VENUE/LOCATION | EVENT |
|-------------------|--------------------|--|
| 11 September | Kuala Lumpur | Briefing on Deposit Insurance at BNM's Tea Talk Series |
| 21 September | Basel, Switzerland | 8th IADI Annual General Meeting and Annual Conference |
| 24 - 26 September | Kuala Lumpur | Presentation by PIDM at SEACEN-BNM Banking and Financial Law School 2009 |



CALENDAR OF EVENTS 2009

OCTOBER

| DATE | VENUE/LOCATION | EVENT |
|-----------------|--|---|
| 7 October | PIDM, Kuala Lumpur | Business Continuity Plan - Scenario Exercise |
| 8 October | PIDM, Kuala Lumpur | Board of Directors Session - Strategic Planning |
| 10 October | Petaling Jaya, Selangor | Hari Raya Lunch for the children of Rumah Nur Salam |
| 13 October | PIDM, Kuala Lumpur | Board of Directors Meeting |
| 13 - 16 October | Toronto, Canada | Toronto Centre Programme on Crisis Preparedness in Integrated Markets |
| 18 October | UiTM, Kuala Terengganu, Terengganu | Briefing on Deposit Insurance to students and academic staff of UiTM Kampus Kuala Terengganu |
| 18 October | Universiti Darul Iman Malaysia (UDM), Kuala Terengganu, Terengganu | Briefing on Deposit Insurance to students and academic staff of UDM |
| 19 October | Universiti Malaysia Terengganu (UMT), Kuala Terengganu, Terengganu | Briefing on Deposit Insurance to students and academic staff of UMT |
| 19 October | Kolej Jururawat Terengganu, Kuala Terengganu, Terengganu | Briefing on Deposit Insurance to students and academic staff of Terengganu Nursing College (<i>Kolej Jururawat Terengganu</i>) |
| 20 October | Kuala Terengganu, Terengganu | Briefing on Deposit Insurance to police officers of the Terengganu Police Contingent Headquarters (<i>Ibu Pejabat Kontingen Terengganu</i>) |
| 20 October | Kem Regimen Askar Melayu DiRaja, Kuala Terengganu, Terengganu | Briefing on Deposit Insurance to the Royal Malay Regiment (<i>Regimen Askar Melayu DiRaja</i>), Kuala Terengganu Camp |
| 21 October | Kuala Lumpur | Study Visit by Central Bank of Egypt |
| 22 - 24 October | Kuala Terengganu, Terengganu | Financial Awareness Week (<i>Minggu Kesedaran Kewangan</i> - M2K) Exhibition |
| 29 October | PIDM, Kuala Lumpur | Governance Committee Meeting |
| 30 October | PIDM, Kuala Lumpur | Induction Programme for new employees of PIDM |
| 30 October | Kuala Lumpur | Human Capital Initiative for PIDM employees - Talent Time |

NOVEMBER

| DATE | VENUE/LOCATION | EVENT |
|------------------|--------------------|--|
| 2 - 4 November | Kuala Lumpur | Hosting of IADI Seminar on Claims Management: Reimbursement to Insured Depositors |
| 5 November | Kuala Lumpur | Study Visit by Central Bank of Uganda |
| 5 - 6 November | Kuala Lumpur | Hosting of Seminar on Islamic Deposit Insurance: Understanding the Fundamentals of Islamic Banking and Deposit Insurance |
| 9 - 10 November | Kuala Lumpur | Exhibition at Islamic Financial Planning and Wealth Management Conference |
| 9 - 11 November | PIDM, Kuala Lumpur | Study Visit by delegates from Bank of Zambia, Central Bank Of Afghanistan, Deposit Insurance Board of Tanzania, Federal Deposit Insurance Corporation, Indonesia Deposit Insurance Corporation and Ministry of Finance, Brunei |
| 13 November | Kuala Lumpur | Trilateral Board of Directors Meeting between Indonesia Deposit Insurance Corporation, Deposit Protection Agency of Thailand and PIDM |
| 14 November | Kuala Lumpur | PIDM Annual Dinner |
| 17 November | Kuala Lumpur | Remuneration Committee Meeting |
| 18 - 20 November | Amman, Jordan | Presentation by PIDM at IADI - Jordan Deposit Insurance Corporation (JODIC) and the Financial Services Volunteer Corps (FSVC) Joint Regional Conference: Deposit Insurance in the MENA Region - Enhancing Confidence |
| 23 November | Kuala Lumpur | Lecture by PIDM at the IFSB Public Lecture on Financial Policy and Stability |
| 24 November | Kuala Lumpur | Briefing on Deposit Insurance to Member Institutions and Other Guaranteed Financial Institutions |
| 25 November | Kuala Lumpur | Presentation by PIDM at 2nd Advanced Central Banking Seminar: Deposit Insurance and Related Financial Safety Net Aspects |
| 26 November | PIDM, Kuala Lumpur | Audit Committee Meeting |

DECEMBER

| DATE | VENUE/LOCATION | EVENT |
|-----------------|----------------------|--|
| 1 December | Kuala Lumpur | PIDM receives 'Best Annual Report for Non-Listed Organisations' Award at the National Annual Corporate Report Awards (NACRA) |
| 3 December | PIDM, Kuala Lumpur | Special Board of Directors Meeting |
| 7 December | PIDM, Kuala Lumpur | Board of Directors Meeting |
| 9 December | Kuala Lumpur | Malaysia Deposit Insurance Corporation (Amendment) Bill passed in Parliament |
| 9 - 12 December | Kota Kinabalu, Sabah | Presentation by PIDM at BNM - Bank of International Settlements (BIS) High Level Seminar |



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 an equality of votes its Chair has a second vote.

5. Procedure and Conduct

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

6. Secretary and Minutes

The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes 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 mandates and responsibilities of the Board, the Chairman of the Board, the CEO, a member of the Board and the Board Committees.
- (c) Develop a process to assist the Board in determining whether the Board is satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention, as well as the appropriateness of that information.
- (d) Recommend to the Board, and annually implement, a method for regularly evaluating and assessing the effectiveness of the Board and of individual members of the Board and Board committees and recommend any appropriate changes arising therefrom.

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GOVERNANCE COMMITTEE CHARTER

3. Board Nominations

- (a) Develop, recommend and annually review both a Board profile and a Board member profile of qualifications and skills and characteristics for individual directors so as to effectively fulfil the Board's responsibilities that take into consideration the current strengths, skills and experience on the Board, terms, retirement dates and the strategic direction of the Corporation.
- (b) Identify a list of potential Board nominees who fit the 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 the 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.

5. Reporting and Disclosure

Recommend to the Board any reports on governance that may be required or considered advisable for public disclosure be produced.

APPENDIX

REMUNERATION 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 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 an equality of votes its Chair has a second vote.

5. Procedure and Conduct

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

6. Secretary and Minutes

The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes 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.

APPENDIX

REMUNERATION COMMITTEE CHARTER

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.

APPENDIX

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

(b) Competencies

All Committee members appointed to the Committee shall either:

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

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

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

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

2. Chair

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

3. Quorum

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

4. Voting

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

5. Procedure and Conduct

Subject to any resolution of the Board in respect of a specific matter, the Chair shall determine the procedure at and conduct of meetings of the Committee.

6. Secretary and Minutes

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

APPENDIX

AUDIT COMMITTEE CHARTER

7. Frequency and Calling of Meetings

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

8. Notice of Meetings

The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or 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), is:

- (i) entitled to receive notice of every meeting of the Committee and, at the expense of the Corporation, to attend and be heard at each meeting and the AG shall be invited to attend any or every meeting of the Committee; and

- (ii) may call a meeting of the Committee.

10. Private Meetings

The Committee may meet privately as a committee, and periodically with Management, the AG and the head of the internal audit function in separate private sessions.

11. Meeting Agenda

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

12. Supplemental Attendees

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

13. Term of Appointment / Rotation of Committee Members

Members of the Committee shall be changed on an appropriate 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 information supplied to it.

3. Financial Reporting

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

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

4. Financial Reporting Processes, Accounting Policies and Internal Control Structure

Management is responsible for the preparation, presentation, and integrity of the Corporation's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

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

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

- (a) reviewing and advising the Board with respect to the Corporation's annual financial statements;

- (b) reviewing and advising the Board with respect to the AG's annual audit report;

- (c) reviewing major changes to the Corporation's auditing and accounting principles and practices as suggested by the AG, the internal audit function or Management;

- (d) ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance on the adequacy and effectiveness of the Corporation's internal control systems; and reviewing the related reporting by Management and the internal audit function on such internal controls;

- (e) reviewing the integrity of the Corporation's financial reporting processes and the internal control structure;

- (f) reviewing the process relating to and the certifications of the Chief Executive Officer (CEO) and the Chief Financial Officer (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 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;

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- (i) establishing systems of reporting to the Committee by each of Management, the AG and the internal audit function regarding any significant judgments made in Management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information; and

- (j) through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:

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

- (ii) the transactions of the Corporation are in accordance with the requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), other legislative requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister's Department; 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) Corporate Plan and Operating Capital Budgets - review and recommend to the Board with respect to the Corporation's corporate plan and monitor and advise the Board with respect to Management's performance against 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 account and records and on the effectiveness and performance of financial and management control and information systems and management practices and that the operations of the Corporation are carried out effectively pursuant to the relevant legislation.

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

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

The Committee shall:

- (a) ensure that sound policies, guidelines and practices are implemented for the management of key corporate risks;
- (b) receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;
- (c) review with Management and advise the Board on the Corporation's policies and guidelines developed and implemented to manage the Corporation's risk exposures, and review such policies and guidelines at least once a year to ensure that they remain appropriate and prudent;
- (d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies and guidelines for significant risks are being adhered to;
- (e) report to the Board on: the significant risk 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.

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AUDIT COMMITTEE CHARTER

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 and review from time to time the process for (i) the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters; (ii) the confidential and anonymous submission, in accordance with established corporate policies, by the Corporation's employees of concerns regarding questionable accounting or auditing matters and (iii) the receipt, retention and treatment of complaints regarding the CEO and senior officers of the Corporation. The Committee shall also establish and review from time to time a process for the evaluation, investigation and resolution of concerns relating to accounting, internal controls or auditing matters that may be questionable; and

- (f) investigate any allegations that any officer or director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board appropriate disciplinary action.

APPENDIX

CORPORATE SCORECARD 2010 - 2012

| CORPORATE OBJECTIVES | | KEY PERFORMANCE INDICATORS (KPIs) | | TARGET | | |
|---------------------------------|---|--|---|---|-----------------------------|-------------------------|
| | | | | 2010 | 2011 | 2012 |
| Stakeholders | A Educated and informed stakeholders | 1 | Public awareness index (general awareness of deposit insurance) | 35% | 40% | 45% |
| | | 2 | Engagement and responsiveness to other stakeholders' needs | | | |
| | | Successful completion of key initiative(s): | | | | |
| | | a. Review and implement Integrated Communications Plan (including meeting the objectives of the Government Deposit Guarantee): | | | | |
| | | i. Implement annual advertising programme | | Complete | Complete | Complete |
| | | ii. Implement annual public relations programme | | Complete | Complete | Complete |
| | | iii. Implement annual stakeholders engagement programme | | Complete | Complete | Complete |
| | | 3 b. Implement education programme | | Implement | Review & implement | Review & implement |
| | | c. Implement and administer annual scholarship programme | | Implement | Implement | Implement |
| | | d. Develop and implement transition package to exit Government Deposit Guarantee including review of deposit insurance limit and coverage | | Develop & implement | Implement | - |
| Governance and Internal Process | B Effective partnerships | PIDM's relationship with: | | | | |
| | | a. Bank Negara Malaysia | | Strong | Strong | Strong |
| | | 4 b. Member institutions and other guaranteed financial institutions | | Satisfactory | Satisfactory | Satisfactory |
| | | c. Suppliers | | Strong | Strong | Strong |
| | | d. Other deposit insurers | | Strong | Strong | Strong |
| | | 5 Participate in international fora | | Active | Active | Active |
| | | 6 Number of strategic partners | | | | |
| | | a. Establish and maintain base of key strategic partners | | Increase base | Increase base | Maintain base |
| | | Board assessment on: | | | | |
| | | a. Best practices of governance adopted and complied with | | High satisfaction level | High satisfaction level | High satisfaction level |
| Governance and Internal Process | C Sound governance | 7 b. Significant policies and practices adopted and complied with | | High satisfaction level | High satisfaction level | High satisfaction level |
| | | c. Timeliness and relevance of information and quality of recommendation provided by Management for the Board to make informed decisions and fulfil responsibilities | | High satisfaction level | High satisfaction level | High satisfaction level |
| | | Successful completion of key initiative(s): | | | | |
| | | a. ERM Board Risk policies and practices | | Develop & implement | Review & enhance | Review & enhance |
| | | 8 b. Recommend amendments to MDIC Act and related laws | | Recommend package of legislative amendments | - | - |
| | | c. Involvement in the Financial Institutions Directors' Education Programme (FIDE) | | Active participation | Active participation | Active participation |
| | | Successful completion of key initiative(s): | | | | |
| | | a. Review Differential Premium Systems and Total Insured Deposit frameworks including validation process | | Review & enhance | Implement | Implement |
| | | b. Review and enhance comprehensive Risk Assessment and Monitoring Frameworks | | Review & enhance | Implement | Maintain |
| | | c. Develop and implement Early Warning System (EWS) | | Develop Phase 1 | Develop & implement Phase 1 | Develop Phase 2 |
| Governance and Internal Process | D Robust risk assessment, monitoring and resolution capability | 9 d. Develop and implement components of Intervention and Failure Resolution Framework including processes, policies and procedures | | Develop | Develop & implement | Implement & review |
| | | e. Develop and implement policies and regulations for members: | | | | |
| | | i. Interest and dividend payable guidelines/rules | | Develop & implement | Implement | Review & enhance |
| | | ii. Premium surcharge | | Develop & implement | Review & enhance | Review & enhance |
| | | iii. Research the need for core principles for sound business and financial practice for member institutions | | Research | Develop | Implement |

APPENDIX

CORPORATE SCORECARD 2010 - 2012

| CORPORATE OBJECTIVES | | KEY PERFORMANCE INDICATORS (KPIs) | TARGET | | |
|----------------------|--|---|-------------------------------------|-----------------------------|-----------------------------|
| | | | 2010 | 2011 | 2012 |
| D | Robust risk assessment, monitoring and resolution capability | f. Develop and implement payout system, policies and procedures: | | | |
| | | i. Phase 1 - Develop Depositor Liabilities Information Management and Depositor Support Management systems | Simulate & enhance | Implement | Maintain |
| | | ii. Phase 2 - Develop Payout Payment Management and Product Repository systems | Develop & implement | Simulate & enhance | Implement |
| | | iii. Phase 3 - Develop Dynamic Deposit Database | - | Develop & implement | Maintain |
| | | g. Compliance programme for member institutions to comply with MDIC Act and regulations | Develop | Develop & implement | Review & enhance |
| | | h. Establish an Asset Management Company | Develop | Implement | - |
| | Sound business and financial practices | 10 Actual vs. approved expenditure budgets | ±10% variance | ±10% variance | ±10% variance |
| | | Successful completion of key initiative(s): | | | |
| | | a. Develop and implement funding framework Phase 1: Government borrowings Phase 2: Funding from capital market | Complete Phase 1 & develop Phase 2 | Complete Phase 2 | Review & enhance |
| | | b. Develop and implement the frameworks for: | | | |
| | | i. Target Fund and Provisioning | Develop & implement | Review & enhance | Maintain |
| | | 12 Internal control compliance | Strong | Strong | Strong |
| | | 13 Internal customer satisfaction survey | 75% | 75% | 75% |
| | | Successful completion of key initiative(s): | | | |
| | | a. Implement annual Information Technology Strategic Plan initiatives | Complete | Complete | Complete |
| | | b. Develop and implement Business Continuity and Disaster Recovery Plan: | | | |
| | | i. Business Continuity Plan | Test & enhance | Test & enhance | Test & enhance |
| | | ii. Disaster Recovery Plan and infrastructure | Develop & implement | Test & enhance | Test & enhance |
| | | c. Develop Crisis Communications Manual | Complete | Simulate & enhance | Simulate & enhance |
| | | d. Develop and implement Human Resource Information System | Implement Phase 2 & develop Phase 3 | Implement Phase 3 & enhance | Review & enhance |
| E | Sound business and financial practices | e. Develop and implement Knowledge Management Framework and System | | | |
| | | i. Phase 1: Develop and implement Knowledge Management Framework | Develop & implement | - | - |
| | | ii. Phase 2: Develop and implement Knowledge Management policies, processes and infrastructure | - | Develop & implement | Review & enhance |
| | | f. Implement a Corporate Enterprise Portal | Develop & implement Phase 2 | Review & enhance | - |
| | | g. Develop executive information management system | Develop | Develop & implement | Review & enhance |
| | | h. Acquire additional infrastructure (office space, IT systems, processes and other organisational requirements) | Acquire | - | - |
| | Competent and knowledgeable workforce | 15 Implementation of annual learning and development plan | 80% completion against plan | 80% completion against plan | 80% completion against plan |
| | | Successful completion of key initiative(s): | | | |
| | Conducive corporate environment | 16 a. Continue to implement the succession planning based on the Board-approved framework which is integrated to the competency model | Implement | Implement | Implement |
| | | 17 Employee satisfaction index | 75% | 75% | 75% |
| F | Conducive corporate environment | Successful completion of key initiative(s): | | | |
| | | 18 a. Implement employee-related programmes to promote conducive corporate environment | Complete | Complete | Complete |

APPENDIX

SUMMARY OF A KEY POLICY ESTABLISHED IN 2009

POLICY AND PROCEDURES ON PUBLIC DISCLOSURE OF INFORMATION

Our Communications Policy sets out its objectives, i.e., among others, to:

(a) create awareness and understanding of the Corporation's mandate by disseminating accurate, timely and relevant information in response to stakeholders' and the public's needs to assist them in making informed decisions about their savings and investments; and

(b) promote accountability by being transparent in how PIDM performs its mandate and role and being accessible to the public and stakeholders to gain their trust and support.

This Policy is aligned with the Corporation's mandate to contribute to or promote the stability of the financial system. The Corporation places great emphasis on creating a high level of public awareness and understanding of the Corporation's mandate, and how it carries out its work, so as to promote public confidence in the Corporation and the stability of the financial system.

At the same time, we are constrained by provisions of section 24 of the MDIC Act, which prohibits the disclosure of information about the Corporation's business and affairs, Bank Negara Malaysia's business and affairs or a member institution's or its customer's information obtained in the performance of duties, unless the disclosure is required in the course of the performance of his duties or exercise of his functions, or as required by any law or court of law.

The Policy and Procedures on Public Disclosure of Information (Disclosure Policy), therefore, sets out the type of matters (including types of financial information) that would be appropriate for public release.

The Policy articulates the general approach to disclosure in these key areas:

(a) Information in the Annual Report;
(b) Information other than in the Annual Report — General information about PIDM;
(c) Information on Member Institutions;
(d) Information on Depositors;
(e) Financial Information other than in the Annual Report; and
(f) Information relating to Intervention and Resolution Activities.

The Disclosure Policy sets out clear prohibitions against disclosures under specific circumstances; and additionally, contains internal control procedures to ensure information is not inadvertently disclosed or disclosed in a manner that would have an adverse impact on member institutions or the stability of the financial system.

The Policy and Procedures on Public Disclosure of Information is available on PIDM's website at www.pidm.gov.my.

APPENDIX

FACT SHEET ON THE TEMPORARY GOVERNMENT DEPOSIT GUARANTEE

| | |
|--|--|
| <p>Deposits guaranteed</p> <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 | <p>Deposits not guaranteed</p> <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 22 commercial banks and 17 Islamic banks including domestic and locally incorporated foreign banks All 15 investment banks 3 international Islamic banks, namely Unicorn International Islamic Bank Malaysia Berhad, PT. Bank Syariah Muamalat Indonesia, Tbk and Al Rajhi Banking & Investment Corporation 5 deposit-taking development financial institutions, 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) | <p>Are branches and subsidiaries of domestic banks outside Malaysia guaranteed?</p> <ul style="list-style-type: none"> No, but they may be guaranteed by a host country's temporary guarantee or their deposit insurance or protection scheme <p>Deposit guarantee limit</p> <ul style="list-style-type: none"> The full amount of guaranteed deposits and instruments held with guaranteed financial institutions <p>Is the guarantee temporary or permanent?</p> <ul style="list-style-type: none"> The guarantee is a temporary measure. It is effective until 31 December 2010 |

APPENDIX

FREQUENTLY ASKED QUESTIONS ON THE TEMPORARY GOVERNMENT DEPOSIT GUARANTEE

- 1. What does the guarantee cover?**

 - The guarantee covers the full amount of specified deposits and instruments held in a number of financial institutions.¹
- 2. Which deposits are 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; and
 - negotiable instruments of deposit held by non-banks.
- 3. Which deposits are not guaranteed?**

Certain deposits are not guaranteed. These are:

 - conventional structured products that are not principal guaranteed;
 - deposits payable outside Malaysia;
 - inter-bank money market placements ;
 - negotiable instruments of deposit held by banks; and
 - repurchase agreements.
- 4. Which financial institutions are guaranteed?**

The financial institutions guaranteed are:

 - all 22 commercial banks and 17 Islamic banks including domestic and locally incorporated foreign banks;
 - all 15 investment banks;
 - three international Islamic banks, namely Unicorn International Islamic Bank Malaysia Berhad, PT. Bank Syariah Muamalat Indonesia, Tbk and Al Rajhi Banking & Investment Corporation; and
- 5. 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.
- 6. I am a non-resident of Malaysia, are my deposits held with banks in Malaysia guaranteed?**

 - Your place of residence or nationality does not matter.
- 7. Is the guarantee a temporary or permanent measure?**

 - The guarantee is a temporary measure until 31 December 2010.
- 8. What is the role of PIDM?**

 - Our role is to administer the deposit insurance system and the temporary Government guarantee. We work with Bank Negara Malaysia (BNM) to ensure that our member banks and the other guaranteed financial institutions do not engage in excessive risk taking and remain well capitalised.

¹ The list of guaranteed financial institutions is provided on page 201.

APPENDIX

FREQUENTLY ASKED QUESTIONS ON THE TEMPORARY
GOVERNMENT DEPOSIT GUARANTEE

9. Has there been a change in premium rates for member banks or fees charged to other financial institutions covered under the guarantee?

- The existing PIDM Differential Premium Systems remain in force. In addition, a fee will be charged for the Government guarantee provided to member banks and other guaranteed financial institutions.

10. Are guaranteed financial institutions members of PIDM and must they comply with its rules and regulations?

- Financial institutions that are not commercial or Islamic banks are not member institutions of PIDM. However, all guaranteed institutions must follow PIDM’s rules and regulations.

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 expires on 31 December 2010. We plan to then revert to an explicit limit and coverage under the deposit insurance system. PIDM continues to monitor developments in the banking system and will evaluate the need to increase the limit and scope of coverage prior to the expiration of the guarantee.

APPENDIX

LIST OF FINANCIAL INSTITUTIONS GUARANTEED UNDER THE
TEMPORARY GOVERNMENT DEPOSIT GUARANTEE

Commercial Banks (22)

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. Malayan 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

* denotes this institution provides Islamic banking services

Islamic Banks (17)

1. Affin Islamic Bank Berhad
2. Alliance Islamic Bank Berhad
3. Al Rajhi Banking and Investment Corporation (Malaysia) Berhad
4. Amlslamic 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
14. OCBC Al-Amin Bank Berhad
15. Public Islamic Bank Berhad
16. RHB Islamic Bank Berhad
17. Standard Chartered Saadiq Berhad

Investment Banks (15)

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

International Islamic Banks (3)

1. Unicorn International Islamic Bank Malaysia Berhad
2. PT. Bank Syariah Muamalat Indonesia, Tbk
3. Al Rajhi Banking and Investment Corporation

Deposit-Taking Development
Financial Institutions (5)

1. Bank Pembangunan Malaysia Berhad
2. Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank)
3. Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat)
4. Bank Simpanan Nasional (BSN)
5. Bank Pertanian Malaysia Berhad (Agrobank)

APPENDIX

GLOSSARY OF TERMS

Agency arrangements

A resolution method involving an arrangement between PIDM, the member institution and an agent bank, where the agent bank acts as the agent of the member institution to manage the orderly winding down of the member institution and meet depositors' claims as they become due.

Assumption of control

Once the member institution has been determined by Bank Negara Malaysia (BNM) to be non-viable or likely to be non-viable, PIDM may take control of part or whole of the business, assets and liabilities of a non-viable member institution pursuant to Section 71(1)(c) of the Malaysia Deposit Insurance Corporation Act 2005 (MDIC Act), in order to give effect to an intervention or failure resolution in accordance with its mandate.

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.

Bridge institution

An institution (separate from the deposit insurer) that would assume and operate part or all of the business, assets and liabilities of a failing member institution, and continue to service depositors, until a purchaser for the business, assets and liabilities can be found to acquire the bridge institution. In other jurisdictions, the bridge institution is often used as a resolution option to preserve the franchise value of the troubled institution, and to allow for more time to address the problems of the institution and find a purchaser.

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, so as to protect depositors.

Conventional Deposit Insurance Fund

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

Depositor Liabilities Information Management System (DLIMS)

An internal PIDM system used to process the depositors' details and deposit accounts, so as to compute the total insured deposit amounts by entity. The system carries out processes that include the aggregation of deposits accounts for the same entity, making payment adjustments, holding back of payments and generating of payment files for further processing by Payment Management.

Depositor Support Management System (DSMS)

DSMS is the communications component of the PIDM Payout System. In the event of a Payout, the PIDM Call Centre, which manages depositor communications, enquiries, and requests, will use the DSMS as an interface to the Payout System.

Differential Premium System

A system to levy premiums on member institutions at differential rates, based on their risk profiles.

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 assistance

The form of financial assistance stipulated under Section 25(2)(a)(ii) to (iv) and Section 25(2)(e) of the MDIC Act provided for the furtherance of PIDM's objects of promoting or contributing to the stability of the financial system.

Financial safety net

Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender-of-last-resort function.

Government Deposit Guarantee (GDG)

The 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

This five-year plan identifies the strategies and initiatives to enhance understanding and awareness 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 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 its development of intervention and failure resolution policies and operating procedures. It outlines PIDM's overall intervention and failure resolution approach and sets out the policies and procedures in relation to the various actions and options available to PIDM to deal with a troubled or failed member institution.

Islamic Deposit Insurance Fund

All premiums received by PIDM from member Islamic banks or member commercial banks providing Islamic banking services and returns made minus the direct costs 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.

Market discipline

Processes such as shareholder activism, the market for corporate control (takeovers and mergers), and other competitive forces that provide incentives for good corporate governance and discipline.

Member institutions / Member banks

Member institutions / member banks are all commercial banks (including foreign banks incorporated 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 MDIC Act. A full list of these banks is available on page 201.

Moral hazard

The incentive for additional risk taking by financial institutions that might arise as a result of the provision of deposit insurance or deposit guarantee on the basis that financial institutions would not suffer the adverse consequences of risk taking.

Other guaranteed financial institutions

These are non-member financial institutions covered under the GDG, namely investment banks, international Islamic banks and deposit-taking development financial institutions regulated by BNM. A full list of these banks and financial institutions is available on page 201.

Payment Management

A process for handling payments to insured depositors, including generating payment statements, keeping payment files and monitoring the payment status.

Payout

A process undertaken by PIDM to reimburse insured deposits to eligible depositors of a non-viable member institution in accordance with Sections 55 and 56 of the MDIC Act.

Purchase and assumption

A resolution method which involves a healthy financial institution or group of investors purchasing part or all of the assets and assuming part or all of the liabilities, including all insured deposits, of a member institution.

Restructuring

A resolution method that involves a reorganisation of a member institution's financial position or in respect of other non-financial areas.

Risk minimiser

A deposit insurer with the powers to reduce the risks it faces. These powers may include the ability to control entry and exit from the deposit insurance system, assess and manage its own risks and conduct examinations of banks, or request for such examinations.

Risk-weighted assets

Risk-weighted assets refer to a concept developed by the Basel Committee on Banking Supervision for determining the CAR. 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 among Islamic scholars) and *Qiyas* (analogy).

Target Fund

A target fund for a deposit insurer, in general, is the level of accumulated funds that is needed in order to adequately cover its expected deposit insurance losses.

Total Insured Deposits

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

APPENDIX

CONTACT DETAILS

For more information about PIDM

- Contact our Customer Service Call Centre
Toll Free **1-800-88-1266**
8.30 am to 5.30 pm, Monday to Friday
- Visit our website at **www.pidm.gov.my**
- E-mail to **info@pidm.gov.my**
- Write to:
Communications and Public Affairs Division
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