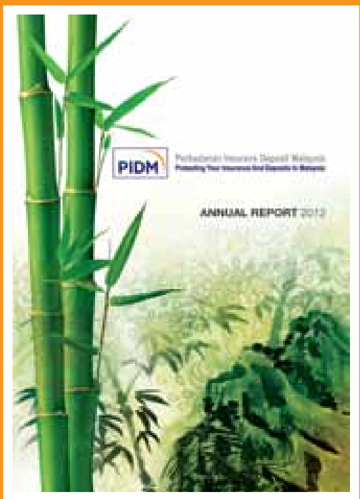
PIDM

Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

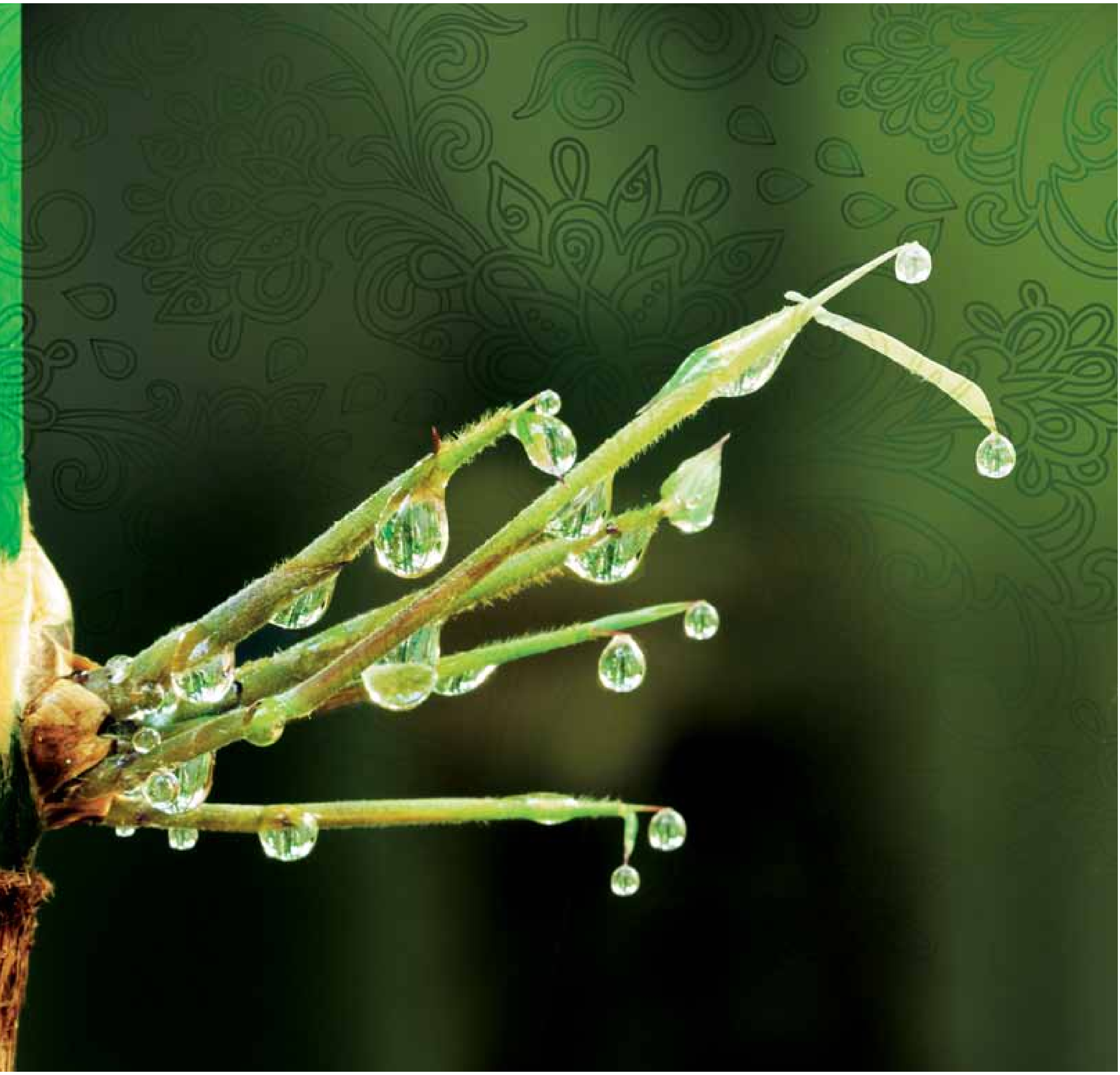
ANNUAL REPORT 2012



As the financial consumer protection authority in Malaysia, PIDM embodies the strength, resilience and dynamism of bamboo as it endeavours to contribute to a stable and robust financial environment for all Malaysians.

PIDM places great emphasis on strong organisational values, sound governance and in harnessing the expertise of its employees to ensure the efficient and effective administration of the deposit insurance system and the takaful and insurance benefits protection system. Inspired by Malaysia's cultural diversity and harmony, PIDM draws strength from these virtues to bring out the best in all that it aspires to.

Moving forward, PIDM will continue to evolve and strive towards greater achievements in order to fulfil its mandate and enhance confidence in the stability of the financial system among the financial consumers of Malaysia.



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

OUR VISION

To be a best practice financial consumer protection authority

OUR MISSION

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

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

OUR CORPORATE VALUES

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

OUR STRATEGIC THRUSTS

- Sound governance
- Operational readiness and excellence
- Public confidence in the financial system

OUR CORPORATE OBJECTIVES

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

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Section 1

INTRODUCTION

Planning

To nurture bamboo's

growth, shape its path

as a young shoot.

INTRODUCTION

CORPORATE PROFILE

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation (MDIC) Act to protect financial consumers.

As an integral part of the national financial safety net system, PIDM administers the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). PIDM reports to Parliament through the Minister of Finance and is currently governed by a nine-member Board of Directors. The Corporation is also known internationally as the Malaysia Deposit Insurance Corporation.

PIDM insures depositors and protects takaful certificate and insurance policy owners in the event of a member institution failure up to limits as set out in the MDIC Act. The Corporation is also mandated to provide incentives for sound risk management in the financial system, as well as to promote or contribute to the stability of the financial system.

PIDM's member institutions comprise all commercial banks (including locally incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983, as well as all insurance companies licensed under the Insurance Act 1996 and all takaful operators registered under the Takaful Act 1984. As at 31 December 2012, PIDM's membership comprises 43 member banks (27 commercial banks and 16 Islamic banks) and 46 insurer members (34 insurance companies and 12 takaful operators).

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

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

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

FINANCIAL SYSTEM STABILITY

In carrying out its functions, PIDM works closely with Bank Negara Malaysia (BNM), the primary regulator and supervisor. The Corporation's working relationship is mandated in the MDIC Act and detailed in a Strategic Alliance Agreement which was updated in 2012. The partnership with BNM is critical, and ensures timely exchange of information on member institutions and collaboration in all significant aspects of our risk assessment and monitoring activities as well as intervention and failure resolution activities.

PIDM also complements the existing regulatory and supervisory framework by providing incentives for member institutions to implement sound risk management practices. PIDM is also empowered to intervene early to reduce or avert losses to the financial system, and has at its disposal, a wide range of legislative resolution tools to deal with distressed member institutions.

The Corporation necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure. Nevertheless, the intervention and resolution powers enable the Corporation to undertake due diligence or special examinations of troubled members. Once a member institution is deemed by the supervisor to be no longer viable, PIDM can intervene and if necessary assume control over the institution or take such resolution action that minimises costs to the financial system.

Timely and clear communications to engender public confidence in the DIS and TIPS are key to PIDM's success in promoting and contributing to the stability of the financial system. As such, the Corporation carries out a multi-year public awareness programme and education initiatives to enhance the level of awareness and understanding about the benefits and limitations of PIDM's financial consumer protection. PIDM publishes and provides information through various channels on the scope of coverage and limits it provides.

INTRODUCTION
THE YEAR AT A GLANCE

PIDM continued to maintain a strong governance framework, sound system of internal controls as well as effective business practices and processes. For 2012, the Corporation's key efforts which are in line with our strategic direction were focussed on initiatives to:

- enhance the organisation's capacity and capability by focussing on enhancing our employee competencies;
- strengthen the Corporation's operational readiness; and
- promote public awareness and education.

In administering the financial consumer protection systems, PIDM has focussed on building a strong foundation and heightened operational readiness in all aspects of our business and affairs. This has continuously strengthened the Corporation's capability and capacity towards the achievement of our goals and in being recognised as a leader in administering an effective integrated financial consumer protection system.

All of our key initiatives as set out in our Corporate Plan 2012 – 2014 were completed within the approved financial plan, with the exception of two information technology-related initiatives, which have been deferred.

HIGHLIGHTS OF PIDM'S ACCOMPLISHMENTS IN 2012

Stakeholders

- Implemented the Integrated Communications Plan initiatives, including advertising via various channels and educated PIDM's stakeholders through briefings, road shows and exhibitions as well as conducted the Corporate Outreach Programme.
- Conducted the first dialogue session for insurer members, separate from the session for member banks, in conjunction with the 2011 Annual Report launch.
- Implemented the Education Programme 2012, with new components on Interschool Thematic Project Competition and National Poster Drawing Competition.
- Continued to maintain good relationships with BNM and other deposit insurers and central banks around the world through participation in the International Association of Deposit Insurers (IADI) and by organising and hosting study visits and workshops.

Governance and Internal Processes

- Held several Board education sessions on topics such as the impact of the Financial Sector Blueprint on PIDM, Takaful and Insurance Risk Assessment Framework, Integrated Communications Plan, Risk Assessment and Monitoring in respect of Member Banks as well as status of PIDM's operational readiness in relation to intervention and failure resolution.
- Continued to demonstrate commitment towards Corporate Social Responsibility (CSR).
- Continued to support the Financial Institutions Directors' Education (FIDE) Programme and the Alumni (FIDE Forum).
- Developed the Differential Levy System (DLS) framework and regulations for conventional insurer members, as well as the Supervisor Validation framework on Return on Calculation of Premium.
- Issued the Note on Takaful Benefits Protection System for takaful operators.
- Incorporated five subsidiaries, namely, four for bridge institutions and one asset management company, for the purpose of intervention and failure resolution event.
- Completed the trial run on the validation of Standard File Format (SFF) for member banks.
- Conducted the first simulation exercise, based on a case study approach, in relation to failure of an insurance company.
- Completed the research on claims management system and infrastructure.
- Implemented the MDIC (Return or Interest on an Index-Linked Deposit held by a Deposit Taking Member) Rules 2012.
- Tested the Business Continuity Plan and Disaster Recovery Plan at our interim Disaster Recovery Site.

Learning and Growth

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

External Recognition

- Received the "Best Annual Report of Non-Listed Organisations" Award for the 2011 Annual Report, by the National Annual Corporate Report Awards (NACRA), for the fourth consecutive year.
- Received the Promotion Marketing Awards of Asia (PMAA) Bronze winner award for the "Best Brand-Building Campaign Award" under the Malaysian Chapter.
- Under the joint International Monetary Fund and World Bank Financial Sector Assessment Program, PIDM was found to be a strong institution and the deposit insurance framework, managed by PIDM, broadly conforms to the "Core Principles for Effective Deposit Insurance Systems" issued by the Basel Committee on Banking Supervision and IADI.

AWARDS AND RECOGNITION

Since its establishment in 2005, PIDM has recorded important achievements in fulfilling its statutory mandate. With great teamwork, a culture of excellence and guided by its vision and mission, the Corporation has risen to greater heights towards being recognised as a best practice financial consumer protection authority.

NACRA 2012 Best Annual Report of Non-Listed Organisations

PIDM has been awarded the "Best Annual Report of Non-Listed Organisations" by the National Annual Corporate Report Awards (NACRA) for the fourth consecutive year. This award acknowledges and recognises excellence in corporate reporting, in line with its objective of promoting greater accountability and transparency in financial reporting.

Winning this prestigious accolade for four consecutive years is a testimony of our continuous commitment to upholding high standards of governance, transparency and disclosure of information to our stakeholders, which is a key requirement for a financial safety net player.

PMAA Bronze Winner for the Best Brand-Building Campaign Award

PIDM, together with its advertising agency, Long's Creative Sdn. Bhd., emerged as the Bronze winner for the "Best Brand-Building Campaign Award" under the Malaysian Chapter, by the Promotion Marketing Awards of Asia (PMAA). This award was in recognition of the communications initiatives executed for the Corporation's 2011 advertising campaign.

PMAA, a regional awards organiser based in Australia, recognises the "best from the best" promotion marketing programmes run in North and South America, Europe, the Middle East, Asia and Australia.

INTRODUCTION

FIVE-YEAR HIGHLIGHTS OF OUR ACCOMPLISHMENTS

2008

Stakeholders
- Hosted the first international Islamic deposit insurance seminar.
- Continued to implement Phase 2 of our five-year Integrated Communications Plan (ICP) 2007 – 2011.

Governance
- Conducted three Board Education sessions.
- Implemented the internal control framework.
- Implemented a risk-based audit planning and auditing process.

Internal Processes
- Implemented the DPS Framework.
- Issued the Terms and Conditions of Membership Regulations and DPS Regulations.
- Implemented the Risk Assessment System (RAS).
- Developed the Intervention and Failure Resolution (IFR) Framework and Contingency Plan.
- Commenced development of the Payout System.
- Conducted Information Technology (IT) infrastructure enhancement.

Learning and Growth
- Developed and implemented the Talent Management Framework and Competency Model.
- Implemented the Learning and Development Needs Analysis and Recognition and Rewards Programme.

Other Achievements
- Developed the framework to administer the Government Deposit Guarantee.
- Developed and implemented the Financial Institutions Directors' Education (FIDE) Programme jointly with BNM.
- Elected as a member of the Executive Council, the governing body for IADI.
- Our current Chief Operating Officer led and chaired the formation of the Islamic Deposit Insurance Group (IDIG) of IADI.

External Recognition
- Received a Financial Management Excellence Award in the Federal Statutory Category by the National Audit Department (NAD).
- Nominated for the "2008 Deposit Insurance Organisation of the Year" Award.
- Recipient of the "Certificate of Merit" Award for the 2007 Annual Report, presented at the NACRA 2008.

2009

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

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

Internal Processes
- Commenced development of the detailed processes, policies and procedures for intervention and failure resolution activities.
- Implemented Phase 1 of the Payout System i.e. Depositor Liabilities Information Management System (DLIMS) and Depositor Support Management System.
- Developed the Target Fund and Provisioning Framework.
- Implemented the Information Classification Policy and the Policy and Procedures on Public Disclosure of Information.
- Implemented the External Auditor Validation Programme on DPS and Return on Total Insured Deposits.
- Conducted IT Network and security infrastructure enhancements.
- Developed the Business Continuity Plan and Haze and Infectious Disease Plan.

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

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

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

2010

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

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

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

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

Other Achievements
- Developed and implemented the transition package to exit the Government Deposit Guarantee.
- Recommended a new Act to replace the Malaysia Deposit Insurance Corporation Act 2005 and developed requisite regulations.
- Undertook the development and implementation of the Takaful and Insurance Benefits Protection System (TIPS).

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

2011

Stakeholders
- Implemented the enhanced PIDM Project MoneySmart, which included TIPS-related questions in the MoneySmart Online Game.
- Implemented the Provision of Information on Deposit Insurance Regulations 2011.
- Executed a Memorandum of Understanding with the Central Deposit Insurance Corporation, Taiwan to promote cooperation and collaboration through sharing and transfer of knowledge.

Governance
- Conducted four Board Education sessions.
- Implemented the Board succession plan and recommended the appointment of one new Director to the Board.
- Completed the remaining ERM Board Risk Policies on Reputation Risk, Assessment and Monitoring Risk, Strategic and Governance Risk, Operational Risk as well as IFR Risk.

Internal Processes
- Issued guidelines to insurer members and enhanced guidelines applicable to member banks.
- Developed the comprehensive Risk Assessment Methodology and Framework as well as the Supervisor Validation for the Returns on Calculation of Premiums for TIPS.
- Completed the integration between the Payout System modules.
- Developed the audit programme for DLIMS to ensure the integrity of payout data.
- Conducted two mini simulations and a 2.5 day simulation exercise on IFR.
- Developed the Authority Matrix for the day to day administration of the business and affairs of the Corporation.
- Completed the development of the interim Disaster Recovery Site (DRS) and tested the Business Continuity Plan.

Learning and Growth
- Developed the Knowledge Management framework in support of continuous knowledge sharing among the employees.
- Conducted training sessions on IFR for all employees.

External Recognition
- Recipient of the "2011 Deposit Insurance Organisation of the Year" Award, presented by IADI.
- Recipient of the NACRA 2011 for "Best Annual Report of Non-Listed Organisations" Award for our 2010 Annual Report.

2012

Stakeholders
- Implemented the first year of the ICP 2012 – 2016.
- Conducted the first separate dialogue session for insurer members, in conjunction with the 2011 Annual Report launch.
- Implemented the Education Programme 2012, with new components.

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

Internal Processes
- Developed the Differential Levy System (DLS) framework and regulations for conventional insurer members.
- Developed the Supervisor Validation framework on Return on Calculation of Premium for TIPS.
- Implemented the MDIC (Return or Interest on an Index-linked Deposit held by a Deposit Taking Member) Rules 2012.
- Incorporated five subsidiaries, namely, four bridge institutions and one asset management company, for the purpose of IFR.
- Conducted the first simulation exercise on failure of an insurance company.
- Completed the trial run on the validation of Standard File Format (SFF) for member banks.
- Completed the research on claims management system and infrastructure.
- Tested the Business Continuity Plan and Disaster Recovery Plan at our interim DRS.

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

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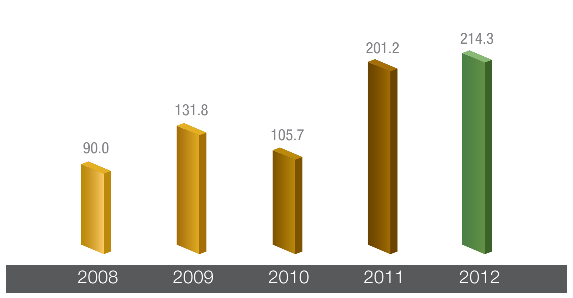
- Recipient of the NACRA 2012 for "Best Annual Report of Non-Listed Organisations" Award for our 2011 Annual Report.
- Recipient of the Promotion Marketing Awards of Asia (PMAA) Bronze winner award for the "Best Brand-Building Campaign Award" under the Malaysian Chapter.
- Under the joint International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

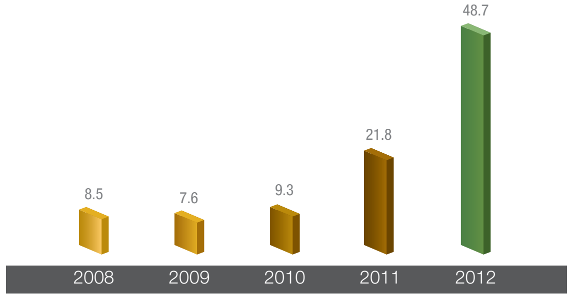
INTRODUCTION
FINANCIAL SUMMARY: FIVE-YEAR PERFORMANCE

PREMIUM REVENUES



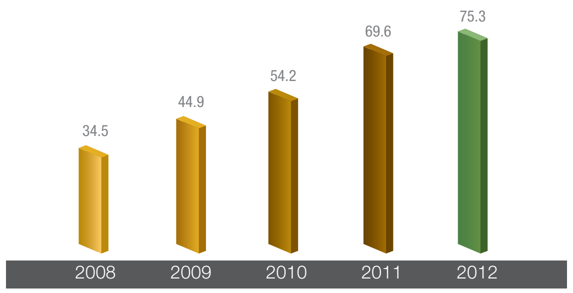
Amount denoted in RM Million

INVESTMENT INCOME



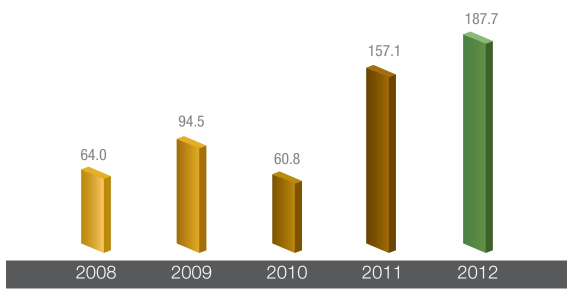
Amount denoted in RM Million

OPERATING EXPENDITURES



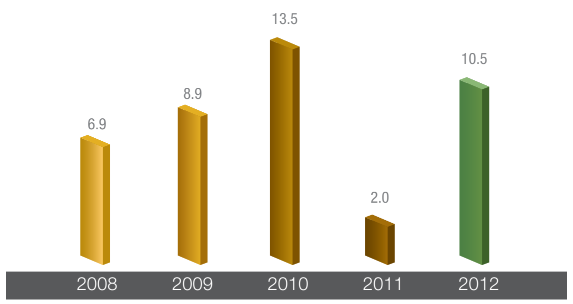
Amount denoted in RM Million

OPERATIONAL NET SURPLUS



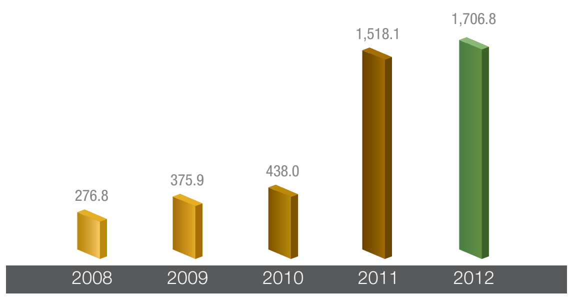
Amount denoted in RM Million

CAPITAL EXPENDITURES CONTRACTED



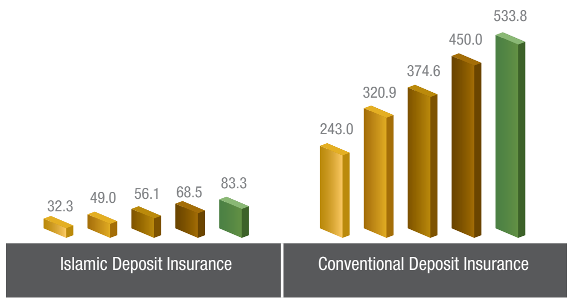
Amount denoted in RM Million

TOTAL ASSETS



Amount denoted in RM Million

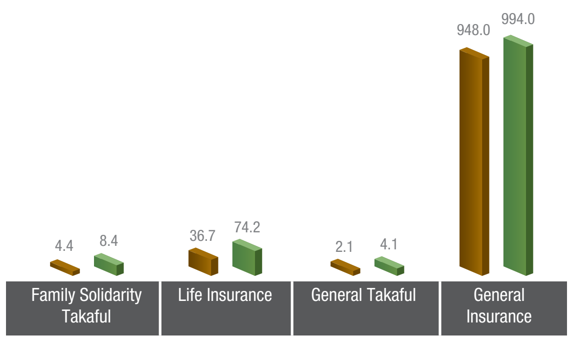
DEPOSIT INSURANCE FUNDS



Amount denoted in RM Million

2008 2009 2010 2011 2012

TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS



Amount denoted in RM Million

2011 2012

	2012	2011	2010 RM Million	2009	2008
SELECTED ITEMS FROM THE STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER					
Premium Revenues	**214.3**	**201.2**	**105.7**	**131.8**	**90.0**
Deposit Insurance Funds	126.5	120.5	105.7	131.8	90.0
Takaful and Insurance Benefits Protection Funds	87.8	80.7	-	-	-
Investment Income	**48.7**	**21.8**	**9.3**	**7.6**	**8.5**
Deposit Insurance Funds	16.5	12.9	9.3	7.6	8.5
Takaful and Insurance Benefits Protection Funds	32.2	8.9	-	-	-
Gains / (losses) from sales of available-for-sale investments	**-**	**3.7**	**-**	**-**	**-**
Deposit Insurance Funds	-	-	-	-	-
Takaful and Insurance Benefits Protection Funds	-	3.7	-	-	-
Operating Expenditures	**75.3**	**69.6**	**54.2**	**44.9**	**34.5**
Operational Net Surplus	**187.7**	**157.1**	**60.8**	**94.5**	**64.0**
Moneys and investments received from Insurance Guarantee Scheme Funds	**-**	**922.4**	**-**	**-**	**-**
Net Surplus for the Year	**187.7**	**1,079.5**	**60.8**	**94.5**	**64.0**
Net unrealised gains / (losses) on available-for-sale investments	**0.4**	**(0.6)**	**-**	**-**	**-**
Total Comprehensive Income	**188.1**	**1,078.9**	**60.8**	**94.5**	**64.0**
SELECTED ITEMS FROM THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER					
Total Assets	**1,706.8**	**1,518.1**	**438.0**	**375.9**	**276.8**
Total Liabilities	**9.0**	**8.4**	**7.3**	**6.0**	**1.5**
Funds and Reserves	**1,697.8**	**1,509.7**	**430.7**	**369.9**	**275.3**
Deposit Insurance Funds	**617.1**	**518.5**	**430.7**	**369.9**	**275.3**
Islamic Deposit Insurance Fund	83.3	68.5	56.1	49.0	32.3
Conventional Deposit Insurance Fund	533.8	450.0	374.6	320.9	243.0
Takaful and Insurance Benefits Protection Funds	**1,080.7**	**991.2**	**-**	**-**	**-**
Family Solidarity Takaful Protection Fund	8.4	4.4	-	-	-
Life Insurance Protection Fund	74.2	36.7	-	-	-
General Takaful Protection Fund	4.1	2.1	-	-	-
General Insurance Protection Fund	994.0	948.0	-	-	-
Total Liabilities, Funds and Reserves	**1,706.8**	**1,518.1**	**438.0**	**375.9**	**276.8**

INTRODUCTION
GOING FORWARD

PIDM's Corporate Plan is a dynamic three-year rolling Corporate Plan, which sets out the strategic direction, focus and priorities that drive the activities of the Corporation over the planning period 2013 – 2015 to ensure effective and efficient fulfilment of the Corporation's mandate.

As the Corporation progresses towards its ninth year of operations, our efforts and resources will be to continually strengthen the state of operational readiness as a financial consumer protection authority focussed on actively protecting depositors and policy holders. Our focus will include enhancing employees' competencies, ensuring our policies and processes, systems and practices are kept current and relevant as well as focussing on our public awareness and education initiatives to increase the level of awareness about DIS, TIPS and PIDM. In demonstrating the traits of a well-governed and well-managed organisation, PIDM will continue to subscribe to relevant best practices and performance in all areas.

MESSAGE FROM THE CHAIRMAN

TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

INTRODUCTION

In 2010, some of the world's senior global financiers committed to "a larger social and moral purpose which governs and limits how they behave"[1], in an effort to restore trust and confidence and stave off regulatory intervention. Two years later, we continue to see evidence of behaviour in large banks that can only lead to disquiet. Earlier in 2012, five top US banks negotiated a USD25 billion settlement with the US Justice Department and other federal and state agencies to resolve allegations of mortgage services abuses. In June, Barclays settled London-Interbank Offered Rate (LIBOR) rigging investigations at a sum of USD450 million. By December, UBS had paid USD1.5 billion in penalties to authorities for similar reasons. At the end of the year more than a dozen banks were under investigation for manipulating reports used in setting LIBOR rates, so that they could make profits and look strong during the financial crisis.

According to the Economist[2], Greece's economic clock, measured through various indicators of economic health, has been rewound by over 12 years. Parts of the Euro area have lost seven years or more. Britain, eight years. The US, 10 years. This means the loss of property wealth, jobs, pension fund wealth – all with profound impact on standards of living and the livelihoods of many for years to come.

As more scandals unfold, further regulatory backlash appears inevitable. Whilst the implementation of regulatory change appears to be a slow and difficult process, we can expect no turning back. There can only be more pressure for governments and regulators to press on with the implementation of rules and regulations, and, at an international level, for the implementation of Basel recommendations.

OUR ENVIRONMENT

We are fortunate in Malaysia that the stage of development of our financial system and our regulatory infrastructure has not been conducive to similar outcomes. At the same time, we must always assume that things can change, and we must draw lessons from the experiences of others.

Some of the blame for the crisis has been laid at the doors of financial deregulation. On its impact in other jurisdictions, I would quote a passage in an Asian Development Bank Institute (ADBI) working paper[3], which states:

> *"With financial deregulation in key jurisdictions like the US and the United Kingdom, as well as in most other countries, financial institutions also grew in complexity. Financial conglomerates began to include all financial functions under one roof: banking, insurance, asset management, proprietary trading, investment banking, brokerage, and the like. The consequence has been inadequate appreciation and assessment of the emerging risks, both within institutions and system wide." (emphasis added)*

Closer to home, we have just seen the culmination of a comprehensive review of financial services legislation, in the form of the Financial Services Act and the Islamic Financial Services Act. This review was aimed, as stated in the Financial Sector Blueprint 2011 - 2020, "… to ensure that regulatory laws remain current in the emerging landscape, with safeguards to support greater financial sector liberalisation and financial integration."

1 The Financial Times, 29 September 2012
2 February 25th 2012
3 http://www.adbi.org/working-paper/2011/03/25/4495.emerging.contours.financial.regulation/shortcomings.in.financial.regulation.and.supervision/

INTRODUCTION
MESSAGE FROM THE CHAIRMAN

In the face of growth of our industry, liberalisation and increasing cross-border activities, this review was timely, and the new legislation sets the foundation for a balanced development of our financial services industries, providing at the same time the necessary powers to address systemic issues should they arise.

FROM FORM TO SUBSTANCE

Interesting provisions in these Acts are those that set out the duties of directors in financial institutions. In addition to the duties of a director of an ordinary company, the director of a financial institution is explicitly called upon to have regard to the interests of their customers - depositors; insurance policy owners; or takaful certificate owners as the case may be. They are also called upon to have regard to the long term viability of the institution and reasonable standards of fair dealing[4].

In the case of banks, for example, banks have a high gearing of outside creditors (mostly depositors) to shareholders' funds; thus depositors must have confidence in banks. The payments mechanism also depends on banks having confidence in one another. Therefore, it is clear that the responsibilities of the owners and managers of banks to depositors should have more than ordinary significance.

The significance of this law, in my mind, is more than just a regulatory statement of the extent of a director's duty in a financial institution. It is a recognition that corporate governance must take greater cognisance of behaviour that will, ultimately, result in the common good.

From experience, we observe that regulation by itself does not rein in excessive exuberance, excessive risk-taking or fraud. Regulation may be too costly to comply with, or too complex. Or, in the face of too much regulation, loophole-hunting activities take place. Moreover, there is always the fear that over-regulation will stifle innovation.

I would accept that sound regulatory frameworks and supervision are essential. However, from observations of the past, I believe it is also clear that relying on regulation alone and ignoring corporate and individual ethical issues is not the solution to over-exuberance or short-termism. Neither, in an environment where trust is lost, will it be regulation that regains that trust. The solution is the instillation of values and culture across the industry which accepts that, ultimately, our success – and in some circumstances, our very existence – depends on the willingness of stakeholders that provide us with funding to continue to do so.

CORPORATE GOVERNANCE

Hence, on our part, together with Bank Negara Malaysia (BNM), we continue to encourage sound risk management among member institutions and to promote a sound corporate governance culture, through initiatives such as our Differential Levy System and the Financial Institutions Directors' Education (FIDE) Programme.

Back at PIDM, our Board in 2012 continued to subscribe to best practices in governance. In particular, we focussed on our performance as a strategic Board and Directors' education.

As a Board, we wished to ensure that we were performing effectively. In accordance with our Board evaluation process, we held a meeting to specifically discuss our performance as a Board, and to see if there was room for improvement. Among others, we asked ourselves if we needed to have a separate Board Risk Committee. After some research and deliberation, we concluded that it is important for the Board itself to undertake the monitoring of the risk to our funds and the financial system, and insofar as other risks are concerned, and given the nature of these risks, it is adequate to have the Audit Committee continue to support the Board in this role.

Our Board members attended several briefing sessions on significant aspects of our business and affairs, as well as international events, so that we can learn more about the industry and about developments around the world in this field. We believe that educating our Board members is critical, so that we are updated, able to challenge Management effectively, and have a strategic perspective of the future.

On the regional level, we participated in yet another tripartite meeting hosted by the Deposit Protection Agency, Thailand, with the governing bodies of the deposit insurers of Thailand and Indonesia and their management. In doing so, we continued to build networks and to learn from each other. We also followed closely the developments in other jurisdictions, as well as the changes in financial services legislation to assess its possible impact on us.

Our commitment to corporate governance arises – not just to assure our credibility and accountability – but because during a crisis, it is important to have established governance arrangements that ensure the proper flow of information, as well as to have clarity in the roles and responsibilities of the Board and Management, so as to ensure prompt, objective and well-informed decisions. Further, our commitment to corporate governance also allows us to draw from effective practices from the private sector. In particular, we integrate our strategic and corporate planning within our compliance, control and risk management frameworks. We continue our work on corporate governance and strive to report as diligently as possible on our work on governance. I refer you to our Statement on Governance (found on page 39) for details.

Going forward, we plan to continue with the Board's education and we have a programme for 2013 already in place. We will also continue to monitor the progress of our plans for Board

[4] Section 56 of the Financial Services Act and section 65 of the Islamic Financial Services Act

and Management succession with a view to ensuring the continuing sustainability of our organisation.

OTHER WORK IN 2012

Our Annual Report provides a detailed account of our work to design an effective deposit insurance system and our considerable focus, in 2012, to ensure that we are operationally ready to carry out our expanded mandate for the Takaful and Insurance Benefits Protection System (TIPS). Our Chief Executive Officer (CEO)'s message also describes our stage of development, the effectiveness of our design, and how, given what we have seen around the world, we have spent much time dealing with the matter of moral hazard. I would refer you to the report for more detail.

An encouraging observation from visitors from the International Monetary Fund (IMF) and the World Bank during the Financial Sector Assessment Program was that there is a strong culture of cooperation among safety net members, particularly between PIDM and BNM. In 2012, we reviewed the Strategic Alliance Agreement (SAA) between PIDM and BNM, initially signed in 2006 during the inception of the Deposit Insurance System. The SAA makes it clear how we will collaborate and coordinate our activities to ensure clarity about our respective roles and to minimise duplication, and therefore regulatory costs and burdens on the industry. It provides for the coordination of risk assessments, resolutions of member institutions as well as requirements on regulatory reporting. It also establishes protocols for regular consultation and exchange of information concerning developments in the industry to promote optimal financial stability outcomes. The SAA was revised and signed on 19 April 2012, to take into consideration our expanded mandate to include TIPS, signifying our continued readiness to work together for the stability of the financial system.

GOING FORWARD

2013 is likely to be yet another challenging year, with global growth remaining modest. At the same time we expect that Malaysia will continue to weather the global economic storm, as our economy continues its growth trajectory with its buffer of domestic demand. We will nevertheless constantly monitor new developments and keep a vigilant eye on emerging risks.

Going forward, we will take full advantage of this stable economic environment to continue our residual workload. We will continue to ensure the effectiveness of our Deposit Insurance System, while ensuring that we are prepared to carry out our new responsibilities under the Malaysia Deposit Insurance Corporation (MDIC) Act 2011 in relation to TIPS. On TIPS, we continue to build our capacity to implement our mandate under the MDIC Act; and our Corporate Plan objectives outline the steps we will take to ensure that we are prepared to exercise our powers if it becomes necessary. We will ensure at all times that we can meet our core statutory objectives to protect and insure depositors, insurance policy owners and takaful participants. We will monitor and help address risks in member institutions, ensure compliance with our laws and regulations, and be ready if needed to intervene or resolve failed member institutions.

CONCLUSION

Given our history, foundations and the resilience of our people to-date, I am confident that we will do well in our future endeavours. To all my fellow Board members, I thank them for their invaluable support. As a Board of a statutory body, we must have foresight and lead by example. We must motivate and inspire on an ethical basis and demonstrate our commitment to our responsibility to the public. In this, we do not plan to disappoint.

I would like to extend our deepest gratitude to Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah, who left the Board upon his retirement as the Secretary General of Treasury in August 2012. His considerable support to PIDM is much appreciated, especially during the heights of global financial instability in 2008. I take this opportunity to also extend a warm welcome to his successor, the current Secretary General of Treasury, Dato' Sri Dr. Mohd Irwan Serigar Abdullah, who brings with him over 30 years of experience in the public sector. I have no doubt that PIDM will benefit greatly from his extensive experience and expertise.

As always, we express our appreciation to our CEO, Mr. JP Sabourin. With his deep background in deposit insurance, he has been able to demonstrate his adaptability whilst addressing the many and varied challenges we have faced. His insistence on creating and maintaining a values-based and strong corporate culture will set the foundations for long-lasting success. As for our employees, we are indebted to them for their enthusiasm, eagerness to learn, and commitment to the Corporation's goals.

I take this opportunity to thank our strategic partners, including BNM, the Government, external auditors, and our member institutions, for their continued and highly valued engagement in our endeavours. We deeply appreciate their support and collaboration.

Finally, I would like to thank our other stakeholders, the member institutions, for engaging with us in various aspects of our work. Your input on the development of our rules and regulations helps us understand the industry better and allows us to come up with solutions that are both effective and practical. I thank you also for participating in the FIDE Programme and in FIDE Forum activities. Your collaboration in our corporate governance initiatives will set the foundations for the nation's banking and insurance industry to carry forward a relationship of trust with the public well into the future.

On behalf of the Board, I am pleased to present to you PIDM's Annual Report, which details our achievements in 2012.

TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

INTRODUCTION
BOARD OF DIRECTORS

From left to right:

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

INTRODUCTION

BOARD OF DIRECTORS: MEMBERS AND PROFILES

Tan Sri Datuk Dr. Abdul Samad Haji Alias
Chairman

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

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

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz

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

As the Governor, she has a key role in monetary policy formulation and implementation and in ensuring stability of the Malaysian financial system. She has overseen the successful transformation of the Malaysian financial system into one of the most developed and resilient financial systems amongst the emerging economies.

Dr. Zeti is actively involved in shaping the future of financial cooperation in the Asian region and is an important voice for the emerging economies in the international financial fora. She chaired the Executives' Meeting of East Asia-Pacific Central Banks Taskforce on "Regional Cooperation among Central Banks in Asia" to draw up the blueprint for future regional financial cooperation. Dr. Zeti is a member of the Bank for International Settlements (BIS) Central Bank Governance Group and is one of the founding members of the Asian Consultative Council for the BIS. Dr. Zeti also continues to be actively involved in the development of Islamic finance domestically and internationally. She served as the Islamic Financial Services Board Council Chairman for the 2007 term, and was also the Chairperson of the International Islamic Liquidity Management Corporation (IILM) Governing Board until 2011. Dr. Zeti is currently the Chairperson of the IILM's Board Executive Committee. Dr. Zeti was 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 examine possible reforms in the global financial system.

Dr. Zeti received her Bachelor of Economics (Honours) from the University of Malaya and her PhD from the University of Pennsylvania.

Dato' Sri Dr. Mohd Irwan Serigar Abdullah

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

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

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

Dato' Sri Dr. Mohd Irwan also serves as a board member of notable organisations including PETRONAS, SYABAS, Malaysian Airline System (MAS), Cyberview, Tabung Haji (TH), Kumpulan Wang Persaraan (Diperbadankan), Inland Revenue Board of Malaysia, Suruhanjaya Pengangkutan Awam Darat (SPAD), Suruhanjaya Koperasi Malaysia (SKM) and the International Islamic University of Malaysia.

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

Datuk Dr. Rahamat Bivi Yusoff

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

Datuk Dr. Rahamat Bivi is the Director General of the Economic Planning Unit (EPU) in the Prime Minister's Department. She has served the Government for almost 30 years in various capacities, starting as Assistant Secretary (Tax Division) and then as Assistant Secretary (Contract and Supplies Division) in the Ministry of Finance, Project Officer in the National Institute of Public Administration, Assistant Director and subsequently Deputy Director in the Macro Economics Section of the EPU, Principal Assistant Director of its Industry and Services Section, and as Director in the Industrial Development Department of the Energy Commission. Datuk Dr. Rahamat Bivi sits on the boards of various companies, including FELDA, MRT Corporation, Johor Corporation and the Malaysia-Thailand Joint Authority. She is also the Chairperson of Unit Peneraju Agenda Bumiputera (TERAJU). Datuk Dr. Rahamat Bivi holds a Masters degree in Economics from the University of Western Michigan and a doctorate from Australian National University, a Bachelor of Social Science (Economics) (Hons) from Universiti Sains Malaysia and a Diploma in Public Administration from the National Institute of Public Administration.

Dato' Halipah Esa

Dato' Halipah Esa was appointed as a Board Member on 14 August 2010 and her current term continues until 15 August 2013.

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

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

INTRODUCTION

BOARD OF DIRECTORS: MEMBERS AND PROFILES

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

Mr. George Anthony David Dass

Mr. George Anthony David Dass was appointed as a Board Member on 3 February 2009 for a three-year term. His term of appointment has been extended for another two years until 2 February 2014.

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

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

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

Mr. Lim Tian Huat

Mr. Lim Tian Huat was appointed as a Board Member on 14 August 2010 and his current term continues until 15 August 2013.

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

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

He is a Director of UEM Land Holdings Berhad, Malaysia Building Society Berhad and PLUS Malaysia Berhad. He is also a Director of Bank of Yingkou, China.

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

Mr. Alex Foong Soo Hah

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

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

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

Encik Mohamad Abdul Halim Ahmad

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

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

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

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER
JEAN PIERRE SABOURIN

The word "credit", I recently learnt, comes from the Latin word "credere", which means "to believe". "When we … lend money, it is both an act of trust and confidence. Lenders have to trust the borrower to pay money back[5]". The writer, Phillip Coggan, says this about banks, which give credit in the confidence that their customers will pay back the money lent.

As I was pondering the word "credit", it struck me that this is also true for customers providing credit to banks. When a bank's depositors place their money with a bank, they become the bank's lenders and the largest class of the bank's creditors. Depositors must therefore believe and have confidence that banks will pay them back what they are owed.

In times of financial crisis this confidence is often shaken, heightening the risk of bank runs by creditors who no longer believe they will be repaid. This is why the role of the deposit insurer as a financial safety net player has gained even greater prominence in recent years. The global financial crisis has also compelled many countries to re-examine insurance compensations schemes. Aside from the direct protection to the consumer, statutory insurance for member failures also helps to ensure that there is no wider instability in the financial system. Financial compensation schemes – often a preventative measure – help to underpin consumer confidence in their providers and support overall financial stability.

THE RIGHT DESIGN

Clearly, it is critical not to just establish a fund to address member failure – this will not serve to prevent bank runs, if, for example, the public knows nothing about it or if there is no confidence in the ability of the deposit insurer to pay its liabilities. What we must have is a deposit insurance system that has been properly designed so that it is *effective.* In particular, for such systems to work, they should include features that minimise the impact of the moral hazard that comes with Government-backed guarantees.

Given PIDM's relatively short history, one would naturally ask – how has PIDM worked to ensure it has an effective deposit insurance system? To answer this, I will touch on two significant areas for the Corporation in 2012:

(a) The assessment of our Deposit Insurance System (DIS) against the International Association of Deposit Insurers' Core Principles For Effective Deposit Insurance Systems; and
(b) Our work on differential premium systems.

[5] Phillip Coggan, "Paper Promises, Money, Debt and the New World Order" (2012)

INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

(a) Core Principles for Effective Deposit Insurance Systems

In 2012, we participated in the first review of Malaysia under the joint International Monetary Fund and the World Bank Financial Sector Assessment Program (FSAP)[6]. This programme not only provides an independent assessment of our adherence to global standards and best practices, but also recommends actions to address identified shortcomings. As part of the FSAP, our system was assessed against the 18 principles of the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems (Core Principles). These Core Principles set an important benchmark for countries to use.

We have, as a matter of fact, referred to the Core Principles in addressing issues ranging from matters such as deposit insurance coverage; funding; prompt reimbursements; public awareness; resolution of failed institutions; and cooperation with other safety net participants including central banks and supervisors. Drawn from experiences of many jurisdictions, the Core Principles have guided us in the establishment and administration of our DIS.

In 2012, among others, we strengthened our cooperation with Bank Negara Malaysia, refining the terms of our Strategic Alliance Agreement to address our expanded mandate and achieve greater clarity about our respective roles in specific areas. We continued our work on readiness for prompt reimbursements and other intervention and failure resolution options. As for enhancing public awareness about PIDM and our protection systems, I am also pleased to note the results of our survey on public awareness levels in 2012. Awareness levels are now at 48% about PIDM, 42% about DIS and 34% about the Takaful and Insurance Benefits Protection System (TIPS), well within the target levels set for the year.

Insofar as overall effectiveness of our DIS is concerned, I am pleased to be able to confirm that we are compliant with the vast majority of the Core Principles. We continue to work on the areas that are identified for improvement.

(b) Moral Hazard and Differential Premiums

When the potential costs of the risks of the members are borne by a statutory insurer, the moral hazard that comes with it must clearly be addressed. In addition to regulation and monitoring, charging variable premiums according to risk – a solution familiar to the private sector – provides incentives for members to adopt sound risk management. As you would expect, differential premium systems also provide fairness for member institutions, with higher-risk institutions having to pay their fair share of the costs of monitoring, intervention and problem resolution.

Our Differential Premium Systems for member banks has been implemented since 2008. With our expanded mandate for TIPS, in 2012 we completed a differential premium system (the Differential Levy System or DLS) for the conventional aspects of TIPS, which will apply from the year of assessment 2013. The interim framework for takaful operators will be developed in the near future, with a view to implementation in 2014.

As its objective is to encourage robust risk management behaviour, a differential premium system is a risk and cost-reduction tool. Combined with continued monitoring, differential premiums increase the effectiveness of the Corporation's risk reduction efforts, reducing the likelihood of claims against its funds. This will, in time, help diminish the risks of insurance losses to the Corporation's funds, with a possible impact on the required size of the Corporation's funds.

Given the many benefits of differential premiums, we are pleased with the progress of our risk-adjusted premiums systems. We look forward to working with the industry, as we did in 2012, this time on the challenge of developing an effective DLS for takaful operators.

A STRATEGY FOR GOOD AND BAD TIMES

We are concerned not only about "design" but also about the effectiveness of our strategy to achieve our mandate. I would like to highlight our approach in 2012 in the context of our history and long-term strategy.

[6] The FSAP is a comprehensive and in-depth analysis of a country's financial sector to help identify strength and weaknesses of their financial systems

As discussed earlier, our institutional design must be right – in particular, we must have a clear mandate, operational independence and accountability. All this is set out in the Malaysia Deposit Insurance Corporation Act 2011, with our role clearly articulated in its preamble. For this, we have to thank Bank Negara Malaysia, which developed the concept for our DIS following the Financial Sector Masterplan 2000 – 2010.

From an early stage, we have adopted the belief that it is critical to maintain a strategy that works both in good and bad times. Our approach has been to build and continually strengthen the organisation with the following perspectives:

(a) Given our mandate and accountability, our organisation must be properly governed and effectively managed.

(b) We must be operationally ready to perform our mandate. This means taking the time needed to plan for and establish our infrastructure – policies, procedures and systems – at all times monitoring the risks to our funds and the financial system.

(c) Significantly, we must ensure that we have the right quantity and quality of resources to perform in what is a highly specialised field of providing Government-backed statutory insurance and as a risk-minimiser. In what is essentially a new area in Malaysia, this calls for considerable learning and development.

I will touch on the stage of our operational readiness and our emphasis on learning and development:

(a) **Building operational readiness.** Bank Negara Malaysia's Financial Sector Masterplan 2000 – 2010 timed the establishment of the DIS whilst the banking system was experiencing a healthy average growth rate of 8.1%. The timing of the introduction of deposit insurance in 2005, therefore, allowed us to focus on ensuring the proper design of our system as well as on developing the supporting infrastructure and competencies, taking a risk-based approach. To ensure continued stability on the exit of the 2008 Government Deposit Guarantee, in 2011 we were called upon by Government to also administer TIPS. With our expanded role, we found ourselves having to address the new challenges that came with our expanded mandate for TIPS. Thus, in 2012, we were occupied, among others, with many key but necessary initiatives needed to support the effective administration of TIPS. A report on the progress of our key initiatives is fully presented in this Annual Report.

(b) **Resources and learning and development.** Nobel Prize-winning economist Gary S. Becker, to whom the term "human capital" is sometimes attributed, says that "the basic resource in any company is the people". In PIDM, intellectual capital is critical. For 2012, two of the most significant human capital activities that come to my mind are these: (i) with our expanded mandate, we carried out extensive searches to acquire the right skills and experience to help carry out our work on TIPS; and (ii) we continued the development of our people. On Becker's theory, human capital is a means of production – and the more investment we make into our people, the greater the additional output. We subscribe to the need for our people to learn and develop, both as an investment, and to encourage retention by offering opportunities for development. Further, when we were developing our Corporate Plan for 2012 – 2014, we realised that we were at a stage of development where talent management and succession are important to ensure the long term sustainability of the organisation's success. Leadership and management development must happen, as individuals take greater responsibility and more strategic roles. In 2012, therefore a leadership framework and programme for all managers was developed and implemented and will continue into 2013.

Whatever our contributions to financial stability and the reduction of risks to-date, we recognise the challenge of being in a field where your existence and effectiveness – in some eyes – really only receives real acceptance when there is a crisis. We do not shirk this reality. Rather, we make and execute our plans to ensure that we are ready to meet the challenge when called upon.

Key among these plans – aside from being operationally ready – are two things. One, we aim to learn as much as we can from the experiences of others. Going forward, we will continue to learn valuable lessons from the history and experiences of others, working closely with other financial safety net participants and cementing our relationships with other deposit insurers and similar organisations. This is important, in order for us to come quickly up a steep learning curve. We will continue to participate actively in the international arena, learning as we always have in the past from first-hand accounts of resolution experiences with financial institution failures, establishing important networks and exchanging ideas.

The second thing – and this is a dimension of performance in our business that cannot be neglected – is to ensure that we have people who will be able to deal with a crisis when it arises; the ability to confront crises with a calm-eye, assess the risks, to look upon them as an opportunity to excel, and to engage our employees into solving the problem. Handling situations under pressure calls for a clear head, but just as importantly, the ability to improvise, and perseverance.

INTRODUCTION

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

CONCLUSION

In a situation of stress, information, decision-making and communication are all critical. As studies of military teams show, teams that perform well under stress as those that can adapt to different demands, and are able to anticipate the informational needs of their commanders. Without complete information, decision-making will be faulty.

As member institutions would be aware, our initiatives include ensuring that we can have the right information during a crisis. We have also worked to ensure communications lines will be clear during a crisis – with other financial safety net players, among the Board and Management, and among our team members. We will continue simulations so that we are practised in undertaking the systematic consideration of all suitable alternatives even under situations of stress. We plan to continue training our leaders and ensuring that teamwork is emphasised as a critical value to the Corporation.

We recognise that continuing to build relationships with our strategic partners, including Bank Negara Malaysia, the Ministry of Finance and its Solicitor, the Attorney General's Chambers, the National Audit Department, and our member institutions, must be a key focus for us going forward. Without them and without clarity about our respective roles, we will not be able to effectively carry out our mandate. I firmly echo our Chairman's expression of gratitude to each of our strategic partners.

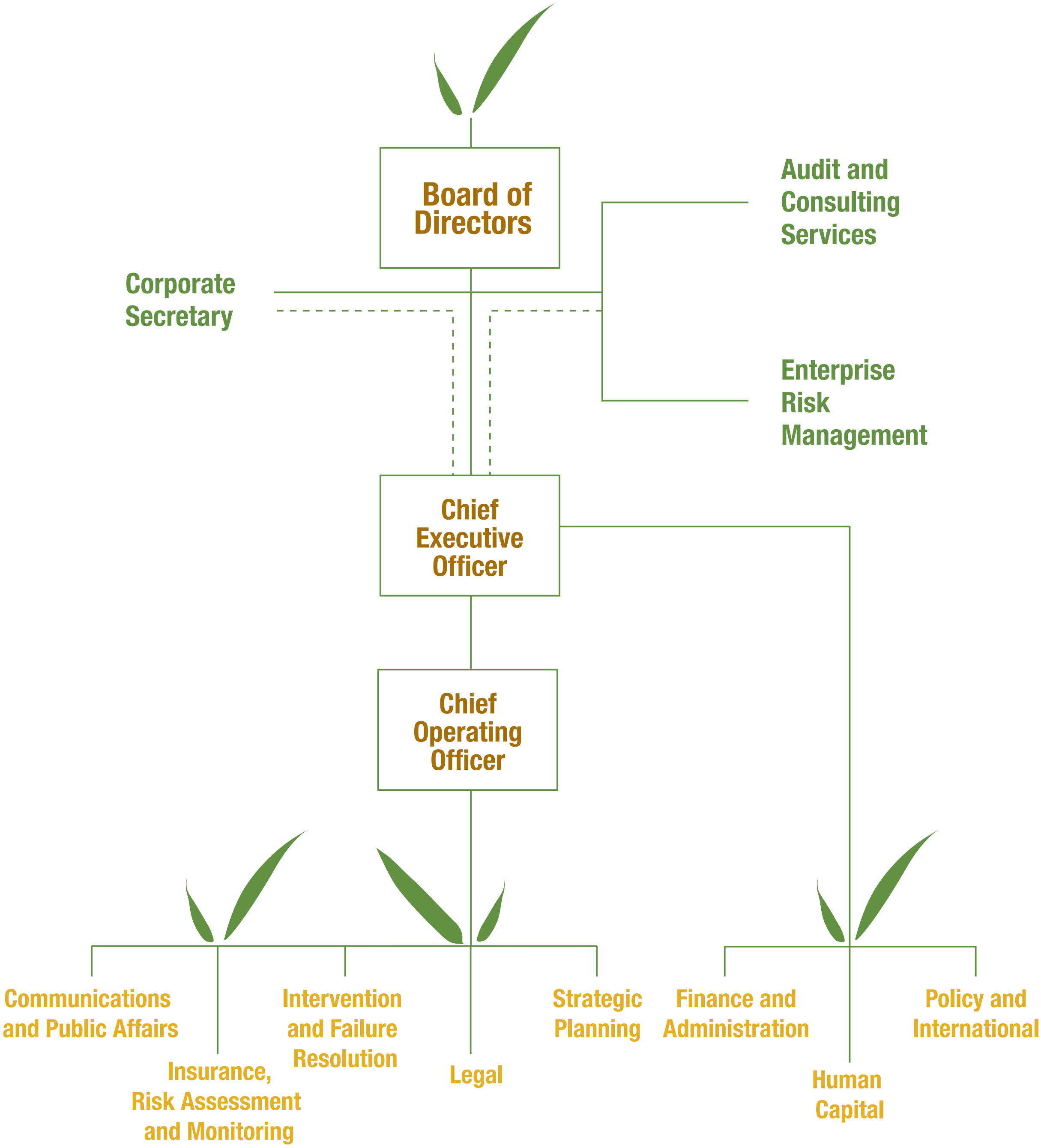
I thank our Chairman, Tan Sri Datuk Dr. Abdul Samad Haji Alias, the Governor of Bank Negara Malaysia, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, the Secretary General of the Treasury, Dato' Sri Dr. Mohd Irwan Serigar Abdullah, and the rest of our Board members, for their immense support for our work. We very much value the strategic perspectives the Board brings to the Corporation.

To our employees, I thank you for your diligence and hard work. I look forward to continuing our work together as a team as we move forward to meet our challenges.

Looking forward, resilience and adaptability will be key. To quote the former US President, John F Kennedy, "Change is the law of life. And those who look only to the past or present are certain to miss the future".

JEAN PIERRE SABOURIN

INTRODUCTION
ORGANISATION CHART



INTRODUCTION
EXECUTIVE MANAGEMENT COMMITTEE

From left to right:

Standing: Lim Kong Kuan, Wan Ahmad Ikram Wan Ahmad Lotfi, Chua Ee Leen, Jean Pierre Sabourin, Lim Yam Poh, Md Khairuddin Hj Arshad, Chong Chen Voon, Noorida Baharuddin

Sitting: Rafiz Azuan Abdullah, Lee Yee Ming, Margaret Fong Gook Pheng, Rozita Ahmad

INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

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

Jean Pierre Sabourin
Chief Executive Officer

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

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

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

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

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

Under his leadership, PIDM has been recognised for its transparency and accountability to key stakeholders through its public disclosure of the Corporate Plan and its performance against it. PIDM's Annual Report has been the recipient of the Malaysia National Annual Corporate Report Awards (NACRA) for non-listed companies, four years in a row (2008 - 2011), for the quality of disclosure and standards of corporate governance.

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

Md Khairuddin Hj Arshad[7]
Chief Operating Officer

Md Khairuddin Hj Arshad was appointed the Chief Operating Officer in 2010 and assists the CEO in managing the day to day operations of the Corporation. Prior to this appointment, he was the General Manager of the Insurance, Risk Assessment and Monitoring Division, responsible for analysis and monitoring of the risk level of member banks as well as the intervention and failure resolutions of troubled banks.

Khairuddin served in 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 a leader in the area of Islamic deposit insurance. He is currently the Chairman of the Islamic Deposit Insurance Group of IADI, and an observer of the Malaysian Accounting Standards Board's working group on Islamic financial transactions. He has also provided technical assistance to various countries in developing their Islamic banking industry and Islamic deposit insurance system and regularly presents various papers at domestic and international seminars. He holds an accounting degree from the International Islamic University, Malaysia.

Lim Yam Poh[7]
General Counsel and Corporate Secretary

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

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

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

Wan Ahmad Ikram Wan Ahmad Lotfi[7]
Chief Financial Officer and General Manager, Finance and Administration

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

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

[7] Corporate officers appointed by the Board of Directors

INTRODUCTION

EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

Chong Chen Voon[7]
Chief Risk Officer and General Manager, Enterprise Risk Management

Chong Chen Voon was appointed the Chief Risk Officer in 2011 and heads the Enterprise Risk Management (ERM) Division. He is responsible for the implementation of PIDM's ERM and Business Continuity Plan framework on a Corporate-wide basis and assists the Board, Audit Committee and Management to ensure that PIDM's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on accordingly.

He has more than 18 years of experience in providing assurance services to both private and public companies in Malaysia and abroad, focussing on enterprise risk management, internal audit, corporate governance, Sarbanes-Oxley Act Section 404, statutory audit and accounting services. He was a columnist for a locally published magazine, writing on enterprise risk management-related topics, and a speaker on governance, risk and compliance related topics.

He began his career as an external auditor and subsequently joined KPMG in its Kuala Lumpur, Malaysia and Taipei, Taiwan offices. He then became an Executive Director of a consulting firm prior to joining PIDM.

He holds a Bachelor's degree in Accountancy from Edith Cowan University in Australia and a Master's degree in business administration majoring in finance from Universiti Putra Malaysia. He is a Certified Internal Auditor (USA), Chartered Accountant (Malaysia), Fellow of Certified Practising Accountant (Australia), Certified Business Continuity Institute (CBCI) (UK) as well as a Chartered Member of the Malaysian Institute of Accountants and Institute of Internal Auditors Malaysia. He is also accredited by the Institute of Internal Auditors Malaysia to perform Internal Quality Assessment / Validation for Internal Audit Functions.

Noorida Baharuddin[7]
Chief Internal Auditor and General Manager, Audit and Consulting Services

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

She has 20 years of combined 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 Financial Services Authority (LFSA), formerly known as Labuan Offshore Financial Services Authority. She was also involved in the development and implementation of enterprise-wide risk management for LFSA. On attachment with the Islamic Financial Services Board, she gained experience in the development of standards for the Islamic financial services industry. She holds a Bachelor of Business degree in accounting from the University of Tasmania, Australia and a Bachelor of Law degree from Universiti Institut Teknologi Mara (UiTM), Malaysia. She is a Certified Practising Accountant (Australia), a Chartered Member of the Institute of Internal Auditors Malaysia and a Certified Financial Planner with the Financial Planning Association of Malaysia.

[7] Corporate officers appointed by the Board of Directors

Chua Ee Leen
General Manager, Strategic Planning

Chua Ee Leen is the General Manager, Strategic Planning Division. She is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in setting the Corporation's strategic direction and the development of a strategic plan, taking into account the opportunities and risks facing the Corporation. She is also involved in risk management matters at the operational level across PIDM.

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

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

Lee Yee Ming
General Manager, Policy and International

Lee Yee Ming is the General Manager, Policy and International Division. She is responsible for PIDM's key policy areas and international relations. Her main responsibilities are to proactively assess, develop and propose policies that concern the mandate and operations of PIDM and which help advance the views and interests of PIDM as well as lead to position PIDM internationally in its mission and vision. In October 2011, she was elected to the Executive Council (EXCO) of IADI for a three-year term. The roles of IADI EXCO include recommending the process for developing and establishing the guidance to enhance the effectiveness of deposit insurance systems; and developing policies for the provision of advice on deposit insurance issues. She was previously the Chief Risk Officer of PIDM, heading the ERM Division.

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

Lim Kong Kuan
General Manager, Intervention and Failure Resolution

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

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

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

INTRODUCTION
EXECUTIVE MANAGEMENT COMMITTEE: MEMBERS AND PROFILES

Margaret Fong Gook Pheng
General Manager, Human Capital

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

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

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

Rafiz Azuan Abdullah
General Manager, Insurance, Risk Assessment and Monitoring

Rafiz Azuan Abdullah was appointed the General Manager, Insurance, Risk Assessment and Monitoring Division in 2010. He is responsible for analysis and monitoring of the risk level of member institutions as well as the insurance and premium collection function of PIDM. He joined PIDM in January 2007 and spearheaded the completion of the Risk Assessment System for PIDM.

Prior to PIDM, Rafiz was employed for more than 10 years with Rating Agency Malaysia, where he specialised in ratings of financial institutions, real estate and construction companies. During that period, Rafiz was also seconded for a year to the Corporate Debt Restructuring Committee at BNM in December 1999 to assist in the restructuring of distressed companies as a result of the economic recession.

Rafiz holds an accounting and finance degree from Lancaster University, the United Kingdom.

Rozita Ahmad
General Manager, Communications and Public Affairs

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

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

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

Rozita holds a Masters in Business Administration from Governors State University and a Bachelor of Science degree in management from Northern Illinois University, both in Illinois, United States.

INTRODUCTION
OTHER MANAGEMENT COMMITTEES

Senior Management Committee

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

Enterprise Risk Management Committee

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

The ERM Committee comprises the following members:

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

A representative from the ERM Division acts as the Secretariat to the Committee or in his / her absence, another person authorised by the Chair. The Chief Internal Auditor (CIA) attends all ERM Committee meetings as an observer.

Strategic Planning and ERM Working Committee

The Strategic Planning and ERM (PERM) Working Committee is a management committee designed to monitor, update, advice and support the ERM Committee in facilitating and coordinating ERM and related strategic planning activities across PIDM. The PERM Working Committee comprises representatives from all divisions:

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

INTRODUCTION
OTHER MANAGEMENT COMMITTEES

Asset and Liability Management Committee

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

The Committee members are:

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

Information Technology Steering Committee

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

The ITSC members are:

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

Corporate Compliance Committee

The Corporate Compliance Committee provides assistance to the Board of Directors in fulfilling its 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 PIDM by virtue of its business activities and functions.

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

Its members are:
- General Counsel (Chair)
- CFO
- CIA
- CRO
- General Manager, Insurance, Risk Assessment and Monitoring Division
- Senior Manager, Communications and Public Affairs Division
- Senior Manager, Human Capital Division
- Senior Manager, Organisation and Methods Department
- Senior Legal Counsel (Secretary)

Safety and Health Committee

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

The Committee members are:
- General Manager, Human Capital Division (Chair)
- General Manager, Strategic Planning Division
- Deputy General Manager, Administration Department
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Deputy General Manager, Policy and International Division
- Manager, Insurance, Risk Assessment and Monitoring Division (Secretary)
- Representatives of employees from:
  - CEO's Office
  - Human Capital Division
  - Insurance, Risk Assessment and Monitoring Division
  - Intervention and Failure Resolution Division
  - Legal Division
  - Any other officers or employees of PIDM as required, to be determined by the Chair

Corporate Social Responsibility Committee

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

The CSR Committee comprises representatives from the following divisions:
- CEO's Office
- Audit and Consulting Services Division
- Communications and Public Affairs Division
- Enterprise Risk Management Division
- Finance and Administration Division
- Human Capital Division
- Insurance, Risk Assessment and Monitoring Division
- Intervention and Failure Resolution Division
- Legal Division
- Policy and International Division

Section 2

CORPORATE GOVERNANCE

Integrity

Bamboo stands tall time and again, withstanding all challenges.

CORPORATE GOVERNANCE
STATEMENT ON GOVERNANCE

INTRODUCTION

There are no "corporate governance codes" that directly apply to the Corporation as a statutory body with public policy objectives. In line with its commitment to sound corporate governance and, on its own initiative, the Board has nevertheless developed a Board Governance Policy that sets out the standards that should be expected of a board of a statutory body. The Board Governance Policy draws on recognised best practices and corporate governance principles, and has been adapted, where relevant, to the circumstances of the Corporation as a statutory body. The Board Governance Policy itself, available in full on our website at www.pidm.gov.my, cites the sources from which the standards are drawn.

The Board uses this Policy as a guide to our Board's responsibilities and as a tool for us to account to our stakeholders in respect of our governance. Annually, therefore, the Board reports to our stakeholders against the standards in the Board Governance Policy.

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

Standard 1: Independence of the Board
Board members will exercise independent judgment.
Standard 2: Board effectiveness and governance responsibilities
The Board will obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities.
Standard 3: Roles and responsibilities of Committees
Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them.
Standard 4: Board composition and succession
The Board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation.
Standard 5: Roles and responsibilities of the Chief Executive Officer
The responsibilities and accountability of the Chairman and the Chief Executive Officer (CEO) should be clearly distinguished and documented.
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.
Standard 7: Compensation of officers
The Board will satisfy itself, on a regular basis, that the compensation of PIDM's officers and employees is consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures. The Board will review the compensation programme for all directors, and make recommendations to the Minister of Finance in that regard.

CORPORATE GOVERNANCE
STATEMENT ON GOVERNANCE

Standard 8: Succession planning
The Board will plan for the succession of the CEO and review succession plans for key senior management.
Standard 9: Standards of behaviour and ethics
The Board will establish standards of conduct and ethical behaviour for Directors and for the Corporation's officers and other employees, and obtain, on a regular basis, reasonable assurance that the Corporation has an ongoing, appropriate and effective process for ensuring adherence to those standards.
Standard 10: Significant risks to the Corporation
The Board will: (i) obtain an understanding of the principal risks of the Corporation's business; (ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly; (iii) obtain reasonable assurance, on a regular basis, that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed; and (iv) ensure that the Chief Risk Officer (or in his absence, the Deputy General Manager from the Enterprise Risk Management Division) should regularly attend all scheduled Board meetings.
Standard 11: Control environment and internal audit
The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.
Standard 12: In control
The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control".
Standard 13: Strategic management process
The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation.
Standard 14: Effective communication
The Board will ensure that the Corporation communicates effectively with the public, Bank Negara Malaysia, other statutory bodies or regulators, depositors, member institutions and other relevant parties.
Standard 15: Review of Board Governance Policy
The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject to, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.

This Statement on Governance is a report describing how the Board has complied with these standards in 2012.

STATEMENT ON GOVERNANCE

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

For the year 2012, the Board is pleased to report full compliance with the 15 standards in the Board Governance Policy. A full detailed description of how the Board has complied with this Policy is found on pages 47 - 55.

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

In 2012, in line with the ruling of the Council, PIDM issued its Note on the Takaful Benefits Protection System. The Note sets out the operations of the TBPS and the relationship between PIDM and its insurer members that are takaful operators. In implementing TBPS, PIDM has adopted the *ujr wal kafalah* (fee and guarantee) as the Shariah foundation for the TBPS.

OVERVIEW OF THE KEY WORK DONE BY THE BOARD IN 2012

In 2012, in terms of governance, the Board focussed in particular on the following areas:

(a) **Composition of the Board (Standard No. 4):** Recognising the need for fresh perspectives and in view of the expansion of our mandate to cover the Takaful and Insurance Benefits Protection System (TIPS), two additional Board Members, Datuk Dr. Rahamat Bivi Yusoff and Encik Mohamad Abdul Halim Ahmad, were appointed by the Minister of Finance with effect from 1 January 2012. These Directors bring with them expertise in the areas of economics, public administration, auditing, finance and general management. These appointments were in addition to the appointment of Mr. Alex Foong in August 2011, who has considerable expertise and experience in the insurance industry. With Datuk Dr. Rahamat Bivi on board in 2012, the Board now comprises three women and six men, fulfilling the terms in our Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors, which calls for diversity on our Board.

(b) **Board succession (Standard No. 4):** The Board must also have the broad complement of skills, experience and competencies the Corporation needs in order to achieve its mandate and aspirations. In 2012, the Board considered the skills, experience and competencies needed on the Board to be effective, given the Corporation's current and future needs, and updated the "Board profile" to reflect these. The Board then carried out a "skills gap analysis" to verify if the attributes and skills of our current Directors fulfil these needs. This exercise enables the Board to identify the candidates to serve as Directors with the appropriate skills, experience and expertise as well as attributes and gaps, if any. Should a vacancy arise, the Board can then make recommendations to the Minister of Finance for the appointment of candidates that meet the Board profile and the needs of the Corporation.

(c) **Board evaluation (Standard No. 2):** At the beginning of 2012, the Board had resolved that it would dedicate one Board meeting to discuss ways to enhance the effectiveness and efficiency of the Board and its Committees. During the year, the Board met to discuss this matter and one of the key outcomes of these discussions is described below.

(d) **Board and Committee arrangements (Standards No. 2 and No. 10):** Following the Board evaluation mentioned above, the Board considered whether there is a need for the Board to form a separate Board Risk Committee to support the Board in its role in risk oversight. As reported later on pages 46 - 47, the Board concluded that this was not necessary. In particular, the Board noted that the current practice is for the Board itself to consider the risks inherent to providing deposit insurance and takaful and insurance benefits protection, and concluded that all other risks were being adequately dealt with through the support of the Audit Committee (AC) and the organisation's enterprise risk management framework. The Board also considered the rotation of the Board Committee members in line with the Policy on Rotation of Committee Members and made changes to the AC, Remuneration Committee (RC) and Governance Committee (GC) membership. Given his experience in auditing and for succession planning purposes, Encik Mohamad Abdul Halim Ahmad was also made the Vice-Chairman of the AC.

CORPORATE GOVERNANCE
STATEMENT ON GOVERNANCE

Board education (Standard No. 2): Considerable Board education took place in 2012. The Board believes that, to be effective and sufficiently strategic, Directors must necessarily understand and have knowledge about the Corporation's business and affairs. They must also have an understanding of the risks to the Corporation, including the environment in which the Corporation operates. This entails not only communicating with and obtaining the right information from Management, but considerable learning and development. Details of Board education undertaken in 2012 are found in the detailed report, on page 48. In line with Standard No. 2 of the Board Governance Policy, Board members also participated in the Financial Institutions Directors' Education (FIDE) programme, which focusses on governance responsibilities.

How the Board is Trained and Developed

Briefings on the Corporation's work and environment

Each year, the Board agrees on a Board Education Programme. In 2012, eight training or education sessions were carried out in total. Six of these were those planned under the Board Education Programme 2012 on the topics listed in the Table on page 48. An additional two briefings were held at the request of the Board.

Developments in other jurisdictions

In 2012, many of the Directors attended international events such as those described in the Table on pages 48 - 49. This allows Board members to keep abreast of possible changes that could impact the Corporation as well as benchmark our work with the work of others in the same field.

Orientation

The Board-approved orientation programme was implemented in respect of the new Directors in 2012.

Governance responsibilities

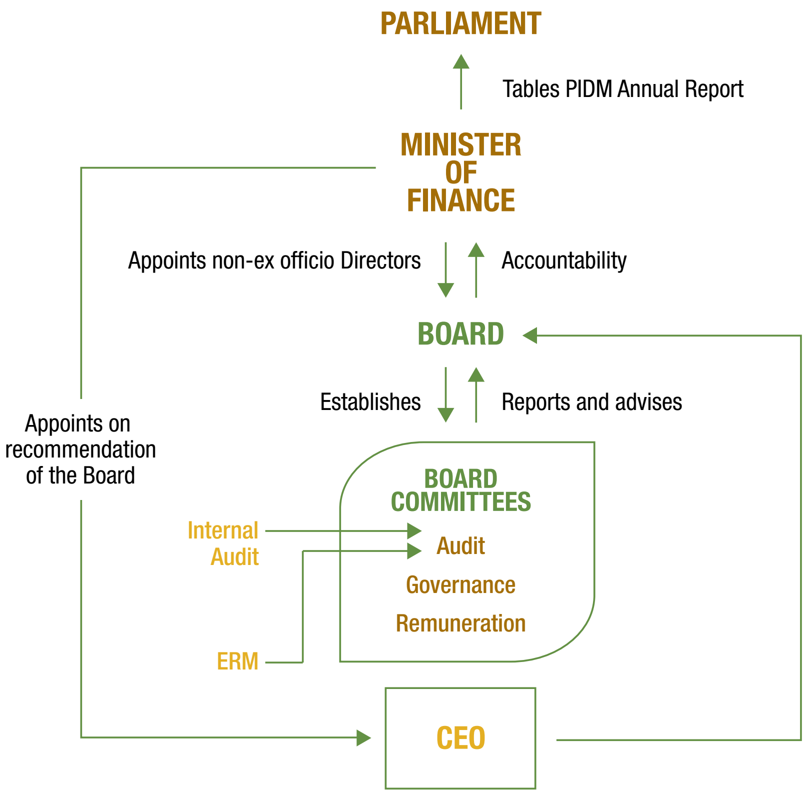
Directors also attend the Financial Institutions Directors' Education core programme as well as the electives. These programmes focus on governance responsibilities of Directors in financial institutions.

Written updates

From time to time, Management also sends the Board written updates on developments relevant to the Corporation. In 2012, for example, the Board was provided with a summary of global initiatives on complex and cross-border resolution and its implications to PIDM. The Board is also kept apprised on changes or anticipated changes in legislation impacting the Corporation.

OUR GOVERNANCE FRAMEWORK

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



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

CORPORATE GOVERNANCE

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Over the years, the Board has continued to benchmark its governance policies and procedures against international and local best practices to ensure that its approach to governance remain current and relevant. Where applicable, the Board will adopt leading practices on governance. For example, apart from the Chief Internal Auditor, since 2009 the Chief Risk Officer reports directly to the Board through the AC.

The following comprise key components of the Corporation's governance framework. These documents can be found on the Corporation's website, www.pidm.gov.my, under "How PIDM is Governed".

(a) The Board Governance Policy;
(b) The Board Committee Charters;
(c) The position descriptions of the Chairman, CEO and Board of Directors;
(d) The Code of Business Conduct and Ethics for Directors and the Code of Business Conduct and Ethics for Employees;
(e) The Conflict of Interest Code for Directors and the Conflict of Interest Code for Employees;
(f) The Policy for Disclosure of Information Concerning Improper Conduct;
(g) The Policy on Public Disclosure of Information;
(h) Policy on Workplace Harassment; and
(i) Compliance Programme.

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

BOARD OF DIRECTORS

Composition, Appointment and Remuneration

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

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

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

In 2012, two new non-ex officio Directors were appointed. As of 1 January 2012, Datuk Dr. Rahamat Bivi Yusoff and Encik Mohamad Abdul Halim Ahmad became Directors. Their profiles are found on pages 19 and 21 of this Annual Report.

On 23 August 2012, Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah retired from his post as the Secretary General of the Treasury. Dato' Sri Dr. Mohd Irwan Serigar Abdullah succeeded Tan Sri Dato' Sri Dr. Wan Abdul Aziz as the Secretary General of the Treasury and became the Corporation's ex officio Director with effect from 24 August 2012.

In 2012, the Directors collectively received a total of RM665,000 as remuneration for Board and Committee work.

Board Responsibilities

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

The Board's responsibilities are elaborated in the Board Governance Policy. Positions descriptions for the Chairman and members of the Board and the CEO are also in place. The MDIC Act, the Board Governance Policy, and the position descriptions can be found in PIDM's website, www.pidm.gov.my, under the section "How PIDM is Governed".

Board and Committee Meeting Attendances

There were four regular Board meetings in 2012, in line with the schedule planner set at the beginning of the year. In addition, the Board also met at four Special Board meetings arranged during the year. The Special Board meetings were arranged to address specific matters in greater detail. These four Special Board meetings in 2012 were to evaluate the Board's and Committees' performance, to approve the consultation for the Differential Levy System for insurer members, to consider proposed legislative changes affecting the Corporation, and to consider PIDM's proposed Corporate Plan 2013 – 2015 and the Financial Plan 2013.

There were eight AC meetings, two RC meetings, and three GC meetings. The attendances of the Members during their terms are as follows:

BOARD OF DIRECTORS	REGULAR MEETINGS	SPECIAL BOARD MEETING	AUDIT COMMITTEE	REMUNERATION COMMITTEE	GOVERNANCE COMMITTEE
Tan Sri Datuk Dr. Abdul Samad Haji Alias *(Chairman)*	4/4	4/4			3/3
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (ex officio)	3/4	1/4		2/2	1/1 during her term
Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah (ex officio) *(Retired on 23 August 2012)*	1/2 during his term	1/2 during his term			1/2 during his term
Dato' Sri Dr. Mohd Irwan Serigar Abdullah (ex officio) *(Appointed on 24 August 2012)*		2/2		Just appointed	
Mr. George Anthony David Dass	4/4	3/4	7/8	2/2	2/2 during his term
Dato' Halipah Esa	4/4	4/4	3/3 during her term	2/2	
Mr. Lim Tian Huat	3/4	3/4	7/8		
Mr. Alex Foong	4/4	4/4	7/8	1/2	
Datuk Dr. Rahamat Bivi Yusoff *(Appointed on 1 January 2012)*	2/4	3/4			2/2 during her term
Encik Mohamad Abdul Halim Ahmad *(Appointed on 1 January 2012)*	4/4	4/4	5/5 during his term		

The shading indicates current membership on the relevant Committee

DETAILS OF THE WORK OF THE BOARD

The following sections describe the manner in which the Board has complied with the standards set out in the Board Governance Policy in detail. As usual, we have also prepared the Table that sets out the detailed progress report of the Board against each of the standards on pages 47 - 55.

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Early Years 2006 – 2011
The Board established its corporate governance arrangements in 2006. Since then, it has worked to achieve and maintain full compliance with the Board Governance Policy. Since 2008 and every year thereafter, the Board has been able to report full compliance with this Policy.

Board Objectives in 2012
Since 2009, the Board has adopted the practice of setting annual objectives for itself at the beginning of each year. It also considers the action plans to support the achievement of these objectives.

In 2012, the Board's objectives were to focus on the evaluation of the Board, Committees and also to evaluate Management's support (in terms of how Management provided information to the Board). The Board had also resolved to focus on the following strategic items at Board meetings:

(a) the risk assessment and monitoring of member institutions, in particular, the insurer members;
(b) the state of readiness of the Corporation for an intervention and failure resolution;
(c) the development of the Differential Levy System for insurer members; and
(d) the oversight of the implementation of strategies to ensure the long-term sustainability of PIDM such as succession planning for the Board and key Management positions.

The Board has achieved the objectives set for itself in 2012. The following paragraphs provide the key highlights of the Board's work to achieve these objectives.

Board and Management Evaluation
A Special Board meeting was held in July 2012 to evaluate the performance of the Board, the Board Committees and the Board's satisfaction with Management support in 2011. The Board allocated time to discuss the results of the responses to the questionnaires on performance, as well as to consider ways to improve Board and Committee operations and effectiveness. Among others, the Board provided feedback to Management on its executive summaries for Board papers and the preferred structure to avoid duplication of information provided to the Board.

Board Risk Committee: At this Special Board meeting, the Board noted that currently, the Board was supported in the oversight of the Corporation's risks by the AC. The Board considered whether or not the Board should form a separate Board Risk Committee, whose terms of reference would be to support the Board in its role to oversee risks.

Following the Board meeting, the Board considered best practices on the use of board risk committees. The Board noted that, in recent years, it has been increasingly recognised that boards have a broader responsibility for risk oversight. This thinking recognition was not new, but has been a continuing trend that has attained greater prominence in the wake of the financial crisis[2]. It is generally accepted that having a board risk committee to consider risk issues makes sense in complex organisations such as banks and bank holding companies that are in the business of intermediating financial risk. In many countries it is now a requirement of law or regulation for such companies to have board risk committees.

This notwithstanding, our research shows that having a board risk committee is not mandatory under all circumstances, and is not thought to be necessary for all types of organisations[3]. Other than as required by law, the consensus is that boards should have the flexibility to organise itself in a manner that make sense of the company's size, structure, complexity, culture and risk profile, as well as the board's size, composition and structure.

[2] http://www.spencerstuart.com/research/1471
[3] According to the "Risk Committee Resource Guide for Boards" issued by Deloitte, "Not every company needs a board risk committee."

The Board noted that the risks of the Corporation could be divided into (a) risks that the Corporation is in the business of monitoring and managing (i.e., the risks inherent in providing DIS and TIPS); and (b) risks involved in the execution of the Corporation's strategy and mandate, such as the financial, operational, strategic and governance risks.

Insofar as the risks that the Corporation is in the business of monitoring and managing is concerned, the Board noted that the Board itself has oversight of how these risks are identified, monitored and managed. Given the business and circumstances of the Corporation, the Board decided that it was important for the Board to continue, as a whole, to have oversight over the monitoring of the risks posed by member institutions directly, and not to have a Board Committee to do so.

In regard to all the other remaining risks, the Board decided that the AC was currently monitoring how these risks were being identified, managed and mitigated effectively. Accordingly, the Board concluded that a separate Board Risk Committee was not warranted, given the circumstances of the Corporation. The Board agreed that, currently, the AC effectively carried out this role. It was then decided that certain AC meetings would focus on risk management.

Other key matters: Arising from the evaluation discussions, the Board also asked for additional briefing sessions in certain areas of the Corporation's activities, such as the approach to the monitoring and risk assessment of member institutions and the function of the Insurance, Risk Assessment and Monitoring Division as well as the approach to intervention and failure resolution and the function of the Intervention and Failure Resolution Division.

Strategic Items for 2012

The Board focussed on all the strategic items identified for 2012 as follows:

(a) The Board held a strategic planning session to set the future direction of the Corporation, and also considered the Corporation's initiatives for the planning period 2013 – 2015, taking into consideration the key planning assumptions and the external and internal environment in which the Corporation operates. The outcome of the session forms the basis for the development of the Corporate Plan for 2013 – 2015 and the budget for the year 2013.

(b) The Board considered all the reports on risk assessment and monitoring of member institutions at every scheduled meeting.

(c) In 2012, the Board considered and approved the Differential Levy System for general and life insurance companies and also considered how the Differential Levy System for takaful operators could be best expedited.

(d) The Board also obtained regular reports on the state of operational readiness of the Corporation for intervention and failure resolution.

BOARD GOVERNANCE POLICY – DETAILED TABLE

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

DESCRIPTION OF STANDARD	REPORT ON COMPLIANCE IN 2012
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, and the CEO is not a member of the Board. All Directors are non-executive and must use their independent judgment to act in the best interests of PIDM, as required under the MDIC Act.

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Standard 2: Board effectiveness and governance responsibilities	
The Board will obtain and maintain an understanding of the Corporation's objects and powers, as well as of its governance responsibilities. To achieve this, the Board will:	The Board (through the GC) ensures that its governance arrangements and approach are up to date and relevant.
(i) develop and maintain approaches to fulfilling those responsibilities and will evaluate objectively, on a regular basis, its effectiveness in doing so; and	**Process for evaluating its effectiveness:** The Board reviews its Board Governance Policy and approach on an annual basis to maintain its relevance. In line with best practices, the Board and the respective Committees evaluate their effectiveness each year, as do individual Directors, through questionnaires. The Board met in July 2012 to discuss in detail, the results from the questionnaires.
(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.	**Orientation:** In 2012, the Board-approved Orientation Programme was implemented in respect of the new Directors. The key objective of the Orientation Programme is to familiarise the new Directors on the work of the Corporation, so that the Board can better benefit from his or her input. As part of the programme, new Directors are also provided with a "Directors' Guide"[4], which provides key information on how the Board works and highlights key expectations. **Education Sessions:** At the beginning of each year, the Board will approve the Board Education Programme for the year. The Board Education Programme for 2012 included the following topics: (a) Takaful and Insurance Industry (Module 2); (b) Financial Sector Blueprint 2011 - 2020; (c) Regional Workshop on Core Principles Compliance Assessment, Kuala Lumpur; (d) Integrated Communications Plan and related matters; (e) Risk Assessment System and Monitoring Methodology and Framework for insurance companies and takaful operators; (f) Review of the risk assessment and monitoring approach for member banks; (g) Operational readiness in terms of Intervention and Failure Resolution; and (h) Economic conditions in Malaysia. The Board Education Programme for 2012 was successfully carried out and briefings were held on all those topics. In addition, the Directors are also invited to attend FIDE programmes. Several of our Directors attended this programme and related activities. **Tripartite Meeting with Deposit Insurers in the Region:** The tripartite meeting is an annual meeting between PIDM, the Indonesia Deposit Insurance Corporation (IDIC) and the Deposit Protection Agency (DPA), Thailand. PIDM's Board and Management had hosted the inaugural tripartite meeting in 2009. In 2010, a memorandum of understanding was signed between PIDM, IDIC and DPA for further cooperation and knowledge sharing amongst the three deposit insurers. In March 2012, the tripartite meeting was sponsored by the DPA and held in Phuket, Thailand.

[4] A copy of the Directors' Guide is found on www.pidm.gov.my under the section on "How PIDM is Governed"

	The International Workshop on Integrated Deposit Insurance Systems: Directors attended the workshop hosted by PIDM in September 2012 at Langkawi, Kedah. The objective of the workshop was to provide a platform for deposit insurance agencies, insurance guarantee schemes and other interested parties, to share knowledge and discuss current developments in the insurance industry. Part of the programme involved the sharing of experiences by certain jurisdictions, namely, Malaysia, Canada, Korea, Taiwan and the United Kingdom (UK), in implementing their insurance compensation schemes, highlighting their key features and the related challenges in managing such schemes. Speakers also shared their experiences on the various methods employed to resolve insurance company failures in a number of jurisdictions. **11th International Association of Deposit Insurers (IADI) Annual General Meeting and Annual Conference on Deposit Insurers and the Financial Safety Net:** This event was hosted by the UK Financial Services Compensation Scheme in London. Directors attended this meeting in October 2012 and speakers discussed topics such as the importance of deposit insurance in financial stability, the types of resolution tools available, "Government, Legislation and International Bodies", as well as on relationships of deposit insurers with regulators and central banks.
Standard 3: Roles and responsibilities of Committees	
Where the Board appoints a committee, it will establish the responsibilities and authority of Board Committees, as well as accountability requirements for them.	The responsibilities, authority and accountability requirements of Board Committees are detailed in their respective charters, and reports on their work are made to the Board at each meeting. All the Board Committees' charters were reviewed in 2012 to ensure they were current and relevant. Changes were made to the AC Charter, the RC Charter and the GC Charter respectively, as reported on pages 56, 58 and 59 respectively. Each Committee regularly assesses whether it has fulfilled its key responsibilities. Annually, the Committees will report on their activities for that year against the responsibilities set out in their respective Charters.
Standard 4: Board composition and succession	
The Board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation. To achieve this, the Board will, in consultation with the CEO:	**Background:** In 2007, the Board established a Board succession plan, which comprises a Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors, as well as a process to develop a "Board profile" that documents the desired skills set on the Board. This is to allow the Board to assess whether the appropriate mix of skills and expertise is available on the Board that meets the current and future needs of the Corporation. This plan was communicated to and noted by the Minister of Finance as part of the process for the Board's recommendations on the appointment of Directors.
(i) develop a profile of desirable skills and capabilities that would best enable the Board to fulfil its responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non-ex officio Board vacancies; and	**Board profiles:** The process for developing Board profiles (collective and individual) was established in November 2006. The profiles were developed and are reviewed on an annual basis, taking into consideration the current needs, the stage of development, and aspirations of the Corporation. The profiles then form the basis for determining the skills and experience that should be sought in fulfilling upcoming Board vacancies. Any gaps identified on the current Board would also be considered in developing the list of suitable candidates.

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Standard 4: Board composition and succession	
	Skills gap analysis: As in previous years, in 2012, the Board carried out its yearly skills gap analysis, comparing the skills, knowledge and experience that are available on the Board against the desired profiles. This was to determine if there are any skills, knowledge and experience needed on the Board that were not currently available. The conclusion was that the Corporation has sufficient skills, knowledge and experience on our Board.
(ii) have a Board succession plan to recommend to the Minister of Finance the orderly turnover of directors.	**Implementation of Board succession planning:** As part of its Board succession plan, the Board would maintain and add to a list of candidates that could potentially fit the required profile for Board membership. The list is updated from time to time, for the purposes of recommending the appointment of Directors as the need arises. **New Directors:** Datuk Dr. Rahamat Bivi Yusoff and Encik Mohamad Abdul Halim Ahmad were appointed to the Board on 1 January 2012. **Ex Officio Director:** Dato' Sri Dr. Mohd Irwan Serigar Abdullah succeeded Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah as the Secretary General of the Treasury and became a Board Member of PIDM on 24 August 2012.
Standard 5: Roles and responsibilities of the Chief Executive Officer	
The responsibilities and accountability of the Chairman and the CEO should be clearly distinguished and documented. In this connection, the Board will:	These have been distinguished and documented with clarity in the position descriptions for both roles. The Board is responsible for recommending, to the Minister of Finance, the appointment of the CEO. In this connection:
(i) develop a position description for the CEO;	(i) the position description for the CEO has been reviewed annually since the establishment of PIDM. No amendments were made following the annual review in 2012;
(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	(ii) the Key Performance Indicators (KPIs) for the CEO are determined annually based on the approved corporate objectives. The CEO's performance against those KPIs is tracked and considered by the Board, with the assistance of the RC, at the end of each year. The RC reported to the Board on the CEO's performance in 2012; and
(iii) establish an accountability relationship for the CEO to the Board.	(iii) under the MDIC Act, the CEO is accountable to the Board for the exercise of his powers and the performance of his duties. The CEO's job description also describes that accountability relationship. There is also an "Authority Matrix" that sets out clearly the levels of approvals and the delegation of authorities.

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.	Senior corporate officers are appointed by the Board and their terms of service and compensation are determined by the Board. Pursuant to the Corporate By-Law, the holders of the following offices must be appointed by the Board: (a) the Chief Operating Officer; (b) the Chief Financial Officer; (c) the General Counsel and Corporate Secretary; (d) the Chief Internal Auditor (CIA); and (e) the Chief Risk Officer (CRO).
Standard 7: Compensation of officers	
The Board will satisfy itself, on a regular basis, that the compensation of PIDM's officers and employees is consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed and adherence to its policies and procedures. The Board will review the compensation programme for all directors, and make recommendations to the Minister of Finance in that regard.	The RC addresses and reports to the Board on strategic compensation matters. The employee compensation and benefits policy, and the performance management policy have been approved by the Board. The policies are in line with PIDM's business model, which requires a specialised team of people with the ability to achieve PIDM's mandate and assisted by key strategic partners and suppliers when needed. The Board benchmarks the compensation of PIDM's officers and employees against industry compensation levels to ensure PIDM remains competitive in terms of compensation. This is to ensure retention of key skills and experience. With the support of the RC, in 2012, the Board reviewed the compensation and benefits policy as well as the performance management policy. Certain amendments to the compensation and benefits policy were made with a key objective of addressing retention of talents in the Corporation. As stated in the MDIC Act, the Minister of Finance determines the Board's remuneration, on recommendation of the Board. Each Board member is paid an annual fee, and allowances are also paid for attendances for meetings and work of the Corporation. In 2011, the Minister of Finance had approved Board Members' current remuneration. No review was conducted in 2012.
Standard 8: Succession planning	
The Board will plan for the succession of the CEO and review succession plans for key senior management.	The Board, with the support of the RC and the GC, has considered the succession plans for the CEO and key senior management, and monitors their development plan on an ongoing basis.
Standard 9: Standards of behaviour and ethics	
The Board will ensure that Management develops adequate policies, strategies, processes and controls within the Corporation to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction.	The Board has established standards of behaviour and ethics expected of Directors and employees through the Code of Business Conduct and Ethics, as well as the Conflict of Interest Code. The Directors report on compliance with these Codes annually. All employees undergo training on the Codes and must declare compliance annually. Under the Policy for Disclosure of Information Concerning Improper Conduct, there is a mechanism to allow employees and other stakeholders to make reports of any improper conduct to the authorised officer.

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Standard 9: Standards of behaviour and ethics	
	There is also a Board-approved formal compliance programme, which can be found on PIDM's website www.pidm.gov.my in the section under "How PIDM is Governed". This compliance programme has also included the establishment of a Corporate Compliance Committee in 2009, with the objective of ensuring the fulfilment of oversight responsibilities in relation to PIDM's compliance with laws, regulations, industry codes, policies and procedures, contractual obligations and organisational standards that are applicable to the Corporation. The annual report from the General Counsel on compliance with applicable laws and standards was made in 2012 to the Board (through the RC and the AC). The General Counsel also provides an assurance on compliance through a formal letter of representation each year. In 2012, the Board noted that a taskforce had been set up to make preparations for the coming into effect of the Personal Data Protection Act. It also noted that a mandatory compliance test had been implemented by Management for employees focussing on conduct and behaviour and the handling of information of the Corporation. There is a Board-approved Policy on Engagement of Separate Independent Legal and Other Counsel, which allows the Board and Committees to appoint independent advisors to assist them to fulfil their responsibilities. None were appointed in 2012. The Board has a high degree of assurance that a compliance system is in place and that the Corporation is in compliance with laws and key policies.
Standard 10: Significant risks to the Corporation	
The Board will: (i) obtain an understanding of the principal risks of the Corporation's business;	In 2012, the Board ensured that appropriate and prudent risk management systems to manage risks were implemented. The Board-approved Enterprise Risk Management (ERM) Policy states and affirms PIDM's commitment to sound ERM and enhances the ability to deliver PIDM's mandate and objectives. In line with its commitment to the ERM Policy, the Board: (a) monitors compliance with the ERM programme to ensure consistent application of risk management practices in identifying, assessing, evaluating, monitoring and reporting risks throughout PIDM; (b) monitors Management's undertaking of another complete cycle of the ERM process, and received regular risk reports that identify controls and risk action plans to mitigate the risks identified; (c) considers and agrees to the key significant risk profiles; and (d) receives a detailed report on each policy. The CRO functionally reports to the Board through the AC, so as to ensure independence from Management. For details, see the Statement on Risk Management and Internal Control on page 63.

(ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly;	In 2012, the Board considered and approved the 2012 ERM Assessment Report.
(iii) obtain reasonable assurance, on a regular basis, that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed; and	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. The Board also receives regular reports from the Audit and Consulting Services (ACS) Division on compliance with internal controls and certain key areas of audit. The CIA also validates ERM reports, through audits on compliance with internal controls. This enables the Board to have reasonable assurance that risk management policies are being adhered to. The CRO annually provides a formal representation letter to the CEO and the Board. Accordingly, the Board has a degree of assurance that ERM systems are in place and are being adhered to.
(iv) ensure that the CRO (or in his absence, the Deputy General Manager from the Enterprise Risk Management Division) should regularly attend all scheduled Board meetings.	The CRO attends all scheduled Board meetings and in his absence, the Deputy General Manager of ERM Division will attend in his place.
Standard 11: Control environment and internal audit	
The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.	The Board accepts overall responsibility for PIDM's system of internal control and risk management and obtains assurance from Management, the CRO and the CIA respectively. For details, see the Statement on Risk Management and Internal Control on page 63.
In this connection, the Board will:	In this connection:
(i) allocate resources for, and establish an internal audit group, setting out its mandate;	The Board has established ACS, an internal audit function, approved its charter, and provided adequate resources to ensure that it can fulfil its roles and responsibilities. The audit function's charter is reviewed annually to ensure that the mission, scope of work, accountability and responsibility, authority and standards of conduct of the audit function remain relevant.
(ii) approve its audit plan each year; and	The Board has put in place a process to approve a rolling three-year audit plan each year. In 2012, the Board approved the audit plan for 2013 – 2015. Performance in accordance with the audit plan is reported and reviewed on a semi-annual basis.
(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.	The Corporation's internal control framework was completed in February 2007 and is reviewed annually. In 2012, the Board considered the internal audit report on its assessment of Management's compliance with internal controls using agreed criteria. The CIA provides reasonable assurance on the compliance with internal controls and the integrity of the internal control system through the filing of a formal letter of representation to the CEO, the AC and the Board.

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Standard 12: In control	
The Board will obtain, on a regular basis, reasonable assurance that the Corporation is "in control". (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.)	In 2012, the Board obtained, in line with the criteria set out in the internal control framework, 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. For details, see the Statement on Risk Management and Internal Control on page 63.
Standard 13: Strategic management process	
The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for the Corporation, taking into account the opportunities and risks facing the Corporation. To fulfil this responsibility, the Board will:	Each year, a special Board meeting is scheduled to consider the strategic direction of PIDM. In September 2012, the Board met to consider and approve the strategic direction of the Corporation and its objectives, goals and key activities for the corporate planning period 2013 - 2015. The Board thereafter approved the Corporate Plan for 2013 - 2015 at its November 2012 meeting.
(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;	The Board annually assesses PIDM's objects to ensure its continued relevance. During the year, the Board reviewed and considered amendments to the MDIC Act. This process will continue in 2013. If thought appropriate, recommendations for amendments will be proposed to the Minister of Finance.
(ii) adopt a strategic planning process;	A strategic planning process has been adopted by PIDM since its inception.
(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;	Annually, the Board approves a three-year rolling Corporate Plan in line with this standard, and the Corporate Plan is published and distributed to key stakeholders as part of PIDM's transparency and accountability regime.
(iv) regularly evaluate the Corporation's performance in implementing its approved plans and budgets; and	Regular reports on progress against the Corporate Plan are provided to the Board and these reports are considered in detail by the AC and are circulated to all Board members.
(v) obtain, on a regular basis, reasonable assurance that the Corporation has an effective strategic management process.	The strategic management process is a Board-approved process and is used annually to develop the Board-approved Corporate Plan.

Standard 14: Effective communication	
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.	The Board continues to ensure that there is engagement with various stakeholders through various means. The Board oversees the implementation of the Corporation's five-year Integrated Communications Plan, which is extensive and engages stakeholders, in particular the public and member institutions. Each year, PIDM's Corporate Plans and Annual Reports are distributed to key stakeholders. In conjunction with the release of our Annual Report, an annual dialogue session is held with our stakeholders. In 2012, the annual dialogue session was held on 8 May. Board members themselves participated in the Corporate Outreach programme and met with Government officials and other community business leaders. The Corporate Outreach is an annual event that is organised in one state outside the Federal Territory. In 2012, the Corporate Outreach was held in Kuantan, Pahang, in June. As for regulators and other bodies, in 2012 PIDM and BNM updated its Strategic Alliance Agreement relating to regulatory and supervisory issues.
Standard 15: Review of Board Governance Policy	
The Board will annually review the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation and that it continues to reflect the legislation to which the Corporation is subject to, the Corporation's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.	In its review of the Board Governance Policy in July 2012, the Board found that the policy was current and relevant to the needs and circumstances of PIDM. Additionally, the Board through the GC, also reviewed its governance arrangements against several publications on corporate governance, including the Securities Commission's Malaysian Code on Corporate Governance (March 2012) and the Financial Reporting Council's Developments in Corporate Governance 2011: The Impact and Implementation of the UK Corporate Governance and Stewardship Codes (December 2011) and found our practices in line with the relevant parts of these recommendations.

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RELIABILITY OF INFORMATION

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

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

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

In conclusion, in 2012 the Board was satisfied with the quality of information provided to the Board and its ability to obtain reliable information from Management in a timely manner.

COMMITTEES

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

Audit Committee

Members and Meeting Attendances
The AC held eight meetings in 2012 and there was a high level of attendance by AC members at all meetings.

In early 2012, in line with the Policy on Rotation of Board Committee Members, the Board appointed Encik Mohamad Abdul Halim Ahmad on the AC and Dato' Halipah Esa retired from the AC. Encik Mohamad Abdul Halim is also the Vice-Chairman of the AC.

Audit Committee Charter
The Charter is reviewed annually. In 2012, the Charter was amended as follows:

(a) paragraph 3.4 states that a quorum shall only be constituted where the Chairman or the Vice-Chairman of the AC is present at the meeting;

(b) paragraph 3.8 provides that the AC Chairman shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee; and

(c) paragraph 3.14 states that the AC Chairman shall provide advice to the Chairman of the Board on an AC member's performance where an extension of that member's tenure or re-appointment is being considered.

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

Summary of Activities of the AC in 2012
The following is a summary report of the AC's key areas of work in 2012:

(a) **Internal audit:** In 2012, the AC considered eight internal audit reports issued by the ACS Division. These included the annual review on PIDM's internal control compliance; the report of the Institute of Internal Auditors of Malaysia on the results of the quality assurance review on the ACS Division; the report on PIDM's fraud control practices; the audit on PIDM's financial reporting for the year ended 31 December 2012; the audit carried out on the effectiveness of the Product Registry System and processes; the audit carried out on the effectiveness of PIDM's business continuity and disaster recovery simulation testing exercise; the audit carried out on the effectiveness of PIDM's methodology and approach in developing the Board-approved five-year Integrated Communications Plan; and the audit carried out on the effectiveness of PIDM's ERM framework, system, methodology and processes.

The AC reviewed the ACS Charter, the ACS Division's Audit Plan for 2013 - 2015 and considered the budget resource needs for the Division. The AC 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. The AC also reviewed the ACS Division's report on the appointment of an external consultant in co-sourcing the audit on security assessment.

(b) **Matters of concern:** The AC has unfettered access to the external auditor and Management, as well as to external independent counsel pursuant to the Policy on Engagement of Separate Legal and Other Counsel. In 2012, the AC held five sessions *in camera* with different members of Management, the CRO and CIA and with external auditors as part of good governance practices. These sessions also provide opportunities to discuss any areas of concern related to the annual audit.

(c) **Its direct reports:** The CIA and the CRO report directly to the Board through the AC. In 2012, the AC continued to review reports on their performance of their respective functions. The AC assessed the CIA's and the CRO's performances for 2012 in consultation with the CEO.

(d) **Financial reporting:** The AC obtained an understanding of the financial reports and monitored financial information for accuracy, reliability as well as clarity. It also considered the information provided in the Annual Report and Corporate Plan. As stated in the MDIC Act, PIDM's Annual Report (including its financial statements and the external auditors report), must be provided to the Minister of Finance, three months after the year end (31 December).

(e) **Financial reporting processes, accounting policies and internal control structure:** In 2012, the Audit Committee:

(i) reviewed and advised the Board with respect to the annual financial statements, management discussion and analysis, the external audit report and the review of the integrity of the financial reporting process and internal control reports as well as management representations;

(ii) obtained a written certification from the CIA addressing PIDM's system of internal controls; and

(iii) recommended the adoption of the principles recommended by Management, which included making the appropriate disclosures on contingent liabilities when there is no loss event.

(f) **Strategic and financial management oversight:** In 2012, the AC fulfilled its responsibilities with regard to financial management oversight, including management of annual budgets and investments. The AC received regular reports on progress against the Corporate Plan 2012 - 2014, and considered and recommended the Corporate Plan 2013 - 2015 that included the annual operating budget and capital plan.

(g) **Risk management:** In relation to risk management, the AC provided advice and support to the Board in respect of the matters reported against Standards Nos. 10 to 12 of the Board Governance Policy, on pages 52 - 54 of the Annual Report relating to risks and internal control.

In carrying out its duties, the AC has unrestricted and direct access to the CRO, who regularly reports on the activities of the ERM Division and the corporate risks to the AC and the Board.

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(h) **Ethical and legal compliance:** The AC reviewed the report on compliance with the applicable laws and regulations, as well as the key codes and policies. There were no incidents of non-compliance noted. The AC also noted the report on activities in relation to PIDM's compliance programme in 2012.

(i) **Review of Charter:** In 2012, certain amendments to the AC Charter were made, as reported on page 56 of the Annual Report.

The AC also asked that, for 2013, Special AC meetings should be held with a focus on risks of the Corporation so that the AC has more time to deliberate on matters of risk.

In conclusion, the AC fully fulfilled its responsibilities against the AC Charter in 2012.

Remuneration Committee

Remuneration Committee Members and Meeting Attendances
The RC held two regular meetings in total in 2012. Attendances of the RC members at meetings in 2012 are outlined in page 45. Again the level of attendance was high.

Remuneration Committee Charter
The RC Charter is set out in the Appendix on page 217. The RC Charter requires the RC to meet at least twice a year and to review and make recommendations to the Board on a range of human resource issues, such as compensation, compliance with human resource-related legal requirements, personnel policies, training, succession planning, complaints and other human resource-related matters. A review of the RC Charter was carried out in 2012 with the resulting amendments:

(a) paragraph 3.7 provides that the RC Chairman shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee;

(b) paragraph 3.11 states that the RC Chairman shall provide advice to the Chairman of the Board on a RC member's performance where an extension of that member's tenure or re-appointment is being considered; and

(c) paragraph 4.5 states that the RC will make recommendations to the Board with regard to the annual bonus range.

Summary of Activities of the RC in 2012
Some of the key matters carried out or reviewed by the RC in 2012 are outlined below. The RC continued to monitor the implementation of the Human Capital strategy for the Corporation. In line with Standard No. 9 of the Board Governance Policy, the RC supported the Board to ensure that the Corporation's strategy allows for an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction. In particular the RC carried out the following work:

(a) considered the review of the performance management policy, which aims to facilitate and promote the achievement of corporate objectives through the effective management of employee performance;

(b) reviewed the employees' compensation and benefits with a view to encouraging retention of employees over the long term;

(c) considered the market competitive study to benchmark current compensation against the existing market. The RC also approved the annual bonus range and the bonus awards for 2012 in line with the Board-approved bonus framework;

(d) noted the report on compliance with key human resource-related policies and legal requirements;

(e) assessed the CEO's performance against the approved objectives and KPIs for 2012 and made appropriate recommendations to the Board. The RC also considered the 2013 statement of objectives and KPIs for the CEO and recommended the same for Board approval;

(f) reviewed the outcome of the Employee Voice Survey that was carried out in 2011 and noted action plans to address any areas that may potentially become a problem if not fixed;

(g) considered the progress of succession planning for key senior management; and

(h) monitored the implementation of the Board-approved Scholarship Programme for Malaysians in need of financial assistance.

As of 2012, the RC is satisfied that it has fulfilled its key responsibilities against the RC Charter. The RC will continue to ensure that the Human Capital strategy continues to be relevant and implemented effectively.

Governance Committee

Governance Committee Members and Meeting Attendances
The GC held three regular meetings in total in 2012. Attendances of the GC members at meetings in 2012 are as outlined on page 45.

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

The GC Charter was amended following a review in 2012. Amendments were as follows:

(a) amendments to make it clear that the GC would provide recommendations to the Board respecting revisions to the codes of business conduct and conflict of interest for Directors and employees; and

(b) in respect of stakeholder awareness and engagement, the GC would review and recommend for Board approval, any amendments to the Corporation's Communications Policy and the Corporation's long-term public awareness strategies. It shall also receive the public awareness plan of activities for the next fiscal year and regularly receive and review the results of such plan.

In addition, the GC Charter was also amended in line with amendments to the other Committee Charters as follows:

(a) paragraph 3.7 provides that the GC Chairman shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee; and

(b) paragraph 3.11 provides that the GC Chairman shall provide advice to the Chairman of the Board on a GC member's performance where an extension of that member's tenure or re-appointment is being considered.

Summary of Activities of the GC in 2012
The GC supported the work of the Board on corporate governance, as highlighted in the report in pages 48 - 49. The following are some of the key highlights in relation to the GC's work in 2012:

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

(b) the review of the Board objectives for 2013 and the proposed schedule for Board and Committee meetings for 2013;

(c) the review of the Board profiles, both collectively and individually for 2013 and the skills gap analysis, as well as the implementation of the Board succession plan;

(d) the review of the membership of all three Board Committees in line with the Policy on Rotation of Committee Members;

(e) the review of PIDM's approach to governance as well as governance-related policies, including the Board Governance Policy, the Corporate By-Law, position descriptions of the Chairman, Board members and the CEO;

CORPORATE GOVERNANCE
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(f) the review of the Charters of all the Committees to ensure consistency in practices across the Committees, as well as to ensure that there were no significant overlaps in the Committees' key roles and responsibilities;

(g) the review of the Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors;

(h) the review of the Corporate By-Law, Conflict of Interest Code and Code of Business Conduct and Ethics;

(i) the review of the Corporate Social Responsibility (CSR) Policy and the CSR activities for 2012;

(j) the monitoring of succession planning for corporate officers; and

(k) the review of the results of the assessment on the effectiveness of the Board, Committees and Management.

The GC also continued to monitor developments in corporate governance and best practices in Malaysia and other jurisdictions. Additionally, the GC considered and made recommendations to the Board on the need for the Board to form a Board Risk Committee. In summary, the GC carried out its responsibilities against its Charter.

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

OTHER INFORMATION

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

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

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

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

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

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The Directors' Report on the financial statements for the financial year ended 31 December 2012 and the accompanying Statement of Directors are found on page 114 onwards.

The report on the financial statements also highlight, on pages 139 - 141 that, during the year, PIDM incorporated five subsidiaries as part of its efforts to ensure operational readiness to carry out any intervention or failure resolution activities. In line with section 35 of the MDIC Act, the financial results of the subsidiaries were not consolidated with the financial statements of PIDM. This was because the Corporation believes that consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM, as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Fund(s) to which that member institution relates. Furthermore, in accordance with the requirements of the Malaysian Financial Reporting Standards 10 (MFRS 10) *Consolidated Financial Statements*, PIDM did not prepare consolidated financial statements as PIDM did not meet all the criteria required for having "control" over its subsidiaries, as defined in MFRS 10.

Risk Management and Internal Control

The Statement on Risk Management and Internal Control is found on page 63 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 (NAD), whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC reports and documentation prior to the AC meetings. In this regard, they attended four of the eight AC meetings held in 2012. Their annual fees can be found on page 160 of this Annual Report.

ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

As mentioned earlier on page 41 of this Statement, the Corporation seeks the advice and endorsements from the Shariah Advisory Council (the Council) of BNM on any Shariah issues relating to the operations of the Islamic DIS and TBPS. The arrangements and salient features of the Islamic DIS and TBPS have been endorsed by the Council. Premiums and levies collected from Islamic and takaful member institutions are managed separately and invested according to Shariah principles.

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

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

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MANAGEMENT

Executive Management is responsible for the day to day management of PIDM. It is headed by the CEO, whose authority is derived from the MDIC Act and the Board-approved job description. The organisation chart is found on page 27. Executive Management is accountable for their respective functions, and the CEO, the Chief Financial Officer (CFO), the General Manager, Insurance, Risk Assessment and Monitoring, the General Counsel, as well as the CIA and CRO are all required to provide formal representation letters. Management provides a comprehensive representation letter to the Board and the NAD as part of the year-end audit. The CEO and the CFO also provide an enhanced statutory declaration on the financial statements and quality of internal controls. The statutory declaration can be found on page 118 of this Annual Report.

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

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

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

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

CORPORATE GOVERNANCE
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

INTRODUCTION

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

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

GOVERNANCE, RISK MANAGEMENT AND CONTROL

The Statement on Governance on pages 39 - 62 explains how the Board has complied with the 15 standards outlined in the Board Governance Policy. The Board Governance Policy incorporates recognised best practices in corporate governance.

The Statement on Governance provides information on the following:

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

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

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

RESPONSIBILITIES FOR RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Board of Directors

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

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

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

(i) The Board must ensure that sound risk management is carried out in accordance with Standard No. 10 on "Significant Risks". The Board will, amongst others, obtain an understanding of the significant risks inherent in PIDM's business and affairs. It also ensures an appropriate and effective risk management process to manage these risks has been implemented.

(ii) Standard No. 11 on the "Control Environment and Internal Audit" states that the Board will ensure that PIDM has a control environment that supports the prudent management of its operations and of the risks to which it is exposed and has effective policies and practices to ensure the integrity of internal controls and management of the information system. Standard No. 12 refers to the Board's responsibility to obtain, on a regular basis, reasonable assurance that the Corporation is "in control".

(iii) Standard No. 13 also deals with expectations from the Board on the "Strategic Management Process". In particular, the Board will approve the operating objectives, strategies and Corporate Plan annually and regularly evaluate the Corporation's performance against the approved Plan. The responsibilities of the Board under Standard No. 13 are fulfilled by taking into consideration the significant risks that could hinder the achievement of the Corporate Plan and PIDM's objectives.

The Board acknowledges that a sound system of internal control ensures effective and efficient business operations, reliable financial reporting, strict compliance with applicable laws and regulations, as well as the 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 that may impact the achievement of PIDM's statutory mandate and objectives.

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

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

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

The AC also advises the Board on accounting and internal control issues as well as financial reporting and management. Further details about the oversight roles of the AC over financial reporting and management are set out in the Statement on Governance on page 57.

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

Management
The CEO derives his authority from the MDIC Act 2011 and the Board-approved job description and authority matrix. The CEO is accountable and answerable to the Board for the performance of his responsibilities, and is not a member of the Board.

The organisation, headed by the CEO, is divided into 10 Divisions. For the day to day operations, the CEO is supported by the Chief Operating Officer (COO). Appropriate checks and balances have been instituted within PIDM, through the establishment of appropriate reporting relationships. Operational divisions report directly to the CEO or to the CEO via the COO, and independent divisions such as the ACS and ERM Divisions report directly to the Board via the AC.

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

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

Enterprise Risk Management Division
The Board-approved ERM Charter details the responsibilities, authority and accountability requirements of the Board, the AC, the CRO, the ERM Committee, the Strategic Planning and ERM (PERM) Working Committee and the Corporation's employees in respect of ERM. The Charter is subject to periodic review to ensure its currency and relevance.

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

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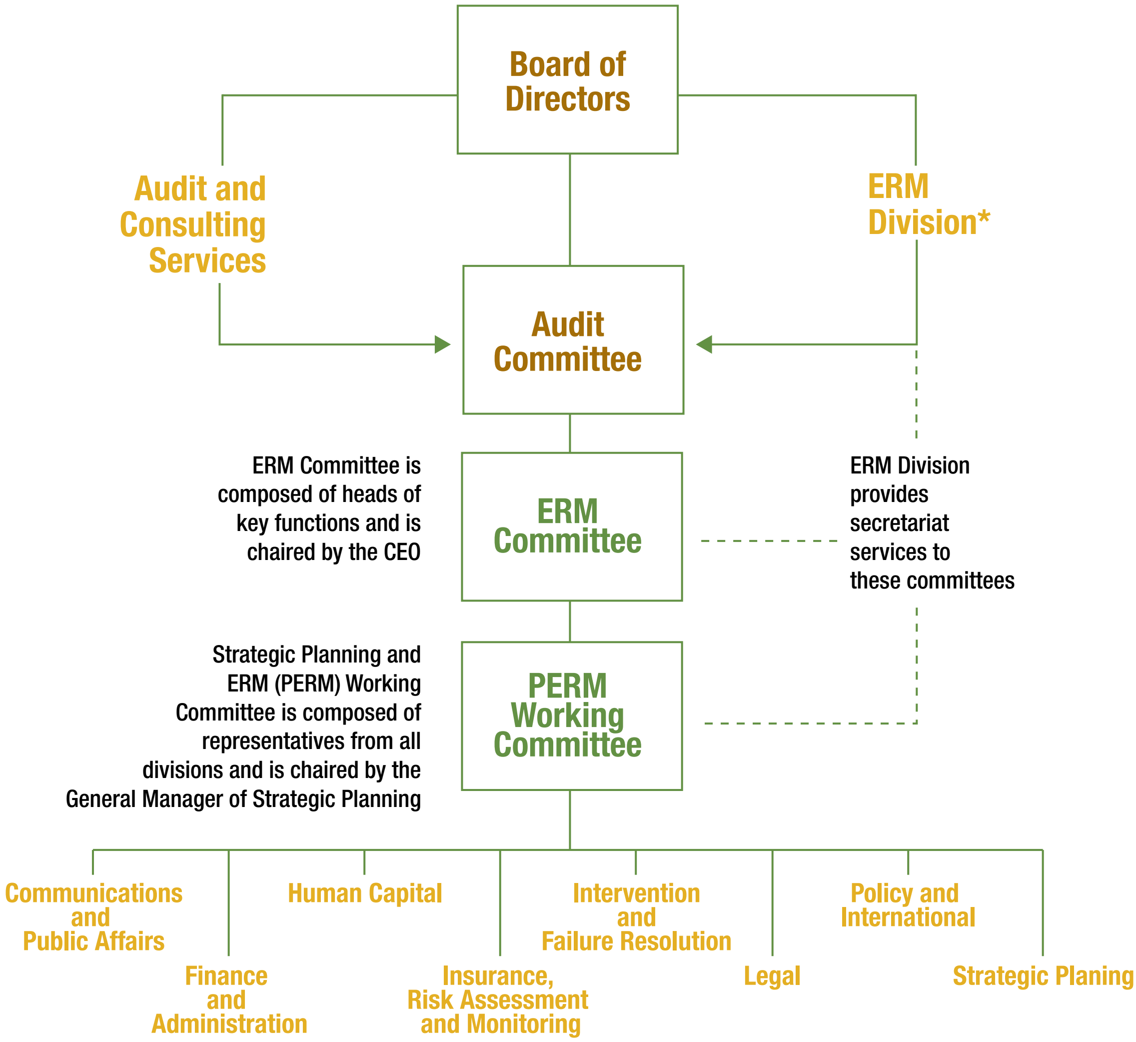

** The CRO reports functionally to the Board via the AC and administratively to the CEO*

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

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

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

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

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

Audit and Consulting Services Division

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

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

The ACS Division continues to adopt a risk-based approach to audit planning, and the ACS Division's audit planning process integrates both the strategic planning and the ERM processes. The risk profiles as well as 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 strategic planning period.

The ACS Division performs an independent assessment of the effectiveness of the ERM framework, methodology, system, policies and processes on a three-year cycle. It thus provides assurance to the AC and the Board that the Corporation has an effective ERM programme.

Throughout 2012, the ACS Division also met internal demands for consulting and advisory services. This is consistent with the Division's mandate and responsibilities. A significant proportion of its audit-person days were planned and allocated to provide consulting and advisory services to various internal working committees, task forces and individual divisions in relation to PIDM's projects or Corporate Plan initiatives.

In 2012, the AC continued to review the overall performance and operations of the ACS Division on a semi-annual basis. This was to ensure that the ACS Division continued to function effectively, and that its performance was monitored and assessed against the Board-approved audit and consulting activities for the year. Rather than seeking feedback and recommendations from the persons being audited on each audit performed, a Corporate-wide survey was rolled out to all employees. The customer satisfaction survey was designed to help the ACS Division identify areas to improve the performance of the internal audit activity, enhance the effectiveness and quality of services and deliverables, and elevate the level of acceptance of the ACS Division as partners in mutual objectives to bring about continuous improvements in governance, risk management and controls processes. Overall, the ACS Division received positive feedback from employees in relation to the audit objective, planning and performance, competency of the auditors and quality of the audit deliverables. The survey results for 2012 have also been provided to the AC.

Employees of PIDM

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

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

CORPORATE GOVERNANCE

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

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

In addition, each Division continues to carry out its annual Customer Satisfaction Survey to gauge the effectiveness of the services that each Division provides to users in other Divisions. Survey results are provided to Executive Management and the recommendations provided in these surveys are appropriately addressed.

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

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. In 2012, the ACS Division and the NAD continued their cooperation to ensure efficiency and effectiveness in the audit performance and deliverables. The representatives from the NAD are invited to all AC meetings and the NAD is provided with a copy of the AC agenda and reports, and the NAD has access to all audit reports prepared by the ACS Division.

The NAD performs a management audit on PIDM once every three years. The objective of the management audit is to assess the effectiveness of the Corporation's governance structure and processes, financial system and management as well as the implementation of key policies and operational procedures.

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

ELEMENTS FOR SOUND SYSTEMS OF RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

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

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

In 2012, Management completed another full cycle of the ERM process as well as reviewed and enhanced PIDM's Board Risk Policies, which were approved in 2011. The ERM Committee and the PERM Working Committee each met seven and four times respectively to discuss and decide on various risk-related matters, including the identification of new or emerging risks that may affect the achievement of the objectives and initiatives of the Corporation. Additionally, the ERM Division also regularly updates the Board via the AC and seeks their direction on ERM matters throughout the year.

Annual ERM Process

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

1

Division and ERM Committee Risk Assessment Workshops

- Establish the context of ERM Risk Assessment.
- Brainstorm, challenge and discuss existing or new risks at Division / Department, Cross-division and Corporate levels.
- Evaluate the rationale of Risk Treatment Options.
- Prepare Preliminary Risk Action Plans.

2

Corporate-wide ERM Risk Assessment Workshop

- Internal and External Environment Analysis.
- Presentation of Division / Department ERM Risk Assessment Results, Risk Action Treatment Options and Preliminary Risk Action Plans by respective HODs.
- Discussion on risk by Risk Categories and Sub-risk Categories.
- Discussion on potential top significant risk of the Corporation.

3

Consolidation and analysis of ERM Risk Assessment Workshop results

- Consolidate Division / Department Risks, Corporate Risk, Cross-divisional Risks into significant Corporate Risks / Cluster Risks.
- Present the Division / Department ERM Risk Assessment Results; Risk Action Treatment Options; Preliminary Risk Action Plans; and Significant Corporate Risks / Cluster Risks to the PERM Working Committee, ERM Committee and Audit Committee for endorsement.

4

PIDM's significant Corporate Risks / Cluster Risks for 2012

- Present the Division / Department ERM Risk Assessment Results; Risk Action Treatment Options; Preliminary Risk Action Plans; and Significant Corporate Risks / Cluster Risks to the Board for endorsement.

The Corporate-wide ERM Awareness Session was carried out on 23 March 2012 to help sustain a risk-aware culture and promote an understanding of the importance of risk management among the employees.

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

A significant aspect of the annual ERM process is the results of the risk assessment workshops. Nine separate division or department risk assessment workshops for 14 divisions or departments were conducted prior to a Corporate-wide risk assessment workshop, during which the approved risk parameters were used to assess the corporate and cross-divisional risks.

Subsequent to the divisional and Corporate-wide risk assessment workshops, an ERM Risk Assessment Report was developed, including the risk register, which contains a detailed description and assessment of all the Corporation's risks as well as the controls and action plans to mitigate them.

As risk assessment and evaluation is an integral part of the annual strategic planning cycle, the results of the ERM risk assessment were communicated to all employees during the Corporate-wide Strategic Planning Session on 5 July 2012 to allow prioritisation of initiatives. The key action plans and initiatives that have been developed to address the cluster risks are embedded in the Board-approved Corporate Plan 2013 – 2015.

CORPORATE GOVERNANCE
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Board Risk Policies and Reports

The Board Risk Policies outline the oversight function of the Board in relation to specific risks and the Board's expectations of Management's roles in supporting them.

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

In addition to the Board Risk Policies and the Corporate-wide Board Risk Report, in 2012 the ERM Division issued the annual ERM Risk Action Plans Report that provides the AC and the Board with an independent assessment of the status of key initiatives being taken to lower the residual risk for each of the risk categories or sub-risk categories.

Effectiveness of ERM Policies and Practices

By way of background, in 2009, the ERM Division developed and implemented the ERM Effectiveness Assessment Framework to enable Management to measure the effectiveness of the ERM programme and practices. The Framework was developed to enhance PIDM's ERM capabilities, which would help identify the attributes that would make ERM practices more effective, measurable and provide PIDM with the roadmap for continuous improvement. The ERM Division reviewed and updated the ERM Effectiveness Assessment Framework in 2012 and will perform an internal assessment of the effectiveness of ERM practices through a survey questionnaire that will be completed by the PERM Working Committee and the ERM Committee members in early 2013.

Business Continuity Plan

The Corporation's readiness in managing business continuity is enhanced with the establishment of the Board-approved Business Continuity Management Policy. Additionally, in 2011, Management completed the implementation of the interim Disaster Recovery Site (DRS) to enable continuity of the critical operations in the event of a disaster that damages PIDM's office or causes it to be inaccessible. In the same year, Management successfully tested the Business Continuity Plan (BCP) from the DRS through a crisis simulation exercise. A total of 46 employees including Management and IT personnel actively participated in the crisis simulation exercise.

The Corporation's BCP was also tested in an actual incident in 2012, when authorities temporarily cordoned off PIDM's office building due to a tremor caused by an 8.6 magnitude earthquake in Sumatra, Indonesia. The BCP was activated and the Corporation was able to successfully continue its operations from the DRS the next day.

Management also completed Phase 1 to 4 of the Corporation's BCP process, namely the Project Management, Risk Analysis, Business Impact Analysis and Recovery Strategies in 2012. Phase 5, Plan Development, has commenced in 2012 and is expected to be completed in 2013.

Significant Risks Affecting PIDM in 2012

The annual ERM risk assessment process involves the identification and assessment of the cluster risks affecting the Corporation in achieving its mandate and objectives as well as the development of action plans and initiatives to address these risks. The Corporation's cluster risks for 2012 are:

- Public Awareness;
- Operational Readiness – Intervention and Failure Resolution;
- Talent Management;
- Risk Assessment and Monitoring; and
- Information Security.

The significant risks as well as a brief description of the key action plans and initiatives to address the cluster risks of the Corporation are as follows:

(i) Public Awareness

The Corporation continues its focus on increasing public awareness and understanding on DIS, TIPS and PIDM, which is an ongoing process that requires a long-term approach, building on past years' initiatives and refining strategies and plans based on research findings. The Corporation will continue to focus efforts on the implementation of the comprehensive multi-year Integrated Communications Plan, which includes initiatives such as advertising, training for representatives of member insitutions (MIs), briefings for various stakeholders and our financial education programme for schools.

(ii) Operational Readiness – Intervention and Failure Resolution (IFR)

Operational readiness is surrounded by the key question of "Are we operationally ready for an intervention and failure resolution of troubled MIs, if it were to ever occur?". In this regard, the Corporation continues with the development of the operationalising framework for DIS as well as the development and implementation of policies, procedures and infrastructure for TIPS over the next several years. In addition, various training sessions and simulations on IFR will be carried out to test the readiness of the Corporation.

(iii) Talent Management

The unique business model of the Corporation requires its employees to possess specialised skills, knowledge about DIS and also about TIPS as well as undertaking insurance, risk assessment and monitoring, and IFR actions. To mitigate the risk, we continue to undertake targeted recruitment activities to source the right candidates. Management also carries out extensive on-the-job training including providing training to improve leadership and managerial skills for employees.

(iv) Risk Assessment and Monitoring

The Corporation has developed the Risk Assessment and Monitoring Methodology and Framework for TIPS. During the next few years, Management plans to develop the Insurance Risk Assessment System for insurer members, along the same lines as the one already in place for banks. In addition, the Corporation will be implementing the Differential Levy System (DLS) framework for conventional insurer members in 2013 and plans to hold further DLS communication sessions with insurer members. In relation to the DLS for takaful operators, the Corporation will develop an interim framework in 2013.

(v) Information Security and Compliance to Codes

Access to sensitive information is restricted to authorised employees. In this regard, the Corporation will continue to conduct regular training on the Information Classification Policy, Code of Business Conduct and Ethics, Conflict of Interest Code, and ensure all employees submit their annual assets and liabilities declarations. In addition, the Corporation will continually maintain open channels for reporting of wrongdoings and communicate the consequences of breaches and the disciplinary actions.

Conclusion

The CRO is of the opinion that there are no significant cluster risks of the Corporation that might hinder the Corporation from achieving its mandate and objectives; and no significant cluster risks that warrant heightened scrutiny from the AC or the Board as adequate controls are in place and the action plans have been formulated to mitigate these risks. In addition, the Corporation's risk management is operating effectively and in all material aspects, based on the ERM framework of the Corporation.

INTERNAL CONTROL

Annual Review of PIDM's Compliance with Internal Controls

Management carried out an annual review of PIDM's compliance with internal controls towards the end of the financial year pursuant to the requirements of PIDM's Internal Control Framework (ICF), which was endorsed by the AC for implementation in January 2008. The ICF is founded on the internationally recognised COSO Integrated Framework on Internal Controls (COSO Framework). The review was carried out using the evaluation tool that is recommended in the COSO[5] Framework. The tool is intended to provide guidance and assistance in evaluating PIDM's internal control systems and compliance focussing on the five components of the ICF which are stated under paragraph 4.15.

[5] Committee of Sponsoring Organisations of the Treadway Commission

CORPORATE GOVERNANCE
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The results of the assessment of internal controls using the five components of the ICF and their corresponding sub-components show that, overall, Management has ensured that sound internal control within the Corporation has been established through the following:
- good practices in corporate governance;
- strong leadership;
- shared corporate values and culture;
- a conducive corporate environment that emphasise accountability for control, risk management and compliance with internal policies, procedures, applicable laws and regulations; and
- proper safeguarding of the flow of PIDM's confidential information via internal communication channels or through communication with the external parties.

Information Technology (IT)
Management continued with its efforts to develop and strengthen its IT security infrastructure against both internal and external threats. During the year under review, the ACS Division undertook a co-sourcing approach to perform security assessment on PIDM's IT systems as well as PIDM's information systems assets. The audit was selected on the basis of the risks identified by the ERM Division.

To add value to the audit work, the scope of the audit incorporates a comprehensive benchmarking exercise of PIDM's IT governance structure, policies and practices against internationally accepted and adopted standards and best practices, in line with PIDM's vision to be a best practice financial consumer protection authority.

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

Development and Implementation of an Audit Programme and Tool for the Purpose of Validating the Total Insured Deposit Data
The ACS Division has developed an audit tool jointly with an appointed external consultant to verify the reasonableness and completeness of the computation of the Total Insured Deposit (TID) data of the MIs. This tool will be used to test the TID data based on the Standard File Format that is to be submitted by the MIs officially beginning 2013.

Key Systems, Policies, Practices and Processes
In 2012, the following key systems, policies, practices and processes were established as part of PIDM's system of internal control:

- A Working Group on Policies and Procedures continues to track outstanding policies and procedures and oversee the streamlining, centralisation and integration of key and operational policies and procedures.

- During the year under review, existing key corporate policies, which require the Board's approval, continued to be reviewed and updated on an annual basis. Financial and operational policies and procedures are reviewed once every two years. Those policies and procedures that were due for review in 2012 have been updated. This was to ensure that PIDM's financial and operational capabilities and integrity continued to be strengthened and remained consistent with the applicable laws and standards of best practices. Key controls designed as fraud preventive measures and to reduce the opportunity to commit fraud are embedded in the key corporate and operational policies and procedures.

- The employee-related policies and procedures were reviewed in 2012 and new developments considered in terms of industry practices as well as the decisions of the RC or the Board on certain key strategic or operational matters.

- The ERM and ACS Divisions were involved in the review of policies and procedures to ensure that essential elements of and matters concerning risk management and internal controls are embedded in these policies and procedures.

- In 2012, employees participated in the annual compliance test organised by the Corporate Compliance Committee of PIDM to gauge employees' level of understanding and awareness of the requirements of key corporate and operational policies and procedures. The outcome of the annual compliance test will be used to plan for the 2013 compliance programme for the employees.

- The Procurement, Contracting and Outsourcing Policy is established to provide guidance in achieving high standards of professionalism, transparency and accountability while maximising efficiency, effectiveness and flexibility in the procurement process within a system of checks and balances. In 2012, the amendments to the Policy were approved by the Board whereby procurement contracts within the highest approving limit threshold must be reported to the Board through the AC on a quarterly basis. As for the procurement of independent assurance or audit-related services, the ACS Division will be responsible for the selection of such service providers.

- Pursuant to the Board-approved Investment Policy, PIDM's funds are invested in the Malaysian Government Securities and BNM investment securities and other tradable investment papers. Other tradable investment papers refer to the papers that were transferred from BNM to PIDM upon the establishment of the Insurance Guarantee Scheme Funds. Some papers have been divested and the others are being held to maturity. As such papers mature, the funds are being re-invested in Malaysian Government Securities and BNM investment securities. The marked-to-market value and the market risk associated with these papers are being closely monitored by Management and any impairment to the investments is reported to the AC and the Board as per the Investment Policy, on a timely basis.

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

- PIDM continues to enhance its core operation systems; a new Human Resource Information System (HRIS) and an Enhanced Financial Management System (EFS). The HRIS was developed and implemented in 2012. The first phase of the HRIS focussed on employees' salaries, leave and benefit claims. The enhancement to the current financial system project, the EFS, started in April 2012. The first phase of the EFS comprised core financial modules and will be implemented during the second quarter of 2013. The integration of the EFS with the HRIS particularly on employee-related information such as information on salaries and benefits as well as training and development expenses, will be implemented in the third quarter of 2013. The Finance Department and the HC Division are currently preparing the requirement specifications for the integration of relevant modules in both systems.

- As part of PIDM's ongoing effort to be operationally ready in carrying out IFR activities of troubled MIs, a series of employee training sessions and crisis simulation exercises on IFR were conducted during the year and these will continue to be carried out on an annual basis. Further efforts to enhance PIDM's intervention readiness include the completion of certain key policies and procedures on IFR actions covering TIPS that have been identified in the IFR Framework.

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

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

- As a matter of practice, the Board considered the reports of various Board Committees on a regular basis. These included the report on the review by the AC of PIDM's financial statements; its compliance with laws and ethics and the effectiveness of controls embedded in systems or processes audited by the ACS Division; the report from the RC on compliance with key human capital policies and related laws; and the report from the GC on compliance with key governance policies.

- The Board considered, on a quarterly basis:
  (i) PIDM's financial reports;
  (ii) the utilisation of resources as compared to the approved budget;
  (iii) the implementation of the ERM framework and the update on PIDM's risks and measures to mitigate significant risks; and
  (iv) the update and progress of Management's overall performance against approved initiatives and targets set out in the Corporate Plan, as well as Management's assessments of internal and external factors that may impair the performance of the Corporate Plan.

- At each Committee meeting, the Board Committees considered their progress against the respective Board Committee charter, and Management's proposed action plans to support the Committee to fulfil its key responsibilities. These results were reported to the Board.

CORPORATE GOVERNANCE
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

THE BOARD'S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Representations

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

The Board received further assurance on the soundness of PIDM's risk management via the audit on the effectiveness of PIDM's ERM framework, system, methodology and processes which was undertaken by the ACS Division in 2012.

The effectiveness of PIDM's compliance with internal controls as of 31 December 2012 has been assessed by Management and validated by the ACS Division based on the criteria set out in the PIDM's ICF.

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

The Board continues to be committed to ensuring that:

(a) Management identifies and assesses the risks facing PIDM routinely at all levels and on a Corporate basis;

(b) Management identifies and assesses risks formally in conjunction with the annual review and update of the Corporate Plan for the next corporate planning period, reports to the AC and the Board on the management of the Board risk categories and sub-categories and perform ongoing risk identification and assessment throughout the year to identify risks that may hinder the achievement of PIDM's mandate and initiatives during the corporate planning period;

(c) Management takes appropriate and timely actions to mitigate the impact of significant or cluster risks on PIDM;

(d) Management maintains a conducive corporate culture and environment within PIDM that emphasises accountability for risk management and internal controls;

(e) Management continues to demonstrate its commitment to integrity, ethical behaviour and enhancing the competency of employees and this commitment is communicated to all employees;

(f) PIDM's control environment and its system of internal control are effective and provide reasonable assurance that PIDM's financial reporting process is reliable and that PIDM has effective policies and procedures for ensuring compliance with applicable laws and regulations;

(g) The Corporation's strategic direction and Corporate Plan provides relevant guidance on the objectives that PIDM needs to achieve and the specific initiatives that need to be developed and implemented;

(h) New initiatives and activities are continuously researched and developed in anticipation of potential new events, risks or activities that may affect the achievement of the corporate objectives. Management monitors the progress of the corporate initiatives and activities against plan and ensures that they complement each other, where applicable;

(i) Control activities and other mechanisms have been designed to address and mitigate significant or cluster risks. Controls to identify and react to changes have also been put in place to manage the risks associated with the changes;

(j) Information systems designed to provide Management with timely information needed for strategic and operational decision making purposes are embedded with necessary controls to ensure the integrity and security of PIDM's information is properly safeguarded. Information critical to identifying risks and meeting the Corporation's objectives is communicated through established channels within the Corporation and with external parties;

(k) Communication within the Corporation and with external parties is effective, in that employees are given the appropriate communication channels to escalate issues or problems to the top level;

(l) Management monitors the entire system of risk management and internal control continuously and addresses issues on a timely basis; and

(m) Management reports on the performance of the Corporation annually through clear disclosure of its activities to provide a strong accountability regime.

The Board is also pleased to report that for 2012 there were no reported incidents of weakness or deficiency in the adequacy and integrity of PIDM's risk management and internal controls embedded in PIDM's systems, policies, practices and processes, and there were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in its system of risk management and internal controls.

This Statement is made in accordance with the Board's resolution dated 18 February 2013.

Section 3

MANAGEMENT'S DISCUSSION AND ANALYSIS

Determination

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bamboo enable flexibility in

the face of adversity.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OUR OPERATING ENVIRONMENT

Despite a challenging external economic environment, the Malaysian economy has demonstrated resilience in 2012 with growth picking up modestly to 5.6% from 5.1% in the previous year. Domestic demand, in particular investment activity and private consumption, continued to offset a growth drag from a weak export momentum.

Looking forward to 2013, we anticipate the recovery in the global economy to be modest. The Eurozone region, weighed down by fiscal tightening, tight financial conditions and the need for structural reforms, is expected to experience a prolonged recession. The economy in China is also transitioning to a lower though still respectable growth.

In contrast, positive economic indicators have emerged in the United States (US) suggesting upward momentum in the second half of 2013 for the economy, especially if policymakers are able to address long-term fiscal imbalances without significantly affecting economic growth. On the whole, in the US, private sector balance sheets are strong, financial conditions remain favourable, and improvements in the job market remain on a steady track whilst the housing market shows increasing signs of sustained recovery. Hence, Malaysia's exports could see gradual recovery in the later part of the year, supplementing domestic demand. Economic growth is therefore expected to be between 4.5% and 5.5%[1] in 2013.

While the worst appears to be over, it remains possible that the global economy will face recurring episodes of financial strain. Although the European Central Bank's Outright Monetary Transactions programme has calmed jittery financial markets and mitigated the risks of a Eurozone break-up, any delays in carrying out the reforms needed to address the Eurozone crisis could still present significant risks. Furthermore, the US fiscal imbalances remain a key threat to global economic recovery. Against this backdrop, the global economic recovery remains fragile and vulnerable. PIDM will continue to remain vigilant and closely monitor these external risks.

REVIEW OF 2012 OPERATIONS AND ACHIEVEMENTS

OVERVIEW

In line with our vision to be a best practice financial consumer protection authority, in 2012 we continued to work on our infrastructure and readiness, and our public awareness programme, at all times following sound governance and management practices. We also continued to benchmark ourselves against best practices.

This section provides a review of PIDM's operations for 2012 and our achievements against our Corporate Plan 2012 - 2014. The Corporate Plan sets out our strategic direction, focus and priorities over the planning period. These are translated into Key Performance Indicators (KPIs) or initiatives in our Corporate Scorecard, which we then use to track our progress so as to ensure performance against our Plan.

EXTERNAL RECOGNITION

In 2012, for the fourth consecutive year, we received the 2012 National Annual Corporate Report Awards (NACRA) for the "Best Annual Report of Non-Listed Organisations" for our 2011 Annual Report. We remain committed to the highest standards of transparency.

Jointly with our advertising agency, Long's Creative Sdn. Bhd., we were also the Bronze winner under the Malaysian chapter for the "Best Brand-Building Campaign Award" by the Promotion Marketing Awards of Asia. This award was in recognition of the communications initiatives for our 2011 advertising campaign.

We also received a positive report from the assessors under the joint International Monetary Fund and World Bank Financial Sector Assessment Program. PIDM was found to be a strong institution and the deposit insurance framework, managed by PIDM, broadly conforms to the "Core Principles for Effective Deposit Insurance Systems" issued by the Basel Committee on Banking Supervision and the International Association of Deposit Insurers (IADI).

[1] Economic Report 2012/2013, Ministry of Finance

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2012 OPERATIONS AND ACHIEVEMENTS

OUR WORK

We continued to adopt three broad strategic thrusts, namely, sound governance, operational readiness and excellence as well as the promotion of public confidence in the financial system. In fulfilling our vision, mission and mandate, we aligned our 2012 KPIs and initiatives to our corporate objectives and strategic thrusts. Our corporate objectives are based on three Balanced Scorecard perspectives as follows:

Stakeholders

Educated and informed stakeholders
Well-informed stakeholders are integral to the effectiveness of the deposit insurance system and the takaful and insurance benefits protection system. We will continue to engage all stakeholders, to educate them through our comprehensive public awareness campaign and education programmes as well as to consult extensively with our stakeholders when developing our Regulations and Guidelines.

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

Governance and Internal Processes

Well-governed and well-managed organisation
We shall demonstrate that we are well governed and well managed through our sound business conduct and governance practices, as well as by adopting effective enterprise-wide risk management and internal control framework.

Robust risk assessment, monitoring, intervention and resolution capabilities
In ensuring fulfilment of our mandate and as readiness remains a key aspect of the Corporation, we will continue to maintain a robust risk assessment and monitoring capability, as well as to build the capacity and capabilities to effectively manage intervention and failure resolution activities.

Sound business and financial practices
To effectively administer our Deposit Insurance System (DIS) and Takaful and Insurance Benefits Protection System (TIPS), we will continue to maintain sound policies, processes, procedures and infrastructure to be current and relevant. The sound practices that govern our operations will be based on relevant domestic and international best practices. We will also continue to build on our capacity and capabilities to ensure that we can fulfil our roles and responsibilities.

Learning and Growth

Competent and knowledgeable workforce
Our people are our most important asset. We provide competitive compensation packages and programmes to attract and retain the right people with the right skills, experience and attitude. We are committed to provide employees with opportunities for continuous learning and development as well as enhancement of their experience, so as to meet their full potential.

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

In line with our strategic direction, our focus for 2012 was on initiatives to enhance the Corporation's capacity and capability by focusing on employee competencies; strengthen the Corporation's operational readiness; and promote public awareness and education. In addition, we continued our efforts to improve our operational effectiveness and efficiency; and we worked to enhance our infrastructure, systems, policies and practices to effectively administer the financial consumer protection systems.

Overall, all the initiatives were completed within the approved financial plan, with the exception of two information technology-related initiatives that have been deferred. Our initiatives naturally included numerous TIPS-related initiatives to deal with our expanded mandate for TIPS. At the same time, we continued to build on our foundations and to strengthen our operational capacity in order to effectively and efficiently achieve our mandate. Our achievements are summarised in the 2012 Corporate Scorecard in the following page.

SNAPSHOT OF 2012 CORPORATE SCORECARD

P	Progressing as scheduled; and / or within budget
A	Target achieved, initiative completed
F	Not yet initiated / future date
D	Deferred due to reprioritisation

Corporate Objectives			Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2012	Results Dec 2012
Stakeholders	A	Educated and informed stakeholders	1. Public awareness index:		
			a. General awareness of PIDM	39%	A
			b. General awareness of deposit insurance system (DIS)	35%	A
			c. General awareness of takaful and insurance benefits protection system (TIPS)	15%	A
			2. Successful completion of key initiative(s):		
			a. Integrated Communications Plan	Complete	A
			b. Education programme	Implement and monitor	A
	B	Effective partnerships	3. PIDM's relationship with:		
			a. Bank Negara Malaysia	Strong	A
			b. Member institutions	Satisfactory	A
			c. Key suppliers and strategic partners	Strong	A
			d. Other deposit insurers	Strong	A
			e. Other stakeholders	Satisfactory	A
			4. Participate in international fora	Active participation	A
			5. Support the Financial Institutions Directors' Education (FIDE) Programme and the Alumni	Active participation	A
Governance and Internal Processes	C	Well-governed and well-managed organisation	6. Board assessment on:		
			a. Best practices of governance adopted	High satisfaction	A
			b. Significant policies and practices complied with	High satisfaction	A
			c. Quality of management support to the Board	High satisfaction	A
			7. Successful completion of key initiative(s):		
			a. ERM Board Risk policies	Review and enhance	A
			b. MDIC Act 2011	Review	A
	D	Robust risk assessment, monitoring, intervention and resolution capabilities	8. Successful completion of key initiative(s):		
			a. Differential Premium Systems (DPS), Total Insured Deposits (TID), Differential Levy System (DLS) and Total Protected Policies (TPP) frameworks:		
			i. Review and enhance TID and DPS-related regulations for DIS	Review	A
			ii. Develop and implement DLS and Return of TPP framework for TIPS:		
			a(ii)(1). DLS framework	Develop and consult	A
			a(ii)(2). Guidelines on DLS and the regulations	Develop and consult	A
			a(ii)(3). Supervisor validation on Return of TPP	Implement and review	A
			a(ii)(4). External auditor validation on Guidelines on Return of TPP	-	F

SNAPSHOT OF 2012 CORPORATE SCORECARD

Corporate Objectives			Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2012	Results Dec 2012
Governance and Internal Processes	D	Robust risk assessment, monitoring, intervention and resolution capabilities	b. Risk Assessment and Monitoring Methodology and Framework:		
			i. Enhance Risk Assessment System for DIS	Develop and implement	D
			ii. Develop Risk Assessment System for TIPS	Develop	D
			c. Develop and implement Early Warning System (EWS):		
			i. DIS	Develop	P[1]
			ii. TIPS	-	F
			d. Intervention and Failure Resolution (IFR) Framework including policies, processes and procedures:		
			i. DIS:		
			d(i)(1). Develop and implement the final components of IFR activities	Develop	P[2]
			d(i)(2). Develop and implement Valuation Model and System	Develop	P[3]
			ii. TIPS:		
			d(ii)(1). Amend IFR policies and procedures to include consideration for insurer members	Develop and complete	P[4]
			e. Policies and regulations:		
			i. DIS:		
			e(i)(1). Interest and dividend payable guidelines / rules	Implement	A
			e(i)(2). Premium surcharge	Complete	P[5]
			e(i)(3). Terms and Conditions of Membership Regulations 2008	Review and implement	P[6]
			e(i)(4). Provision of Information on Deposit Insurance Regulations 2011	Review and implement	P[7]
			ii. TIPS:		
			e(ii)(1). Terms and Conditions of Membership Regulations	Implement	P[6]
			e(ii)(2). TIPS Information Regulations	Research	A
			f. Conduct simulation on:		
			i. Payout	Complete	A
			ii. Intervention and Failure Resolution	Complete	A
			g. Develop the remaining audit programme to ensure integrity of Payout Data, Systems and Processes for member banks	Complete	P[8]
			h. Develop and implement claims management system, policies and procedures for insurer members:		
			i. Phase 1a: Product Registry System	Develop	P[9]
			ii. Phase 1b: Claims Management System	Research	A
			iii. Phase 1c: Policy Holders Support Management System	Research	A
			iv. Phase 2: Payment Management System	Research	A
			i. Member institutions' compliance programme	Implement	P[10]

Corporate Objectives			Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2012	Results Dec 2012
Governance and Internal Processes	E	Sound business and financial practices	9. Reporting through:		
			a. Annual Report	Complete	A
			b. Corporate Plan	Complete	A
			10. Actual vs. approved expenditures budget	±10% variance	A[11]
			11. Internal Control Compliance	Strong	A
			12. Internal Customer Satisfaction	75%	A
			13. Successful completion of key initiative(s):		
			a. Policies and Procedures for Phase 1: Government Borrowings and Phase 2: Funding from capital market	Review and enhance	A
			b. Target Fund framework for TIPS	-	F
			c. Develop and implement the following strategic plans:		
			i. Annual Information Technology Strategic Plan	Complete	P[12]
			ii. Annual Business Continuity Management Plan	Complete	A
			d. Disaster Recovery Site and infrastructure	Acquire land	A
			e. Corporate Information Security Framework	Review and enhance	P[13]
Learning and Growth	F	Competent and knowledgeable workforce	14. Develop and implement annual learning and development plan	Complete	A
			15. Successful completion of key initiative(s):		
			a. Integrate Competency framework in Human Capital processes	Review and enhance	A
			b. Knowledge Management Policies and Procedures	Develop	A
	G	Conducive corporate environment	16. Employee satisfaction index (Survey conducted once every two years)	-	F
			17. Successful completion of key initiative:		
			a. Implement employee-related programmes to promote conducive corporate environment	Complete	A

[1] *The development of the Rating Prediction Model is progressing as scheduled.*

[2] *The development of the framework to operationalise the IFR policies and procedures for member banks is progressing as scheduled.*

[3] *The development of the Valuation Model is progressing as scheduled.*

[4] *The project to amend the IFR policies and procedures to include consideration for insurer members is progressing as scheduled. To date, we have commenced the development of IFR Framework and policies and procedures for Due Diligence, Transfer of Business, Assumption of Control, Closure and Liquidation, Bridge Institution, Receivership and Restructuring.*

[5] *The draft premium surcharge framework will be finalised by 2013.*

[6] *There will be one Terms and Conditions of Membership Regulations which will be applicable for both DIS and TIPS. The new regulations are targeted to be issued in 2013.*

[7] *The regulations will be revised in 2013.*

[8] *The development of audit programme for Payout Payment Management System (PPMS) will be completed in 2013.*

[9] *The insurance products and benefits repository will be finalised by 2013.*

[10] *The compliance programme will be implemented in 2013.*

[11] *We achieved positive variances for both operating and capital expenditures.*

[12] *We have completed most of the strategic and operational initiatives as set out in PIDM's Information Technology Strategic Plan except for the following initiatives which have been deferred:*
- *Enhancement to the Risk Assessment System for DIS*
- *Development of the Insurance Risk Assessment System for TIPS*
- *Enhancement to the Payout System*
- *Corporate Information Security Infrastructure*

[13] *The implementation for the first phase of the Corporate Records Management System will be rolled out in 2013.*

MANAGEMENT'S DISCUSSION AND ANALYSIS
REVIEW OF 2012 OPERATIONS AND ACHIEVEMENTS

DIVISIONAL OPERATIONS REVIEW

All of the key initiatives in 2012 were completed through the 10 divisions in PIDM. The following table provides a brief description of the respective functions of our divisions and their key activities and accomplishments in 2012, including their ongoing and new initiatives.

Audit and Consulting Services Division (ACS)

ACS provides independent and objective assurance as well as consulting services, by working in partnership with Management, designed to add value to and improve the Corporation's operations.

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Audit: Completed the 2012 audits in accordance with the Board-approved Audit Plan 2012 - 2014. These include audits on the Efficiency and Effectiveness of the Methodology and Approach in Implementing the Board-approved five-year Integrated Communications Plan; the ERM Framework, System, Methodology and Processes; the Security Assessment – Penetration Testing and Vulnerability Assessment on the Corporation's Information Technology (IT) Systems; and the Financial Reporting and Disclosure for the year ended 31 December 2012. Assessed PIDM's state of internal control. More details can be found in the Statement on Risk Management and Internal Control on page 63 of this Annual Report. In relation to Payout, the audit programme for Depositor Liabilities Information Management System (DLIMS) are being enhanced and updated. **Knowledge sharing:** Continued to build relationships with other deposit insurers and central banks via participation in the International Workshop on Integrated Deposit Insurance System, a study visit to Indonesia Deposit Insurance Corporation, and knowledge sharing with the Canada Deposit Insurance Corporation. Continued to build relationships with accounting and advisory firms. **Consulting and advisory services:** Continued to support the relevant divisions in PIDM's key projects, including the Intervention and Failure Resolution project, Payout, Business Continuity Management and also in the development of key IT systems.	**Audit:** Continue to implement the Board-approved Audit Plan using the risk-based auditing approach and to conduct the annual review on PIDM's state of internal control. In relation to Payout, ACS will continue to review and enhance the audit programmes to ensure the integrity of the Payout data, systems and processes for member banks. **Knowledge sharing:** Organise and host an international workshop on key areas of payout and claims settlement that internal auditors' and risk managers' should focus on. **Consulting and advisory services:** Continue to provide consulting and advisory services for PIDM's key projects or Corporate Plan initiatives.

Communications and Public Affairs Division (COMMS)

The primary role of COMMS is to develop and communicate effective messages to the public at large and the targeted market segments through ongoing public awareness and education initiatives to enhance public understanding of DIS, TIPS and the role of PIDM in contributing to the stability of the Malaysian financial system.

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Advertising and public relations: Completed the planned initiatives of the Integrated Communications Plan (ICP) 2012 - 2016. In our efforts to enhance public awareness of DIS, TIPS and PIDM, we launched the "Do You Know" campaign which is a two-pronged strategic campaign to stimulate both direct consumers and member institutions (MIs) to find out more about financial consumer protection, PIDM and the features of DIS and TIPS. In relation to public awareness, we achieved all the target levels set for awareness of DIS, TIPS and PIDM.	**Advertising and public relations:** Carry on to implement the initiatives of the ICP 2012 - 2016 with the objectives to instil greater trust in PIDM's role, broaden the awareness of DIS and TIPS as well as to build better understanding of the features, benefits and limitations of DIS and TIPS.
Education programme: Successfully implemented the enhanced PIDM Project MoneySmart, which comprised the MoneySmart Online Game, Interschool Thematic Project Competition and National Poster Drawing Competition. Completed briefings for students in 529 secondary schools and 50 institutions of higher learning as well as briefings to 1,000 teachers representing 668 secondary schools. The MoneySmart Online Game Competition 2012 attracted a total of approximately 10,000 participants.	**Education programme:** Continue to review and enhance the strategy, approach and content of the programme for implementation in secondary schools and institutions of higher learning.
Stakeholder engagement: Conducted a total of 80 briefing sessions for various stakeholders including MIs, Government agencies, institutions of higher learning and the general public. Held dialogue sessions with liaison officers as well as participated in exhibitions and road shows. Successfully conducted the Corporate Outreach programme in Kuantan, attended by, among others, representatives from Bank Negara Malaysia (BNM) and other Government agencies.	**Stakeholder engagement:** Continue to build and maintain relationships with various stakeholders via internal and external briefings as well as participation in exhibitions and road shows.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2012 OPERATIONS AND ACHIEVEMENTS

Enterprise Risk Management Division (ERM)

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

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
ERM policies and practices: Reviewed, enhanced and consolidated the individual Board Risk Policies and Reports into one document for effective reporting and monitoring. Streamlined the ERM Framework and Guidelines and incorporated them into two documents, namely the ERM Policy and the ERM Procedures. **Business Continuity Management:** Successfully activated the Business Continuity Plan (BCP) and continued PIDM's operations from the interim Disaster Recovery Site, due to a tremor caused by an earthquake in Sumatra, Indonesia, which resulted in the office building being temporary cordoned off. Completed the 2012 Business Impact Analysis and Recovery Strategy Report, which was also used for the purpose of preparing the requirements for the permanent Disaster Recovery Centre. **Effectiveness assessment:** Reviewed and enhanced the ERM Effectiveness Assessment Framework that is used to measure the effectiveness of the ERM programme and practices. For this purpose, a self-assessment questionnaire will be completed by the Strategic Planning and ERM Working Committee and the ERM Committee members in early 2013. **Risk advisory services:** Continued to support the relevant divisions in PIDM's key projects including IFR. More details on the ERM Oversight Structure and how PIDM manages its significant risks are described in the Statement on Risk Management and Internal Control, Section 2, pages 70 - 71.	**ERM process:** Continue to perform ongoing identification, assessment, evaluation, monitoring, reporting and communication of the risks affecting PIDM. **Business Continuity Management:** Continue to test and enhance the BCP and provide support in the construction of the permanent Disaster Recovery Centre. **Risk advisory services:** Continue to support and provide risk advisory services to the relevant divisions in PIDM's key projects or Corporate Plan initiatives.

Finance and Administration Division (FINAD)

FINAD consists of Finance, Administration, Information Technology (IT) as well as Organisation and Methods Departments that focus on providing effective and efficient support services in the areas of financial management, general office administration, IT management and operational business processes, policies and controls to ensure smooth operations of PIDM.

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Funding: Completed the development of policies and procedures on borrowings from the Government and funding from the capital market. Completed the development of the Target Fund system for member banks.	**Funding:** To conduct the research and development of the Target Fund framework for insurer members.
Disaster Recovery Plan and infrastructure: Completed the acquisition of land from BNM for the purpose of constructing a permanent Disaster Recovery Centre which will also be used as an off-site storage facility.	**Disaster Recovery Plan and infrastructure:** Continue with the construction of the permanent Disaster Recovery Centre.
IT strategy: Completed the majority of the strategic and operational initiatives as set out in PIDM's Information Technology Strategic Plan except for two corporate and two divisional initiatives, which have been deferred. Further details can be found on page 81 of this Annual Report.	**IT strategy:** Continue to implement the strategic and operational initiatives as set out in the Information Technology Strategic Plan to support the Corporation's business needs and requirements including the enhancement of the Risk Assessment System for member banks, the development of the Risk Assessment System for insurer members, the implementation of the Enhanced Financial Management System as well as the implementation of the information security infrastructure.
Financial management: Commenced the enhancement of the financial accounting related systems and processes.	
Organisation and methods: Reviewed and enhanced the existing policies and procedures to ensure that they remain current and relevant, including the records management processes, policies and procedures as well as the Authority Matrix, which summarises the authorities for the day to day administration of the business and affairs of the Corporation. Commenced development of the policies and procedures repository system.	**Corporate Information Management:** Commence the implementation of Corporate-wide Records Management System and continue to review, enhance and standardise the policies and procedures. To complete the development of the policies and procedures repository system.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2012 OPERATIONS AND ACHIEVEMENTS

Human Capital Division (HC)

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

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Talent management: Ongoing development of our employees took place through a competency-based comprehensive Learning and Development programme. It included various types of training such as leadership, soft skills and technical skills using a blended approach of study visits, external seminars and briefings, conferences, internal training sessions and on-the-job training. In-house training sessions were also organised for employees with common learning and development needs. This included a customised leadership training namely, Leadership Excellence At PIDM (LEAP) for employees with supervisory role. The average external and internal training days per employee in 2012 totalled 10.6 days. Following the establishment of the Knowledge Management framework, the Knowledge Management policies and practices are currently being documented. In promoting a performance-based culture, KPIs and corporate initiatives were cascaded to all employees via a top-down approach as the basis for performance management. Succession plans for key positions were updated. To allow us to recruit and retain key talent, we ensured that our compensation and benefits remained fair, equitable and competitive with the market using a Hay-based system of job evaluation that is gender neutral and bias free. PIDM employees represent a diverse range of cultures and work philosophies that are in keeping with our corporate values of respect and fairness. As at 31 December 2012, the employee population was 44% male and 56% female. **Scholarship Programme:** As part of our Corporate Social Responsibility (CSR) efforts, we continued to implement the multi-year undergraduate Scholarship Programme and awarded scholarships to another 10 deserving individuals. This programme also includes a mentoring and coaching programme for the PIDM scholars. **Employee relations:** The 4th Employee Voice Survey measured our level of employee engagement and compared our results with both Malaysian organisations and global high-performing companies. Following this, the Chief Executive Officer met with all employees in separate briefings on the action plans required for future improvements. We held a number of events to foster an optimal workplace culture such as Teambuilding and *Buka Puasa* for all employees and their family members, monthly birthday celebrations, the Annual Dinner and a year-end high tea to celebrate achievements. The Safety and Health Committee continued to meet and identify related issues and put in place an action plan for improvement, where necessary. We organised a few courses for all employees such as the Reality Environment Applied Combat Tactics (REACT) Training, Cardiopulmonary Resuscitation (CPR) and First Aid Certification Training and held a fire prevention awareness seminar. **Automation of human capital process:** Implemented the first phase of the Human Resource Information System on employee self-service module for claims and leave management.	**Talent management:** In relation to recruitment, the competency-based framework will be integrated into the recruitment process and a multi-sourced recruitment approach will be used in addition to the use of search firms. An enhanced on-boarding programme will also be implemented for new recruits. A Supervisor's Toolkit will be developed to provide guidance, tools and resources on people management topics. We will continue to emphasise employees' learning and development needs using the competency-based framework to guide the identification of training needs, development gaps for current jobs and succession planning. **Scholarship Programme:** Continue to administer the programme for another intake of 10 undergraduates in Malaysia. **Employee relations:** Continue to promote a conducive work environment and organise various activities for employee interaction and engagement as well as to promote a workplace culture that is safe and free of discrimination and harassment. **Automation of human capital process:** Continue to develop the second phase of Human Resource Information System focusing on automating the recruitment, employee performance management, learning and development, and succession management processes to allow efficient access to information for more effective decision-making.

Intervention and Failure Resolution Division (IFR)

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

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
IFR: Commenced development of the framework to operationalise the IFR options for DIS and documentation of eight IFR areas for TIPS. Conducted training sessions for selected employees focusing on TIPS and completed the first simulation exercise, based on a case study approach, in relation to failure of an insurer member. Five dormant subsidiaries have been incorporated, namely four for bridge institutions and one asset management company, for the purpose ensuring operational readiness for any intervention and failure resolution event.	**IFR:** To operationalise the identified IFR options namely Purchase and Assumption as well as Liquidation for DIS and to complete the documentation of the IFR options for TIPS. Continue to conduct employee training and simulation sessions to enhance its intervention readiness.
Payout: Completed the trial run on the validation of Standard File Format (SFF) for member banks. Completed the research and framework for the claims management system and infrastructure for TIPS.	**Payout:** For DIS, to develop payment methods to facilitate seamless payout and for TIPS, to develop the claims management system and infrastructure. To monitor member banks' compliance to the requirements set out in the Guidelines on Deposit Information System and Submission.
Evaluation Model: Completed the research on the conceptual framework of the Evaluation Model and System, which is to develop a single platform for all assessments pertaining to MIs, for both DIS and TIPS.	**Evaluation Model:** To develop the financial model for the purpose of calculating the quantitative cost for IFR options including the development of user and data requirements for the respective IFR options.
Recovery and resolution framework: Commenced research and development of the recovery and resolution framework for complex institutions.	**Recovery and resolution framework:** Continue with the development of the recovery and resolution framework for complex institutions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVIEW OF 2012 OPERATIONS AND ACHIEVEMENTS

Insurance, Risk Assessment and Monitoring Division (INRAM)

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

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Risk assessment and monitoring: For DIS, continued to enhance the Risk Assessment and Monitoring Framework including the Differential Premium Systems (DPS) framework and completed the research of the Rating Prediction Model for the Early Warning System (EWS). In relation to TIPS, developed the Differential Levy System (DLS) framework and regulations for conventional insurer members, as well as the Supervisor Validation framework on Return on Calculation of Premium. **Policies and regulations:** Issued the Note on Takaful Benefits Protection System, which relates to its operations in Malaysia and the contractual relationship between PIDM and the takaful operators. **Islamic deposit insurance:** Successfully organised the fourth seminar on Islamic Deposit Insurance held in Yogyakarta, Indonesia which was attended by more than 100 foreign and local participants from 12 different countries. **Effective partnerships:** Continued to maintain a strong and collaborative relationship with key stakeholders, including BNM as well as MIs. Conducted knowledge-sharing sessions at the PIDM Open House for a number of deposit insurers from the African Region. Also held knowledge sharing sessions for delegates from the Central Deposit Insurance Corporation, Taiwan as well as from the Jamaica Deposit Insurance Corporation.	**Risk assessment and monitoring:** Continue to review and enhance the Risk Assessment and Monitoring Framework. For DIS, to develop the Rating Prediction Model for EWS. With regard to TIPS, implement the DLS framework for conventional insurer members and develop the interim DLS framework for takaful operators. **Islamic deposit insurance:** Continue to support the Islamic Deposit Insurance Group (IDIG) and to focus our efforts on leading the development of guidance notes, research papers and core principles in relation to Islamic deposit insurance operations.

Legal Division (LEGAL)

LEGAL provides legal advisory support in a manner that protects the Corporation's interests. The Division also provides secretariat services and governance advisory support to the Board and is responsible for all matters relating to the proceedings and administration of the Board and Board Committees.

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Legislation: Continued the review of the Malaysia Deposit Insurance Corporation (MDIC) Act 2011 for relevant and necessary amendments. Supported the drafting of subsidiary legislation to operationalise the MDIC Act 2011 including the DLS regulations. **Legal advisory services:** Reviewed, advised on and drafted contracts for the Corporation and provided legal advice as needed. In relation to the PIDM Compliance Programme, continued to organise the compliance training for key policies and procedures for employees and implemented the annual compliance test for all employees. Continued to certify the deposit products offered by member banks via our Product Registry System. Continued to provide legal support in relation to PIDM's key projects (including IFR, Payout, the funding framework, incorporation of subsidiaries and the permanent Disaster Recovery Centre). **Corporate governance:** Continued to support the maintenance of a strong accountability and reporting regime as well as effective working relationship with the Board. Carried out its role as corporate secretariat, in particular, ensuring the timely provision of quality information to the Board and supporting the Board to fulfil its oversight role. Supported the Board in its corporate governance work through research and recommendations on best practices in corporate governance as well as in implementing Board education programmes, orientation and related matters. See pages 39 - 62 on the Board's corporate governance work in the Statement on Governance. In relation to CSR, together with the CSR Committee, led the Corporation in the development and organisation of its CSR initiatives and activities.	**Legislation:** Continue to work on necessary amendments to the MDIC Act and to support the drafting of subsidiary legislation needed by the Corporation. **Legal advisory services:** Continue to provide support in the drafting of contracts for PIDM, certification of deposit products offered by member banks and provide legal advisory support for key projects. **Compliance programme for member institutions:** To complete the compliance framework for MIs to ensure integrity and consistency within PIDM in the monitoring of compliance by MIs, as well as roll out the Guidelines on Compliance for MIs. **Corporate governance:** Continue to adopt and ensure compliance with best practices in governance and support the Board in achieving its annual goals and fulfilling its oversight role. **Automation of legal knowledge and corporate secretariat process:** Continue and complete the automation of the Legal Knowledge Management System in order to capture all knowledge including the history, development, interpretation, issues and possible amendments to the MDIC Act. Also, develop an automated portal for more efficient and effective access to relevant corporate secretariat documents, research material as well as key corporate secretariat processes.

MANAGEMENT'S DISCUSSION AND ANALYSIS
REVIEW OF 2012 OPERATIONS AND ACHIEVEMENTS

Policy and International Division (POLICY)

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

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Effectiveness assessment: Hosted the IADI Regional Workshop on Assessment of Compliance with Core Principles for Effective Deposit Insurance Systems. POLICY also coordinated PIDM's preparation and responses, on the assessment against the IADI Core Principles for Effective Deposit Insurance Systems, as part of the Financial Sector Assessment Program conducted by the International Monetary Fund and the World Bank. The results of the assessment indicated that, overall, PIDM is a strong institution, having a culture of cooperation with other safety-net players, a strong performance in its exit from the blanket deposit guarantee adopted in response to the Global Financial Crisis, a robust public awareness programme, ongoing planning for potential financial institution resolutions, as well as openness and transparency in its operations and reporting. **Policies and regulations:** Continued to review and enhance the existing policies and regulations and developed the MDIC (Return or Interest on an Index-linked Deposit held by a Deposit Taking Member) Rules 2012 for DIS. Completed the research on TIPS Information Regulations. **Product Registry System for TIPS:** Commenced the development of insurance products and benefits repository to facilitate information gathering of all products offered by the insurer members, benefits insured under such products as well as benefits protected by PIDM. **Effective partnerships:** Continued to maintain good relationships with BNM and key stakeholders including other deposit insurers through active participation in IADI. Participated in various knowledge-sharing sessions and hosted study visits for other deposit insurers and central banks. Under the Memorandum of Understanding (MOU) with the Central Deposit Insurance Corporation, Taiwan and another with the Indonesia Deposit Insurance Corporation (IDIC) and the Deposit Protection Agency (DPA) Thailand, we completed several knowledge sharing sessions and study visits including a Tripartite Meeting on the topic of "Transition Back to Limited Coverage". **International fora:** Continued to contribute actively in various IADI activities. We participated in 24 international fora, involving local and international participants, in various capacities including promoting knowledge sharing through meetings, attachments and training with our counterparts within the region, as well as providing resource persons to speak at conferences at both the local and international events. We hosted the International Workshop on Integrated Deposit Insurance Systems. In collaboration with the APEC Financial Regulators Training Initiative (FRTI), we hosted a regional seminar on Crisis Preparedness for Banking Regulators. We also continued to support the South East Asian Central Banks (SEACEN) Research and Training Centre's programme by providing expert resource speakers.	**Effective partnerships:** Continue to build PIDM's credibility, reputation and capability through the development of sound and robust policies. POLICY will also continue to build strategic partnerships and maintain good relationships with both local and international key stakeholders for capacity building and knowledge sharing. To host the Tripartite Meeting between IDIC, DPA Thailand and PIDM. **Policies and regulations:** To issue the Terms and Conditions of Membership that will be applicable for both DIS and TIPS as well as the TIPS Information Regulations. **Product Registry System for TIPS:** To complete the development and to implement the insurance products and benefits repository. **International fora:** Continue to participate and contribute to the IADI and International Association of Insurance Supervisors (IAIS) for sharing of knowledge and best practices in administering the financial consumer protection systems.

Strategic Planning Division (SP)

SP is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in the setting of the Corporation's strategic direction and the development of a strategic plan.

KEY ACHIEVEMENTS IN 2012	GOING FORWARD
Strategic planning: Facilitated and assisted divisions to develop their respective divisional scorecards and aligned the initiatives to the corporate objectives, mission and vision. Conducted the annual Strategic Planning Workshop for Senior Management and employees where SP facilitated discussions of strategic direction, key planning assumptions, corporate and divisional KPIs and initiatives including cross-functional initiatives. Conducted the annual Board Strategic Planning session. **Performance management:** Continued to track and monitor PIDM's performance against targets set out in the approved Corporate Plan, on a quarterly basis, using the Balanced Scorecard approach. The reports are tabled to Management and Audit Committee, and circulated to the Board. **Automation of performance management process:** Completed the customisation and implemented the Corporate Performance Management System, a Balanced Scorecard reporting system to increase the efficiency and effectiveness of revising, tracking and monitoring of KPIs and targets. **Corporate publications:** Developed the Corporate Plan 2013 - 2015 which highlights PIDM's strategic direction, focus and initiatives as well as budgets for the year 2013. In collaboration with COMMS and FINAD, coordinated and managed the development and publication of PIDM's Annual Report.	**Strategic planning:** Continue to adopt an integrated approach in the strategic planning process, taking into account the opportunities and risks facing PIDM, including the scenario planning approach, to ensure fulfilment of our mandate, vision and mission. **Automation of performance management process:** To review and enhance the Corporate Performance Management System, where necessary, to increase the efficiency and usage of the system.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL OVERVIEW

OPERATING RESULTS

	2012 Actual	2012 Budget	Variance Budget vs Actual		2011 Actual
	RM'000	RM'000	RM'000	%	RM'000
Premium revenues	214,262	199,300	14,962	8	201,239
Investment income	48,782	49,400	(618)	(1)	21,821
Gains / (losses) from sales of available-for-sale investments	(37)	-	(37)	-	3,715
Total Revenues	**263,007**	**248,700**	**14,307**	**6**	**226,775**
Employee benefits	39,390	48,000	8,610	18	31,037
Public relations and advertising	9,937	10,000	63	1	9,882
Depreciation	5,236	5,500	264	5	5,159
Operating leases	5,114	6,050	936	15	5,563
Other expenses	15,639	25,450	9,811	39	18,018
Total Operating Expenditures	**75,316**	**95,000**	**19,684**	**21**	**69,659**
Operational Net Surplus	**187,691**	**153,700**	**33,991**	**22**	**157,116**
Moneys and investments received from Insurance Guarantee Scheme Funds	-	-	-	-	922,437
Net Surplus for the Year	**187,691**	**153,700**	**33,991**	**22**	**1,079,553**
Net unrealised gains / (losses) on available-for-sale investments	391	-	391	-	(573)
Total Comprehensive Income for the Year	**188,082**	**153,700**	**34,382**	**22**	**1,078,980**

CAPITAL EXPENDITURES

	2012 Actual	2012 Budget	Variance Budget vs Actual		2011 Actual
	RM'000	RM'000	RM'000	%	RM'000
Land and building	5,712	7,000	1,288	18	-
Furniture, fittings and office refurbishments	486	550	64	12	614
Office equipment and computer systems	4,328	14,650	10,322	70	1,374
Motor vehicle	-	-	-	-	6
Total Capital Expenditures	**10,526**	**22,200**	**11,674**	**53**	**1,994**

COMMENTARY ON 2012 FINANCIAL PERFORMANCE

For the financial year ended 2012, we recorded total revenues of RM263 million, an increase of RM36.2 million or 16% compared to the previous financial year. The favourable variance compared to the previous year is primarily due to the increase in investment income by RM27 million or 123.6%, largely attributable to the increase in the base of investable funds arising from the transfer of the former Insurance Guarantee Scheme Funds (IGSF) to PIDM on 30 September 2011.

Our operating expenditures for 2012 totalled RM75.3 million, an increase by RM5.6 million or 8.1% from RM69.7 million in 2011. The increase in expenditures is directly related to our efforts in enhancing our operations, particularly relating to the implementation of TIPS. Expenditures are expected to increase moderately over the next few years as we continue to build and enhance the capacity and capabilities of our human capital, processes, systems and infrastructure. Nevertheless, we will continue to practise prudent financial management and sound financial stewardship in achieving our objectives as stated in the Corporate Plan. For 2012, our operating expenditures were RM19.7 million or 20.7% lower than budget. Refer to pages 98 - 99 for further details.

As at 31 December 2012, we contracted RM10.5 million for capital expenditures which represents 47.4% of the capital expenditures budget for 2012 of RM22.2 million. Refer to page 100 for further details.

Net surplus from operations totalled RM187.7 million in 2012, an increase of RM30.6 million or 19.5% from 2011.

The Deposit Insurance Funds (DIFs) as at 31 December 2012 grew to RM617.1 million or by 19% from previous year, whilst the Takaful and Insurance Benefits Protection Funds (TIPFs) increased by RM89.5 million or 9% from RM991.2 million in 2011 to RM1,080.7 million. The surplus held in DIFs and TIPFs are to be used to cover any losses that may arise from providing protection to depositors as well as takaful certificate and insurance policy holders.

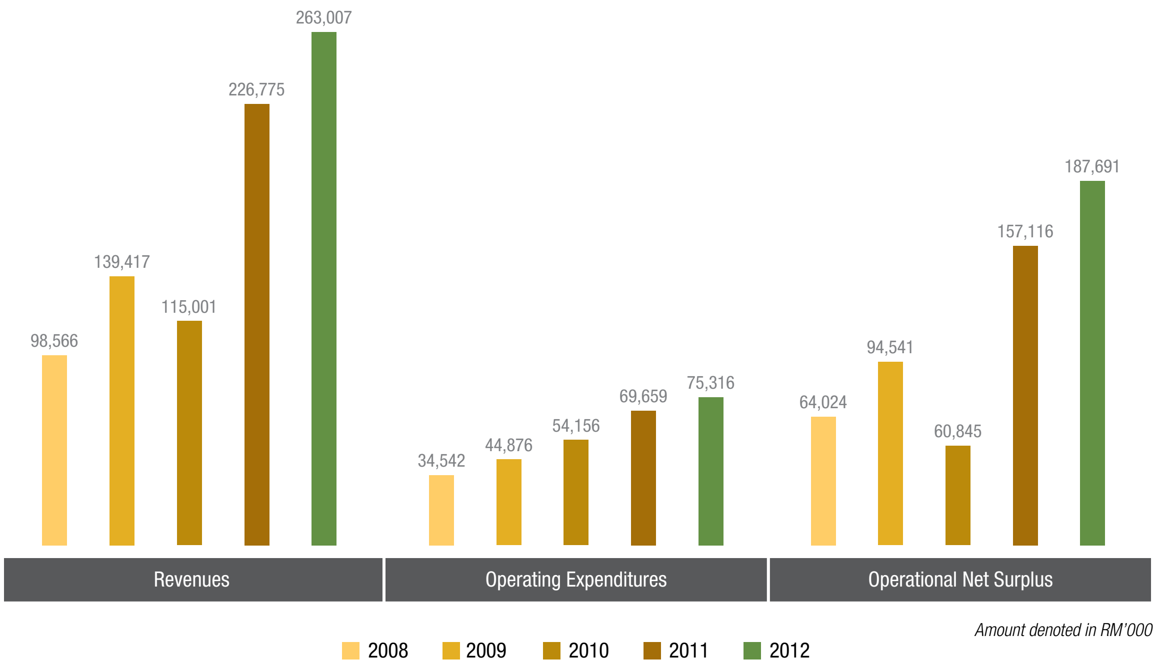

Chart 1: Key Financial Trends from 2008 to 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL OVERVIEW

REVENUES

Premium Revenues – Deposit Insurance System
Annual premiums for Deposit Insurance System (DIS) are assessed against Total Insured Deposits (TID) held by member banks. Premiums paid by member banks for any particular assessment year are determined by the premium rates under our Differential Premium Systems (DPS) applicable for the assessment year and the amount of TID held by the member banks as at 31 December of the preceding year. For the assessment year 2012, total premiums collected from member banks stood at RM126.5 million, an increase of RM5.9 million or 4.9% compared to previous year, in tandem with the growth in TID. The premiums collected for the Conventional Deposit Insurance Fund amounted to RM107.4 million, an increase of 4.3% from RM103 million collected in the previous assessment year. For the Islamic Deposit Insurance Fund, the premiums collected rose to RM19.1 million or by 8.8%, from RM17.5 million in the previous year.

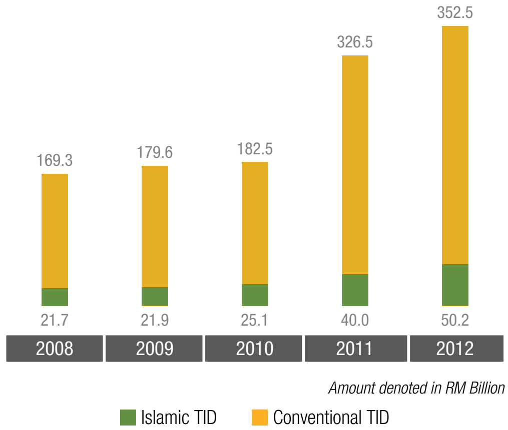

Chart 2: Trend of TID from Assessment Years 2008 to 2012

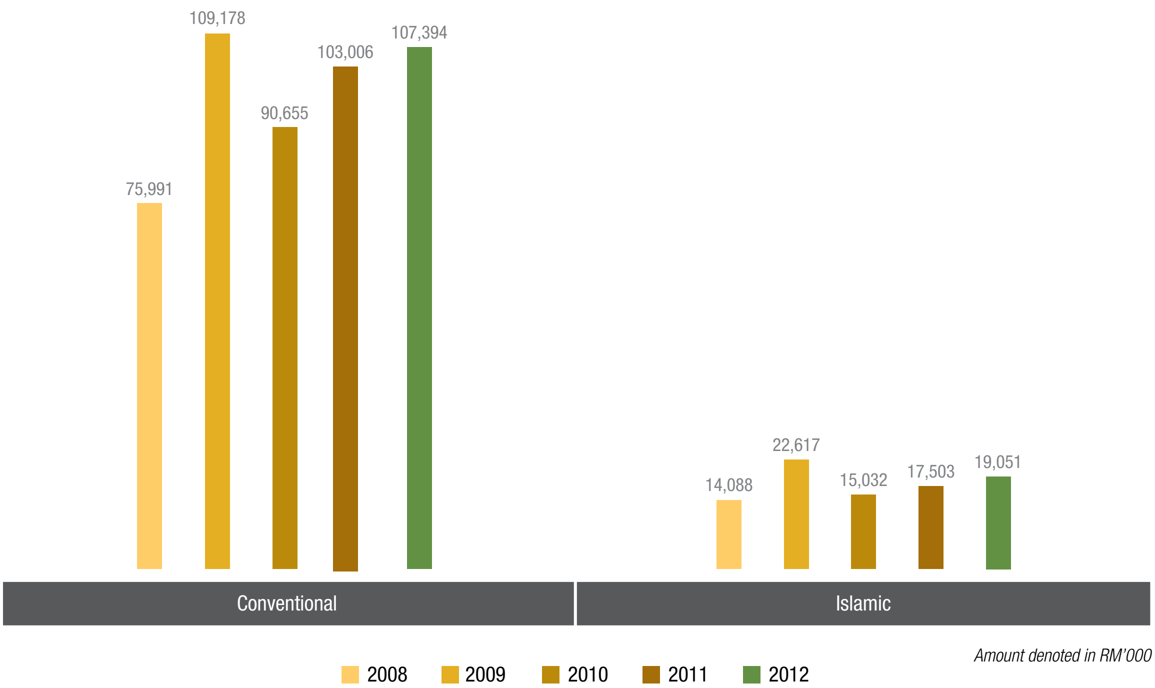

Chart 3: Trend of Premiums for DIS from Assessment Years 2008 to 2012

For the assessment year 2012, TID stood at RM402.7 billion compared to RM366.5 billion in the previous assessment year. The growth in TID of RM36.2 billion or 9.9% was consistent with the favourable deposits growth trend of member banks in 2011. TID for conventional banking business increased by RM26 billion or 8% and stood at RM352.5 billion as at the end of December 2011. For the Islamic banking business, TID recorded as at the same date totalled RM50.2 billion compared to RM40 billion in the previous year, an increase of RM10.2 billion or 25.4%. Deposit product innovation and various other initiatives by Islamic member banks led to the strong growth in Islamic deposits.

Since 2008, the determination of member banks' premium rates is based on our DPS. Under the DPS, member banks with lower risk profiles are charged lower premium rates compared to members with higher risk profiles. The DPS is aimed at introducing greater fairness into the premium assessment process and providing incentives to member banks to enhance their risk management practices and minimise excessive risk taking. The DPS is also in line with our mandate of promoting sound risk management and contributing to the soundness of the financial system.

The DPS premium categories, annual premium rates and minimum amount of annual premiums payable by member banks applicable during the year are provided in Table 1 below.

PREMIUM CATEGORY	ANNUAL PREMIUM RATES	MINIMUM AMOUNT OF ANNUAL PREMIUMS (RM)
Category 1	0.03%	100,000
Category 2	0.06%	200,000
Category 3	0.12%	400,000
Category 4	0.24%	800,000

Table 1: DPS Premium Categories, Annual Premium Rates and Minimum Annual Premiums Payables

For the assessment year 2013, we are expecting premiums for DIS to increase to approximately RM172.2 million, which is 36.1% higher than the premiums collected in 2012. This is primarily due to the expected growth in TID as well as the effect of the revision in premium rates for the assessment year 2013. The revised premium rates, which were approved by the Minister of Finance, will gradually increase from the assessment year 2013 until assessment year 2015.

The approved revised premium rates are:

DPS PREMIUM CATEGORY	REVISED PREMIUM RATES		
	ASSESSMENT YEAR 2013	ASSESSMENT YEAR 2014	ASSESSMENT YEAR 2015 ONWARDS
1	0.04%	0.05%	0.06%
2	0.08%	0.10%	0.12%
3	0.16%	0.20%	0.24%
4	0.32%	0.40%	0.48%

Table 2: Revised DPS Premium Rates

Premium Revenues – Takaful and Insurance Benefits Protection System

For the assessment year 2012, TIPS applies flat rates to the levy bases in calculating the levies payable by insurer members, as depicted in Table 3 below.

BUSINESS TYPE	ANNUAL PREMIUM RATES	PREMIUM BASIS
Family Solidarity Takaful and Life Insurance	0.06%	Actuarial valuation liabilities as at 31 December of preceding year
General Takaful and General Insurance	0.25%	Net premiums received as at 31 December of preceding year

Table 3: Business Types and TIPS Premium Rates and Basis

For the assessment year 2012, we collected RM87.8 million in total levies from insurer members, which is 4.4% higher than budget. The amount of levies collected by the respective Funds showed an increase except for the Family Solidarity Takaful Fund. Levies contributed to the General Insurance, General Takaful and Life Insurance Funds increased by 9.1%, 3.2% and 10.1% respectively. The lower growth of the family solidarity takaful business for the year ended 31 December 2011 (with a growth rate of 9.2%)[2] as compared to the growth of 24.7% in the year 2010 had no significant impact to the actuarial valuation liabilities (AVL). As a result, levies collected from the family solidarity takaful business in 2012 of RM6.2 million remained similar to the amount collected in the previous year.

[2] As reported in PIDM's Annual Report 2011, Section 6: Overview of Membership for Insurer Members

MANAGEMENT'S DISCUSSION AND ANALYSIS
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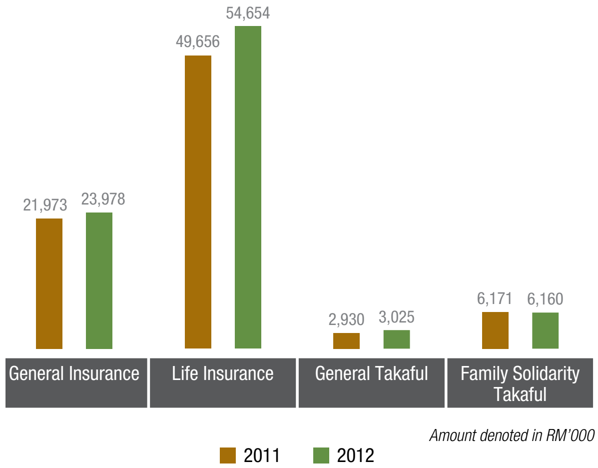

Chart 4: Trend of TIPS Levies for Assessment Years 2011 and 2012

The growth in total levies collected year-on-year is a reflection of the growth in the bases used which are the net premiums and the AVL. The general insurance and takaful businesses reported total net premiums and net contributions of RM9.6 billion and RM1.2 billion, representing growth of 10% and 20% respectively, from the previous assessment year. Similarly, the AVL of the life insurance and family solidarity takaful businesses increased from RM82.5 billion and RM8.5 billion to RM91 billion and RM8.9 billion, respectively.

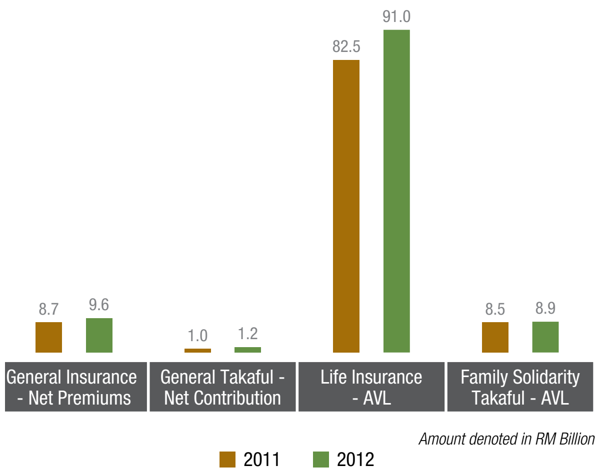

Chart 5: Trend of Net Premiums, Net Contributions and AVL for Assessment Years 2011 and 2012

From the assessment year 2013 onwards, we will implement the Differential Levy System (DLS) framework for which the payable levies are determined by levy rates that would be based on insurer members' risk profiles. As such, the DLS framework eliminates the drawbacks of the current flat rate system that does not differentiate insurer members based on their risk profiles. However, the DLS framework is only applicable to conventional insurer members and excludes takaful operators. Takaful operators will still be subjected to the current flat rate system for the assessment year 2013. We are currently developing an interim DLS framework for takaful operators, which is planned for implementation in 2014.

With the implementation of the DLS framework for conventional insurer members in the assessment year 2013, we are budgeting total levies of RM55.1 million. This amount is lower than the actual levies received in 2012 as some of the conventional insurer members are expected to pay lesser levies than the current amount paid due to the lower levy rates assigned for the DLS levy categories 1 and 2[3].

Investment-Related Revenues

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

Our investment portfolio also consists of investment securities, which are not in line with the approved Investment Policy. These investment securities were part of the former IGSF portfolio previously managed by BNM that was transferred to PIDM on 30 September 2011. In 2011, specific approval from the Board of Directors has been obtained to exempt certain investment securities namely Government Securities with long-term tenures and high grade Private Debt Securities (PDS) of Government-Linked Companies (GLCs) from complying with the approved Investment Policy. These investment securities are being held to their relevant maturities. Almost all of the investment securities from the former IGSF were transferred to the General Insurance Protection Fund whilst a very small portion was attributed to the Life Insurance Protection Fund.

[3] Details of the DLS framework and the respective DLS rates are in Section 6: Differential Levy System for the Takaful and Insurance Benefits Protection System article in this Annual Report

The remaining investment securities from the former IGSF that are not in line with the approved Investment Policy were restructured, and as such, classified as investments 'available-for-sale' (AFS) upon their transfer to PIDM. In 2012, most of these investment securities have been divested and reinvested in securities that are in line with the approved Investment Policy. Details of the balance of these investment securities are described in Note 5 (a) of the financial statements.

The overall results of the former IGSF portfolio that have been restructured since their transfer are:

	RM'000
Net realised gains / (losses) from sales of AFS Investment Securities for the financial year 31 December 2011	3,715
Net realised gains / (losses) for the financial year 31 December 2012	(37)
Net unrealised gains / (losses) as at 31 December 2012	391
Net gains / (losses) of overall portfolio up to 31 December 2012	**4,069**

Our investment income for 2012 was RM48.8 million (DIFs: RM16.5 million, TIPFs: RM32.3 million), which was RM0.6 million or 1.3% lower than budget. The Weighted Average Yield Rates (WAYR) for investments were 2.8% (2011: 2.63%) and 3.1% (2011: 3.25%) for DIFs and TIPFs respectively. Details of the WAYR by the type of portfolio as well as by the respective Funds are presented in Note 12 to the financial statements.

During the year, we also recognised, in the Statement of Comprehensive Income, net losses arising from the sales of AFS investments which amounted to RM36,632.

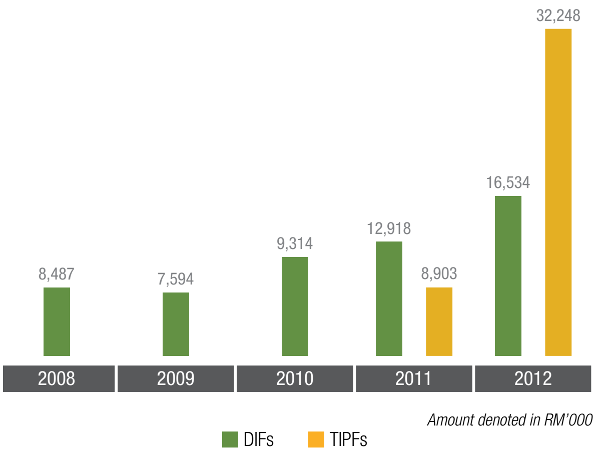

Chart 6: Investment Income from 2008 to 2012

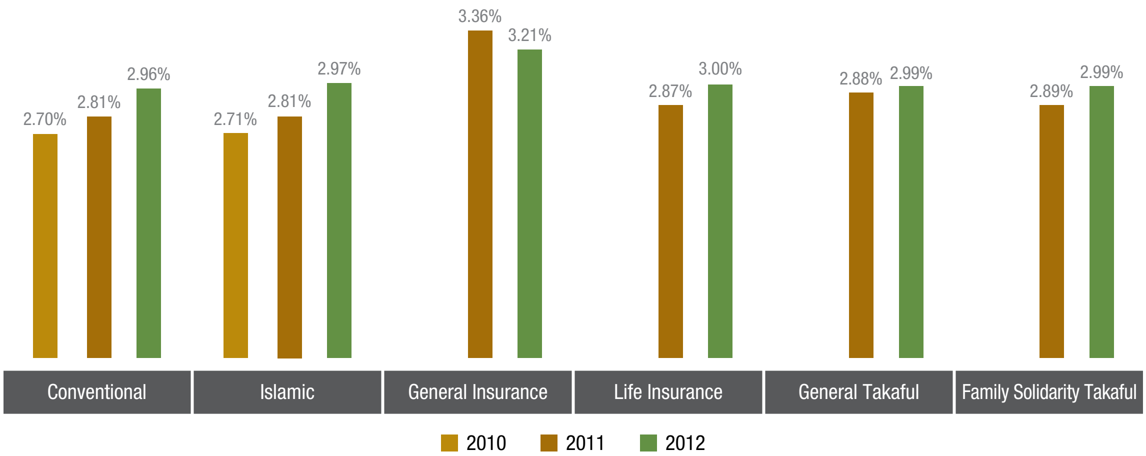

Chart 7: Trend of Weighted Average Yield Rate for Cash Equivalents (Short-term Investments) and Investments from 2010 to 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Chart 8: Trend of Weighted Average Yield Rate for Placements in Money Market and Repurchase Agreements from 2010 to 2012

OPERATING EXPENDITURES

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

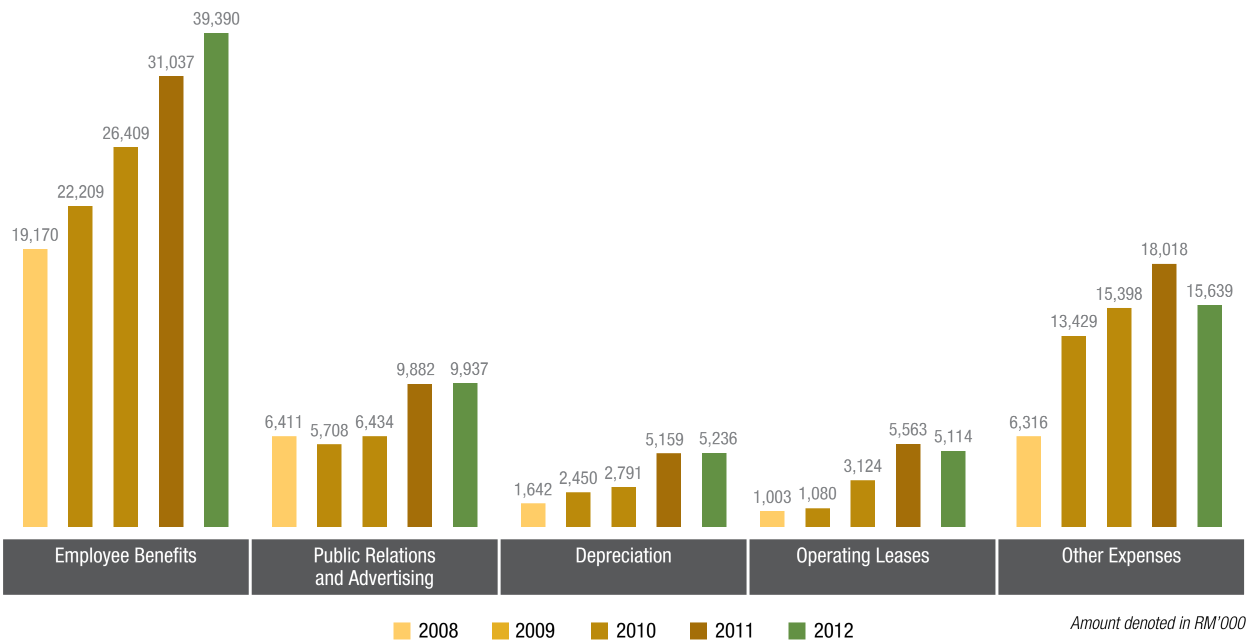

Chart 9: Trend of Operating Expenditures from 2008 to 2012

The total operating expenditures up to 31 December 2012 of RM75.3 million was RM19.7 million or 20.7% lower than budget but was RM5.7 million or 8.1% higher compared to 2011. The positive variance against budget is mainly due to the lower than expected expenditures for employee-related expenses as well as lower expenditures on professional and consultancy, IT systems licensing and maintenance, training and development as well as travelling expenses. The increasing trend of our operating expenditures from previous years is primarily due to our enhanced mandate and continued efforts to build our capacity and capabilities, particularly for the administration and operations related to TIPS.

Employee Benefits

Our employees remain our most important asset. For the 2012 financial year, our key focus on human capital was to continue to maintain and develop our people as critical talents relevant to our mandate remain scarce. We continued to train and develop our employees to ensure they have the right skills, knowledge and experience expected of them. As such, it is our strategy to provide competitive compensation which is benchmarked to the general market, to attract talent and retain our employees. The increasing trend in the number of employees over the years indicates our continued efforts to build capacity and capabilities to ensure operational effectiveness and readiness as well as effective succession management for organisation sustainability.

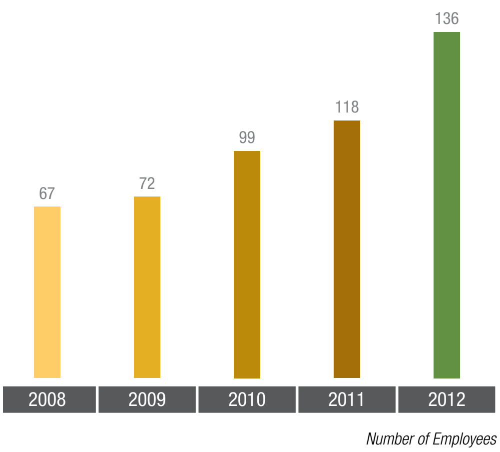

Chart 10: Employee Headcount from 2008 to 2012

The main increase in the number of employees for 2012 was in the key areas of operations, particularly for risk assessment and monitoring of insurer members. The increase was also attributed to the additional resources required in other key areas to support the administration of TIPS as well as the strengthening of key areas of operations to ensure operational effectiveness and succession management. The employee benefits expenses for 2012 only partially reflect the costs of additional resources recruited in 2012 as there were a number of new hires who commenced employment towards the third and final quarters of 2012. The full impact of these new hires will be reflected in the 2013 financial year.

For 2012, employee benefits expenses totalled RM39.4 million, 26.9% higher compared to the previous year. However, it is RM8.6 million or 17.9% lower than budget.

Public Relations and Advertising

Communications and public awareness continues to play a significant role in ensuring the effectiveness of our DIS and TIPS. The public relations and advertising budget for 2012 was based on our multi-year Integrated Communications Plan, which is aimed at increasing the level of awareness and understanding about PIDM as well as the awareness of its protection systems. This includes development of public information leaflets, publication of articles, conducting media briefings, road shows and interviews. As part of our ongoing initiatives to further enhance public's understanding of deposit insurance as well as takaful and insurance benefits protection, we have also continued our education programme for schools and tertiary education institutions.

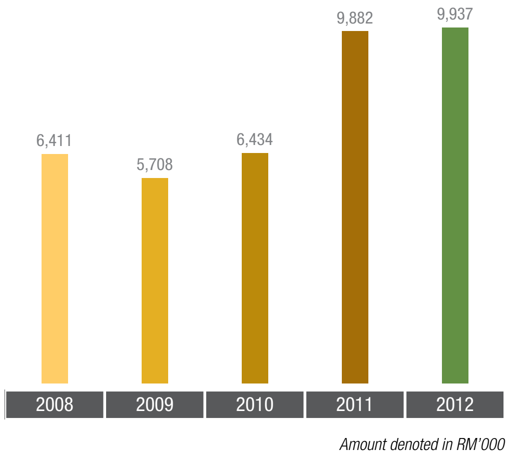

Chart 11: Public Relations and Advertising Expenses from 2008 to 2012

Public relations and advertising expenses for 2012 totalled RM9.9 million, 0.6% higher than previous year but 0.6% lower than budget. The majority of the costs incurred on public relations and advertising during the year relates to activities pertaining to our advertising campaign as well as educational programmes. Both activities were mainly directed at the general public as well as bank representatives and insurance agents, and aimed to increase the level of awareness about PIDM and its mandate to protect depositors and owners of the insurance policies and takaful certificates. During the year, the cost incurred on our advertising campaign amounted to RM6.8 million (2011: RM6.4 million). The cost incurred as well as the efforts dedicated for the activities on the advertising campaign have led to the increase in the level of awareness about PIDM to 48% in 2012. The results have surpassed our target of 39%. In addition, the public awareness of DIS grew significantly from 27% in 2011 to 42% for the financial year. As for TIPS, the level of awareness registered as at the end of 2012 is 34%. In 2012, we have also implemented the education programme in 529 (2011: 250) schools and 50 (2011: 50) higher learning institutions in most states throughout Malaysia.

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Capital Expenditures and Depreciation
We continued to build strong and effective operational infrastructure, in particular IT. In 2012, we continued our focus on enhancing and developing our core IT systems as well as the development of our permanent Disaster Recovery Centre.

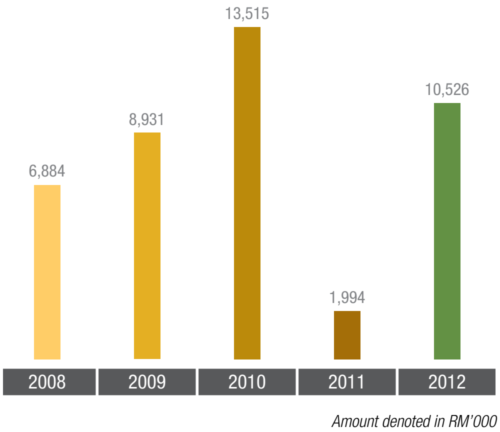

Chart 12: Trend of Capital Expenditures from 2008 to 2012

As at 31 December 2012, we contracted a number of projects worth RM10.5 million which represents 47.4% of the total capital expenditures budget for 2012 of RM22.2 million. The positive variance of RM11.7 million consists of actual cost reduction from budget on the development of IT systems related to our Enhanced Financial Management System as well as the Human Resource Information System. There were also several IT system projects that were reprioritised due to external factors. We have also entered into an agreement for the purchase of land as well as professional and consultancy services for the development of our permanent Disaster Recovery Centre, which is targeted for completion in 2015.

Depreciation expenses for the year amounted to RM5.2 million or 1.5% higher compared to the previous financial year.

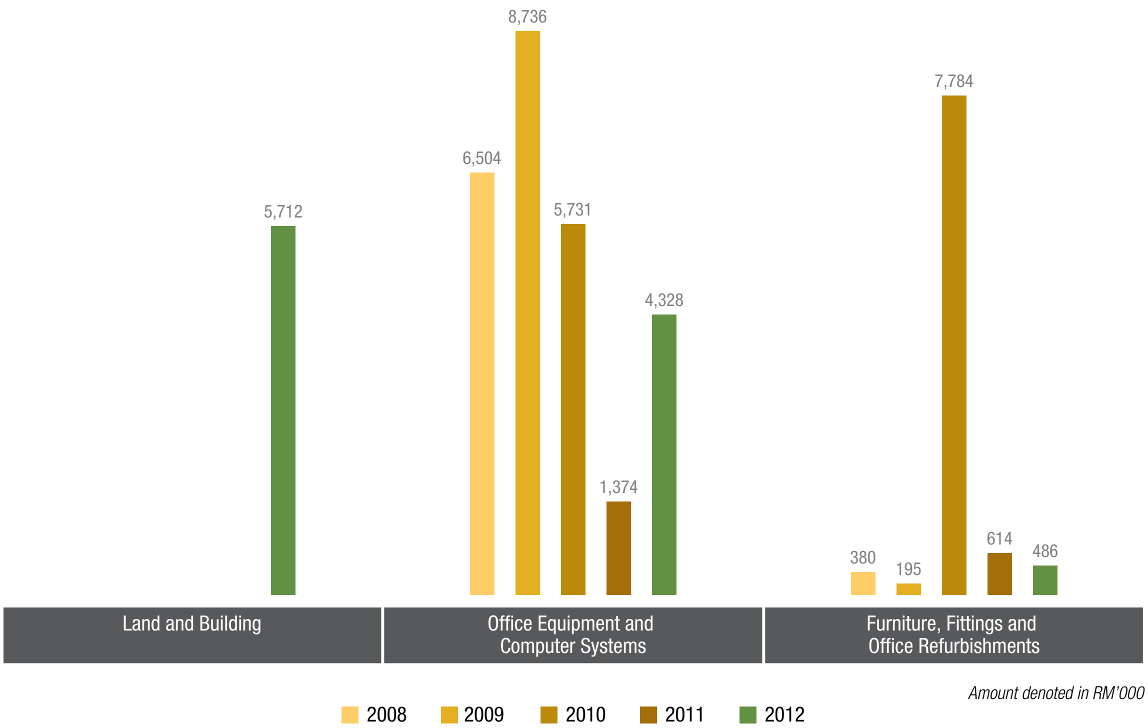

Chart 13: Breakdown of Major Capital Expenditures from 2008 to 2012

Operating Leases and Other Expenses

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

The operating leases mainly relate to rental of our office premises and rental of space for our Disaster Recovery Site. The slight decrease in the operating lease is due to the expiry of our lease contract for our previous office premises in 1 Sentral, Kuala Lumpur Sentral.

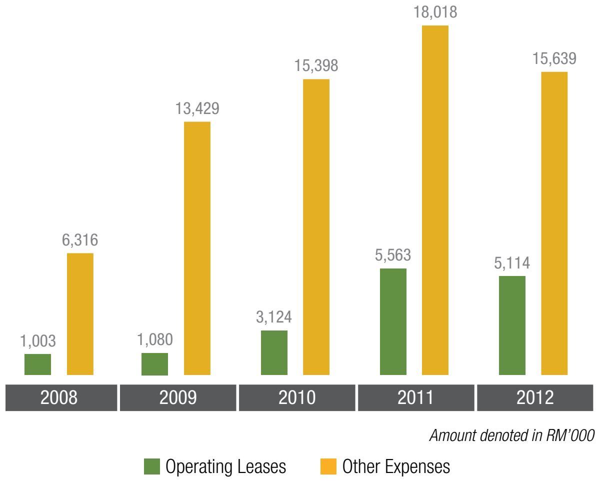

Chart 14: Trend of Operating Leases and Other Expenses from 2008 to 2012

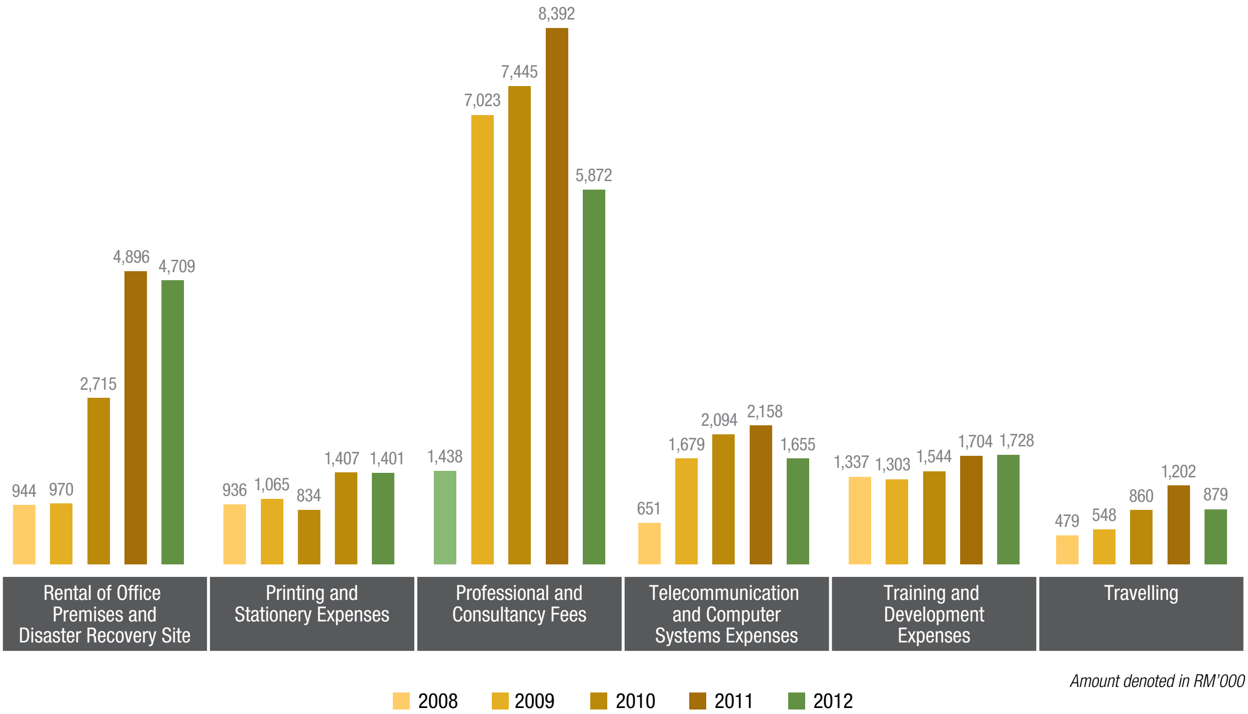

Chart 15: Major Items within Operating Leases and Other Expenses from 2008 to 2012

Other expenses decreased from RM18 million in 2011 to RM15.6 million in 2012, mainly due to lower expenses incurred on engagement of consultants for the development of the IFR framework, IFR simulations and engagement of legal advisors. Our overall expenditures within this expense category were below budget by RM9.8 million or 38.6% primarily due to the timing of and savings on the several key activities, particularly the engagement of consultants for legal advice, travelling as well as licensing maintenance for hardware and software in relation to IT systems and infrastructure.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Segment Information

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

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

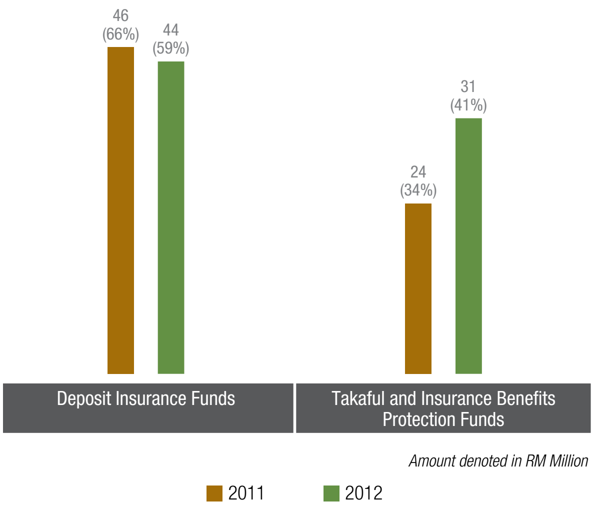

Chart 16: Operating Expenditures Charged to DIFs and TIPFs in 2011 and 2012

From the perspective of the six Funds, the share of total operating expenditures of the respective Funds for 2012 is described in Chart 17 below.

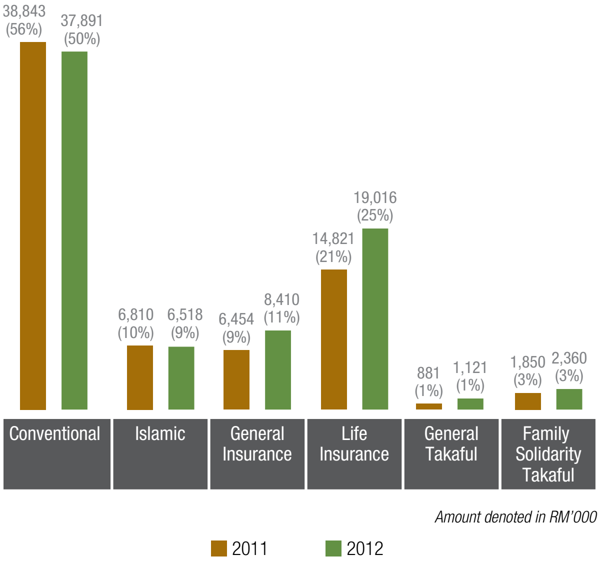

Chart 17: Operating Expenditures Charged to the Six Protection Funds in 2011 and 2012

For 2012, key drivers to the financial results of DIFs were the increase in premium revenues. The trend of operating expenditures for DIFs remained fairly similar to that of the previous year as most of the efforts to enhance the capacity and capabilities to ensure operational readiness for DIS has been carried out. On the other hand, more resources and focus are now directed towards building the capacity and capabilities relating to TIPS, including development of the DLS, and other processes and IT systems to enhance the capabilities for monitoring and risk assessment of insurer members as well as development of the processes, policies and procedures for IFR of insurance companies and takaful operators. Moving forward, efforts will also be directed towards enhancing the capabilities to resolve complex financial institutions, including complex financial groups.

For 2012, the overall operating expenditures attributed to TIPFs have increased as compared to the previous year, primarily due to the increase in resources for the risk assessment and monitoring of insurer members as well as professional and consultancy services expenses to support key initiatives including development of IFR policies and procedures as well as IFR simulation for TIPS.

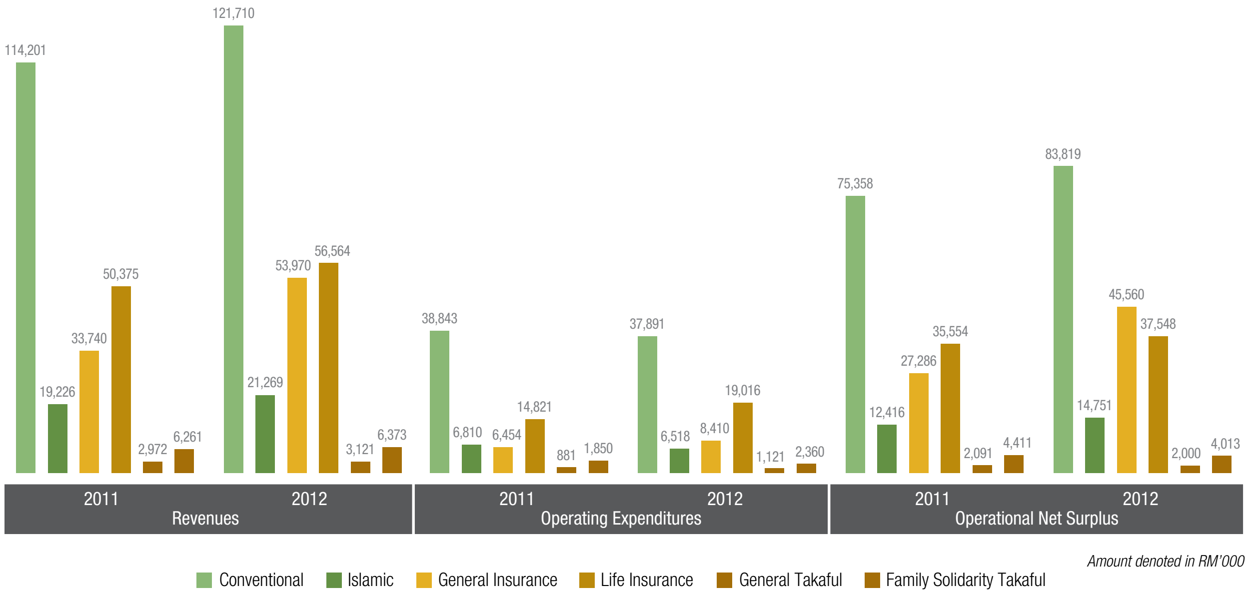

Chart 18: Key Financial Trends for the Six Protection Funds from 2011 to 2012

Chart 18 is a snapshot of the key financial trends pertaining to all the six Protection Funds from 2011 to 2012. Details of the financial position as well as financial performance of the six Funds are available in Note 20 of the financial statements.

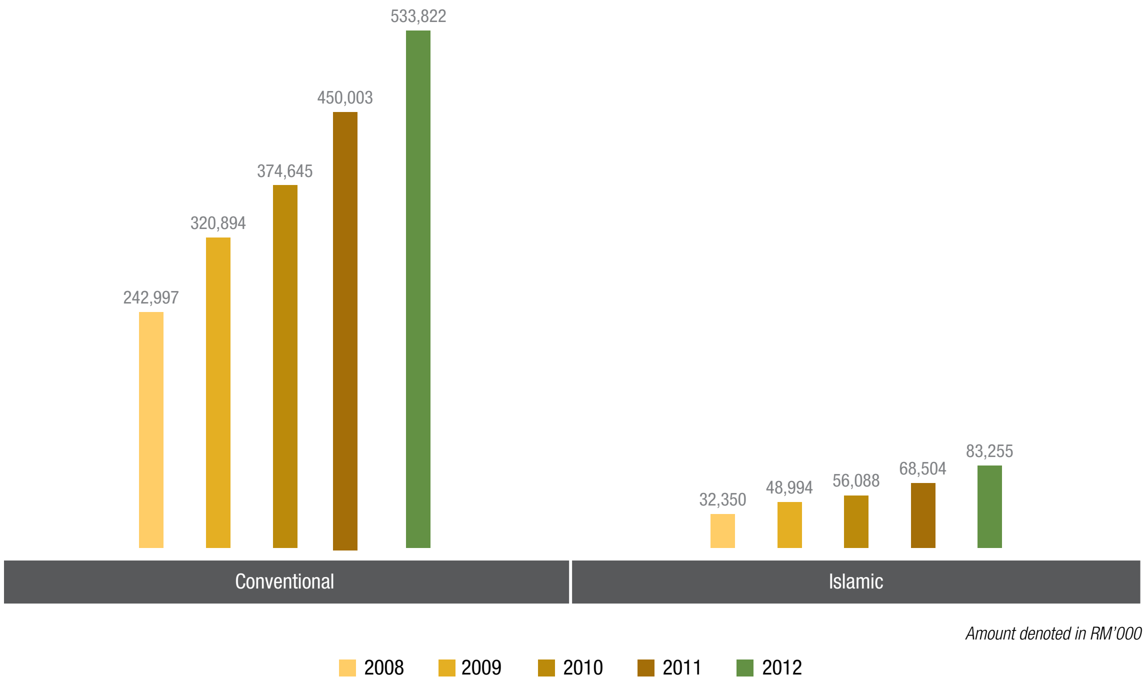

Chart 19: Trend of Conventional and Islamic DIFs from 2008 to 2012

Total DIFs as at 31 December 2012 amounted to RM617.1 million, an increase of 19% from the previous year. The Conventional DIF increased to RM533.8 million or by 18.6% whilst the Islamic DIF increased to RM83.3 million or by 21.5%.

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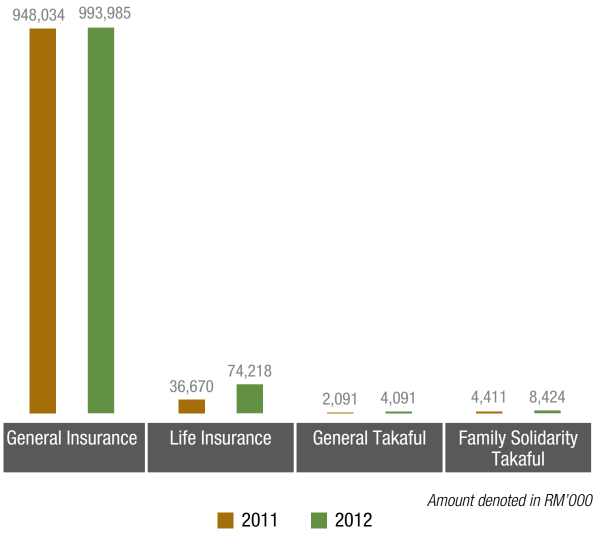


Chart 20: Trend of TIPFs from 2011 to 2012

Total TIPFs as at 31 December 2012 amounted to RM1,080.7 million, an increase of 9% from the previous year. The General Insurance Protection Fund increased by 4.8% whilst the Life Insurance Protection Fund increased by 102.4%. The General Takaful Protection Fund and the Family Solidarity Takaful Protection Fund increased by 95.6% and 91% respectively. The significantly lower growth for the General Insurance Protection Fund compared to the other TIPFs is primarily due to a larger base of funds arising from the transfer of the former IGSF to PIDM in 2011.

HIGHLIGHTS OF THE STATEMENT OF FINANCIAL POSITION

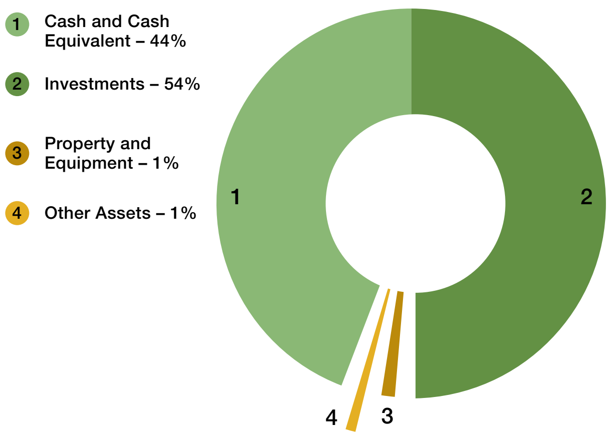


Chart 21: Asset Composition

Cash, Cash Equivalents and Investments as at 31 December 2012

Our assets remain liquid with cash, cash equivalents and investments as at 31 December 2012 and stood at RM1.7 billion, representing 98% of our total assets.

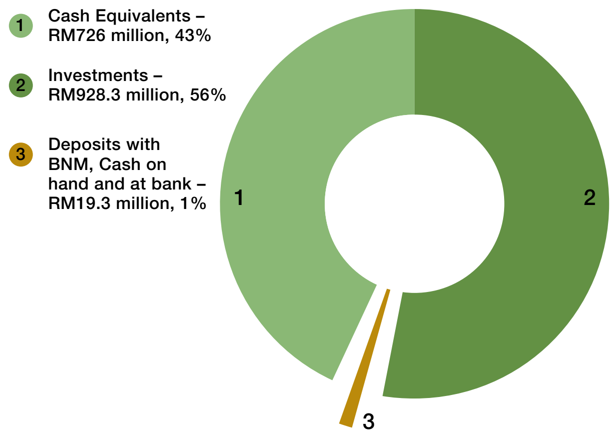


Chart 22: Classification of Cash, Cash Equivalents and Investments as at 31 December 2012

As at 31 December 2012, our cash which includes deposits as well as cash on hand and at bank totalled RM19.3 million (DIFs: RM14.7 million and TIPFs: RM4.6 million).

Our cash equivalents and investments (which include short-term investments of less than 90 days) as at 31 December 2012 totalled RM1.7 billion, an increase of 15.6% compared to RM1.4 billion in 2011. Of this total, RM4.9 million relates to investments classified as AFS. These investments comprised PDS that were part of the former IGSF portfolio transferred to PIDM which are being divested and reinvested in investments which are in line with our approved Investment Policy. The balance of AFS investments as at 31 December 2012 were stated in the financial statements at their fair value, which were determined using an internal valuation model as the related investment securities were not actively traded in the market. Details of the internal valuation model used as well as the change in the basis of fair value from Level 2 to Level 3 of the fair value hierarchy are disclosed in Note 5 and Note 21 (f) of the financial statements, respectively. The remaining investments are classified as held-to-maturity investments and were stated in the financial statements at cost adjusted for amortisation of premiums or accretion of discounts.

All cash equivalents and investments (except for investment securities from the former IGSF portfolio) are invested in accordance with the Board-approved Investment Policy. These investments, as at 31 December 2012, comprised Bank Negara Malaysia Notes and Malaysian Government Investment Securities with short-term tenures ranging from 46 days to 360 days. The longest tenure for these investments is up to November 2013. As for the former IGSF portfolio, specific approval has been obtained to retain all Government papers (including tenures exceeding 36 months) as well as PDS issued by GLCs. The longest tenure for the retained investment securities is until August 2021.

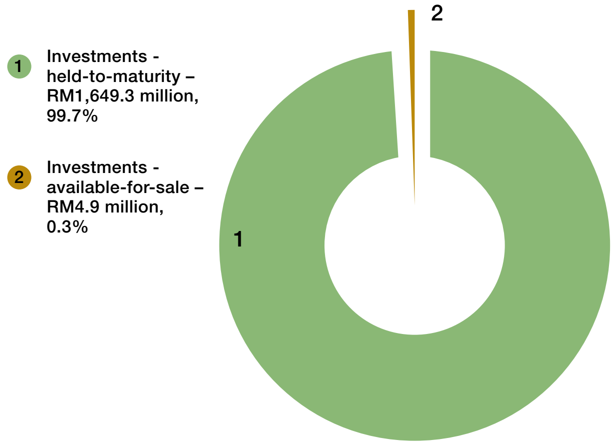


Chart 23: Classification of Investments by Available-for-Sale and Held-to-Maturity (including Cash Equivalents) as at 31 December 2012

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

Property and Equipment, and Other Assets as at 31 December 2012

As at 31 December 2012, our property and equipment amounted to RM24.1 million (2011: RM23.8 million). The key additions to property and equipment in 2012 were attributed to acquisition of land for our permanent Disaster Recovery Centre and the development of IT systems, particularly the Enhanced Financial Management System as well as the Human Resource Information System, which are still in the development stages.

Other assets comprised deposits and prepayments, investment income receivables, other assets and other receivables amounting to RM9.2 million. The balance as at the end of the year was 23.2% lower than the previous year primarily due to the reduction in the investment income receivable as at year-end.

Investments in Subsidiaries as at 31 December 2012

During the year, we incorporated five subsidiaries as part of our efforts to ensure operational readiness to carry out any IFR activities. These subsidiaries were established in accordance with section 10 of the MDIC Act 2011, for the purposes of carrying out our functions, powers and duties. The subsidiaries incorporated include one asset management company and four bridge institutions (namely one conventional bank, one Islamic bank, one insurance company and one takaful operator). The subsidiaries are incorporated as part of our readiness plan in advance of any failure of a member institution, and hence will remain dormant until activated to carry out any necessary IFR activities. The basis of accounting as well as details of the subsidiaries are further described in Note 2.2 (b), Note 3.1 (a) and Note 7 to the financial statements.

Liabilities as at 31 December 2012

Our liabilities include payables for utilities, communication services, IT systems, provision for unutilised leave as well as services rendered in respect of consultancy engagements and supply of goods. Total liabilities increased slightly to RM9 million in 2012 (2011: RM8.4 million). The increase is mainly due to the increase in provision for unutilised leave, which corresponds to the increase in the number of employees as well as payables relating to communication services.

SOURCES OF FUND AND FINANCIAL ABILITIES

Funding Framework

As a statutory body, our sources of funding and future ability to meet liabilities and commitments as they arise are firmly established in the MDIC Act. It is imperative for PIDM to have adequate financial resources in order to effectively administer and operate a robust and sound DIS as well as TIPS. The availability of the financial resources is critical to ensure we are able to meet our obligations with high degree of confidence as and when the need arises. As a financial consumer protection authority, we have an inherent exposure to losses resulting from protecting deposits held by member banks as well as takaful and insurance benefits provided by insurer members. During the year, there have been no events that would require the Corporation to record a specific provision in our financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

Our funding framework explicitly highlights the need for adequate financial resources for it to effectively carry out our mandate as well as to address the risks to which we are exposed. The main objectives of our funding framework are to (i) ensure the availability of sufficient financial resources to enable PIDM to fund its day to day operations and (ii) accumulate reserves to ensure that we are able to meet future obligations to depositors as well as takaful certificate

MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL OVERVIEW

and insurance policy owners. The funding framework, which takes into consideration our role as one of the financial safety net authorities as well as our legislative powers relating to sources of funding, also provides clear objectives for our internal and external sources of funding.

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

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

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

Our Target Fund range is between 0.6% to 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2011, the range is between RM2.1 billion and RM3.2 billion for Conventional DIF and between RM301 million and RM452 million for Islamic DIF. The current levels of DIFs compared to the Target Fund range are tabulated in the following table:

			TARGET FUND	
DEPOSIT INSURANCE FUNDS	2012 ACTUAL RM MILLION / %	2011 ACTUAL RM MILLION / %	LOWER RANGE RM MILLION / %	UPPER RANGE RM MILLION / %
Conventional Deposit Insurance Fund				
Balance	533.8	450.0	2,115	3,172
Percentage of Total Insured Deposits*	**0.15%**	**0.14%**	**0.6%**	**0.9%**
Islamic Deposit Insurance Fund				
Balance	83.3	68.5	301	452
Percentage of Total Insured Deposits*	**0.17%**	**0.17%**	**0.6%**	**0.9%**

** Based on TID as at 31 December 2011*

Table 4: Level of DIFs as at 31 December 2011 and 2012

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

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

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

(i) **Probability of Default (PD)** – PD measures the likelihood of a member bank going into default within a specific time horizon. In determining PDs, data from international External Credit Assessment Institutions – such as Standard & Poors, Moody's as well as Fitch were obtained. In cases of multiple ratings available, an average rating was used.

(ii) **Exposure At Default (EAD)** – EAD represents the financial exposure to PIDM in the event of default. We adopted different EADs for liquidation and going-concern resolution approaches. We had used TID (at the limit of RM250,000 per depositor per member bank) as the EAD for the liquidation approach and re-capitalisation as proxy for the going-concern approach.

(iii) **Loss Given Default (LGD)** – LGD is defined as the net loss to PIDM after taking into account recoveries in any given IFR action related to a non-viable member bank. The LGD adopted also takes into consideration the liquidation and going-concern resolution approaches.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FINANCIAL OVERVIEW

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

(i) **Operating environment** – The model is based on the assumption that the environment in which member banks operate in does not deviate significantly in the foreseeable future. This includes economic conditions and the risk profile of individual member banks, the banking industry's landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in different Target Fund levels than previously required. We are of the view that current economic conditions and the risks affecting member banks are not expected to change significantly in the foreseeable future. Nevertheless, the operating environment will be reviewed and validated against the model annually;

(ii) **Total Insured Deposits** – TID are indicative of the EAD used in the modelling of Target Fund levels. Accordingly, significant changes in TID will have a direct impact on the EAD, and thus the Target Fund levels; and

(iii) **Mandate and powers** – The mandate and powers are set out in the MDIC Act, which among others enable PIDM to intervene and resolve a troubled member institution promptly to minimise losses to the financial system. The Target Fund modelling and estimation were made based on the current mandate and powers set out in the MDIC Act. Any significant changes to our mandate and powers may affect the modelling assumptions and thus the estimation of the Target Fund levels. However, we do not expect significant changes to our mandate and powers to occur in the near future.

As noted earlier, we review our Target Fund model annually to ensure relevance and to reflect any changes in the assumptions or inputs used. Our annual review on the Target Fund for 2012 indicates that the existing Target Fund range still remains current and relevant.

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

After taking into consideration the operating environment and impact to the banking industry, we had determined the reasonable Time-to-Fund to achieve the lower range of the Target Fund level of 0.6% of TID to be between 10 and 12 years. In 2012, we had obtained the approval from the Minister of Finance to gradually increase the premium rates assessed on member banks beginning 2013. The revised premium rates will enable PIDM to meet the Target Fund levels within the specific Time-to-Fund.

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

(i) **TID growth** – When the rate of growth in TID is higher than expected, the estimated Time-to-Fund would correspondingly lengthen. The reverse would also be true should TID growth rate be lower than expected;

(ii) **Investment income** – Premiums received from member banks are invested in stable, low risk fixed income investments. Accordingly, returns on investments which are different than expected will have an inverse effect on the Time-to-Fund i.e., higher interest rates than expected would result in a shorter Time-to-Fund; and

(iii) **Operating expenditures** – Moving forward, our operating expenditures are expected to marginally increase and will begin to stabilise after all the required resources have been obtained and all key infrastructure, systems and processes have been implemented.

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

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

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

SCENARIOS	TIME-TO-FUND
Base case	**10 – 12 years**
Favourable scenario	9 – 10 years
Less favourable scenario	13 – 14 years

Table 6: Sensitivity Analysis of Time-to-Fund

We will continue to monitor and report on the progress of achieving our Target Fund levels annually.

Takaful and Insurance Protection Funds

The TIPFs began to accumulate with insurer members paying premiums beginning assessment year 2011. The TIPFs are accumulated from annual net surpluses, which is the premium revenue and investment income net of operating expenditures for a particular year. Similar to DIFs, we maintain separate TIPFs for all the Protection Funds within TIPS. The balances of TIPFs as at 31 December 2012 are as follows:

	GENERAL INSURANCE RM MILLION	LIFE INSURANCE RM MILLION	GENERAL TAKAFUL RM MILLION	FAMILY SOLIDARITY TAKAFUL RM MILLION
Takaful and Insurance Benefits Protection Funds	994.0	74.2	4.1	8.4

Table 7: Balances of TIPFs as at 31 December 2012

We will be developing a Target Fund framework for TIPFs, similar to that of DIFs, over the next several years.

External Funding

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF OUR CORPORATE PLAN 2013 - 2015

There is a profound Japanese proverb that says "The bamboo that bends is stronger than the oak that resists". The bamboo will take a few years to establish its root system and little growth above ground will be seen at the beginning. Yet, once the root system is in place, it grows.

Creating a solid architecture and the right conditions is a must for us to grow and survive. Our approach has, therefore, been to ensure that we have, like the bamboo, a solid and well-grounded root system – we must build systems, processes, relationships and focus on what matters. At the same time, in an increasingly fast-changing and sometimes uncertain financial environment, we must also be capable of adapting and responding to changes, and be resilient, in order to fulfil our role effectively.

Our Corporate Plan sets out our strategic direction, focus and priorities that drive the activities for the upcoming three-year period and advance us towards our vision and mission. In developing this Corporate Plan, we continued to adopt a comprehensive strategic management framework that integrates the risk management process, which identifies and assesses the significant risks affecting the Corporation. Additionally, we adopted a scenario planning approach that would apply if our approved Plan were to be derailed. This approach was aimed at ensuring that we are prepared, if needed, to respond effectively in the unlikely event of an intervention in a troubled MI. The following is a summary of our Plan and it should be read in conjunction with our Corporate Plan 2013 - 2015, which is available on our website at www.pidm.gov.my.

OUR STRATEGY

For the planning period of 2013 - 2015, the following strategic directions will guide the Corporation's activities:

(a) sustaining PIDM's capacity and capability by focusing on enhancing employee competencies and developing necessary infrastructure;
(b) strengthening operational readiness in relation to Intervention and Failure Resolution; and
(c) enhancing the level of public awareness about PIDM and our systems and educating financial consumers.

OUR AREAS OF FOCUS

The key areas of focus of our work in the 2013 - 2015 planning period will be as follows.

Sustain PIDM's capacity and capability by focusing on enhancing employee competencies and developing necessary infrastructure

Our unique business model and the nature of our work bring with them the challenge of recruiting employees with the relevant expertise in the areas of DIS and TIPS. Our key human capital strategy is to recruit, develop and retain outstanding employees with the right skills and attitude. We plan to continue implementing various initiatives and tools to strengthen our workforce and ensure operational readiness. These include, among others, applying our competency framework to recruit and to identify training needs; enhancing the on-boarding process to assimilate new hires; and improving employee engagement and retention.

Learning and development is also critical to the Corporation's success. As such, we continue to provide opportunities for employees to develop themselves professionally both for current roles as well as to support the organisation's succession planning. Leadership and supervisor development programmes and tools will be a major focus for our work in human capital during this period.

We will also continue to strive to provide the right conditions, so that we achieve a corporate culture that promotes employee engagement and drives long-term performance.

Strengthen the operational readiness in relation to Intervention and Failure Resolution

We need to be operationally ready to respond to and effectively manage the orderly resolution of troubled MIs. As such, it is clearly essential to continue to enhance the key aspects of readiness. These include assessing and monitoring the risks affecting MIs; expanding our IFR capacity and capabilities; as well as improving the Corporation's infrastructure and operations. These initiatives are to ensure that we are ready to effectively and efficiently deal with troubled MIs if called upon.

Risk Assessment and Monitoring:
Our ongoing risk assessment and monitoring activities of MIs are critical to the achievement of our mandate. We continuously monitor the economy and the financial environment, the risk profiles and financial performance of individual MIs, and the industry as a whole.

Other areas of focus include:
(a) continuing to enhance the capabilities and efficiency of the existing risk assessment system for member banks and, at the same time, develop the necessary systems and infrastructure to support the risk assessment and monitoring of insurer members;
(b) the implementation of the DLS framework and guidelines for conventional insurer members, as well as the External Auditor Validation programme;
(c) the development of an interim DLS framework for takaful operators;
(d) the development of the Target Fund framework for insurer members; and
(e) continuing our efforts as a leader in the development and implementation of Islamic deposit insurance, by leading the development of guidance notes, research papers and core principles.

Intervention and Failure Resolution:
In fulfilling our mandate in an effective and least cost manner to the financial system, it is essential that we achieve a state of readiness to intervene in the affairs of a troubled MI early and promptly. We aim to do so in two key stages.
(a) By 2013, we aim to be able to undertake a due diligence, perform a least cost assessment based on an agreed framework, execute going concern resolution options, execute a liquidation and payout, using cheques or bank transfers.
(b) Consequently, we will enhance how we deal with key IFR areas, such as the management of the due diligence process; perform a more comprehensive least cost assessment; and achieve the ability to execute payout in a seamless manner with minimum disruption to depositors and policy owners.

In addition, we will collaborate with BNM in developing a framework and road map towards having in place well-defined recovery and resolution plans for both domestic and regional systemically important financial institutions.

As a critical component of readiness, we will give priority to the development and enhancement of employees' capability and competencies for IFR readiness, through continuous training and simulation sessions.

Improving Infrastructure and Operations:
The Information Technology Strategic Plan sets out the direction and objectives of technology utilisation and management within the Corporation with a view to continuously achieve operational efficiency.

In order to support our operational readiness, we believe it is essential that the IT infrastructure continue to be current and in line with industry best practices in a continuously evolving technological environment. The facilities for communications and document accessibility are vital in creating an integrated and secured information collaboration platform.

Our business continuity management programme will focus on ensuring the continuity of the Corporation's critical business functions in the event of a disaster or pandemic, with the ability to continue operations from a disaster recovery centre. Annual tests are also performed to ensure that the Business Continuity Plan remains current and relevant. Our key initiative for the planning period will be to develop the permanent Disaster Recovery Centre, which will also be used as an off-site storage facility.

Enhance the level of public awareness and education of financial consumers
Public awareness and understanding of DIS, TIPS and PIDM, remains a priority to promote confidence in PIDM and the financial system. The ICP 2012 - 2016 is driven by three strategic thrusts underpinning its communications strategy and initiatives. This includes initiatives to strengthen awareness of DIS and TIPS and to promote confidence in the role of PIDM through various segmented and targeted communications approaches; to actively contribute to the enhancement of national financial awareness and literacy through education initiatives and programmes; and to enhance engagement with MIs and relevant strategic partners. In achieving these thrusts, we will continue to expand our target audience base for optimum information dissemination and maximum public reach. We will continue to work on our current partnerships with key stakeholders and establish partnerships with new stakeholders. Another essential strategy in the ICP is to effectively utilise communication tools, such as advertising in print, broadcast and electronic media, stakeholder engagement and our financial education programmes. Annually, we will review, enhance and refine the integrated communications strategies in the ICP 2012 - 2016, based on the year-end nationwide consumer awareness survey results.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SUMMARY OF OUR CORPORATE PLAN 2013 - 2015

Details of the key initiatives in support of our corporate objectives are described in our Corporate Scorecard 2013 - 2015 as depicted in the Appendix.

SUPPORTING FINANCIAL PLAN

The Financial Plan 2013 has been developed to support the achievement of the 2013 initiatives as well as the management of our day to day operations.

Premium revenues are budgeted at RM227.3 million, of which RM172.2 million (75.8%) is expected from member banks and RM55.1 million (24.2%) from insurer members. The premiums from member banks will be based on the revised premium rates for the DPS whilst the premiums from the conventional insurer members will be based on the new DLS rates, which will be effective from premium assessment year 2013. The premiums for takaful operators will continue to be based on the flat rate structure. Combined with budgeted investment income of RM56 million, PIDM's total revenues are expected to stand at RM283.3 million for 2013.

Total operating expenditures are budgeted at RM101 million, whilst capital expenditures are budgeted at RM29.6 million. At the end of 2013, we expect a net surplus from operations of RM182.3 million, which will increase the total Protection Funds administered by PIDM to RM1.9 billion, comprising RM0.7 billion for DIFs and RM1.2 billion for TIPFs.

GOING FORWARD

We are now progressing towards our ninth year of operations and we have made significant inroads since our inception in 2005. We plan to continue to grow, working as a team and in close collaboration with our key stakeholders. To achieve the strategies and challenging targets set over the planning period, we will focus our efforts and resources to strengthen the state of operational readiness to meet our responsibilities and obligations.

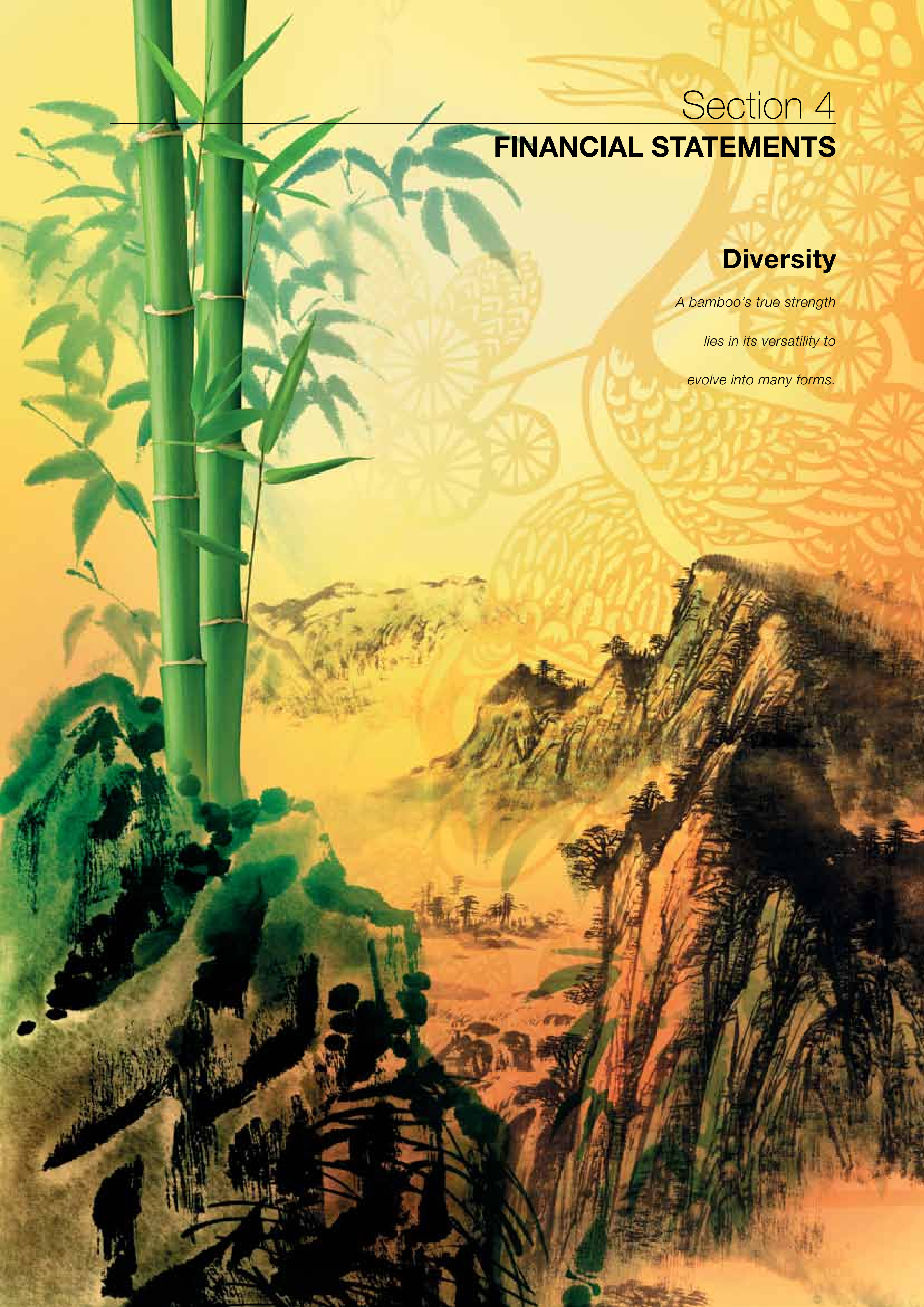
Section 4
FINANCIAL STATEMENTS

Diversity

A bamboo's true strength

lies in its versatility to

evolve into many forms.



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 2012.

PRINCIPAL ACTIVITIES

PIDM is a statutory body established under the Malaysia Deposit Insurance Corporation (MDIC) Act 2005. On 31 December 2010, the MDIC Act 2005 was replaced by the Malaysia Deposit Insurance Corporation (MDIC) Act 2011. The provisions of the MDIC Act 2011 on the preparation of financial statements do not differ from those in the MDIC Act 2005.

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

The MDIC Act 2011 provides for separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to general insurance, life insurance, general takaful and family solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segments within TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Funds.

FINANCIAL RESULTS

	2012 RM'000	2011 RM'000
Net surplus for the financial year:		
Deposit Insurance Funds	**98,570**	87,774
Takaful and Insurance Benefits Protection Funds (excluding Other Comprehensive Income)	**89,121**	991,779
Total net surplus	**187,691**	1,079,553

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

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

	2012 RM'000	2011 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	**533,822**	450,003
Islamic Deposit Insurance Fund	**83,255**	68,504
Total Deposit Insurance Funds	**617,077**	518,507

	2012 RM'000	2011 RM'000
Takaful and Insurance Benefits Protection Funds:		
General Insurance Protection Fund	**993,985**	948,034
Life Insurance Protection Fund	**74,218**	36,670
General Takaful Protection Fund	**4,091**	2,091
Family Solidarity Takaful Protection Fund	**8,424**	4,411
Total Takaful and Insurance Benefits Protection Funds	**1,080,718**	991,206

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2012 were:

- Tan Sri Datuk Dr. Abdul Samad Haji Alias (Chairman)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz
- Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah (retired on 23 August 2012)
- Dato' Sri Dr. Mohd Irwan Serigar Abdullah (appointed on 24 August 2012)
- Dato' Halipah Esa
- Datuk Dr. Rahamat Bivi Yusoff (appointed on 1 January 2012)
- Encik Mohamad Abdul Halim Ahmad (appointed on 1 January 2012)
- Mr. George Anthony David Dass
- Mr. Lim Tian Huat
- Mr. Alex Foong Soo Hah

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz and Dato' Sri Dr. Mohd Irwan Serigar Abdullah are ex officio Directors by virtue of their office, in accordance with subsection 11 (2) of the MDIC Act 2011. Members of the Board of Directors of PIDM other than ex officio Directors are appointed by the Minister of Finance in accordance with subsection 11 (2) of the MDIC Act 2011.

DIRECTORS' BENEFITS

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

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

BAD AND DOUBTFUL DEBTS AND VALUATION METHODS

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

CONTINGENT LIABILITIES

Exposure to losses

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

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

FINANCIAL STATEMENTS

DIRECTORS' REPORT

developed a similar Differential Levy System (DLS) for the conventional insurer members for implementation in 2013. PIDM also plans to implement an interim DLS for takaful operators in 2014.

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

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

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

INVESTMENTS IN SUBSIDIARIES

During the year, PIDM incorporated five subsidiaries as part of PIDM's efforts to ensure operational readiness to carry out any intervention or failure resolution (IFR) activities. In accordance with section 10 of the MDIC Act 2011, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The subsidiaries are incorporated in advance as part of PIDM's operational readiness in case of any failure of a member institution, and hence will remain dormant until activated to carry out any necessary IFR activities. The basis of accounting as well as details of the subsidiaries are further described in Note 2.2 (b), Note 3.1 (a) and Note 7 to the financial statements.

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

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

i) The financial statements of PIDM have been prepared in accordance with the MDIC Act 2011 and applicable Malaysian Financial Reporting Standards (MFRS), so as to give a true and fair view of the financial position of PIDM as at 31 December 2012, the results of its operations and its cash flows for the year ended on that date; and

ii) the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements and is in compliance with the MDIC Act 2011.

AUDITORS

In accordance with the MDIC Act 2011, 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 Datuk Dr. Abdul Samad bin Haji Alias
Chairman of the Board of Directors

Mr. Lim Tian Huat
Chairman of the Audit Committee

Kuala Lumpur
18 February 2013

FINANCIAL STATEMENTS

STATEMENT BY DIRECTORS

We, Tan Sri Datuk Dr. Abdul Samad bin Haji Alias and Mr. Lim Tian Huat, being two of the Directors of Perbadanan Insurans Deposit Malaysia (PIDM), do hereby state that, in the opinion of the Directors, the financial statements have been prepared and presented in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (MDIC Act) and applicable Malaysian Financial Reporting Standards, so as to give a true and fair view of the state of affairs of PIDM as at 31 December 2012, the results of its operations and its cash flows for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, as set out in the MDIC Act.

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

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

Mr. Lim Tian Huat
Chairman of the Audit Committee

Kuala Lumpur
18 February 2013

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 relating to the financial statements are the responsibility of Management. The financial statements have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (MDIC Act) and applicable Malaysian Financial Reporting Standards, so as to give a true and fair view of the financial position of PIDM as at 31 December 2012, the results of its operations and its cash flows for the year ended on that date. The Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, and is in compliance with the 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 and a resolution was adopted on 18 February 2013.

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

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 18 February 2013

Jean Pierre Sabourin
Chief Executive Officer

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

Before me,

PESURUHJAYA SUMPAH MALAYSIA
W 502
ABDUL AZIZNI
BIN ABU BAKAR
KUALA LUMPUR

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 2012

I have audited the financial statements of the Perbadanan Insurans Deposit Malaysia for the year ended 31 December 2012. 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 2012 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
01 MARCH 2013

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2012 RM'000	2011 RM'000	1.1.2011* RM'000
ASSETS				
Cash and cash equivalents	4	**745,211**	339,363	184,015
Investments				
Available-for-sale investments	5a	**4,859**	98,037	-
Held-to-maturity investments	5b	**923,396**	1,045,023	226,368
Other assets	6	**9,194**	11,976	3,551
Investments in subsidiaries	7	**-****	-	-
Property and equipment	8	**24,123**	23,750	24,059
Total Assets		**1,706,783**	1,518,149	437,993
LIABILITIES				
Payables	9	**8,988**	8,436	7,260
Total Liabilities		**8,988**	8,436	7,260
FUNDS AND RESERVES				
Deposit Insurance Funds				
Accumulated surpluses	10a	**617,077**	518,507	430,733
Other reserves		**-**	-	-
		617,077	518,507	430,733
Takaful and Insurance Benefits Protection Funds				
Accumulated surpluses	10b	**1,080,900**	991,779	-
Other reserves	10b	**(182)**	(573)	-
		1,080,718	991,206	-
Total Funds and Reserves		**1,697,795**	1,509,713	430,733
Total Liabilities, Funds and Reserves		**1,706,783**	1,518,149	437,993

* *The balances disclosed in the 1 January 2011 column is the same as the closing audited balances as at 31 December 2010, as there is no material impact arising from the transition of FRS to MFRS. Refer to Note 2.1 for details.*

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

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

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

	Note	2012 RM'000	2011 RM'000
Premium revenues	11	**214,262**	201,239
Investment income from cash and investment securities	12	**48,782**	21,821
Gains / (losses) from sales of available-for-sale investments	13a	**(37)**	3,715
Total revenues		**263,007**	226,775
Employee benefits	14	**39,390**	31,037
Public relations and advertising		**9,937**	9,882
Depreciation	8	**5,236**	5,159
Operating leases		**5,114**	5,563
Other expenses	15	**15,639**	18,018
Total expenses		**75,316**	69,659
Operational net surplus		**187,691**	157,116
Exceptional item:			
Moneys and investments received from Insurance Guarantee Scheme Funds		**-**	922,437
Net surplus for the year		**187,691**	1,079,553
Other comprehensive income			
Items that can be reclassified subsequently to profit or loss:			
Net unrealised gains / (losses) on available-for-sale investments	13b	**391**	(573)
Total comprehensive income for the year		**188,082**	1,078,980

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

FINANCIAL STATEMENTS

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

Deposit Insurance Funds

		Conventional Deposit Insurance Fund		Islamic Deposit Insurance Fund		
	Note	Accumulated surpluses RM'000	Other reserves RM'000	Accumulated surpluses RM'000	Other reserves RM'000	Total funds and reserves RM'000
As at 1 January 2011	10a	374,645	-	56,088	-	430,733
Total comprehensive income for the year		75,358	-	12,416	-	87,774
As at 31 December 2011	10a	450,003	-	68,504	-	518,507
As at 1 January 2012	10a	**450,003**	**-**	**68,504**	**-**	**518,507**
Total comprehensive income for the year		**83,819**	**-**	**14,751**	**-**	**98,570**
As at 31 December 2012	10a	**533,822**	**-**	**83,255**	**-**	**617,077**

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

FINANCIAL STATEMENTS

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

Takaful and Insurance Benefits Protection Funds

		General Insurance Protection Fund		Life Insurance Protection Fund		General Takaful Protection Fund		Family Solidarity Takaful Protection Fund		
	Note	Accumulated surpluses RM'000	Other reserves RM'000	Accumulated surpluses RM'000	Other reserves RM'000	Accumulated surpluses RM'000	Other reserves RM'000	Accumulated surpluses RM'000	Other reserves RM'000	Total funds and reserves RM'000
As at 1 January 2011	10b	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year		948,607	(573)	36,670	-	2,091	-	4,411	-	991,206
As at 31 December 2011	10b	948,607	(573)	36,670	-	2,091	-	4,411	-	991,206
As at 1 January 2012	10b	**948,607**	**(573)**	**36,670**	**-**	**2,091**	**-**	**4,411**	**-**	**991,206**
Total comprehensive income for the year		**45,560**	**391**	**37,548**	**-**	**2,000**	**-**	**4,013**	**-**	**89,512**
As at 31 December 2012	10b	**994,167**	**(182)**	**74,218**	**-**	**4,091**	**-**	**8,424**	**-**	**1,080,718**

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

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER

	Note	2012 RM'000	2011 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums received from member institutions		**214,262**	201,239
Payments in the course of operations to suppliers and employees		**(74,083)**	(61,167)
Receipts of investment income		**49,359**	19,532
Net cash flows from operating activities		**189,538**	159,604
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		**1,779,133**	905,486
Purchase of investment securities		**(1,561,669)**	(940,597)
Receipts from Insurance Guarantee Scheme Funds		**-**	37,153
Purchase of property and equipment		**(1,154)**	(6,298)
Net cash flows generated from / (used in) investing activities		**216,310**	(4,256)
Net increase in cash and cash equivalents		**405,848**	155,348
Cash and cash equivalents at beginning of year		**339,363**	184,015
Cash and cash equivalents at end of year	4	**745,211**	339,363

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

1. PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established under the Malaysia Deposit Insurance Corporation (MDIC) Act 2005. On 31 December 2010, the MDIC Act 2005 was replaced by the Malaysia Deposit Insurance Corporation (MDIC) Act 2011. The provisions of the MDIC Act 2011 on the preparation of financial statements do not differ from those in the MDIC Act 2005.

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

The MDIC Act 2011 provides separate coverage for Islamic and conventional deposits as well as for protected benefits in relation to general insurance, life insurance, general takaful and family solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segments within TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Funds.

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

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

The financial statements were authorised for issue by the Board of Directors through a resolution made on 18 February 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of accounting

The financial statements of PIDM have been prepared in accordance with the MDIC Act 2011 and applicable Malaysian Financial Reporting Standards (MFRS).

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

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

These financial statements are PIDM's first MFRS annual financial statements. MFRS 1 First-Time Adoption of Malaysian Financial Reporting Standards (MFRS 1) has been applied. For the periods up to and including the year ended 31 December 2011, PIDM prepared its financial statements in accordance with Financial Reporting Standards (FRS). The transition from FRS to MFRS has no financial impact on the financial statements and there are no adjustments arising from the transition to MFRS. The accounting policies set out below have been applied consistently to the periods presented in the financial statements and in preparing the opening MFRS statement of financial position as at 1 January 2011 (the transition date to MFRS framework).

The financial statements incorporate those activities relating to the administration of both DIFs and TIPFs of PIDM. The Islamic funds are maintained and administered in accordance with Shariah requirements and in compliance with the MDIC Act 2011.

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

2.2 Summary of significant accounting policies

(a) Financial instruments

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

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

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

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

Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or market convention. All regular purchases and sales of financial instruments are recognised or derecognised on the trade date i.e., the date that PIDM commits to purchase or sell the instrument.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on demand with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value. The Statement of Cash Flows is prepared using the direct method. This includes short-term investments with maturities of less than 90 days.

(ii) Available-for-sale investments

Available-for-sale (AFS) investments consist of Private Debt Securities (PDS) that are intended to be sold or divested in response to the requirement of internal policies. These securities are measured at fair value after initial measurement.

Any unrealised gains and losses after applying the amortised cost method are recognised directly in Other Reserves except for impairment losses. When the securities are sold, any cumulative unrealised gains or losses previously recognised in Other Reserves are recognised as gains or losses from sales of investments in the Statement of Comprehensive Income. Interest or returns earned whilst holding these investments, including any amortisation of premiums and accretion of discounts, which are calculated using the effective interest or yield method are recognised as investment income in the Statement of Comprehensive Income. Any losses as result of impairment of these investments are recognised in the Statement of Comprehensive Income and removed from the Other Reserves.

(iii) Held-to-maturity investments

Investments classified as held-to-maturity 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 that are intended to be held-to-maturity and are not traded. These securities with fixed or determinable payments and fixed maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the date of purchase to the maturity date, less any impairment losses recognised. Interest or returns earned whilst holding these investments including amortisation of premiums and accretion of discounts, which are calculated using the effective interest or yield method, and impairment losses, are recognised in the Statement of Comprehensive Income.

(iv) Receivables and other assets

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

(v) Payables

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

(vi) Fair value of financial instruments

All financial instruments that are measured at fair value in the Statement of Financial Position can be categorised into one of the three hierarchy levels described below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - inputs for the asset or liability that are not based on observable market data.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

(b) Investments in subsidiaries

Investments in subsidiaries are measured in PIDM's Statement of Financial Position at cost less any impairment losses, unless the investment is held for sale or distribution.

In line with section 35 of the MDIC Act 2011, the financial results of the subsidiaries are not consolidated with the financial statements of PIDM. Consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM, as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Fund(s) to which that member institution relates.

Furthermore, in accordance with the requirements of MFRS 10 *Consolidated Financial Statements*, PIDM does not prepare consolidated financial statements as PIDM does not meet all the criteria required for having 'control' over its subsidiaries, as defined in MFRS 10. This is because PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Protection Funds. This is discussed in further detail in Note 3.1 (a).

(c) Property and equipment, and depreciation

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

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

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

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

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the Statement of Comprehensive Income. The unutilised portion of the revaluation surplus on that item is recognised directly to the Funds and Reserves.

(d) Impairment of financial assets

PIDM assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired.

(i) Held-to-maturity investments as well as other receivables and other financial assets carried at amortised cost

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the debtor, issuer and obligor as well as any default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

(ii) Available-for-sale investments

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor in fulfilling its financial obligations, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss.

For available-for-sale debt investments, impairment losses are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss in the profit or loss.

(e) Impairment of non-financial assets

At each Statement of Financial Position date, PIDM reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

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

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

An impairment loss for assets is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the Statement of Comprehensive Income unless the asset is carried at revalued amount, in which case such reversal is treated as a revaluation increase.

(f) Recognition of income and expenditures

All income and operating expenditures pertaining to DIS and TIPS are recognised on an accrual basis. The MDIC Act 2011 empowers PIDM to credit all direct operating income to, and charge all expenditures against the relevant Fund or Funds. Expenditures that cannot be charged directly to the relevant Fund or Funds will be allocated based on the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011. The expenditures that cannot be charged directly to a specific Fund or Funds can be categorised into the following two categories:

(i) *Expenditures that can be attributed to either DIS or TIPS but are common or indirect expenditures for the respective protection systems.* For the 2012 financial year, the expenditures were allocated to the respective systems based on the proportion of premiums collected for the respective systems during the financial year ended 31 December 2011. The allocation rate used during the year is as follows:

YEAR	DIS		TIPS			
	CONVENTIONAL	ISLAMIC	GENERAL INSURANCE	LIFE INSURANCE	GENERAL TAKAFUL	FAMILY SOLIDARITY TAKAFUL
2012	**85.4%**	**14.6%**	**27.2%**	**61.5%**	**3.6%**	**7.7%**
	100%		**100%**			
2011	85.4%	14.6%	27.2%	61.5%	3.6%	7.7%
	100%		100%			

For subsequent assessment years following the year of 2012, the allocation will be based on the proportion of premiums collected for the respective systems in the preceding year.

(ii) *Expenditures which are common or indirect costs of administering both DIS and TIPS.* Expenditures that cannot be specifically attributed to either DIS or TIPS, are allocated based on the proportion of premiums collected for the respective Funds in DIS and TIPS. For the 2012 financial year, these expenditures were allocated to the respective Funds based on the proportion of premiums collected for each of the Funds during the financial year ended 31 December 2011. The apportionment basis used is as follows:

YEAR	TOTAL	DIS		TIPS			
		CONVENTIONAL	ISLAMIC	GENERAL INSURANCE	LIFE INSURANCE	GENERAL TAKAFUL	FAMILY SOLIDARITY TAKAFUL
2012	**100%**	**51.1%**	**8.7%**	**10.9%**	**24.7%**	**1.5%**	**3.1%**
2011	100%	51.1%	8.7%	10.9%	24.7%	1.5%	3.1%

For the subsequent assessment years following the year of 2012, the allocation will be based on the proportion of premiums collected for the respective Funds in DIS and TIPS in the preceding year.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

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

Investment income including income from placements in money market repurchase agreements is recognised on a time proportion basis that reflects the effective yield on the asset.

(g) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses, social security contributions and other 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 Statement of Comprehensive Income as incurred. As required by law, PIDM makes contributions to the statutory national pension scheme, the Employees Provident Fund, as well as the Social Security Organisation.

(h) Foreign currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

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

2.3 Changes in accounting policies

On 1 January 2012, PIDM adopted applicable MFRS for financial periods beginning on or after 1 January 2012, as follows:

- MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards*
- MFRS 7 *Financial Instruments: Disclosures*
- MFRS 8 *Operating Segments*
- MFRS 101 *Presentation of Financial Statements*
- MFRS 107 *Statement of Cash Flows*
- MFRS 108 *Accounting Policies, Changes in Accounting Estimates and Errors*
- MFRS 110 *Events After the Reporting Period*
- MFRS 116 *Property, Plant and Equipment*
- MFRS 117 *Leases*
- MFRS 118 *Revenue*
- MFRS 119 *Employee Benefits*
- MFRS 121 *The Effects of Changes in Foreign Exchange Rates*
- MFRS 124 *Related Party Disclosures*
- MFRS 127 *Separate Financial Statements*
- MFRS 132 *Financial Instruments: Presentation*
- MFRS 136 *Impairment of Assets*
- MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*
- MFRS 139 *Financial Instruments: Recognition and Measurement*

In addition, PIDM has early adopted the amendments to MFRS 101 *Presentation of Financial Statements*, which are effective for annual periods beginning on or after 1 July 2012. The early adoption of the amendments to the MFRS 101 has no material impact on the financial statements other than the presentation format of the Statement of Comprehensive Income.

The following are accounting standards, amendments and interpretations of the MFRS Framework that have been issued by the Malaysian Accounting Standards Board (MASB) but are not yet effective, which have been early adopted by PIDM:

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2013:

- MFRS 10 *Consolidated Financial Statements*
- MFRS 12 *Disclosure of Interests in Other Entities*
- MFRS 13 *Fair Value Measurement*
- MFRS 119 *Employee Benefits (2011)*
- Amendments to MFRS 7
  Financial Instruments: *Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Amendments to MFRS 1
  First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2009 – 2011 Cycle)
- Amendments to MFRS 101
  Presentation of Financial Statements (Annual Improvements 2009 – 2011 Cycle)
- Amendments to MFRS 116
  Property, Plant and Equipment (Annual Improvements 2009 – 2011 Cycle)
- Amendments to MFRS 132
  Financial Instruments: *Presentations (Annual Improvements 2009 – 2011 Cycle)*

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2014:

- Amendments to MFRS 132
  Financial Instruments – Offsetting Financial Assets and Financial Liabilities

The following are accounting standards, amendments and interpretations of the MFRS Framework that have been issued by the MASB but are not yet effective, which have not been early adopted by PIDM:

MFRS, Interpretations and amendments effective for annual periods beginning on or after 1 January 2015:

- MFRS 9 *Financial Instruments (2009)*
- MFRS 9 *Financial Instruments (2010)*
- Amendments to MFRS 7
  Financial Instruments: Disclosures – Mandatory date of MFRS 9 and Transition Disclosures

The following are accounting standards, amendments and interpretations of the MFRS Framework that are currently not applicable to PIDM's operations:

- MFRS 2 *Share-based Payment*
- MFRS 3 *Business Combinations*
- MFRS 4 *Insurance Contracts*
- MFRS 5 *Non-currrent Assets Held for Sale and Discontinued Operations*
- MFRS 6 *Exploration for Evaluation of Mineral Resources*
- MFRS 11 *Joint Arrangements*
- MFRS 128 *Investment in Associates and Joint Ventures*
- IC Interpretation 20
  Stripping Costs in the Production Phase of a Surface Mine

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The adoption of the above amendments and improvements to MFRS did not have any material effect on the financial performance or position of PIDM. These changes also do not result in significant changes in the accounting policies of PIDM.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the PIDM's financial statements does not generally require Management to make judgements, estimates and assumptions that affect the reported amounts except for the areas discussed below and the disclosure of contingent liabilities at the reporting date. Where judgements are required, uncertainty about the assumptions and estimates used could result in outcomes that would require a material adjustment to the carrying amount of the affected asset or liability in the future.

3.1 Judgements made in applying accounting policies

In the process of applying PIDM's accounting policies, Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Non-consolidation of investments in subsidiaries

In accordance with MFRS 10, consolidation of subsidiaries by a parent is required when the parent has 'control' over its subsidiaries. For control to be established, the investor must have the following:

(i) power over the investee;

(ii) exposure, or rights, to variable returns from its involvement with the investee; and

(iii) the ability to use its power over the investee to affect the amount of investor's return.

PIDM is the resolution authority for all member institutions with a wide intervention and failure resolution (IFR) powers. The subsidiaries were incorporated to act as vehicles for PIDM to carry out any IFR activities rather than for investment purposes. Any returns from the subsidiaries are meant for the benefit of the respective Protection Funds, which are to be used for future IFR activities. PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Protection Funds. Although PIDM has rights to use monies in the Protection Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the MDIC Act 2011.

Given the above considerations, the criteria for having 'control' as defined in MFRS 10 are not met, and hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries is included in Note 7 to the financial statements.

(b) Impairment of available-for-sale investments

PIDM reviews its debt securities classified as available-for-sale investments at the reporting date to assess whether they are impaired. PIDM records impairment charges when there has been a significant or prolonged decline in the fair value below their cost as well as the deterioration of financial ability and any default in payments of contractual obligations by the issuer or obligor.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, PIDM evaluates, among other factors, historical quoted price movements, the duration and extent to which the fair value of an investment is less than its cost.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Fair value of financial investments

Where the fair values of financial assets recorded on the Statement of Financial Position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgement includes considerations of liquidity and model inputs such as discount rates, prepayment rates and default rate assumptions. The valuation of financial instruments is described in more detail in Note 21 (f).

(b) Impairment of held-to-maturity investments as well as receivables and other assets

PIDM assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the debtor, issuer or obligor as well as any default or significant delay in payments.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

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4. CASH AND CASH EQUIVALENTS

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Deposits with Bank Negara Malaysia	587	1	586
Cash on hand and at bank	18,674	14,680	3,994
Short-term investments:			
Malaysian Government Securities and Investments Issues	133,520	49,937	83,583
Bank Negara Malaysia Bills and Negotiable Notes	583,853	271,291	312,562
	717,373	321,228	396,145
Add: Accretion of discounts net of amortisation of premium	8,577	3,996	4,581
	725,950	325,224	400,726
Total cash and cash equivalents	745,211	339,905	405,306
Market values of short-term investments held as at 31 December 2012 are as follows:			
Malaysian Government Securities and Investments Issues	135,358	51,099	84,259
Bank Negara Malaysia Bills and Negotiable Notes	590,645	274,141	316,504
Total market value of short-term investments	726,003	325,240	400,763

4. CASH AND CASH EQUIVALENTS (continued)

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits with Bank Negara Malaysia	24,243	157	24,086
Cash on hand and at bank	27,230	21,483	5,747
Short-term investments:			
Malaysian Government Securities and Investments Issues	82,539	82,539	-
Bank Negara Malaysia Bills and Negotiable Notes	201,088	157,225	43,863
	283,627	239,764	43,863
Add: Accretion of discounts net of amortisation of premium	4,263	4,129	134
	287,890	243,893	43,997
Total cash and cash equivalents	339,363	265,533	73,830
Market values of short-term investments held as at 31 December 2011 are as follows:			
Malaysian Government Securities and Investments Issues	83,989	83,989	-
Bank Negara Malaysia Bills and Negotiable Notes	203,603	159,601	44,002
Total market value of short-term investments	287,592	243,590	44,002

Short-term investments that have a term to maturity of less than 90 days are categorised as cash equivalents. These short-term investments are intended to be held to its maturities and therefore stated at cost adjusted for amortisation of premiums and accretion of discounts.

The market values of these short-term investments were based on indicative market prices.

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5. INVESTMENTS

a. *Available-for-sale investments*

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Private Debt Securities	**4,859**	**-**	**4,859**
Total available-for-sale investments	**4,859**	**-**	**4,859**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Private Debt Securities	98,037	-	98,037
Total available-for-sale investments	98,037	-	98,037

Available-for-sale investments are measured and recognised in the Statement of Financial Position at fair value. The fair values are determined by reference to indicative market prices as at the end of the financial year obtained from a bond pricing agency.

During the year, Management has used an internal valuation model to derive the fair value for one of its investments. In this case, the investment was no longer actively traded and therefore, the quoted indicative market price for the investment was no longer reflective of the investment's fair value. The change in fair value from Level 2 to Level 3 is further disclosed in Note 21 (f). The fair value derived from the valuation model is RM4,859,100 as compared to the fair value as at 31 December 2011 of RM4,231,500. The internal valuation model was developed using a combination of the credit risk reduced form approach and rating agencies' default statistics to determine the Mark-to-Market (MTM) yield level. The MTM price is then calculated based on the present value of future principal and interest cash flows, discounted at the MTM yield level.

For fair value disclosure purposes, the indicative market prices and the fair value derived from internal valuation model represent Level 2 and 3 respectively, in accordance with MFRS *7 Financial Instruments: Disclosures.*

5. INVESTMENTS (continued)

b. Held-to-maturity to investments

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Malaysian Government Securities and Investments Issues	**776,160**	**241,625**	**534,535**
Bank Negara Malaysia Bills and Negotiable Notes	**55,792**	**14,695**	**41,097**
Private Debt Securities	**90,474**	**-**	**90,474**
	922,426	**256,320**	**666,106**
Add: Accretion of discounts net of amortisation of premium	**970**	**1,839**	**(869)**
Total held-to-maturity investments	**923,396**	**258,159**	**665,237**

Market values of investments held as at 31 December 2012 are as follows:

	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Malaysian Government Securities and Investments Issues	**780,035**	**243,412**	**536,623**
Bank Negara Malaysia Bills and Negotiable Notes	**56,032**	**14,723**	**41,309**
Private Debt Securities	**90,668**	**-**	**90,668**
Total market value of investments	**926,735**	**258,135**	**668,600**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investments Issues	749,355	161,965	587,390
Bank Negara Malaysia Bills and Negotiable Notes	174,276	68,240	106,036
Private Debt Securities	119,272	-	119,272
	1,042,903	230,205	812,698
Add: Accretion of discounts net of amortisation of premium	2,120	1,780	340
Total held-to-maturity investments	1,045,023	231,985	813,038

Market values of investments held as at 31 December 2011 are as follows:

	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investments Issues	753,134	163,512	589,622
Bank Negara Malaysia Bills and Negotiable Notes	175,136	68,519	106,617
Private Debt Securities	119,329	-	119,329
Total market value of investments	1,047,599	232,031	815,568

Investments are denominated in Ringgit Malaysia.

The market values of investments in both DIFs as well as TIPFs as disclosed above are indicative of their fair values as at the end of the financial year and are determined by reference to indicative market prices obtained from a bond pricing agency.

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6. OTHER ASSETS

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Deposits and prepayments	**3,557**	**2,951**	**606**
Investment income receivables	**5,252**	**1**	**5,251**
Other receivables	**225**	**217**	**8**
Other assets	**130**	**90**	**40**
Amounts due from subsidiaries (Note 7)	**30**	**16**	**14**
Total other assets	**9,194**	**3,275**	**5,919**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits and prepayments	3,197	2,815	382
Investment income receivables	8,060	12	8,048
Other receivables	689	632	57
Other assets	30	30	-
Amounts due from subsidiaries	-	-	-
Total other assets	11,976	3,489	8,487

Amounts due from subsidiaries are unsecured, interest free and have no field repayment terms.

7. INVESTMENTS IN SUBSIDIARIES

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
At cost			
Unquoted shares	-*	-	-
Total investment in subsidiaries	**-**	**-**	**-**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	-	-	-
Total investment in subsidiaries	-	-	-

* Total paid-up capital of RM10 (RM2 for each of the five subsidiary) is significantly below the rounding threshold.

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Incorporation date	Effective ownership interest	Status
The Federal Asset Management Agency of Malaysia Berhad**	Malaysia	Asset management company	8 June 2012	100%	Dormant
The Federal Commercial Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The Federal Islamic Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The National PIDM Insurance Corporation of Malaysia Berhad **	Malaysia	Bridge institution	20 June 2012	100%	Dormant
The Federal Takaful Corporation of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant

** Audited by an external audit firm: Messrs Khairuddin Hasyudeen & Razi.

The appointed directors for all the subsidiaries are:
- Md Khairuddin Hj Arshad, Chief Operating Officer of PIDM
- Lim Yam Poh, General Counsel and Corporate Secretary of PIDM

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

7. INVESTMENTS IN SUBSIDIARIES (continued)

The subsidiaries were incorporated as part of PIDM's efforts to ensure operational readiness to carry out any intervention or failure resolution (IFR) activities. In accordance with section 10 of the MDIC Act 2011, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The five subsidiaries, being one asset management company (AMC) and four bridge institutions (BIs), have been incorporated during the year under the Companies Act 1965 as public companies limited by shares. The subsidiaries are incorporated in advance in case of any failure of a member institution, and hence will remain dormant until activated to carry out any necessary IFR activities.

The specific objective and purpose of these subsidiaries are as follows:

<table>
<tr><th>NAME OF SUBSIDIARY</th><th>OBJECTS / PURPOSE</th></tr>
<tr><td>The Federal Asset Management Agency of Malaysia Berhad</td><td>The AMC was established to carry on the business of an asset management company and has the authority to acquire, assume control, manage, dispose of, sell, deal with, transact and operate as a going concern or otherwise, the assets, liabilities, business, undertakings and affairs of a member institution as defined in the MDIC Act 2011, whether by way of an arrangement, agreement, instrument or otherwise in accordance with the MDIC Act 2011 and any other applicable laws.</td></tr>
<tr><td colspan="2">Bridge institutions (BIs)
A BI is a resolution tool under the MDIC Act 2011. This would enable PIDM to transfer the business, assets and liabilities of a troubled or failed member institution to a BI where there is no immediate purchaser or where the resolution action involves a complex member institution. The BI is intended to be a temporary special purpose vehicle that would preserve the business franchise value of the troubled or failed member institution. The BI is to be operated on a conservative basis, and subsequently sold to a private sector purchaser. On activation and designation of a BI under the MDIC Act 2011 with the approval of the Minister of Finance, the BI will operate as a fully licensed financial institution.</td></tr>
<tr><td>The Federal Commercial Bank of Malaysia Berhad</td><td>This subsidiary, upon activation, will operate as a licensed bank to carry on and transact all commercial banking business as defined in the Banking and Financial Institutions Act 1989.</td></tr>
<tr><td>The Federal Islamic Bank of Malaysia Berhad</td><td>This subsidiary, upon activation, will operate as a licensed Islamic bank to carry on and transact all Islamic banking business as defined in the Islamic Banking Act 1983.</td></tr>
<tr><td>The National PIDM Insurance Corporation of Malaysia Berhad</td><td>This subsidiary, upon activation, will operate as a licensed composite, life or general insurance company to carry on or transact all insurance, assurance, guarantee and indemnity businesses as defined in the Insurance Act 1996.</td></tr>
<tr><td>The Federal Takaful Corporation of Malaysia Berhad</td><td>This subsidiary, upon activation, will operate as a registered takaful operator to carry on or transact every kind of takaful and re-takaful businesses under the Takaful Act 1984.</td></tr>
</table>

In line with section 35 of the MDIC Act 2011, the financial results of the subsidiaries are not consolidated with the financial statements of PIDM. Consolidating the financial statements of PIDM together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Fund(s) to which that member institution relates.

In addition, PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries. Although PIDM has rights to use the Protections Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the MDIC Act 2011. Given these considerations, the criteria for having 'control' as defined in MFRS 10 are not met, hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries is set out below.

The summary of the financial information for each of the subsidiaries (in absolute RM) are as follows:

	The Federal Asset Management Agency of Malaysia Berhad RM	**The Federal Commercial Bank of Malaysia Berhad RM**	**The Federal Islamic Bank of Malaysia Berhad RM**	**The National PIDM Insurance Corporation of Malaysia Berhad RM**	**The Federal Takaful Corporation of Malaysia Berhad RM**
Revenue	-	-	-	-	-
Pre-operating expenses*	6,249	5,951	5,951	5,980	5,951
Total assets	-	-	-	-	-
Total liabilities	6,247	5,949	5,949	5,978	5,949
Capital	2	2	2	2	2
Incorporation expenses**	15,310	15,310	15,310	15,310	15,310

* The pre-operating expenses primarily relate to audit and tax fees, which are paid by PIDM on behalf of the subsidiaries.
** The expenses incurred on incorporation of the subsidiaries were fully absorbed by PIDM.

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8. PROPERTY AND EQUIPMENT

	2012						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
Cost							
Balance as at 1 January 2012	-	12,569	3,034	418	10,323	10,200	36,544
Additions	2,300**	222	8	-	957	2,255	5,742
Reclassifications	-	10,038	-	-	-	(10,038)	-
Retirements***	-	(278)	(46)	-	(3,230)	-	(3,554)
Balance as at 31 December 2012	2,300	22,551	2,996	418	8,050	2,417	38,732
Accumulated depreciation							
Balance as at 1 January 2012	-	6,359	1,866	365	4,204	-	12,794
Charge for the year	-	2,824	416	49	1,947	-	5,236
Reclassifications	-	-	-	-	-	-	-
Retirements***	-	(277)	(36)	-	(3,108)	-	(3,421)
Balance as at 31 December 2012	-	8,906	2,246	414	3,043	-	14,609
Net carrying amount as at 31 December 2012	2,300	13,645	750	4	5,007	2,417	24,123

* Assets under construction amounting to RM2,417,288 (2011: RM10,201,828) consist of enhancements to Risk Assessment System of RM198,623, the Enhanced Financial Management System of RM1,448,454, the Human Resource Information System of RM634,497, the IT infrastructure upgrades of RM113,077 and the development of Disaster Recovery Centre of RM22,637.

** Relate to partial payment for the purchase of land for the Disaster Recovery Centre (DRC) amounting to RM2,286,900 as well as professional and consultancy costs for the development of the DRC amounting to RM12,745. The purchase price of the land is RM4,573,800. The remaining balance of the payment for the land, which is currently recognised as part of the capital commitment (land and building) in Note 18, is payable upon the transfer of the land title to PIDM.

*** Relate to retirement of assets at the previous corporate office at 1 Sentral Office, Kuala Lumpur Sentral. The net retirement expenses of RM131,615 are included within miscellaneous expenses in Note 15.

8. PROPERTY AND EQUIPMENT (continued)

	2011						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
Cost							
Balance as at 1 January 2011	-	9,096	3,034	412	9,728	9,424	31,694
Additions	-	327	-	6	319	4,228	4,880
Reclassifications	-	3,146	-	-	276	(3,452)	(30)
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	12,569	3,034	418	10,323	10,200	36,544
Accumulated depreciation							
Balance as at 1 January 2011	-	3,730	1,346	305	2,254	-	7,635
Charge for the year	-	2,599	520	60	1,950	-	5,129
Reclassifications	-	30	-	-	-	-	30
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	6,359	1,866	365	4,204	-	12,794
Net carrying amount as at 31 December 2011	-	6,210	1,168	53	6,119	10,200	23,750

* Assets under construction amounting to RM10,201,828 (2010: RM9,424,553) consist of the Payout System of RM8,475,028, hardware and software upgrades of RM178,070, the Corporate Performance Management System of RM529,455 and the Product Registry System of RM1,019,275.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

	2012						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost							
Balance as at 1 January 2012	-	12,438	3,034	416	10,084	9,916	35,888
Additions	1,376	133	5	-	572	1,353	3,439
Reclassifications	-	9,826	-	-	-	(9,826)	-
Retirements	-	(278)	(46)	-	(3,230)	-	(3,554)
Balance as at 31 December 2012	1,376	22,119	2,993	416	7,426	1,443	35,773
Accumulated depreciation							
Balance as at 1 January 2012	-	6,359	1,866	365	4,202	-	12,792
Charge for the year	-	2,765	416	49	1,859	-	5,089
Reclassifications	-	-	-	-	-	-	-
Retirements	-	(277)	(36)	-	(3,108)	-	(3,421)
Balance as at 31 December 2012	-	8,847	2,246	414	2,953	-	14,460
Net carrying amount as at 31 December 2012	1,376	13,272	747	2	4,473	1,443	21,313

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds (continued)

	2011						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost							
Balance as at 1 January 2011	-	9,096	3,034	412	9,728	9,424	31,694
Additions	-	196	-	4	191	3,833	4,224
Reclassifications	-	3,146	-	-	165	(3,341)	(30)
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	12,438	3,034	416	10,084	9,916	35,888
Accumulated depreciation							
Balance as at 1 January 2011	-	3,730	1,346	305	2,254	-	7,635
Charge for the year	-	2,599	520	60	1,948	-	5,127
Reclassifications	-	30	-	-	-	-	30
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	6,359	1,866	365	4,202	-	12,792
Net carrying amount as at 31 December 2011	-	6,079	1,168	51	5,882	9,916	23,096

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds

	2012						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost							
Balance as at 1 January 2012	-	131	-	2	239	284	656
Additions	924	89	3	-	385	902	2,303
Reclassifications	-	212	-	-	-	(212)	-
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2012	924	432	3	2	624	974	2,959
Accumulated depreciation							
Balance as at 1 January 2012	-	-	-	-	2	-	2
Charge for the year	-	59	-	-	88	-	147
Reclassifications	-	-	-	-	-	-	-
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2012	-	59	-	-	90	-	149
Net carrying amount as at 31 December 2012	924	373	3	2	534	974	2,810

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

	2011						
	Land and building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost							
Balance as at 1 January 2011	-	-	-	-	-	-	-
Additions	-	131	-	2	128	395	656
Reclassifications	-	-	-	-	111	(111)	-
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	131	-	2	239	284	656
Accumulated depreciation							
Balance as at 1 January 2011	-	-	-	-	-	-	-
Charge for the year	-	-	-	-	2	-	2
Reclassifications	-	-	-	-	-	-	-
Retirements	-	-	-	-	-	-	-
Balance as at 31 December 2011	-	-	-	-	2	-	2
Net carrying amount as at 31 December 2011	-	131	-	2	237	284	654

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

9. PAYABLES

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Amount due to Bank Negara Malaysia	**153**	**-**	**153**
Other payables	**7,781**	**4,922**	**2,859**
Sundry creditors	**40**	**25**	**15**
Provision for unutilised leave	**1,014**	**628**	**386**
Total payables	**8,988**	**5,575**	**3,413**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Amount due to Bank Negara Malaysia	192	-	192
Other payables	7,477	5,121	2,356
Sundry creditors	36	23	13
Provision for unutilised leave	731	452	279
Total payables	8,436	5,596	2,840

10. FUNDS AND RESERVES

a. Deposit Insurance Funds:

Accumulated surpluses

	2012		
	Total RM'000	**Conventional Deposit Insurance RM'000**	**Islamic Deposit Insurance RM'000**
Balance as at 1 January	**518,507**	**450,003**	**68,504**
Net surplus	**98,570**	**83,819**	**14,751**
Balance as at 31 December	**617,077**	**533,822**	**83,255**

	2011		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	430,733	374,645	56,088
Net surplus	87,774	75,358	12,416
Balance as at 31 December	518,507	450,003	68,504

The DIFs are the accumulated reserves (ex-ante funds) to cover the net insurance losses arising from providing deposit insurance protection to depositors. In accordance with the MDIC Act 2011, PIDM maintains separate DIFs for both conventional and Islamic DIS. DIFs are accumulated from annual net surpluses, which are the premium revenue and investment income net of operating expenses for a particular year.

In 2011, PIDM had established a framework to determine the levels of DIFs that PIDM aims to build as reserves over the long-run to meet its objectives and fulfil its mandate. This level (known as the Target Fund) represents the level of funds that would be sufficient to cover the net insurance losses from IFR activities. The Target Fund is usually described as a percentage of Total Insured Deposits (TID), and for PIDM, is specified as a range of target levels (lower and upper ranges).

The Target Fund range is between 0.6% and 0.9% of TID for both the conventional and Islamic DIFs. Based on the level of TID as at 31 December 2011, the range in RM absolute terms is between RM2.1 billion and RM3.2 billion for the conventional DIF and between RM301 million and RM452 million for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

The current levels of DIFs compared to the Target Fund range are described in the following table:

			TARGET FUND	
DEPOSIT INSURANCE FUNDS	**2012 ACTUAL RM MILLION / %**	**2011 ACTUAL RM MILLION / %**	**LOWER RANGE RM MILLION / %**	**UPPER RANGE RM MILLION / %**
Conventional Deposit Insurance Fund				
Balance	533.8	450.0	2,115	3,172
Percentage of Total Insured Deposits	**0.15%**	**0.14%**	**0.6%**	**0.9%**
Islamic Deposit Insurance Fund				
Balance	83.3	68.5	301	452
Percentage of Total Insured Deposits	**0.17%**	**0.17%**	**0.6%**	**0.9%**

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

10. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds: (continued)

Accumulated surpluses (continued)

In order to achieve the Target Fund levels within a reasonable timeframe, the premium rates to be assessed on member banks have been revised. Details of the premium rates revision are described in Note 11 (a).

Based on the revised premium rates, the lower range of the Target Fund is expected to be achieved within 10 to 12 years.

b. Takaful and Insurance Benefits Protection Funds:

i. Accumulated surpluses

	2012				
	Total RM'000	**General Insurance RM'000**	**Life Insurance RM'000**	**General Takaful RM'000**	**Family Solidarity Takaful RM'000**
Balance as at 1 January	**991,779**	**948,607**	**36,670**	**2,091**	**4,411**
Net surplus	**89,121**	**45,560**	**37,548**	**2,000**	**4,013**
Balance as at 31 December	**1,080,900**	**994,167**	**74,218**	**4,091**	**8,424**

With the coming into force of the MDIC Act 2011 effective 31 December 2010, four Funds were established for the administration of TIPS, namely the General Insurance Protection Fund, the Life Insurance Protection Fund, the General Takaful Protection Fund and the Family Solidarity Takaful Protection Fund (cumulatively known as the Takaful and Insurance Benefits Protection Funds – TIPFs). TIPFs began to accumulate with the insurer members paying premiums beginning assessment year 2011. TIPFs are accumulated from annual net surpluses, which is the premium revenue and investment income net of operating expenses for a particular year. Similar to DIFs, PIDM maintains separate Funds for TIPFs.

Balances of TIPFs as at 31 December 2011 are as follows:

	2011				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Balance as at 1 January	-	-	-	-	-
Net surplus	991,779	948,607	36,670	2,091	4,411
Balance as at 31 December	991,779	948,607	36,670	2,091	4,411

PIDM will be developing a Target Fund framework for TIPS, similar to that of DIFs, over the next few years.

10. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds: (continued)

ii. Other reserves

	2012				
	Total RM'000	**General Insurance RM'000**	**Life Insurance RM'000**	**General Takaful RM'000**	**Family Solidarity Takaful RM'000**
Balance as at 1 January	**(573)**	**(573)**	**-**	**-**	**-**
Net unrealised gains on available-for-sale investments arising during the year	**354**	**354**	**-**	**-**	**-**
Net realised losses on available-for-sale financial investments reclassified to Statement of Comprehensive Income	**37**	**37**	**-**	**-**	**-**
Balance as at 31 December	**(182)**	**(182)**	**-**	**-**	**-**

The composition of net unrealised gains/(losses) on available-for-sale investments is described in Note 13 (b).

	2011				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Balance as at 1 January	-	-	-	-	-
Net unrealised gains on available-for-sale investments arising during the year	3,142	3,142	-	-	-
Net realised gains on available-for-sale financial investments reclassified to Statement of Comprehensive Income	(3,715)	(3,715)	-	-	-
Balance as at 31 December	(573)	(573)	-	-	-

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

11. PREMIUM REVENUES

a. Premium revenues from member banks

	2012		
	Total RM'000	**Conventional Deposit Insurance RM'000**	**Islamic Deposit Insurance RM'000**
First premiums	**500**	**500**	**-**
Annual premiums	**125,945**	**106,894**	**19,051**
Total premium revenues from member banks	**126,445**	**107,394**	**19,051**

	2011		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
First premiums	750	750	-
Annual premiums	119,759	102,256	17,503
Total premium revenues from member banks	120,509	103,006	17,503

For 2012 financial year, premiums were levied in accordance with the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) Order 2011 (Premium Order 2011), which took effect from the assessment year of 2011.

i. Rate for annual premium under the Differential Premium Systems

Where the premium category in which a member bank is classified for an assessment year is as specified in column (1), the rate for the annual premium payable by such member bank will be the corresponding premium rate specified in column (2) as follows:

PREMIUM CATEGORY [COLUMN (1)]	PREMIUM RATE [COLUMN (2)]
1	0.03%
2	0.06%
3	0.12%
4	0.24%

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

11. PREMIUM REVENUES (continued)

a. Premium revenues from member banks (continued)

i. Rate for annual premium under the Differential Premium Systems (continued)

The annual premiums payable by a member bank are subject to minimum premiums based on their DPS premium category as follows:

PREMIUM CATEGORY	MINIMUM PREMIUM AMOUNT (RM)
1	100,000
2	200,000
3	400,000
4	800,000

ii. Rates for first premium

In respect of a new member bank [as defined in Regulation 2 of the Malaysia Deposit Insurance Corporation (in respect of Deposit-Taking Members) Regulations 2011] holding Islamic insured deposits or conventional insured deposits, the rate for the first premium for such new member bank will be the same as the premium rate for premium category 1.

For the 2011 financial year, premiums were levied in accordance with the Premium Order 2011.

iii. Revised rates for annual premium

With the establishment of the Target Fund and pursuant to the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2012, the premium rate for member banks will be revised beginning assessment year 2013 as follows:

PREMIUM CATEGORY	2012 PREMIUM RATES	2013 PREMIUM RATES (REVISED)	2014 PREMIUM RATES (REVISED)	2015 (ONWARDS) PREMIUM RATES (REVISED)
1	0.03%	0.04%	0.05%	0.06%
2	0.06%	0.08%	0.10%	0.12%
3	0.12%	0.16%	0.20%	0.24%
4	0.24%	0.32%	0.40%	0.48%

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

11. PREMIUM REVENUES (continued)

b. Premium revenues from insurer members

	2012				
	Total RM'000	**General Insurance RM'000**	**Life Insurance RM'000**	**General Takaful RM'000**	**Family Solidarity Takaful RM'000**
First premiums	**250**	**-**	**-**	**-**	**250**
Annual premiums	**87,567**	**23,978**	**54,654**	**3,025**	**5,910**
Total premium revenues from insurer members	**87,817**	**23,978**	**54,654**	**3,025**	**6,160**

	2011				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
First premiums	80,730	21,973	49,656	2,930	6,171
Annual premiums	-	-	-	-	-
Total premium revenues from insurer members	80,730	21,973	49,656	2,930	6,171

For the 2012 financial year, premiums on insurer members were levied in accordance with the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in Respect of Insurer Members) Order 2011. The insurer members were assessed based on a flat rate applied on the relevant protected benefits during the preceding year, as follows:

BUSINESS SEGMENT	PREMIUM RATE
General Insurance / General Takaful	0.25% of the total net premiums received
Life Insurance / Family Solidarity Takaful	0.06% of actuarial valuation of life insurance liabilities/family solidarity takaful liabilities

Premiums payable by each insurer member was subject to a minimum of RM250,000 for first premiums and RM150,000 for annual premiums.

11. PREMIUM REVENUES (continued)

b. Premium revenues from insurer members (continued)

i. Premium rates under a Differential Levy System for general and life insurer members effective from the assessment year 2013

Pursuant to Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) Regulations 2012, the annual premium rates for general and life insurer members will be applied based on a differential levy rates system effective from the assessment year 2013. The premium rates applicable to an insurer member will be determined based on the premium category for which that insurer member is classified. Subject to the transitional provision as specified in the Regulations, the rates to be assessed on the general and life insurer members will be as follows:

PREMIUM CATEGORY	GENERAL INSURANCE	LIFE INSURANCE
1	0.05%	0.025%
2	0.1%	0.05%
3	0.2%	0.1%
4	0.4%	0.2%

The above new annual premiums payable will be subject to minimum premiums based on their premium category as follows:

PREMIUM CATEGORY	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
1	75,000
2	150,000
3	300,000
4	600,000

In respect of a new insurer member [as defined in Regulation 3 of the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) Regulations 2012], the rate for the first premium for such new insurer member will be the same as the premium rate for premium category 1.

ii. Premium rates for general takaful and family solidarity takaful members for the assessment year 2013

For the assessment year 2013, the rates for the annual premium in respect of insurer members for the general takaful and family solidarity takaful businesses will remain the same as applied in the assessment year 2012.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

12. INVESTMENT INCOME

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Malaysian Government Securities and Investments Issues	**28,697**	**7,631**	**21,066**
Bank Negara Malaysia Bills and Negotiable Notes	**16,627**	**8,694**	**7,933**
Private Debt Securities	**3,096**	**-**	**3,096**
Placements in Money Market and Repurchase Agreements	**362**	**209**	**153**
Total investment income	**48,782**	**16,534**	**32,248**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investments Issues	10,564	6,167	4,397
Bank Negara Malaysia Bills and Negotiable Notes	7,777	6,617	1,160
Private Debt Securities	3,311	-	3,311
Placements in Money Market and Repurchase Agreements	169	134	35
Total investment income	21,821	12,918	8,903

12. INVESTMENT INCOME (continued)

The Weighted Average Yield Rates (WAYR) for investment securities that were effective during the financial year are as follows:

YEAR	TYPE OF PORTFOLIO	DIS		TIPS			
		CONVENTIONAL	ISLAMIC	GENERAL INSURANCE	LIFE INSURANCE	GENERAL TAKAFUL	FAMILY SOLIDARITY TAKAFUL
2012	**Other cash equivalents and investments**	**2.96%**	**2.97%**	**3.21%**	**3.00%**	**2.99%**	**2.99%**
	Placements in money market and Repurchase Agreements	**2.14%**	**1.97%**	**2.34%**	**2.22%**	**1.95%**	**1.93%**
	Overall	**2.80%**		**3.10%**			
2011	Other cash equivalents and investments	2.81%	2.81%	3.36%	2.87%	2.88%	2.89%
	Placements in money market and Repurchase Agreements	1.99%	1.85%	2.01%	2.07%	1.80%	1.84%
	Overall	2.63%		3.25%			

13. GAINS OR (LOSSES) RELATING TO AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

a. Realised gains or (losses)

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Gains / (losses) from sales of available-for-sale investments	**(37)**	**-**	**(37)**
Net gains / (losses) from sales of available-for-sale investments	**(37)**	**-**	**(37)**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Gains / (losses) from sales of available-for-sale investments	3,715	-	3,715
Net gains / (losses) from sales of available-for-sale investments	3,715	-	3,715

Included in the 'gains / (losses) from sales of available-for-sale investments' are losses of RM36,632 (2011: gains of RM3,715,079), transferred from Other Reserves to the profit or loss in the Statements of Comprehensive Income arising from the sale of available-for-sale investments.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

13. GAINS OR (LOSSES) RELATING TO AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS (continued)

b. Unrealised gains or (losses) recognised in Other Reserves

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Unrealised gains / (losses) recognised in Other Reserves as at the end of the year comprised:			
Unrealised gains on available-for-sale investments	**391**	**-**	**391**
Unrealised losses on available-for-sale investments	**-**	**-**	**-**
Net unrealised gains / (losses) on available-for-sale investments	**391**	**-**	**391**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Unrealised gains / (losses) recognised in Other Reserves as at the end of the year comprised:			
Unrealised gains on available-for-sale investments	48	-	48
Unrealised losses on available-for-sale investments	(621)	-	(621)
Net unrealised gains / (losses) on available-for-sale investments	(573)	-	(573)

14. EMPLOYEE BENEFIT EXPENSES

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Wages and salaries	**32,460**	**18,524**	**13,936**
Contributions to defined contribution plan	**4,258**	**2,401**	**1,857**
Provision for unutilised leave	**296**	**180**	**116**
Other benefits	**2,376**	**1,393**	**983**
Total employee benefit expenses	**39,390**	**22,498**	**16,892**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Wages and salaries	25,755	14,816	10,939
Contributions to defined contribution plan	3,169	1,843	1,326
Provision for unutilised leave	75	(204)	279
Other benefits	2,038	1,334	704
Total employee benefit expenses	31,037	17,789	13,248

The number of employees at the end of the financial year was 136 (2011: 118).

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

15. OTHER EXPENSES

	2012		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Audit fees	**40**	**24**	**16**
Directors' fees and remuneration*	**665**	**398**	**267**
Hosting international event	**513**	**305**	**208**
Incorporation expenses of subsidiaries	**77**	**40**	**37**
Parking space rental	**453**	**271**	**182**
Printing and stationery	**1,401**	**838**	**563**
Professional and consultancy fees	**5,872**	**2,020**	**3,852**
Scholarship programme	**443**	**265**	**178**
Subscriptions and memberships	**429**	**256**	**173**
Telecommunication and computer systems	**1,655**	**990**	**665**
Training and development	**1,728**	**1,003**	**725**
Travelling	**879**	**530**	**349**
Utilities, office maintenance and general insurance	**706**	**422**	**284**
Miscellaneous	**778**	**522**	**256**
Total other expenses	**15,639**	**7,884**	**7,755**

	2011		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	36	22	14
Directors' fees and remuneration*	462	273	189
Hosting international event	207	127	80
Incorporation expenses of subsidiaries	-	-	-
Parking space rental	431	270	161
Printing and stationery	1,407	863	544
Professional and consultancy fees	8,392	6,999	1,393
Scholarship programme	368	224	144
Subscriptions and memberships	447	346	101
Telecommunication and computer systems	2,158	1,444	714
Training and development	1,704	1,048	656
Travelling	1,202	723	479
Utilities, office maintenance and general insurance	834	532	302
Miscellaneous	370	223	147
Total other expenses	18,018	13,094	4,924

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

16. TAXATION

PIDM is exempted from income tax at the statutory level.

17. OPERATING LEASES

PIDM has entered into a non-cancellable tenancy contract for the use of office space at Levels 12, 13, 15 and 16, Quill 7, Kuala Lumpur Sentral. The tenancy is for three years (First Term) beginning 1 September 2010 at a fixed rental rate with the option to renew for another two years (Second Term) at the same fixed rental rate. Thereafter, PIDM has the option to renew for another three years (Third Term) plus a further two years (Fourth Term), both at a prevailing market rental rate subject to a minimum adjustment of 10% and a maximum of 20% over the monthly rental of the Second Term. There is no purchase option clause included in the contract. There are also no restrictions placed upon PIDM by entering into this tenancy contract.

PIDM had sub-leased its office space at Level 19, 1 Sentral, Kuala Lumpur Sentral to a third party at a comparable market rate. The contract entered for the sub-lease arrangement is non-cancellable and is for the remaining period which coincides with the lease contract entered by PIDM with the landlord for five years beginning 18 April 2007. The rental income collected from the sub-lease arrangement fully sets off PIDM's obligations under the lease until its expiry. Both the lease as well as the sub-lease contracts have expired during the year. No future claims or obligations on the contracts are expected to be incurred.

PIDM has entered into a non-cancellable tenancy contract for the use of space for PIDM's interim Disaster Recovery Site. The tenancy is for two years (First Term) beginning 1 April 2011 at a fixed rental rate. Thereafter, PIDM has the option to renew for another two years (Second Term) plus a further two years (Third Term), both at a rate to be agreed upon between PIDM and the landlord. There is no purchase option clause included in the contract.

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

Future aggregate minimum lease payments under the non-cancellable operating leases contracted as at the Statement of Financial Position date but not recognised as liabilities are as follows:

	2012 RM'000	2011 RM'000
Future minimum lease payments:		
Not later than 1 year	**5,337**	5,602
Later than 1 year and not later than 5 years	**8,945**	13,290
Total operating lease commitments	**14,282**	18,892

18. CAPITAL COMMITMENTS

	2012 RM'000	2011 RM'000
Approved and contracted for:		
Land and building	**3,383**	-
Office equipment and computer systems	**1,402**	313
Total capital commitments	**4,785**	313

The capital commitment for land and building includes the remaining balance of the payment for the purchase of land as well as professional and consultancy expenses for the development of PIDM's Disaster Recovery Centre.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

19. RELATED PARTY DISCLOSURES

a. Transactions with related parties

During the financial year, there were no transactions with any party related to any Directors or officers of PIDM.

b. Remuneration of key management personnel

	2012 RM'000	2011 RM'000
Short-term benefits	**10,417**	9,587
Post employment benefits:		
Contributions to defined contribution plan	**855**	764
Total remuneration of key management personnel	**11,272**	10,351

The remuneration of key management personnel includes the remuneration of the Chief Executive Officer and all members of the Executive Management Committee, being those persons having the authority and responsibility for planning, directing and controlling the activities of PIDM.

The amount above does not include Directors whose remuneration is disclosed separately in Note 15. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 14.

20. SEGMENT INFORMATION

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
ASSETS								
Cash and cash equivalents	4	745,211	289,930	49,975	377,123	24,315	1,107	2,761
Investments								
Available-for-sale investments	5a	4,859	-	-	4,859	-	-	-
Held-to-maturity investments	5b	923,396	228,091	30,068	606,736	49,868	2,977	5,656
Other assets	6	9,194	2,569	706	5,431	408	26	54
Investments in subsidiaries	7	-	-	-	-	-	-	-
Property and equipment	8	24,123	18,026	3,287	765	1,728	102	215
Total Assets		1,706,783	538,616	84,036	994,914	76,319	4,212	8,686
LIABILITIES								
Payables	9	8,988	4,794	781	929	2,101	121	262
Total Liabilities		8,988	4,794	781	929	2,101	121	262
FUNDS AND RESERVES								
Accumulated surpluses	10	1,697,977	533,822	83,255	994,167	74,218	4,091	8,424
Other reserves	10	(182)	-	-	(182)	-	-	-
Total Funds and Reserves		1,697,795	533,822	83,255	993,985	74,218	4,091	8,424
Total Liabilities, Funds and Reserves		1,706,783	538,616	84,036	994,914	76,319	4,212	8,686

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
ASSETS								
Cash and cash equivalents	4	339,363	231,145	34,388	58,671	8,466	2,150	4,543
Investments								
Available-for-sale investments	5a	98,037	-	-	98,037	-	-	-
Held-to-maturity investments	5b	1,045,023	201,352	30,633	783,760	29,278	-	-
Other assets	6	11,976	2,814	675	8,164	272	17	34
Investments in subsidiaries	7	-	-	-	-	-	-	-
Property and equipment	8	23,750	19,501	3,595	178	402	24	50
Total Assets		1,518,149	454,812	69,291	948,810	38,418	2,191	4,627
LIABILITIES								
Payables	9	8,436	4,809	787	776	1,748	100	216
Total Liabilities		8,436	4,809	787	776	1,748	100	216
FUNDS AND RESERVES								
Accumulated surpluses	10	1,510,286	450,003	68,504	948,607	36,670	2,091	4,411
Other reserves	10	(573)	-	-	(573)	-	-	-
Total Funds and Reserves		1,509,713	450,003	68,504	948,034	36,670	2,091	4,411
Total Liabilities, Funds and Reserves		1,518,149	454,812	69,291	948,810	38,418	2,191	4,627

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Premium revenues	11	214,262	107,394	19,051	23,978	54,654	3,025	6,160
Investment income from cash and investment securities	12	48,782	14,316	2,218	30,029	1,910	96	213
Gains / (losses) from sales of available-for-sale investments	13a	(37)	-	-	(37)	-	-	-
Total revenues		263,007	121,710	21,269	53,970	56,564	3,121	6,373
Employee benefits	14	39,390	19,219	3,279	4,598	10,391	612	1,291
Public relations and advertising		9,937	5,054	862	1,094	2,474	146	307
Depreciation	8	5,236	4,299	790	40	90	6	11
Operating leases		5,114	2,579	443	567	1,289	76	160
Other expenses	15	15,639	6,740	1,144	2,111	4,772	281	591
Total expenses		75,316	37,891	6,518	8,410	19,016	1,121	2,360
Operational net surplus		187,691	83,819	14,751	45,560	37,548	2,000	4,013
Moneys and investments received from Insurance Guarantee Scheme Funds		-	-	-	-	-	-	-
Net surplus for the year		187,691	83,819	14,751	45,560	37,548	2,000	4,013
Other comprehensive income Items that can be reclassified subsequently to profit or loss:								
Net unrealised gains / (losses) on available-for-sale investments	13b	391	-	-	391	-	-	-
Total comprehensive income for the year		188,082	83,819	14,751	45,951	37,548	2,000	4,013

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Premium revenues	11	201,239	103,006	17,503	21,973	49,656	2,930	6,171
Investment income from cash and investment securities	12	21,821	11,195	1,723	8,052	719	42	90
Gains / (losses) from sales of available-for-sale investments	13a	3,715	-	-	3,715	-	-	-
Total revenues		226,775	114,201	19,226	33,740	50,375	2,972	6,261
Employee benefits	14	31,037	15,094	2,695	3,518	8,209	492	1,029
Public relations and advertising		9,882	5,058	850	1,082	2,444	144	304
Depreciation	8	5,159	4,377	780	-	2	-	-
Operating leases		5,563	3,203	502	509	1,141	67	141
Other expenses	15	18,018	11,111	1,983	1,345	3,025	178	376
Total expenses		69,659	38,843	6,810	6,454	14,821	881	1,850
Operational net surplus		157,116	75,358	12,416	27,286	35,554	2,091	4,411
Moneys and investments received from Insurance Guarantee Scheme Funds		922,437	-	-	921,321	1,116	-	-
Net surplus for the year		1,079,553	75,358	12,416	948,607	36,670	2,091	4,411
Other comprehensive income Items that can be reclassified subsequently to profit or loss:								
Net unrealised gains / (losses) on available-for-sale investments	13b	(573)	-	-	(573)	-	-	-
Total comprehensive income for the year		1,078,980	75,358	12,416	948,034	36,670	2,091	4,411

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums received from member institutions		214,262	107,394	19,051	23,978	54,654	3,025	6,160
Payments in the course of operations to suppliers and employees		(74,083)	(35,609)	(6,146)	(8,854)	(19,839)	(1,171)	(2,464)
Receipts of investment income		49,359	14,336	2,281	30,894	1,688	45	115
Net cash flows from operating activities		189,538	86,121	15,186	46,018	36,503	1,899	3,811
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from sale of investment securities		1,779,133	795,277	124,961	715,443	127,566	2,975	12,911
Purchase of investment securities		(1,561,669)	(822,024)	(124,459)	(442,883)	(147,935)	(5,900)	(18,468)
Receipts from Insurance Guarantee Scheme Funds		-	-	-	-	-	-	-
Purchase of property and equipment		(1,154)	(589)	(101)	(126)	(285)	(17)	(36)
Net cash flows generated from / (used in) investing activities		216,310	(27,336)	401	272,434	(20,654)	(2,942)	(5,593)
Net increase / (decrease) in cash and cash equivalents		405,848	58,785	15,587	318,452	15,849	(1,043)	(1,782)
Cash and cash equivalents at beginning of year		339,363	231,145	34,388	58,671	8,466	2,150	4,543
Cash and cash equivalents at end of year	4	745,211	289,930	49,975	377,123	24,315	1,107	2,761

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums received from member institutions		201,239	103,006	17,503	21,973	49,656	2,930	6,171
Payments in the course of operations to suppliers and employees		(61,167)	(35,567)	(5,480)	(5,080)	(12,816)	(784)	(1,440)
Receipts of investment income		19,532	9,985	1,536	7,534	354	40	83
Net cash flows from operating activities		159,604	77,424	13,559	24,427	37,194	2,186	4,814
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from sale of investment securities		905,486	530,214	88,500	207,716	55,576	7,561	15,919
Purchase of investment securities		(940,597)	(525,787)	(97,750)	(209,603)	(83,985)	(7,560)	(15,912)
Receipts from Insurance Guarantee Scheme Funds		37,153	-	-	36,541	612	-	-
Purchase of property and equipment		(6,298)	(3,906)	(736)	(410)	(931)	(37)	(278)
Net cash flows (used in) / generated from investing activities		(4,256)	521	(9,986)	34,244	(28,728)	(36)	(271)
Net increase in cash and cash equivalents		155,348	77,945	3,573	58,671	8,466	2,150	4,543
Cash and cash equivalents at beginning of year		184,015	153,200	30,815	-	-	-	-
Cash and cash equivalents at end of year	4	339,363	231,145	34,388	58,671	8,466	2,150	4,543

21. FINANCIAL INSTRUMENTS

PIDM's financial risk management policy seeks to ensure that adequate financial resources are available for PIDM's activities whilst managing PIDM's currency, interest rate and rate of return, liquidity, market and credit risks. PIDM operates within guidelines that are approved by the Board of Directors and PIDM's Investment Policy is to only invest in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia securities of varying maturities. In relation to the day to day operational cash management, PIDM may place excess funds in money market or overnight placements with its banker(s). No investments are made with member banks since PIDM is the insurer of deposits.

Part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia, that was transferred to PIDM in 2011 comprises investment securities that are not in line with PIDM's approved Investment Policy. In 2011, a specific approval from the Board of Directors has been obtained in order to exempt these investment securities from complying with the Investment Policy. The investment securities that are not in compliance with the Investment Policy consist of Government securities with long-term tenures and PDS.

a. Foreign currency risk

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

b. Interest rate risk and rate of return risk

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

21. FINANCIAL INSTRUMENTS (continued)

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

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

Conventional Deposit Insurance Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2012								
Fixed rate								
Cash and cash equivalent	4	**2.96**	**289,930**	**-**	**-**	**-**	**-**	**289,930**
Investments	5	**2.99**	**-**	**228,091**	**-**	**-**	**-**	**228,091**
31 December 2011								
Fixed rate								
Cash and cash equivalent	4	2.95	231,145	-	-	-	-	231,145
Investments	5	2.90	-	201,352	-	-	-	201,352

Islamic Deposit Insurance Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2012								
Fixed rate								
Cash and cash equivalent	4	**3.00**	**49,975**	**-**	**-**	**-**	**-**	**49,975**
Investments	5	**2.99**	**-**	**30,068**	**-**	**-**	**-**	**30,068**
31 December 2011								
Fixed rate								
Cash and cash equivalent	4	2.81	34,388	-	-	-	-	34,388
Investments	5	2.91	-	30,633	-	-	-	30,633

21. FINANCIAL INSTRUMENTS (continued)

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

General Insurance Protection Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2012								
Fixed rate								
Cash and cash equivalent	4	**2.99**	**377,123**	**-**	**-**	**-**	**-**	**377,123**
Investments	5	**3.34**	**-**	**206,738**	**267,737**	**60,837**	**76,283**	**611,595**
31 December 2011								
Fixed rate								
Cash and cash equivalent	4	2.94	58,671	-	-	-	-	58,671
Investments	5	6.33	-	309,123	177,926	247,479	147,269	881,797

Life Insurance Protection Fund

	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2012								
Fixed rate								
Cash and cash equivalent	4	**2.97**	**24,315**	**-**	**-**	**-**	**-**	**24,315**
Investments	5	**3.00**	**-**	**49,868**	**-**	**-**	**-**	**49,868**
31 December 2011								
Fixed rate								
Cash and cash equivalent	4	2.64	8,466	-	-	-	-	8,466
Investments	5	2.92	-	29,278	-	-	-	29,278

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

21. FINANCIAL INSTRUMENTS (continued)

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

General Takaful Protection Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2012								
Fixed rate								
Cash and cash equivalent	4	**1.95**	**1,107**	**-**	**-**	**-**	**-**	**1,107**
Investments	5	**3.00**	**-**	**2,977**	**-**	**-**	**-**	**2,977**
31 December 2011								
Fixed rate								
Cash and cash equivalent	4	2.41	2,150	-	-	-	-	2,150
Investments	5	-	-	-	-	-	-	-

Family Solidarity Takaful Protection Fund	Note	WAYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2012								
Fixed rate								
Cash and cash equivalent	4	**2.74**	**2,761**	**-**	**-**	**-**	**-**	**2,761**
Investments	5	**3.00**	**-**	**5,656**	**-**	**-**	**-**	**5,656**
31 December 2011								
Fixed rate								
Cash and cash equivalent	4	2.83	4,543	-	-	-	-	4,543
Investments	5	-	-	-	-	-	-	-

21. FINANCIAL INSTRUMENTS (continued)

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

Based on PIDM's investment portfolio as at 31 December 2012, the following table shows how net surplus would have been affected by a 50 basis points increase or decrease in WAYR.

	NET SURPLUS						
	TOTAL RM'000	CONVENTIONAL DIS RM'000	ISLAMIC DIS RM'000	GENERAL INSURANCE RM'000	LIFE INSURANCE RM'000	GENERAL TAKAFUL RM'000	FAMILY SOLIDARITY TAKAFUL RM'000
50 basis points increase							
31 December 2012	**7,864**	**2,429**	**377**	**4,681**	**322**	**18**	**37**
31 December 2011	3,976	2,040	314	1,467	131	8	16
50 basis points decrease							
31 December 2012	**(7,864)**	**(2,429)**	**(377)**	**(4,681)**	**(322)**	**(18)**	**(37)**
31 December 2011	(3,976)	(2,040)	(314)	(1,467)	(131)	(8)	(16)

c. Liquidity risk

PIDM's liquidity risk relates to the capability of PIDM to meet its obligations as they come due, without incurring unacceptable losses. This may be caused by the inability to liquidate assets as they come due or to obtain funding to meet its liquidity needs. A significant amount of funds available for investment were invested in short-term securities. PIDM continuously endeavours to manage the maturity profiles of these securities in order to ensure that sufficient funds are available at all times to meet the day to day working capital requirements or to bring any financial risk exposures within the approved exposure limits. The values of these investments by the maturity profiles is represented in Note 21 (b).

PIDM also has a funding framework to deal with funding requirements relating to IFR activities. The main objective of the framework is to ensure that PIDM has adequate financial resources required for the proper operations of a robust and sound DIS as well as TIPS. The funding framework takes into consideration PIDM's role in the financial safety net and its legislative powers relating to sources of funding as well as clear objectives for its internal and external sources of funding.

i. **Internal funding** is developed through the accumulation of net surpluses after operating expenses. The annual net surplus is credited into the respective Protection Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.

ii. **External funding** may be raised through either borrowings from the Government, from capital markets or other sources as deemed necessary and appropriate. External funding sources will be used to meet any additional liquidity requirements that may arise. The MDIC Act empowers PIDM to borrow or raise funds to meet its obligations. PIDM may borrow from the Government with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

21. FINANCIAL INSTRUMENTS (continued)

d. Market risk

PIDM's market risk relates to the risk of loss resulting from adverse changes in the value of its asset holdings arising from movements in market rates or prices. Market risk in PIDM includes investment-related risks. The market risk exposure of PIDM may vary during normal operations or as a result of IFR activities. Under normal operations, PIDM invests in short-term and medium-term securities which are intended to be held-to-maturity. As such, PIDM's current exposure to market risk in the context of these investments is minimal.

e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investment Issues, Bank Negara Malaysia Bills and Negotiable Notes, which are generally considered as low risk assets. PIDM does not expect the counterparties to default and as such, considers the credit risk on these investment assets to be minimal.

Besides the Government investment securities and Bank Negara Malaysia notes, PIDM also has investments in PDS, which were part of the investment assets transferred from the former IGSF in 2011. Of these securities, PIDM only maintains PDS that are issued by the Government-Linked Companies (GLCs) with a minimum rating of AA+. As these PDS potentially exposes PIDM to credit risk of default, PIDM continuously monitors the credit standing of the issuers of the PDS for any potential downgrade in the credit ratings. This credit risk is only applicable to the PDS transferred from the former IGSF.

f. Fair values

Generally, the carrying values of financial assets and liabilities of DIFs and TIPFs approximate their fair values, except for the investments in PDS whereby the fair value may be represented by the market values of these securities noted in Note 5.

PIDM has an appropriate framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

The fair value of a financial instrument is the amount at which the instrument can be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The valuations of financial instruments are determined by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management's judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value.

In addition, PIDM continuously enhances its design and validation methodologies and processes used to produce valuations. The valuation models are validated both internally and externally, with periodic reviews to ensure that the model remains suitable for its intended use.

Determination of fair value

i. Level 1: Quoted prices

This refers to financial instruments that are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices that represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include actively traded government securities.

ii. Level 2: Valuation techniques using observable inputs

This refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). Examples of Level 2 financial instruments include corporate and other government bonds.

21. FINANCIAL INSTRUMENTS (continued)

f. Fair values (continued)

Determination of fair value (continued)

iii. Level 3: Valuation techniques using significant unobservable inputs

This refers to financial instruments where the fair value is measured using significant unobservable market inputs. The valuation technique is consistent with Level 2. The chosen valuation technique incorporates PIDM's own assumptions and data. Examples of Level 3 instruments include corporate bonds in illiquid markets.

The following table shows PIDM's financial assets that are measured at fair value analysed by level within the fair value hierarchy.

Fair value disclosures based on 3-level hierarchy

Classification of financial instruments measured at fair values using the following fair value hierarchies:

	As at 31 December 2012		
	Valuation technique using		
	Observable Inputs Level 2 RM'000	**Unobservable Inputs Level 3 RM'000**	**Total RM'000**
Financial assets measured at fair values:			
Available-for-sale investments	**-**	**4,859**	**4,859**
	-	**4,859**	**4,859**

	As at 31 December 2011		
	Valuation technique using		
	Observable Inputs Level 2 RM'000	Unobservable Inputs Level 3 RM'000	Total RM'000
Financial assets measured at fair values:			
Available-for-sale investments	98,037	-	98,037
	98,037	-	98,037

Valuation techniques

The valuation techniques used for the financial instruments that are not determined by reference to quoted prices (Level 1) are described below:

Available-for-sale investments

The fair values of AFS investments are determined by reference to indicative prices quoted by a bond pricing agency. Internal valuation model have also been used for those investments that are thinly traded.

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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2012

21. FINANCIAL INSTRUMENTS (continued)

f. Fair values (continued)

Valuation techniques (continued)

Available-for-sale investments (continued)

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

	AFS investments RM'000
At 1 January 2012	-
Transfer from Level 2 to Level 3	4,859
At 31 December 2012	4,859
Total gains / (losses) recognised in other comprehensive income for financial instruments measured at fair value at the end of the reporting period	391

22. CURRENCY

All amounts are stated in Ringgit Malaysia.

23. CONTINGENT LIABILITIES

Exposure to losses

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

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that its concerns about the business and affairs of member institutions are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure. For member banks, PIDM reinforces financial discipline through its DPS, which provides strong incentives for member banks to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. PIDM has developed a similar DLS for the conventional insurer members for implementation in 2013. PIDM also plans to implement an interim DLS for takaful operators in 2014.

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

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Protection Funds through the accumulation of annual net surpluses arising from its operations. Accumulated surpluses are held in each Fund to cover losses when respective obligations arise. Accumulated surpluses in one Fund cannot be used to cover obligations of another Fund. As discussed in Note 10, PIDM has established the Target Fund framework for DIFs. PIDM will also be developing a Target Fund framework for TIPFs, similar to that of DIFs, over the next few years.

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

Section 5

OVERVIEW OF MEMBERSHIP

Unity

The lone bamboo

may shatter, but

when many becomes

unbreakable.

OVERVIEW OF MEMBERSHIP

The year 2012 started on a cautious note. With uncertainties at the global front, expectations about growth and profitability were initially subdued. This notwithstanding, the year ended on a positive note for our member institutions.

We are pleased to report that our member institutions remained resilient despite overall slower business growth in 2012 and concerns about possible weakening, especially in terms of asset quality. Strong domestic demand, driven by private and public investment, coupled with strong governance and risk management practices have more than offset external headwinds.

During the year, our membership expanded with the addition of two new commercial banks and one new family takaful operator. Meanwhile, the number of general insurer members fell by one as a result of a merger. As at the end of 2012, therefore, PIDM had 89 members in total – 46 insurer members and 43 member banks.

MEMBER BANKS

Solid Capitalisation

Our member banks have maintained strong and high-quality capitalisation, well above the minimum regulatory capital requirement of 8%. As at end-December 2012, the risk weighted capital ratio (RWCR) and the core capital ratio (CCR) remained stable at 15% and 13.1% respectively (2011: 15.3% and 13.3% respectively). The average member banks' leverage ratio was comfortable at 12 times or 8.3% (2011: 11.8 times or 8.5%).

At this RWCR level, the capital buffer, above the minimum regulatory limit, was strong at RM81.6 billion.

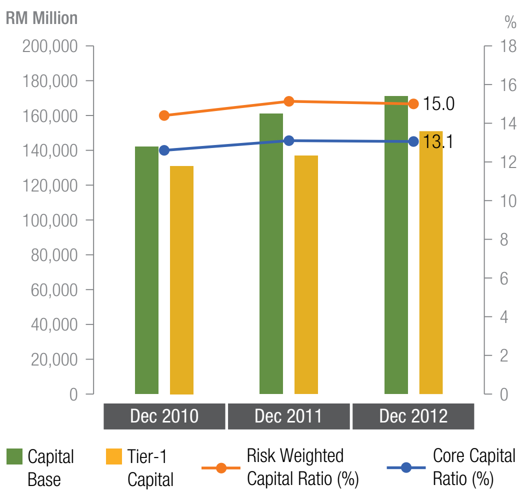


Chart 1: Capital Position

Our member banks are well positioned to meet the Basel III capital requirements, from 2013 onwards.

Resilient and Stable Asset Quality

Overall asset quality stayed healthy with continued improvement in the impairment ratios. The gross and net impaired loans ratio registered a new record low of 2% and 1.4% respectively, whilst the loan loss coverage ratio remained at a comfortable level of 100.7% (2011: 99.3%). Absolute impairment also contracted by RM3.4 billion in 2012 due to active recovery and write-off exercises.

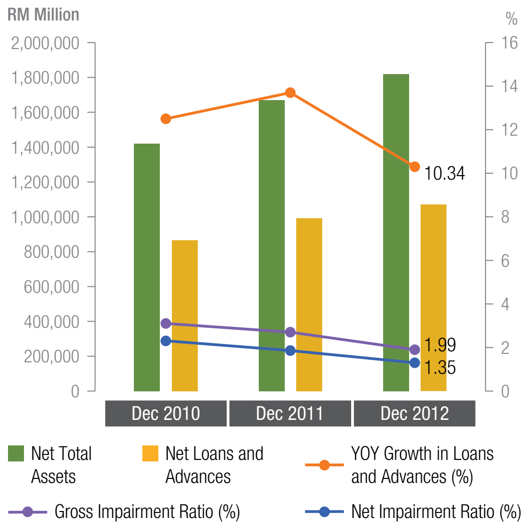


Chart 2 : Selected Asset Quality Indicators

The member banks' loan growth rate continued to remain strong at 10.3% in 2012 although the pace of increase moderated from 13.6% in 2011. Member banks have adopted cautious lending strategies, in light of the uncertain economic outlook. Besides that, the implementation of the Guidelines on Responsible Financing resulted in some transitory effect on loan growth as banks and customers began to adapt to the operational requirements of the Guidelines.

In the household sector, in particular, lending to the residential property segment was the main driver for the continued increase in the loan base. We observed that working capital financing and motor vehicle loans also gathered pace. The residential property segment grew by 12.9% year-on-year (YoY) in 2012. However, compared with 2011, the growth rate in this segment has also moderated.

The risk to financial stability arising from high exposures to the household segment remains manageable, supported by stable employment conditions and a conducive interest rate environment.

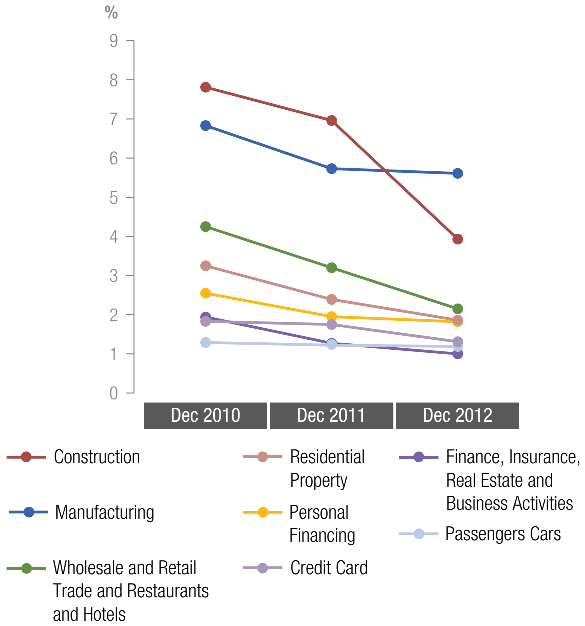


Chart 3: Default Trend of Core Segments

Sustained Earnings Performance

It is encouraging to note that member banks have recorded higher profit before tax of RM28.3 billion in 2012, up 11.6% compared to RM25.3 billion in 2011, underpinned by robust loan growth, a low level of impaired loans and improvement in credit cost. However, there were signs of moderation in terms of earnings growth, given strong competition among domestic banks, as reflected in the contraction of net interest margins (NIMs) as well as the depletion of higher yielding loans. The returns on asset plateaued at 1.6% for the third consecutive year.

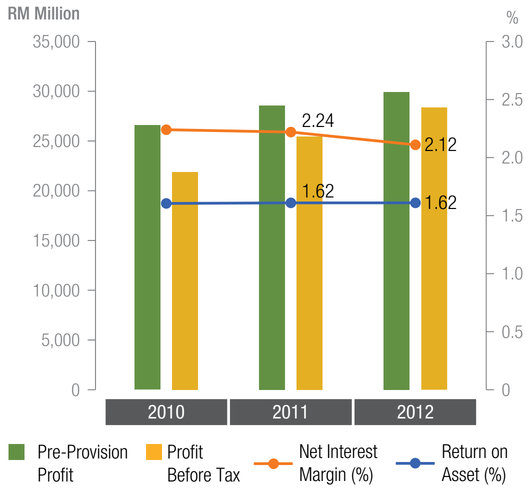


Chart 4 : Profitability Trends

Ample Liquidity and Funding

The liquidity for member banks remained ample. In 2012, customer deposits grew by 9.2% YoY to RM1.4 trillion. The loans to deposit ratio stood at 80% (2011: 79%), demonstrating that member banks are able to support further loan growth without any funding constraints. The banking system was composed of stable funding from customer deposits, with customer deposits to total liability at 83.4% and interbank deposits, which are more volatile in nature, remains minimal.

INSURER MEMBERS

Strong Capital Adequacy

The capital adequacy of the insurance industry remained strong with the capital adequacy ratio (CAR) at 221.5% (2011: 222.6%). Currently, all insurer members are operating above Bank Negara Malaysia's supervisory target level of 130%. With the industry's strong capital buffer amounting to RM15.9 billion, it is well-placed to withstand any future unexpected losses.

The implementation of the Internal Capital Adequacy Assessment Process (ICAAP) and Risk-Based Capital Framework for Takaful Operators (RBCT) reinforced sound capital management practices among insurer members and encouraged more vigilant practices when charting new business strategies to incorporate those regulatory enhancements.

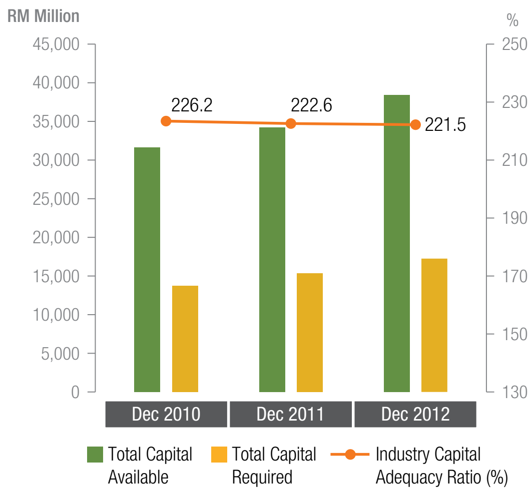


Chart 5: Capital Position

Stable Growth in Assets and Earnings

The uncertainty in the global economy, especially in Europe, had a marginal impact to the local insurance industry. Despite external headwinds, total assets for direct general and life insurance continued to expand by 7.7% and 10.2% respectively. Meanwhile, we witnessed slower asset expansion in the takaful sector, in contrast with double digit growth rates recorded in previous years. Direct general and family takaful assets grew by 7.3% and 13.3% respectively. Cumulatively, the combined industry's assets expanded by 10.1%, with main contributions from the life insurance and family takaful businesses. Investments in corporate debt and securities remained the largest components for life insurance and family takaful funds, while cash and deposits dominated the general insurance fund.

Overall earnings showed healthy performances for both insurance and takaful businesses. Both direct general insurance and takaful recorded a double digit underwriting margin ratio of 12.6% (2011: 9.3%) and 13.9% (2011: 9.1%) respectively. Improvements in claims experience brought positive results that kept the net claims incurred ratio below 60%. Moving forward, the gradual deregulation

OVERVIEW OF MEMBERSHIP

and de-tariffing of the compulsory motor insurance premium rates and the profitable fire insurance business will provide the impetus for better underwriting performance, as more than 60% of gross premiums or contributions for the general insurance and takaful players come from these classes of business.

The life insurance and family takaful businesses also showed impressive performances with net premiums or contributions growth of 9.2% and 23.5% respectively. The life insurance industry's growth can be largely attributed to their investment-linked businesses whilst higher mortgage term family takaful businesses played a significant role in the growth of the family takaful industry. The excess of income over outgo for both funds also recorded remarkable double digit growth.

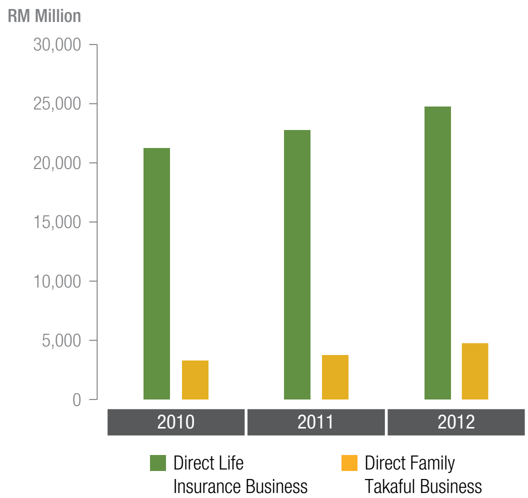


Chart 6: Net Premiums / Contributions

Moderate New Business Growth

New business growth is the major indicator for the sustainability of the life insurance and family takaful businesses. Combined with rising disposable incomes, we anticipate that the demand for investment-linked products as well as for insurance protection is unlikely to subside. As such, we anticipate good mid-to-long term growth prospects for these businesses. We also expect that the recommendations under the Financial Sector Blueprint 2011 - 2020, such as insurance financial inclusion and the launch of private retirement schemes, will provide more opportunities and challenges to insurer members.

The life insurance business recorded a slight growth in new businesses of 3.6%, with investment-linked products as the main driver for the growth. On a positive note, the family takaful industry continued to experience rapid expansion as new business growth stood at 29.9%, with mortgage term family takaful business as the major contributor. The agency force remains the largest distribution channel for the life insurance and family takaful product lines alongside bancassurance that is extending its scale and productivity across most insurer members.

The industry conservation ratio for life insurance business showed a consistent trend with over 86% of life insurer members recording a conservation ratio of more than 80%. This indicates the ability of life insurer members to retain the business underwritten by ensuring renewal of business and ongoing growth of in-force premiums, which are positive contributions to the overall profitability. An inability to conserve could otherwise result in financial implications that not only affect the respective insurer member but also intermediaries and policy owners.

OUTLOOK AND CONCLUSION

Given the above, our member institutions have entered 2013 on a strong footing.

From the perspective of our economy, whilst we are not immune to the global events, we are better diversified, with potential growth from domestic demand and strong trade ties with other emerging economies in the region. We believe that the implementation of the Economic Transformation Programme should also continue to underpin investments in 2013.

As for our member institutions, we are beginning to see more ventures into other regions, either through acquisition or organic growth in emerging markets, as banks increasingly look for opportunities to diversify and broaden their income base. For the insurance and takaful sectors, we note that the current operating environment provides more opportunities for the takaful market to complement growth in the insurance sector, in particular to meet the demands of increasingly sophisticated consumers. We can expect more consolidations in the insurance sector in the coming year.

Going forward, we expect that the implementation of Basel III in Malaysia will reinforce our already strong foundations, while reducing pro-cyclicality and contagion effects within the financial system. In addition, we are pleased to note that the enactment of the Financial Services Act will lead to a better group-wide capital and solvency management oversight.

In conclusion, therefore, given the right conditions, we anticipate further opportunities for our membership to grow in 2013, domestically and, in some cases, regionally. This notwithstanding, we do not plan to be complacent or make assumptions. We will continue, at all times, to be vigilant to all aspects of risks to the economy, and risks to our member institutions generally or specifically as their businesses expand or consolidate and carry out monitoring on an ongoing basis.

Section 6
ARTICLE

Resolve

Bamboo leaves are

light and scarce, yet

strong enough for

the elements.

ARTICLE

DIFFERENTIAL LEVY SYSTEM FOR THE TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM – ITS DEVELOPMENT AND IMPACT

INTRODUCTION

The establishment of a differential premium system for the Takaful and Insurance Benefits Protection System (TIPS) marks another important milestone for the Corporation. We expect that, over time, this differential premium system will reduce the risks that members pose to our funds and encourage sound risk management in the financial system. From the industry's perspective, it is not an unfamiliar concept that introduces the element of fairness so that "low" risk institutions need not bear the same levies as "higher" risk ones.

In the design and implementation of our Differential Premium Systems (DPS) for member banks, we were able to draw lessons from approaches in other jurisdictions, including the "General Guidance for Developing Differential Premium Systems"[1]. Since the introduction of the DPS for our Deposit Insurance System (DIS) in 2008, we have seen notable improvements in operational and risk management capabilities in member banks.

The design and development of our differential premium system for TIPS, known as the Differential Levy System (DLS), was however more challenging. Unlike insurance guarantee schemes in other jurisdictions, our TIPS not only provides protection for conventional insurance policy owners, but also takaful certificate owners. Further, our insurer members may be licensed to carry general, life, or a composite business comprising both general and life within a single entity.

While we did carry out research on systems in other jurisdictions, when designing and developing our DLS framework, the entirely unique features in our insurance and takaful industry presented us with a number of challenges. To address these specific challenges, we engaged local insurance industry experts, so that we could obtain both a regulatory as well as a private sector perspective, in coming up with solutions. With their collaboration and valuable feedback, we were able to develop a methodology that will incorporate workable quantitative and qualitative measures that are fair for insurer members, and simultaneously meet the objectives of the system.

THE TIPS DIFFERENTIAL LEVY SYSTEM

Under section 77 of the Malaysia Deposit Insurance Corporation (MDIC) Act 2011, PIDM has the authority to make regulations in respect of the determination of premiums to be payable by its insurer members by establishing a system with the relevant criteria or factors that would classify insurer members into different categories. The DLS regulations have been issued and will be implemented in 2013 for the conventional insurer members of PIDM.

The DLS aims to introduce more fairness into the premium assessment process and to provide greater incentives for insurer members to enhance their risk management practices and minimise excessive risk taking. Insurer members will have to improve the overall aspects of their business in order to achieve the best rated category and be subjected to the lowest levy rate.

The objectives of the DLS framework are as follows:
(a) to differentiate insurer members according to their risk profiles;
(b) to introduce more fairness into the levy assessment process, so that insurer members of higher risk exposures will pay higher levies than insurer members with lower risk exposures;
(c) to provide incentives for the insurer members to adopt sound risk management practices for better business management; and
(d) to promote stability of the financial system through overall improvement in risk management practices among insurer members.

The work on the DLS framework started in the first quarter of 2011 with a team comprising PIDM employees and Bank Negara Malaysia (BNM) representatives. Industry experts were engaged to review and provide their technical expertise on the overall features of the framework. The development of the framework was guided by the following principles:
(a) to have an equitable system for all insurer members, irrespective of their size or complexity;

[1] "General Guidance for Developing Differential Premium Systems" first issued in February 2005, updated in October 2011, prepared by the Research and Guidance Committee of the International Association of Deposit Insurers

(b) to provide incentives for insurer members to move towards the best category (lowest levy rate) by improving their risk profile;
(c) to consider both quantitative and qualitative factors and contain forward looking elements;
(d) to depend on accurate, reliable and timely information;
(e) to use data based on the approved financial reporting standards adopted by the Malaysian Accounting Standards Board;
(f) to have a system that is objective and transparent so that insurer members understand and are able to manage their risk profiles; and
(g) to ensure that there will be no discretion on the part of PIDM and the insurer members to adjust scores arbitrarily.

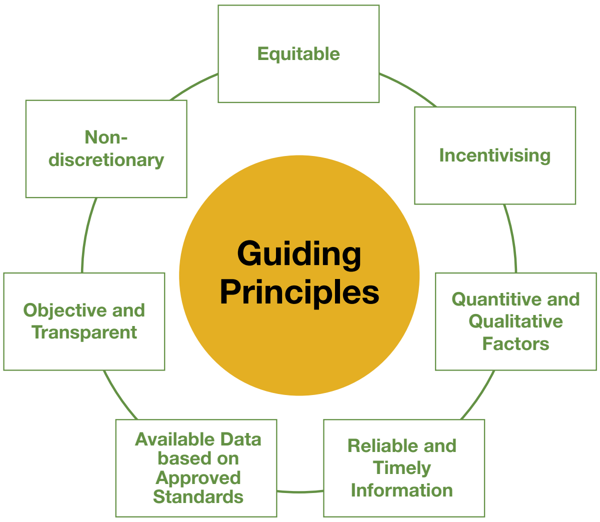


Diagram 1: DLS Guiding Principles

The DLS framework was developed following extensive research on the different risk assessment methodologies employed by primary regulators and rating agencies, both domestically and internationally. We also made study visits to understand the approaches adopted by insurance guarantee schemes in other jurisdictions, namely, the Korea Deposit Insurance Corporation, Assuris (Canada) and Protektor Lebensversicherungs-AG (Germany).

Besides research on the overall approach, we also performed a situational analysis that encompasses an extensive assessment of the state and structure of the insurance industry, prudential regulation and supervision, the soundness of accounting and disclosure regimes, and the comprehensiveness of the local industry statistical data and trends. We also studied the performance of insurer members during the 1997 - 1998 financial crisis to consider what factors could impact the sustainability of the insurance businesses so that we could identify what types of factors should be incorporated into the methodology for assessing risks under the DLS.

METHODOLOGY AND CRITERIA

One of the main challenges in developing any differential premium system is in finding the appropriate methods to differentiate the risk profiles of institutions in a similar industry. From our research, we noted that most methodologies adopted by other jurisdictions either emphasise the quantitative factors or rely heavily on qualitative factors.

Given our experience with DPS, our DLS framework adopted a similar approach. The DLS, as does the DPS, uses a combination of quantitative and qualitative criteria to classify insurer members into different categories. We believe this methodology is more effective and comprehensive than an approach that emphasises either quantitative or qualitative criteria.

The quantitative criteria in the DLS framework are made up of indicators representing two key statistical measures, namely, measures of capital strength as well as operational performance and business sustainability of insurer members. On the other hand, the qualitative criteria of the DLS framework comprise the supervisory rating of insurer members and any other information that have implications on the well-being of insurer members.

Our aim is to ensure that the DLS framework is objective, transparent and forward-looking in its approach. As such, a larger weightage of 60% is assigned to the quantitative criteria and the remaining weightage of 40% is applied for the qualitative criteria, as shown in Diagram 2.

For the DLS framework, we have introduced a two-dimensional approach in the assessment of quantitative criteria, which we term the “matrix approach”. One of the dimensions is the capital measure, and the other comprises operational and sustainability measures.

ARTICLE

DIFFERENTIAL LEVY SYSTEM FOR THE TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM – ITS DEVELOPMENT AND IMPACT

Criteria Approach	**Quantitative**	+	**Qualitative**
Weightages	60%		40%

Criteria Components

All Insurer Members		
Capital	**Free Capital Index (FCI)**	
	General Insurance Business	**Life Insurance Business**
Operational and Sustainability Indicators	• Gross Premium Growth Rate • Business Diversification Ratio • Receivables Ratio • Combined Ratio • Operating Margin Ratio	• New Business Growth Rate • Business Concentration Ratio • Business Conservation Ratio • Investment Yield (including Capital Gain) • Return on Required Capital

All Insurer Members
• BNM Supervisory Rating (Composite Risk Rating) • Other Information

Scoring Approach

Matrix-based Approach:
The FCI together with the Operational and Sustainability Indicators determine the position of an insurer member in the matrix.
The position of the insurer member in the matrix would determine the quantitative score of DLS which carries a maximum score of 60%.

The Supervisory Rating holds a maximum score of 35%, while the remaining score of 5% is assigned to Other Information

Diagram 2: DLS Framework Methodology and Criteria

THE QUANTITATIVE MATRIX

The quantitative approach uses measures that are factual or data-driven in order to categorise insurer members for premium assessment purposes. The advantage of using a quantitative approach to differentiate insurer members' risk profiles is the reliability on objective factors and data in terms of consistency and timeliness. Such factors are transparent and leave little room for argument, unlike qualitative approaches.

In building the matrix, we considered the effectiveness of the relevant measures within the quantitative criteria to differentiate insurer members according to the risks associated with their business portfolios and regulatory requirements. We also conducted extensive analyses in determining the selected quantitative measures, so as to ensure their suitability. Further reviews and tests were performed on the distribution of the results of measures to ensure applicability within the industry's operating environment.

Capital Measure

The primary component of the quantitative criteria is the capital measure. Capital provides a critical cushion against adverse changes in the insurer members' earnings and asset quality. Therefore, a strong capital buffer is important to ensure that insurer members remain solvent, as it represents the last line of defence against any expected or unexpected losses. This capital measure also reflects the insurer members' degree of compliance with the regulatory capital requirement imposed by BNM. This measure is denoted by an index termed as Free Capital Index (FCI). The FCI in the DLS framework is defined as a measure of capital buffer above the individual target capital level of an insurer member, and aims to reflect the insurer member's capital sufficiency and resilience to adverse events.

Operational and Sustainability Measures

The other component of the quantitative criteria aims to assess the insurer members' operational management efficiency and the sustainability of their financial performance. As a strong capital buffer alone will not ensure long-term sustainability, the ability of insurer members to ensure operational soundness and business sustainability is equally vital.

To distinguish the unique nature of the general and the life insurance businesses, the operational and sustainability measures are made up of different sets of indicators. The indicators are assigned weightages based on levels of their significance as a reflection of the insurer members' well-being. These are depicted in the table below.

<table>
<tr><th colspan="4">OPERATIONAL AND SUSTAINABILITY MEASURES</th></tr>
<tr><th>BUSINESS TYPE</th><th>INDICATORS</th><th>WEIGHTAGE</th><th>RATIONALE FOR MEASURES</th></tr>
<tr><td rowspan="5">General Insurance Business</td><td>Gross Premium Growth Rate</td><td>20%</td><td>To measure sustainability of business underwritten</td></tr>
<tr><td>Business Diversification Ratio</td><td>25%</td><td>To measure insurer member's sensitivity towards adverse experiences of its business profiles</td></tr>
<tr><td>Receivables Ratio</td><td>20%</td><td>To measure the efficiency of the business underwritten</td></tr>
<tr><td>Combined Ratio</td><td>20%</td><td rowspan="2">To measure the profitability of the insurer member</td></tr>
<tr><td>Operating Margin Ratio</td><td>15%</td></tr>
<tr><td rowspan="5">Life Insurance Business</td><td>New Business Growth Rate</td><td>15%</td><td>To measure the sufficiency of the insurer member's new business growth towards business sustainability</td></tr>
<tr><td>Business Concentration Ratio</td><td>25%</td><td>To measure the extent of business concentration within the insurer member's business portfolio</td></tr>
<tr><td>Business Conservation Ratio</td><td>25%</td><td>To measure the ability to sustain business underwritten</td></tr>
<tr><td>Investment Yield (including Capital Gain)</td><td>20%</td><td rowspan="2">To measure the profitability of the insurer member</td></tr>
<tr><td>Return on Required Capital</td><td>15%</td></tr>
</table>

Table 1: Assessment Criteria for Operational and Sustainability Measures

ARTICLE

DIFFERENTIAL LEVY SYSTEM FOR THE TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM – ITS DEVELOPMENT AND IMPACT

Matrix Scoring Approach

The quantitative criteria will be scored using a matrix approach that is built with a certain emphasis, namely, capital strength or the operational soundness and business sustainability of insurer members. The two left columns of the matrix in the diagram below show the emphasis on capital buffer. Here, capital would contribute to a better quantitative score, and the score for operational and sustainability measures have less prominence. Any insurer member whose scores fall within these two left columns of the matrix will require strength in its capital position, as it will be sensitive to any adverse experience.

The two right columns of the matrix, on the other hand, emphasise operational performance. In relation to any insurer member which has already achieved a comfortable level of capital buffer, an improvement in its operational and sustainability of its business performance would find it in a better position within the matrix.

The combination of the aggregated scores from the operational and sustainability indicators and the FCI will determine the position of an insurer member in the matrix. This position will translate into a DLS quantitative score, which has a maximum score of 60% at M1 and a minimum score of 15% at M7.

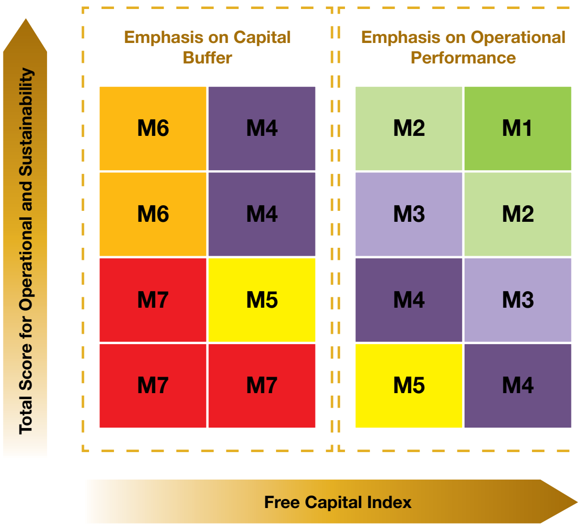


Diagram 3: Quantitative Criteria Matrix

THE QUALITATIVE SCORE

The qualitative approach uses qualitative factors such as risk management practices, governance and management quality, in order to categorise insurer members into different categories. This approach relies primarily on some form of regulatory and supervisory judgment or rating system provided by the primary regulator. The advantage of the qualitative approach is that it can provide important information on the current and future risk profiles of insurer members, which may not be captured by quantitative factors alone.

The supervisory rating under the qualitative criteria carries significant weight due to the direct supervisory relationship with the supervisory authority, namely BNM, which supervises and monitors insurer members' risk profiles, operational management and their risk management control functions. The supervisory rating by BNM encapsulates first-hand information about insurer members.

The other information, which forms a small component within the qualitative measure, aims to capture any issues that may have a significant impact on the financial performance or reputation of an insurer member. Among the relevant factors for this measure is the degree of the insurer member's compliance with regulatory requirements and whether there are any supervisory concerns or intervention actions.

THE FINAL SCORE

Finally, the result from the combination of the quantitative matrix and the qualitative score is the ultimate score of an insurer member, which is denoted as the 'DLS Score'.

The DLS framework has been designed to address the Malaysian insurance industry, which consists of composite and direct businesses. Specifically for a composite insurer member, the total quantitative scores for its general and life insurance businesses will be apportioned using the net premiums of the respective businesses to derive its quantitative score.

The DLS Score will then translate into a levy category for the insurer member, which determines the levy rate for the computation of the amount payable to PIDM for the corresponding assessment year.

LEVY CATEGORY

Insurer members will be classified into four categories based on their DLS Score with category 1 representing the best category and category 4 being the worst. A rate is prescribed in relation to each category. An insurer member with a DLS Score of 85% and above will be categorised into category 1, whilst a DLS Score of below 50% will be categorised in category 4.

DLS SCORE	LEVY CATEGORY
Score ≥ 85%	1
65% ≤ Score < 85%	2
50% ≤ Score < 65%	3
Score < 50%	4

Table 2: DLS Scores and Levy Categories

For the first year of implementation, which is the assessment year of 2013, the system provides a transitional period during which insurer members' quantitative scores will be adjusted upwards by 10 percentage points subject to a ceiling score of 60%.

Levies are payable by 31 May of an assessment year based on insurer members' DLS Scores. The base of levy payable are the total net premiums for general insurance businesses and the total actuarial valuation liabilities for life insurance businesses recorded as at 31 December of the preceding assessment year.

For any new institution that becomes an insurer member of PIDM during the year, the insurer member is automatically categorised in levy category 1 for the first two years. This is on the basis that the new insurer member has just started operations, and hence, its risk profile may not be significant.

THE DLS RATES

Pursuant to sections 71 and 72 of the MDIC Act, PIDM may prescribe different rates under different categories with different minimum amounts as stated in the premium regulations and order, namely Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) Regulations 2012 and the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2012. The regulations and order were gazetted on 31 December 2012. Table 3 lists the differential levy rates by the different categories and its respective minimum annual premiums.

LEVY CATEGORY	LEVY RATE FOR LIFE INSURANCE BUSINESS	LEVY RATE FOR GENERAL INSURANCE BUSINESS	MINIMUM ANNUAL PREMIUM AMOUNT* (RM)
1	0.025%	0.05%	75,000
2	0.05%	0.1%	150,000
3	0.1%	0.2%	300,000
4	0.2%	0.4%	600,000

* *The annual levy payable by an insurer member is the higher of the levy amount calculated using the respective levy rate or the respective minimum annual premium in which the insurer member is categorised*

Table 3: Levy Rates and Minimum Annual Premiums

SUBMISSION BY INSURER MEMBERS

The computation of the DLS Score for levy assessment involves the submission of insurer members' quantitative information by 30 April of each assessment year. PIDM will aggregate the quantitative and qualitative scores and notify insurer members of the total score, levy category and applicable levy rates, so that the respective levies will be paid to PIDM by 31 May of each assessment year. In addition, each insurer member's Chief Executive Officer and Chief Financial Officer or the appointed actuary will be required to certify that the submission is accurate and reflective of its financial condition for the assessment period.

The one-year transitional period, with the upward adjustment of points, provides insurer members with an opportunity to improve their risk management and could result in a less drastic change in levy rates in the subsequent years. Insurer members with already well-managed risk practices may see an immediate reduction in the overall levies payable.

The key benefits of the framework lie in its objectivity and transparency. Insurer members will know which areas they can focus on to achieve a higher score. This will, ultimately, result in a much improved overall risk.

CONCLUSION

Impact on Insurer Members

Insurance companies and takaful operators have been in favour of the concept of a DLS since the implementation of TIPS as it provides greater fairness than a flat-rate system. Given the stability of the industry's operating and supervisory environment, and given the one-year transitional adjustments, we believe that the impact to insurer members will be minimal.

ARTICLE

DIFFERENTIAL LEVY SYSTEM FOR THE TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM – ITS DEVELOPMENT AND IMPACT

The DLS in Fulfilling Our Mandate

The DLS framework was designed following extensive research on approaches in other jurisdictions, and takes into consideration the unique features of the insurance industry in Malaysia. We are confident that the DLS will promote sound risk management in the financial system. Greater levels of improvement in risk management practices will, ultimately, provide stability within the financial system.

GOING FORWARD

The DLS framework for TIPS currently caters only for conventional insurer members, and takaful operators are currently excluded from the DLS framework due to limitation of data. However, we plan to introduce an interim DLS framework for takaful operators in the beginning of assessment year 2014 and, as we did for the current DLS framework, we plan to consult and obtain feedback from the industry on the same.

Another initiative for TIPS is the development of the External Auditors Validation framework which requires the external auditors to validate the information provided by insurer members in their Returns on Calculation of Premiums for TIPS and the DLS reporting forms. Similar process of consultation with the industry and relevant stakeholders will be conducted.

We will continually review all our current systems to ensure ongoing effectiveness and efficiency, taking into account any developments that may impact our member institutions and their industries.

Section 7

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

Adaptability

To grow stronger, the bamboo becomes one with its surroundings.

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

IMPLEMENTATION OF THE INTEGRATED COMMUNICATIONS PLAN 2012 - 2016

The achievement of the PIDM Integrated Communications Plan (ICP) for 2007 to 2011 provided the Corporation with a solid foundation for developing the second ICP for 2012 to 2016. Over the five years, the ICP will continue to promote public awareness and understanding of PIDM, the Deposit Insurance System (DIS) as well as the Takaful and Insurance Benefits Protection System (TIPS), to enhance confidence in PIDM and in the stability of the nation's financial system.

The year 2012 marked the first year of implementation of PIDM's second ICP. This Plan outlines three strategic thrusts that will drive PIDM's communication initiatives – strengthening awareness of DIS and TIPS and promoting confidence in the role of PIDM; actively contributing to the enhancement of financial awareness and literacy through education initiatives and programmes; as well as enhancing engagement with member institutions and relevant strategic partners.

To achieve these thrusts, PIDM will focus its efforts on the following strategies:

- expand the relevant target audience base for optimum information dissemination and maximum public reach;
- continuously implement effective key communication initiatives and tools such as advertising in print, broadcast and electronic media, stakeholder engagement and education programme, amongst others; and
- strengthen existing partnerships with key stakeholders and establishing partnerships with new relevant stakeholders.

The multi-year plan provides a three-pronged approach for achieving the long-term awareness objectives as well as a platform for a long-term strategy through the adoption of various initiatives and communication tools. The first approach is to continue to disseminate information in a direct, clear and simple manner and strengthen PIDM's brand presence and awareness of DIS and TIPS. This will be done through the enhancement of the Corporation's communication infrastructure such as the PIDM website and our call centre as well as the development of advertising initiatives and stakeholder programmes tailored to the demographic profiles of our target audience.

The second approach is to continue education initiatives for the general public and specific groups including bankers, insurance agents, Government employees and the younger generation on DIS, TIPS and the role of PIDM. At the same time, we plan to inculcate the importance of savings and prudent financial management. It is important for financial consumers to understand the benefits and limitations of these protection systems to make informed financial decisions. Finally, PIDM's third approach will be to continue to engage and collaborate with key stakeholders through various activities including briefings, training and seminars.

ACHIEVEMENTS IN PROMOTING PUBLIC AWARENESS

The Corporation annually commissions a nationwide consumer survey via an independent research agency to gauge the level of public awareness of DIS, TIPS and PIDM. This was carried out at the end of 2012. The survey findings showed a significant increase in the levels of public awareness of DIS and PIDM. As at the end of 2012, public awareness of DIS leaped to 42% from 27% in 2011 whereas awareness of PIDM also improved to 48% from 40%. The level of awareness of TIPS was also measured in the survey, and registered at 34% as at end of 2012 from 37% in 2011. While the survey findings show a marginal decrease in the awareness of TIPS, the level indicates that PIDM has been effective in creating awareness among the public on the new protection system despite TIPS only being operational since 31 December 2010. The results of the consumer survey show that PIDM has exceeded all target levels as set out in the Corporate Scorecard 2012 – 2014.

Chart 1 shows the awareness levels of DIS and PIDM from 2006 to 2012 as well as TIPS from 2011 to 2012.

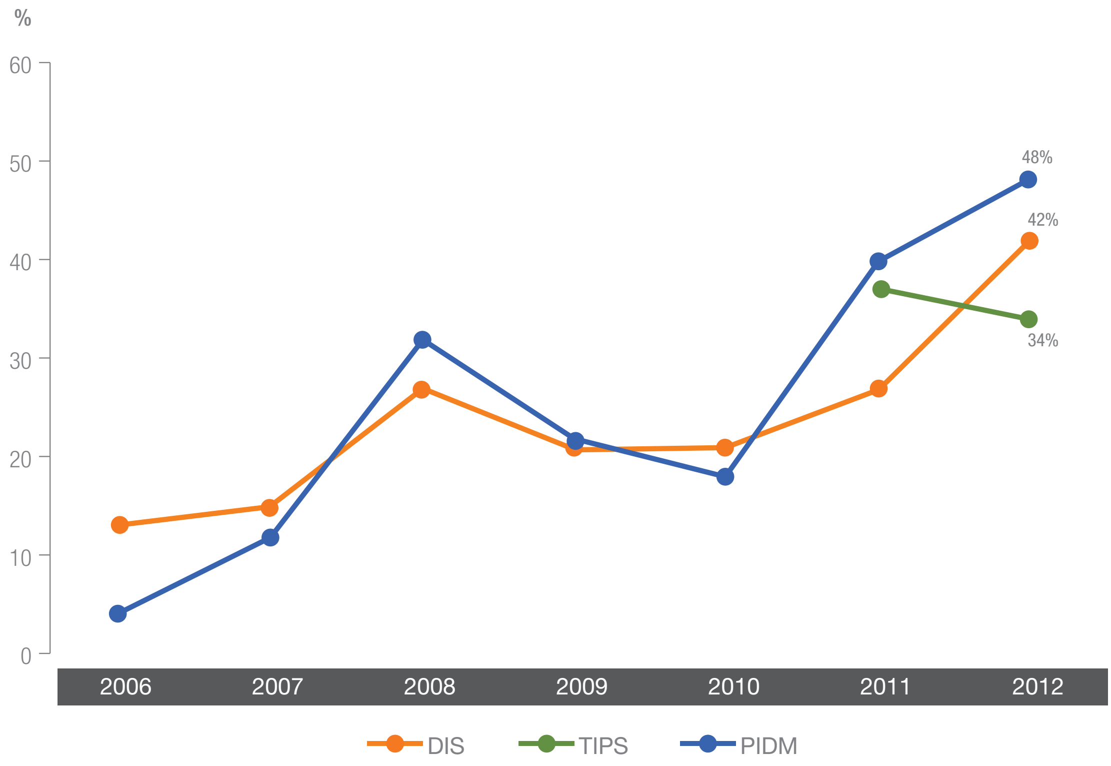


Chart 1: Public Awareness Levels from 2006 to 2012

Our annual consumer survey results have recorded a steady increase in public awareness levels since the implementation of our first ICP in 2007, with a moderate decline from 2008 to 2010 given the adoption of a low-key communication strategy during the temporary Government Deposit Guarantee (GDG) period. Following the exit from the GDG on 31 December 2010, PIDM's comprehensive communication campaign has borne positive results in further increasing the level of public awareness about PIDM and the protection systems we administer.

In 2012, PIDM also achieved international recognition for the communications initiatives executed under the Corporation's 2011 advertising campaign. PIDM, together with its advertising agency, Long's Creative Sdn. Bhd., emerged as the Bronze winner for the "Best Brand-Building Campaign Award" under the Malaysian Chapter, by the Promotion Marketing Awards of Asia (PMAA).

AN OVERVIEW OF OUR INITIATIVES IN 2012

In 2012, the first year of the five-year ICP 2012 – 2016, we set out various initiatives to enhance the awareness of DIS, TIPS and PIDM. Such initiatives included advertising and public relations activities as well as stakeholder engagement programmes for various target groups.

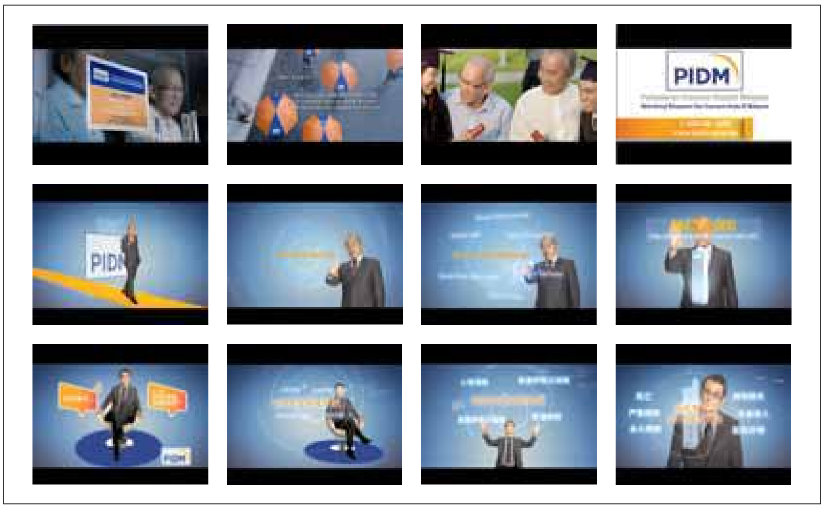
Advertising remains as the main source of public awareness on DIS, TIPS and PIDM. Television commercials are used as the anchor media, supported by radio, print, and electronic advertising. Our advertising initiatives have been formulated to reach the different segmented masses residing in both urban and rural markets according to each consumer group's media profile.

Similarly, public relations initiatives were strategically formulated to reach out to targeted mass groups. Our stakeholder engagement programmes were targeted to niche groups who are within the financial consumer groups and who are potential future financial consumers. We held many briefing sessions for bankers, insurance agents and other front liners as our survey findings indicate that there is a growing preference for the public to seek information on PIDM and the protection systems from front liners, especially at bank branches.

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

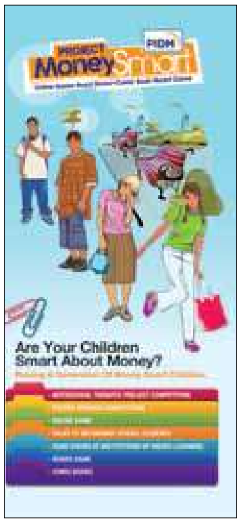
HIGHLIGHTS OF OUR INITIATIVES IN 2012

INITIATIVE	ACHIEVEMENT
ADVERTISING AND PUBLICITY	In 2012, the implementation of PIDM's advertising campaign continued to build on the success of the previous year's campaign that focussed on the dissemination of key messages on the Enhanced Financial Consumer Protection Package. During the year, advertising strategies and creatives were developed and implemented to educate Malaysian financial consumers on the protection systems available for their savings as well as to drive a "call-to-action" among the public to seek information on DIS, TIPS and PIDM from our member institutions and the Corporation. The advertisements which were aired throughout the year via the broadcast, print and electronic media also focussed on enhancing specific understanding of the features of both DIS and TIPS. The PIDM website, which is available in four languages, serves the needs of all stakeholders by providing information on DIS, TIPS and PIDM as well as publications of our Corporate Plans, Annual Reports, guidelines, policies and consultation papers for public comments and feedback. In 2012, visits to the website increased by 53.4% to 138,246 from 90,114 in 2011.  

<table>
<tr><th>INITIATIVE</th><th>ACHIEVEMENT</th></tr>
<tr><td>FINANCIAL AWARENESS AND LITERACY</td><td>
Given the effectiveness of the PIDM Project MoneySmart in enhancing the level of financial literacy among students since its launch in 2010, the programme was expanded and enhanced in 2012. New components introduced included collaboration with key stakeholders, namely the Ministry of Education, State Education Departments and District Education Offices; the Interschool Thematic Project Competition; recognition of teacher advisors as PIDM Ambassadors; and the use of social media to maximise reach to Malaysian students.
The PIDM Project MoneySmart recorded the following achievement for 2012:

Central briefings to 1,000 teachers representing 668 secondary schools;
Briefings in 529 secondary schools involving 529,000 students;
Road shows in 50 institutions of higher learning involving 120,000 students;
The Interschool Thematic Project Competition involving 121 secondary schools leading to a total of 157,000 Facebook “Like” votes;
The PIDM Project MoneySmart Facebook page visited by 1 million students and teachers;
The MoneySmart Online Game Competition was participated by 10,000 students with invitations sent by students to 290,000 friends to play the Game (“Friend-Get-Friend” initiative); and
The National Poster Drawing Competition, in which participants created posters based on the theme “Money Smart”, received 94 entries.

The PIDM Project MoneySmart for 2012 closed with an Appreciation and Prize-Giving Ceremony on 21 November officiated by Yang Berhormat Dr. Haji Puad Zarkashi, Deputy Minister of Education, who was represented by Datuk Dr. Amin Senin, Deputy Director General of Education (Education Policy and Development Sector). During the ceremony, prizes were presented to the winning school of the Interschool Thematic Project Competition and recognition was also given to the Best PIDM Ambassadors for 2012.

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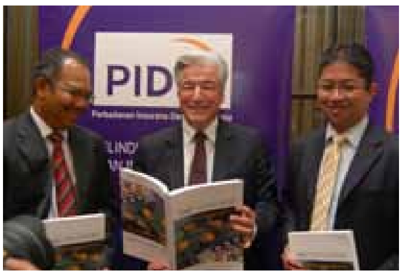
PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

INITIATIVE	ACHIEVEMENT
COMMUNITY RELATIONS	**Corporate Outreach** A Special Luncheon Talk was held on 25 June 2012, attended by senior State Government officials and the business community as part of PIDM's Corporate Outreach Programme in Kuantan, Pahang. This programme is held annually in different states for the Corporation's Board of Directors and Senior Management to reach out to the public in an effort to enhance awareness on DIS, TIPS and PIDM. As part of the programme, PIDM also held a briefing on "Effective Financial Consumer Protection" on 26 June 2012 with participating agencies, namely Bank Negara Malaysia (BNM), the Credit Counselling and Debt Management Agency (*Agensi Kaunseling dan Pengurusan Kredit* – AKPK) and the Financial Mediation Bureau (FMB). The session, aimed at increasing financial literacy and knowledge about organisations that provide consumer protection and education, was attended by employees of various Federal and Pahang State Government departments and agencies. **Exhibitions and Road Shows** PIDM held seven exhibitions nationwide where it reached out to more than 1,800 participants. The exhibitions included the Asian Finance Forum 2012, the Malaysian Business Student Summit 2012, Malaysian Financial Planning Council (MFPC) Talk and Forum Series 2012, Forum on Private Retirement Scheme in Malaysia and an exhibition in collaboration with the Federation of Malaysian Consumers Associations (FOMCA), held at UTM Skudai, Johor. PIDM also collaborated with the Ministry of Finance (MOF) at a roadshow held at Putrajaya in conjunction with MOF's Innovation Day *(Hari Inovasi)* on 1 – 2 November 2012. For a complete listing of our participation in exhibitions and road shows, please refer to our Calendar of Events for 2012 (pages 200 - 212).

INITIATIVE	ACHIEVEMENT
STAKEHOLDER ENGAGEMENT	In 2012, PIDM conducted 80 briefings nationwide and reached out to 6,071 participants. The briefings were organised in collaboration with several parties including the Malaysian Insurance Institute (MII), FOMCA, Money Compass, training centres of banks and insurance companies. Out of the total, 31 briefing sessions were conducted for member banks with the target audience varying from call centre officers, front liners as well as bank officers, while 26 sessions were held specifically for the insurance industry comprising insurance agents and company staff. The remaining briefing sessions were conducted for other stakeholders such as students, corporate and Government employees as well as community groups. An annual meeting with Liaison Officers (LOs) of member banks and insurer members was held on 9 and 22 February 2012 respectively and marked the first such event with LOs of insurer members. The purpose of the annual meeting with LOs was to discuss updates on requirements for member institutions and new PIDM initiatives. PIDM's annual dialogue with the Board of Directors and Senior Management of member banks and insurer members was held on 8 May 2012 in conjunction with the release of the Annual Report 2011. The event continues to be an important platform for discussion of industry matters and key areas with senior representatives of our member institutions. For a complete listing of our briefings and dialogues, please refer to our Calendar of Events for 2012 (pages 200 - 212).  
MEDIA RELATIONS	PIDM held various informal networking sessions with editors of major publications as well as representatives of the East Malaysian media as part of our effort to foster effective working relationships with members of the media. The PIDM-Media Golf Friendly event was also organised for the first time on 7 April 2012 at the Glenmarie Golf and Country Club, Shah Alam, while a *Buka Puasa* event was held on 24 July 2012 and attended by representatives from the print and electronic media. Several interviews were given by PIDM's Senior Management to various print media including The Sun, the Financial 1st magazine published by the MFPC and Nanyang Siang Pau. During the year, PIDM issued eight press releases in Bahasa Malaysia, English, Chinese and Tamil and held press conferences in conjunction with the release of the PIDM Annual Report 2011 and the PIDM Education Programme Appreciation and Prize-Giving Ceremony.   PIDM: DLS to improve insurers' risk profiles > Differential levy acts as incentive to perform better

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

PUBLIC AWARENESS INITIATIVES

MOVING FORWARD WITH THE INTEGRATED COMMUNICATIONS PLAN 2012 - 2016

Given the recent expansion of PIDM's mandate to an integrated financial consumer protection authority under the Malaysia Deposit Insurance Corporation (MDIC) Act 2011, the annual communication strategies for the second year (2013) and the third year (2014) of the five-year ICP 2012 – 2016 will focus on delivering what we have already laid out in the foundations of this Plan.

The formulation of the integrated communication strategies for the next two years will centre on:

i. instilling greater trust in the Corporation's role as an integral member of Malaysia's financial safety net that is operationally ready to deliver its mandate for any unlikely event of a member institution failure;
ii. broadening the awareness of DIS and TIPS amongst the expanded target audience via the most relevant and cost effective communication tools and medium; and
iii. building better understanding of the features, benefits and limitations of DIS and TIPS via various engagement initiatives as well as educational and advocacy-based communication approaches, where the public can make informed financial decisions.

CONCLUSION

The Corporation will continue to implement and enhance the integrated communication initiatives taking into consideration the changing business and operating environment and PIDM's vision of being a best practice financial consumer protection authority in all aspects of its operations. Creating and maintaining public awareness is a continuous process that requires our concerted effort for the long term.

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION

As part of PIDM's commitment to be socially responsible to its various stakeholders and to reach out and give back to the community, PIDM's Corporate Social Responsibility (CSR) initiatives are aimed at delivering sustainable value to the environment and social development. In line with our CSR philosophy and partly inspired by the aspiration to support the Government in its nation-building endeavours, the focus of the initiatives is community involvement, which includes community development and environmental protection.

SCHOLARSHIP PROGRAMME

Our Scholarship Programme commenced in 2010 with five scholars. In the following year, the number of scholarships awarded per year was increased to 10. To date, we have a total of 25 scholars in our PIDM Scholarship Programme.

The objective of the Scholarship Programme is two-prong, namely, to provide assistance to students who have the ability to achieve academic excellence and those who are financially challenged.

As we believe in giving the additional edge to our scholars, the PIDM scholarship adopts a holistic approach. Besides catering to the financial needs of the scholars, we attempt to also provide moral support by providing "mentors" from PIDM to whom scholars can turn to for advice. Scholars are also given the opportunity to carry out internships with PIDM during their semester breaks.

As in previous years, the 2012 recipients hail from all across the nation, namely, Selangor, Kuala Lumpur, Sabah, Kedah, Perak, Kelantan and Johor. Four of the scholars are pursuing degrees in Accountancy, two in Statistics, two in Law, one in Actuarial Science and one in Business Administration majoring in Entrepreneurship.

While planning and preparation has begun for the selection of 10 scholars for next year's Scholarship Programme, we will also be celebrating the success of our first batch of scholars who will be graduating in 2013.

OTHER CSR ACTIVITIES

As we reported in our 2011 Annual Report, we had commissioned a feasibility study to assess the general availability of current financial literacy programmes in Malaysia as part of our CSR efforts. The results of the study show that there is a need for financial literacy programmes amongst the visually, hearing, and motor impaired. Whilst there were some programmes targeted for the disabled, it was found that these programmes were largely not sustainable, due to a lack of resource or capability. Our report also highlights the need for greater accessibility to a wider range of financial products and credit options, as well as the physical accessibility to facilities such as Automated Teller Machines (ATMs), cheque or cash deposit machines.

Continuing Our Financial Literacy Programme

As of 2005, there were 26,294 deaf people registered with the Malaysian Department of Social Welfare[1]. With a worldwide average of 0.3% of a given population being congenitally deaf[2], the number of deaf people in Malaysia is expected to be much higher.

The deaf's access to information and a good education – that hearing people take for granted – is limited by society's awareness of the deaf. Thus, in 2012, we continued our efforts to contribute in this area. Two key initiatives, which the Corporation sponsored, were undertaken to provide the deaf community with money management skills. We continued our work with the deaf through DeafMoolah and in schools.

DeafMoolah Financial Fair: DeafMoolah is an organisation managed by the deaf, for the deaf. One of its goals is to educate the deaf community on the importance of money management and helping the deaf achieve financial independence. We have had experience working with DeafMoolah and we were pleased to be the main sponsor of the inaugural DeafMoolah Financial Fair held on 2 June 2012. We participated together with some of our long-time strategic partners in financial education, such as the Credit Counselling and Debt Management Agency (AKPK).

[1] Hasuria Che Omar, "*Penterjemahan dan Bahasa Isyarat*", Marzuq Print & Trading, *Institut Terjemahan Negara Malaysia Berhad*, 2009, page 6
[2] Parkhurst, Steven and Dianne (1997), "Introduction (Part of the final write-up of the LSE survey)", unpublished paper, cited in Hope M. Hurlbut, "A Preliminary Survey of the Signed Languages of Malaysia", Summer Institute of Linguistics, Malaysia, page 1

PUBLIC AWARENESS INITIATIVES AND CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

A total of 220 people including a number of our employees attended the event. There were various activities aimed at educating the deaf on general matters of money management and considerable interest shown in learning more. Going forward in 2013, we aim to also organise a briefing on financial consumer protection targeted at the deaf community.

Money Management and Career Planning Workshops: We also co-sponsored two money management and career planning workshops for the deaf youth and students. The programme aims to broaden the deaf's horizons and build their financial literacy skills and self-confidence.

Two workshops were held at SMK Abdul Samad Klang on 3 July 2012 (attended by 34 deaf students, 25 teachers and a few parents), and SMPK Vokasional Shah Alam on 4 September 2012 (attended by 70 deaf students and 12 teachers) respectively. As part of employee involvement, we provided training for employees who volunteered to facilitate these workshops, a role previously outsourced. We leveraged on the PIDM Project MoneySmart so that deaf participants could be exposed to money management matters and the importance of savings as well as tips on managing their finances for the future.

Employee Engagement

The CSR Committee initiated a Corporate-wide competition to solicit CSR project ideas from our employees. Winners of the top five winning proposals were presented with a RM200 voucher each, to be donated to a charitable fund of their choice. Our aim was to engage and allow our employees to personally witness the difference they can make through their contributions to society.

Orang Asli Settlement Visit: In our effort to promote education among the Orang Asli population, we collaborated with the Children Education and Welfare Society and identified the Tangkak 11 Orang Asli Settlement in Pahang for this purpose. On 1 June 2012, eight of our employees and some family members visited the settlement and distributed new school bags packed with basic stationery needs and reading materials to some 70 Orang Asli school children.

Home Visitation: The CSR Committee also chose to visit Anbe Sivam Care Centre *(Pusat Jagaan Anbe Sivam)* in Klang, a home for the less fortunate and the disabled. The 58 residents include children and adults with disabilities, senior citizens, single mothers and their children. Together with the home's caregivers, we came up with a list of items that the home needed for its residents. The CSR Committee undertook a collection drive for the items required by the home and on 13 October 2012, 15 of our employees, accompanied by some family members, made the trip to Anbe Sivam Care Centre to present these items and interact with residents.

Reducing Our Environmental Footprint

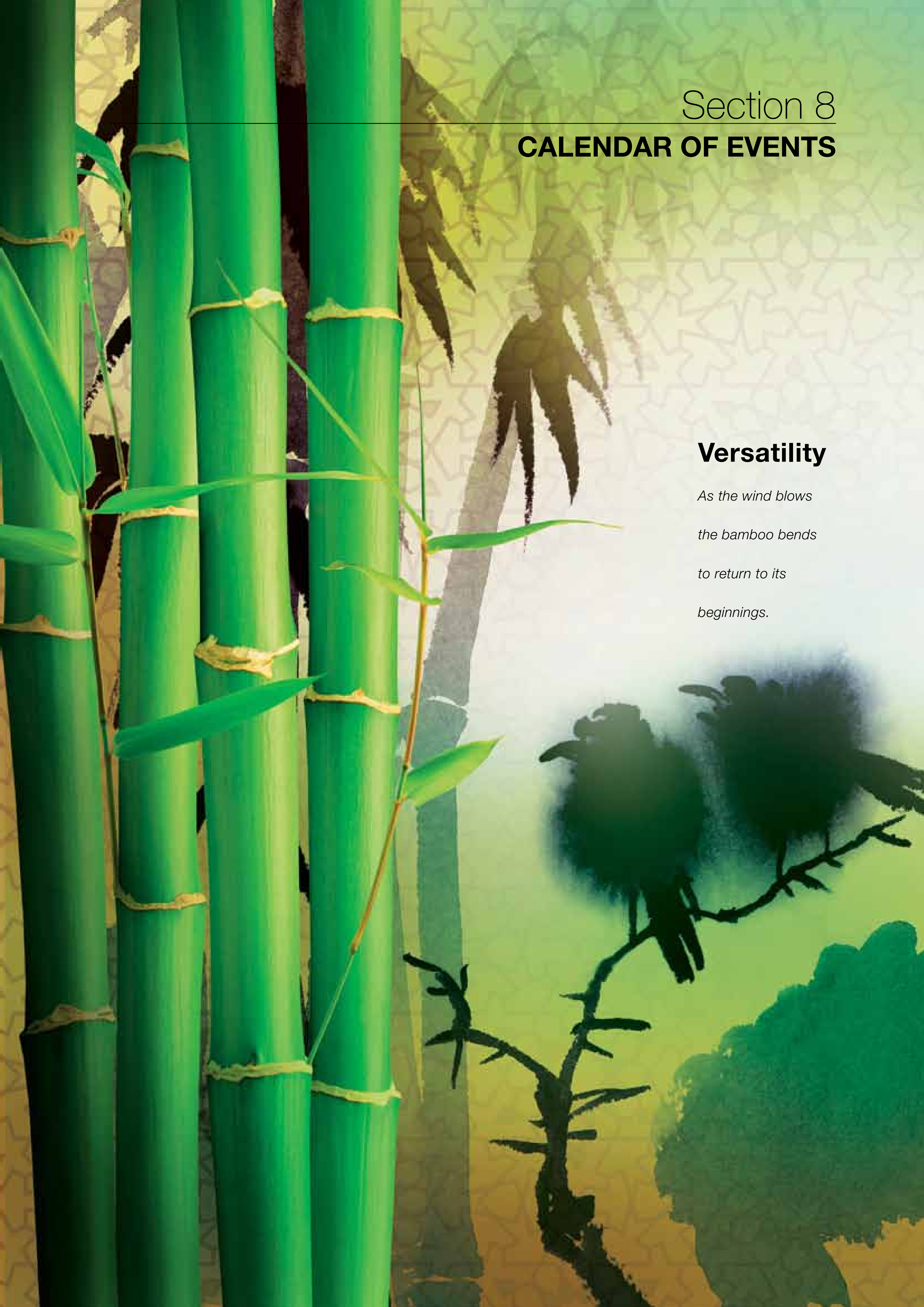
The Corporation continuously strives to do its part to reduce the environmental footprint. As such, we have continued to collect recyclables such as paper, plastic, cardboard, glass, aluminium and newsprint. Proceeds from the sale of the collected recycled items are added to the CSR fund and the monies in the CSR fund will be matched ringgit for ringgit by the Corporation. The fund is held in trust for charitable causes that the Corporation will choose to contribute to from time to time.

CONCLUSION

In conclusion, we have to say that we were pleased with our CSR efforts in 2012. We believe we have considerable buy-in from our employees for our philosophy, which is to carry on our business and affairs in a socially responsible, sustainable and meaningful way. It is our intention to integrate corporate social responsibility into our collective ethos, remembering that "we make a living by what we get, but we make a life by what we give" – Winston Churchill.

Section 8

CALENDAR OF EVENTS



Versatility

As the wind blows

the bamboo bends

to return to its

beginnings.

CALENDAR OF EVENTS

JANUARY

17 PIDM, Kuala Lumpur
Audit Committee Meeting

26 PIDM, Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of UiTM Dungun, Terengganu

27 PIDM, Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Banking Undergraduates Club *(Kelab Mahasiswa Perbankan),* Universiti Sultan Zainal Abidin (UniSZA), Terengganu

FEBRUARY

7 - 10 Kuala Lumpur
Exhibition at the Malaysian Accounting Students Convention 2012, Universiti Malaya

9 Kuala Lumpur
Annual Meeting with Liaison Officers of Member Banks

13 PIDM, Kuala Lumpur
Audit Committee Meeting

16 Bangi, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

21 - 24 Istanbul, Turkey
Presentation by PIDM on Integrated Deposit Insurance Systems at the International Association of Deposit Insurers (IADI) Executive Council 35th Committee Meeting

22 Kuala Lumpur
Annual Meeting with Liaison Officers of Insurer Members

24 PIDM, Kuala Lumpur
Briefing on Work Life Coaching for PIDM employees

25 PIDM, Kuala Lumpur
Governance Committee Meeting

28 PIDM, Kuala Lumpur
Special Audit Committee Meeting and Board of Directors Meeting

MARCH

1 Bangi, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

7 Shah Alam, Selangor
Exhibition and Briefing on the Enhanced Financial Consumer Protection Package for employees of PHN Industry Sdn. Bhd.

7 - 9 Kyoto, Japan
Participated in the 6th Deposit Insurance Corporation of Japan (DICJ) Roundtable

12 - 14 Phuket, Thailand
Tripartite Meeting on Transition Back to Limited Coverage

14 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

15 - 16 PIDM, Kuala Lumpur
Cardiopulmonary Resuscitation (CPR) and First Aid Certification Training for PIDM employees

22 Johor Bahru, Johor
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

26 - 30 Kuala Lumpur
Regional Workshop on Assessment of Compliance with the IADI Core Principles for Effective Deposit Insurance Systems hosted by PIDM

CALENDAR OF EVENTS

APRIL

1 Pasir Mas, Kelantan
Prize-Giving Ceremony for MoneySmart Online Game Contest 2011, PIDM Project MoneySmart, PIDM Education Programme at SMK Chetok

3 Cologne, Germany
Presentation by PIDM on IADI Research Paper: Developing Effective Reimbursement Systems and Processes at the European Forum of Deposit Insurers (EFDI) Seminar on Payout: Methods and Tools to Reimburse Depositors

4 Georgetown, Pulau Pinang
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

5 Petaling Jaya, Selangor
Briefing on the Enhanced Financial Consumer Protection Package and PIDM Project MoneySmart for employees of the Petaling Utama District Education Office

6 Putrajaya
Briefing on the Enhanced Financial Consumer Protection Package for employees of Corporate Communication Unit, Ministry of Finance

6 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Financial Sector Talent Enrichment Programme (FSTEP)

6 - 8 Kuala Lumpur
Exhibition at the Malaysian Business Student Summit, Universiti Malaya

7 Melaka
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

7 Shah Alam, Selangor
PIDM-Media Golf Friendly 2012

10 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

10 Ipoh, Perak
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

APRIL

14 Klang, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

16 Bangi, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of Public Bank Berhad

16 PIDM, Kuala Lumpur
Special Board of Directors Meeting

19 Kuala Lumpur
Signing Ceremony of Revised Strategic Alliance Agreement with Bank Negara Malaysia (BNM)

21 Muar, Johor
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

23 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

24 - 25 Kuala Lumpur
Study Visit by Indonesia Deposit Insurance Corporation (IDIC) on Implementation of Corporate and Individual Key Performance Indicators

25 PIDM, Kuala Lumpur
Train-the-trainers session for PIDM Education Programme 2012

25 - 27 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

28 Sibu, Sarawak
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

CALENDAR OF EVENTS

MAY

2 Hanoi, Vietnam
Presentation by PIDM on Intervention, Failure Resolution and Reimbursement at the Bank Restructuring Course organised by the State Bank of Vietnam

3 PIDM, Kuala Lumpur
Fire Prevention Awareness Seminar for PIDM employees

3 Hong Kong, China
Presentation by PIDM on Payout during Briefing to Hong Kong Monetary Authority (HKMA) and Hong Kong Deposit Protection Board (HKDPB)

4 Kuching, Sarawak
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

8 Kuala Lumpur
Launch of PIDM Annual Report 2011

Annual Dialogue with Member Institutions

9 Kuala Terengganu, Terengganu
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

9 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of Citibank Berhad

10 PIDM, Kuala Lumpur
Governance Committee Meeting

12 Kota Kinabalu, Sabah
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

12 Klang, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

13 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

MAY

14 PIDM, Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of Social Sciences Communications Club, Universiti Malaysia Sabah (UMS)

15 Batu Pahat, Johor
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

Briefing on the Enhanced Financial Consumer Protection Package for insurance agents

16 Seremban, Negeri Sembilan
Briefing on the Enhanced Financial Consumer Protection Package for insurance agents

16 Kota Kinabalu, Sabah
Briefing on the Enhanced Financial Consumer Protection Package for employees of CIMB Bank Berhad

16 PIDM, Kuala Lumpur
Briefing on Differential Levy System (DLS) Framework's Consultation Paper for Member Institutions: Composite Insurers

17 Alor Setar, Kedah
Briefing on the Enhanced Financial Consumer Protection Package for insurance agents

17 PIDM, Kuala Lumpur
Audit Committee Meeting

Briefing on DLS Framework's Consultation Paper for Member Institutions: General and Life Insurers

18 Bachok, Kelantan
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

18 Tanah Merah, Kelantan
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

24 Kuantan, Pahang
Briefing on the Enhanced Financial Consumer Protection Package for insurance agents

25 - 26 Port Dickson, Negeri Sembilan
Teambuilding session for PIDM employees

CALENDAR OF EVENTS

JUNE

1 Kuala Lumpur
Remuneration Committee Meeting

1 Pahang
PIDM Corporate Social Reponsibility (CSR) Initiative – Visit to Orang Asli Settlement at Tangkak 11

2 Kuala Lumpur
PIDM CSR Initiative – DeafMoolah Financial Fair for deaf community

4 - 6 Moscow, Russia
Presentation by PIDM on Bank Resolution and Public Awareness on Deposit Insurance at the IADI Asia-Pacific Regional Committee (APRC) 10th Annual Meeting and International Conference

7 - 8 Yerevan, Armenia
Presentation by PIDM on Developing Best Practice Governance in Deposit Insurance Systems at the EFDI Seminar on The Role of Governance in Deposit Guarantee Schemes

12 Kuala Terengganu, Terengganu
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

13 PIDM, Kuala Lumpur
PIDM CSR Initiative – Organ Donation Awareness talk for PIDM employees

14 Kota Bharu, Kelantan
Briefing on the Enhanced Financial Consumer Protection Package for insurance agents

19 Georgetown, Pulau Pinang
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

20 Berlin, Germany
Study Visit to Protektor Lebensversicherungs-AG on the Formulation and Administration of Differentiated Levy System and the Experience in the Takeover and Administration of Life Business from Insolvent Insurers

20 - 21 Kuala Lumpur
Strategic Planning Workshop for PIDM Senior Management

21 Berlin, Germany
Presentation by PIDM on the Takaful and Insurance Benefits Protection System (TIPS) at the European Insurance Guarantee Schemes Meeting

23 - 24 Kuantan, Pahang
Board Education Session

25 - 26 Kuantan, Pahang
PIDM Corporate Outreach 2012

26 - 29 Washington DC, USA
IADI Executive Council 36th Committee Meeting

JULY

2 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of AXA Affin General Insurance Berhad

2 PIDM, Kuala Lumpur
Board of Directors Meeting

2 - 6 PIDM, Kuala Lumpur
PIDM Open House for African Region

3 Sungai Petani, Kedah
Briefing on the Enhanced Financial Consumer Protection Package for insurance agents

3 Klang, Selangor
PIDM CSR Initiative – Money Management and Career Planning Workshop for deaf students of SMK Sultan Abdul Samad Klang

4 Ipoh, Perak
Briefing on the Enhanced Financial Consumer Protection Package for insurance agents

4 Sri Damansara, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of ING Insurance Berhad

8 - 9 Bangkok, Thailand
Presentation by PIDM on The Financial Crisis and Deposit Insurance Systems: Lessons for Asia on Promoting Financial Stability, Savings and Growth at the Sasin Bangkok Forum on Asia in Transformation

10 PIDM, Kuala Lumpur
Special Board of Directors Meeting

10 - 13 PIDM, Kuala Lumpur
Study Visit by Central Deposit Insurance Corporation, Taiwan

14 Johor Bahru, Johor
Exhibition and Briefing on the Enhanced Financial Consumer Protection Package for members of the public

16 Bangi, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of Public Bank Berhad

24 Kuala Lumpur
Buka Puasa with members of the Media

25 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of Citibank Berhad

27 PIDM, Kuala Lumpur
Special Audit Committee Meeting

CALENDAR OF EVENTS

AUGUST

3 Sri Damansara, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of ING Insurance Berhad

3 Kuala Lumpur
Buka Puasa for PIDM employees and families

11 Petaling Jaya, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

27 Baku, Azerbaijan
Presentation by PIDM on Experience of Malaysia at the Eurasia Regional Committee (EARC) Annual Meeting and Seminar on Self-Assessment of Deposit Insurance Systems in EARC Countries

27 - 30 Kuala Lumpur
Study Visit by the Office of Technical Assistance, United States Department of the Treasury

28 PIDM, Kuala Lumpur
Interview by The Sun with PIDM Chief Operating Officer (COO)

28 Kuala Lumpur
Presentation by PIDM on Consumer Protection and Financial Inclusion at the BNM - Islamic Financial Services Board (IFSB) Financial Inclusion Advisers Programme and Seminar on Islamic Microfinance

28 - 30 Basel, Switzerland
Presentation by PIDM on Early Detection and Timely Intervention as well as Moderator for Round Table Discussion on Preparing for the Resolution of Systemically Important Financial Banks at the Financial Stability Institute (FSI) - IADI Seminar on Bank Resolution

29 Kuala Lumpur
PIDM *Hari Raya* Open House for employees and key stakeholders

SEPTEMBER

3 PIDM, Kuala Lumpur
Audit Committee Meeting

4 Shah Alam, Selangor
PIDM CSR Initiative – Money Management and Career Planning Workshop for deaf students of SMPK Vokasional Shah Alam

4 - 8 Langkawi, Kedah
International Workshop on Integrated Deposit Insurance Systems: Integrating Insurance Protection within Deposit Insurance hosted by PIDM

SEPTEMBER

5 PIDM, Kuala Lumpur
PIDM Safety and Health Initiative – Reality Environment Applied Combat Tactics (REACT) Training on Crime Prevention and Survival Programme for PIDM employees

6 Kuala Lumpur
Exhibition at Forum on Private Retirement Schemes in Malaysia

9 - 10 PIDM, Kuala Lumpur
Study Visits by Deposit Insurance and Credit Guarantee Corporation of India (DICGC) and Jamaica Deposit Insurance Corporation (JDIC)

10 Bangi, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of Public Bank Berhad

10 - 14 PIDM, Kuala Lumpur
Intervention and Failure Resolution (IFR) Training and Simulation Exercise on Resolution of Insurance Companies

11 Kuching, Sarawak
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

12 Miri, Sarawak
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

13 PIDM, Kuala Lumpur
Governance Committee Meeting

20 Banting, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for members of the public

21 - 22 Kuala Lumpur
PIDM Scholarship Induction Programme and Award Ceremony

24 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for BNM supervisors

25 - 27 Khartoum, Sudan
Presentation by PIDM on Preconditions for establishing an Effective Islamic Deposit Insurance Scheme at the IADI Africa Regional Committee (ARC) Annual Conference entitled Challenges of Financial Inclusion in Africa and Middle East and North Africa (MENA) Regional Committee Meeting

27 PIDM, Kuala Lumpur
Board Education Session

Special Board of Directors Meeting – Strategic Planning

CALENDAR OF EVENTS

OCTOBER

4 PIDM, Kuala Lumpur
Board of Directors Meeting

6 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for members of The Boys' Brigade in Malaysia

9 PIDM, Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

10 - 11 Washington DC, USA
International Association of Insurance Supervisors (IAIS) Committee Meetings, Annual Conference and General Meeting

13 Klang, Selangor
PIDM CSR Initiative – Visit to Anbe Sivam Care Centre *(Pusat Jagaan Anbe Sivam)*

17 Johor Bahru, Johor
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

22 - 26 London, England
IADI 11th Annual General Meeting and Conference

29 PIDM, Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for students and academic staff of FSTEP

NOVEMBER

1 Tawau, Sabah
Briefing on the Enhanced Financial Consumer Protection Package for Member Institutions

1 Kuala Lumpur
National Annual Corporate Report Awards (NACRA) 2012 Award Presentation Ceremony

1 - 2 Putrajaya
Exhibition at the Innovation Day *(Hari Inovasi)*, Ministry of Finance

5 Bangi, Selangor
Briefing on the Enhanced Financial Consumer Protection Package for employees of Public Bank Berhad

6 Kuala Lumpur
Exhibition at the Malaysian Financial Planning Council (MFPC) Talk and Forum Series 2012

8 PIDM, Kuala Lumpur
Briefing on PIDM for senior officers of Kuwait Finance House (Malaysia) Berhad

9 PIDM, Kuala Lumpur
Special Board of Directors Meeting

NOVEMBER

14 Seoul, Korea
Presentation by PIDM on Effective Resolution Processes at the IADI Executive Training Seminar on Deposit Insurance Schemes: A Well-Developed Legal Framework and Selected Legal Issues

15 - 16 Yangon, Myanmar
Presentation by PIDM on Deposit Insurance: The Malaysian Experience at the Workshop on Sharing Experiences with East Asian Countries jointly organised by Central Bank of Myanmar and Myanmar Economic Resources International (MERI) Deposit Insurance

19 PIDM, Kuala Lumpur
Audit Committee Meeting

19 - 20 Kuala Lumpur
Exhibition at the Asian Finance Forum 2012

19 - 20 PIDM, Kuala Lumpur
Interschool Thematic Project Competition Finale, PIDM Project MoneySmart

21 Putrajaya
PIDM Education Programme Closing and Prize-Giving Ceremony for PIDM Project MoneySmart Interschool Thematic Project Competition and Best PIDM Ambassadors

23 Kuala Lumpur
Remuneration Committee Meeting

25 - 27 Yogyakarta, Indonesia
IADI Islamic Deposit Insurance Group (IDIG) 4th Seminar on Islamic Deposit Insurance: Promoting Financial Stability through Effective Islamic Deposit Insurance Coverage jointly organised by IDIC and PIDM

26 PIDM, Kuala Lumpur
Board Education Session

27 Kuala Lumpur
The Malaysia Deposit Insurance Corporation (Disclosure Requirements for Trust Accounts and Joint Accounts) Regulations 2012 were gazetted and came into operation

30 PIDM, Kuala Lumpur
Special Board of Directors Meeting

CALENDAR OF EVENTS

DECEMBER

1 Kuala Lumpur
PIDM Annual Dinner 2012

3 - 7 Kuala Lumpur
Asia-Pacific Economic Cooperation (APEC) Financial Regulators' Training Initiative (FRTI) Seminar on Crisis Preparedness for Banking Regulators and presentation by PIDM on Role of Deposit Insurance in Crisis Preparation and Management hosted by PIDM

4 PIDM, Kuala Lumpur
Special Audit Committee Meeting

7 PIDM, Kuala Lumpur
Board of Directors Meeting

7 Manila, Philippines
Study Visit to Philippines Deposit Insurance Corporation (PDIC)

10 - 11 PIDM, Kuala Lumpur
Knowledge Sharing Session on Crisis Communications with Central Deposit Insurance Corporation, Taiwan

10 - 12 Jakarta, Indonesia
Tripartite Study Visit to IDIC on Bank Liquidation

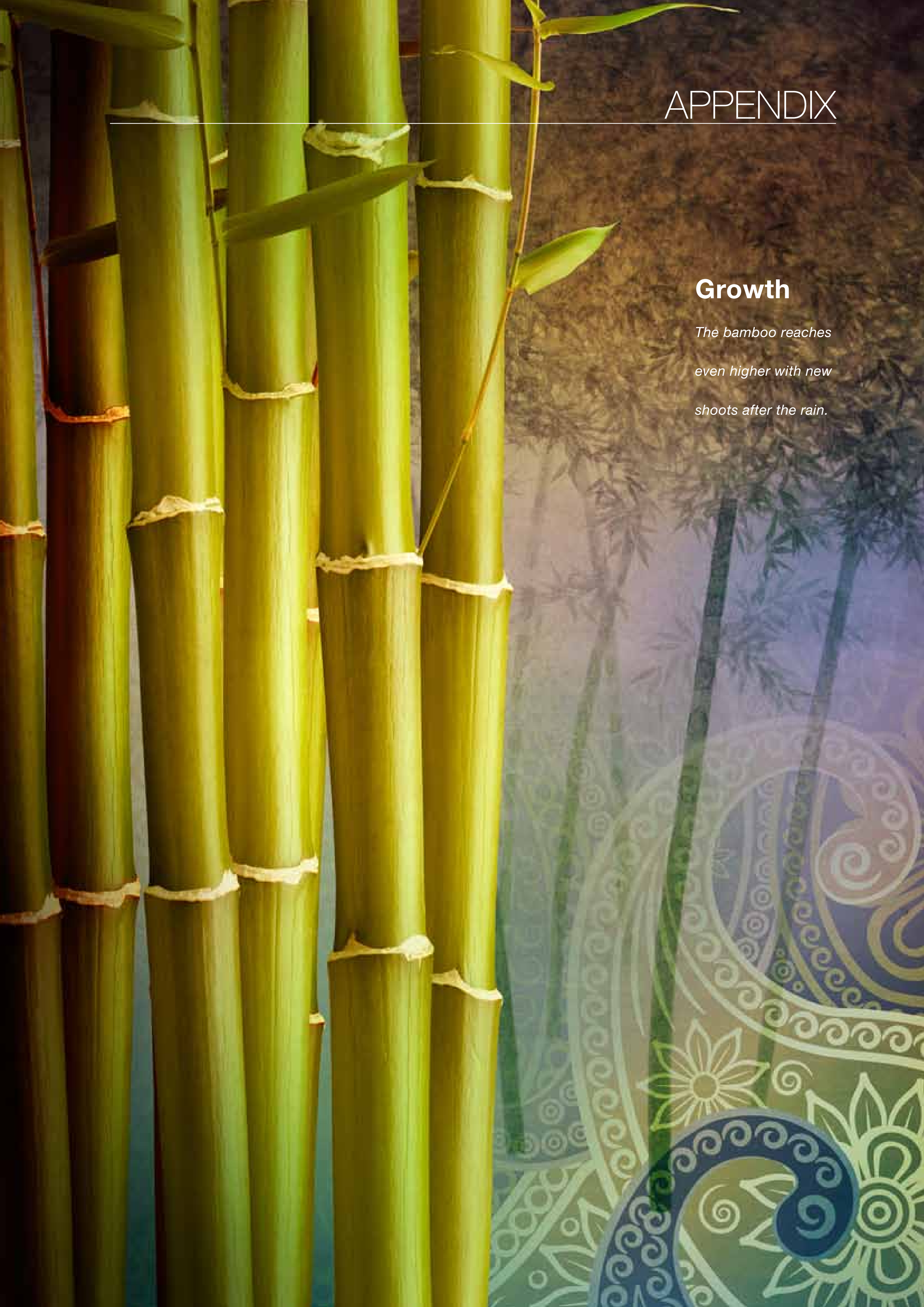
12 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of Takaful Ikhlas Sdn. Bhd.

13 - 14 Singapore
Study Visit to Singapore Deposit Insurance Corporation (SDIC)

16 Kuala Lumpur
PIDM Community Talk organised by the Federation of Malaysian Consumers Associations (FOMCA)

18 Kuala Lumpur
Briefing on the Enhanced Financial Consumer Protection Package for employees of Citibank Berhad

27 Kuala Lumpur
PIDM Community Talk organised by FOMCA



APPENDIX

Growth

The bamboo reaches

even higher with new

shoots after the rain.

APPENDIX
CHARTER OF GOVERNANCE COMMITTEE

1.0 MANDATE

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

2.0 OBJECTIVE

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

3.0 OPERATING PRINCIPLES

3.1 **Functions and Composition**

(a) The Committee shall comprise at least three members of the Board, as named by the Board.

(b) Members of the Committee shall each be independent of Management.

(c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 **Chair** – The Committee shall be chaired by the Chairman of the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

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

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

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

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

3.7 **Frequency of Meetings** – The Committee will meet at the discretion of its Chair, but not less frequently than twice each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

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

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

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

3.11 **Term of Appointment / Rotation / Re-appointment of Members** – Membership of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire membership of the Committee is not changed at any one time. The advice of the Chair on a Committee member's performance shall be considered where an extension of that member's tenure or re-appointment is being considered.

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

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

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

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

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

3.17 **Conflict of Interest** – In the event that the matter being considered is the re-appointment of the Chairman or the re-appointment of a non-ex officio Director of the Board who is a member of the Committee, the Chairman or the non-ex officio Director (as the case may be) shall not participate in the meeting whilst the Committee discusses, deliberates or decides on the matter. During such time, the Chairman or the non-ex officio Director (as the case may be) will absent himself or herself from the meeting.

4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

4.1 Corporate Governance Oversight

(a) The Committee shall review at least annually the Corporation's approach to governance issues and shall make recommendations to the Board respecting revisions to the Corporation's governance policies, including codes of business conduct and conflict of interest for Directors and employees. The Committee shall make recommendations to the Board on policies with regard to Director tenure, retirement and succession.

(b) The Committee shall ensure the ongoing administration of the policies and procedures that enable a Board committee or member of the Board to engage separate independent counsel or other advisors in appropriate circumstances and at the Corporation's expense.

(c) On a periodic basis, the Committee shall review the Corporation's mandate as set out in the Malaysia Deposit Insurance Corporation Act and make any recommendation it sees fit to the Board.

(d) The Committee shall keep up to date on corporate governance developments so as to ensure the Corporation's governance practices are in line with best practices.

(e) The Committee shall undertake such other governance initiatives as may be necessary or desirable to ensure that the appropriate processes, structures and information necessary for effective direction and oversight are in place to contribute to the sound governance and management of the Corporation.

4.2 Evaluation of Board Operations and Board Committees

(a) In consultation with the Chief Executive Officer (CEO), the committee shall assess the needs of the Board in terms of the frequency and location of Board and Committee meetings, meeting agendas, documents and information, and the conduct of meetings, and make recommendations to the Board as required.

(b) The Committee shall annually review, for Board approval, the mandates and responsibilities of the Board, the Chairman of the Board, the CEO, a member of the Board and the Board Committees.

(c) The Committee shall annually implement, and regularly review, the process to assist the Board in determining whether the Board is satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention, as well as the appropriateness of that information.

(d) The Committee shall annually implement, and regularly review, the method for regularly evaluating and assessing the effectiveness of the Board and of individual members of the Board and Board Committees and recommend any appropriate action plans to address any significant findings.

APPENDIX

CHARTER OF GOVERNANCE COMMITTEE

(e) The Committee shall, after the affected Committees have conducted their annual review of their respective Charters, annually review each of the Board Committee Charters together and recommend proposed amendments (if any) to the Board Committee Charters to the Board.

4.3 **Board Nominations**

(a) The Committee shall annually review both a Board profile and a Board member profile of qualifications and skills and characteristics for individual directors, taking into consideration the current strengths, skills and experience on the Board, terms, retirement dates and the strategic direction of the Corporation.

(b) The Committee shall identify a list of potential Board nominees who possess the skills, experience, knowledge and characteristics which fit the profiles and update such list on a regular basis.

(c) When a vacancy or vacancies on the Board occurs or are anticipated, the Committee shall prepare and recommend to the Board a list of potential nominees.

(d) Develop and implement a strategy to communicate the profiles and potential candidate or candidates to the Minister.

(e) The Committee shall review periodically the compensation programme of members of the Board and make recommendations to the Board.

(f) The Committee shall make recommendations regarding the orientation programme, training and ongoing development of members of the Board.

4.4 **Succession Planning** – The Committee shall review Management's succession plans for the CEO and other corporate officers and make recommendations in respect of the same, to the Board for approval.

4.5 **Leadership Needs** – The Committee shall keep under review the leadership needs of the Corporation, both executive and non-executive, with a view to ensure the continued ability of the Corporation to efficiently and effectively meet its mandate.

4.6 **Reporting and Disclosure** – Recommend to the Board the content of such governance reports as may be required or considered advisable for public disclosure.

4.7 **Stakeholder Awareness and Engagement** – The Committee shall:

(a) review and recommend for Board approval, any amendments to the Corporation's Communications Policy;

(b) review and recommend for Board approval, the Corporation's long-term public awareness strategies and receive the public awareness plan of activities for the next fiscal year; and

(c) regularly receive and review the results of such plan.

APPENDIX
CHARTER OF REMUNERATION COMMITTEE

1.0 MANDATE

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

2.0 OBJECTIVE

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

3.0 OPERATING PRINCIPLES

3.1 **Functions and Composition**

(a) The Committee shall comprise at least three members of the Board, as named by the Board.

(b) Members of the Committee shall each be independent of Management.

(c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 **Chair** – The Committee shall be chaired by one of its members, as named by the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

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

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

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

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

3.7 **Frequency of Meetings** – The Committee will meet at the discretion of its Chair, but not less frequently than twice each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

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

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

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

3.11 **Term of Appointment / Rotation / Re-appointment of Members** – Members of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time. The RC Chair shall provide advice to the Chairman of the Board on a Committee member's performance where an extension of that member's tenure or re-appointment is being considered.

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

3.13 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

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

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

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

4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

4.1 **Policies and Strategies**

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

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

(c) The Committee shall ensure that the Corporation develops on an ongoing basis, adequate, appropriate and effective policies, strategies, controls, processes and procedures within the Corporation to maintain an organisational climate that fosters ethical employee business conduct and behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction and shall review policies and codes in respect of the same and make recommendations, if any, to the Board for approval.

4.2 **Compliance and Reports** – The Committee shall review reports with respect to:

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

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

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

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

4.5 **Bonus Range and Awards** – The Committee will make recommendations to the Board with regard to the annual bonus range and shall review and approve individual employee bonus awards as recommended by the CEO. The Committee shall also conduct a review of the Corporation's policy on bonus awards, and make recommendations to the Board as required.

4.6 **CEO Objectives and Evaluation** – The Committee shall:

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

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

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

APPENDIX
CHARTER OF AUDIT COMMITTEE

1.0 MANDATE

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

2.0 OBJECTIVE

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

3.0 OPERATING PRINCIPLES

3.1 (a) **Functions and Composition** – The Committee shall comprise at least three members of the Board of Directors, as named by the Board. Committee members shall each be independent of Management. The Committee will carry out such functions as are assigned or delegated to it by the Board.

(b) **Competencies** – All Committee members appointed to the Committee shall either:

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

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

The Chair and the Vice-Chair (if appointed) shall have financial expertise. "Financial expertise" means a person who has professional qualifications as an accountant and who has had extensive experience in auditing.

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

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

3.3 **Vice-Chair** – The Vice-Chair may, if the Board considers appropriate, for the purposes of succession planning be appointed from among the non-ex officio Directors, as named by the Board. In the absence of the Chair, if there is a Vice-Chair, the Vice-Chair shall preside at the meeting of the Committee, and while so presiding, shall have all the powers of the Chair. If the Chair or the Vice-Chair is absent or there is no Vice-Chair, a chair shall be appointed by the members present, who shall preside at the said meeting, or until the arrival of the Chair or the Vice-Chair, as the case may be. The Vice-Chair (if appointed) is the Chair's deputy, and shall perform on his behalf such duties as may be delegated by the Chair.

3.4 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee. A quorum shall only be constituted where the Chair or Vice-Chair is present at the meeting.

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

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

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

APPENDIX
CHARTER OF AUDIT COMMITTEE

3.8 **Frequency and Calling of Meetings** – The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than four times each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

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

3.10 **Auditor General (AG)** – The Auditor General, as referred to in the Audit Act 1957 (Revised 1972) (Act 62), is:

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

(b) may call a meeting of the Committee.

3.11 **Private Meetings** – The Committee may meet privately as a committee, and periodically with Management, the AG and the heads of enterprise risk management and the internal audit function in separate private sessions.

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

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

3.14 **Term of Appointment / Rotation / Re-appointment of Committee Members** – Members of the Committee shall be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time. The AC Chair shall provide advice to the Chairman of the Board on a Committee member's performance where an extension of that member's tenure or re-appointment is being considered.

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

3.16 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter at least annually. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

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

3.18 **Disclosure** – The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.

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

4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

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

4.2 **Investigation** – In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, AG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it.

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

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

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

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

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

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

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

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

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

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

(f) reviewing the process relating to and the certifications of the Chief Executive Officer (CEO) and the Chief Financial Officer on the integrity of the Corporation's financial statements;

(g) reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit coverage and overall effort; satisfying itself that the AG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the AG's work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;

(h) reviewing and monitoring the implementation of recommendations made through the annual audit by the AG and any management letter provided by the AG and Management's responses to such reports and any such letter;

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

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

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

(ii) the transactions of the Corporation are in accordance with the requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), other legislative

APPENDIX
CHARTER OF AUDIT COMMITTEE

requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister's Department (if applicable); 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.

4.5 **Strategic and Financial Management Oversight:**

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

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

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

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

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

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

The Audit Committee is responsible for the oversight of the work of the internal audit function and for the compensation and oversight of the Chief Internal Auditor. 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 appointment of the Chief Internal Auditor must be approved by the Board.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Committee shall:

(a) ensure that sound policies, guidelines and practices are implemented for the management of key corporate risks;

(b) receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;

(c) review with Management and advise the Board on the Corporation's policies and guidelines implemented to manage the Corporation's risk exposures, and review such policies and guidelines at least once a year to ensure that they remain appropriate and prudent;

(d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies and guidelines for significant risks are being adhered to;

(e) report to the Board on: the significant risk profile; the mitigation plans and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;

(f) periodically consider the respective roles of the AG and internal audit function concerning risk management at the Corporation and annually evaluate the AG's and internal audit function's respective performance in relation to such roles;

(g) request reports from the internal audit function validating Management's risk assessments; and

(h) review with Management and advise the Board on whether a sound and effective approach has been followed in establishing the Corporation's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.

4.8 **Ethical and Legal Compliance** – The Committee shall:

(a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;

(b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management, reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a liability to the Corporation; and by reviewing any report that is received from the internal audit function, the AG and / or other Committee Chairs on their review of compliance with same;

(c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain reports, on an annual basis, that the Corporation is in conformity with applicable legal requirements;

(d) review the results of Management's investigation of, and actions taken in connection with, any internal control or accounting matters that may be questionable;

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

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

APPENDIX
CORPORATE SCORECARD 2013 - 2015

Corporate Objectives			Key Performance Indicators (KPIs) / Corporate Initiatives	Targets 2013	Targets 2014	Targets 2015
Stakeholders	A	Educated and informed stakeholders	1. Public awareness index: a. General awareness of PIDM b. General awareness of deposit insurance system (DIS) c. General awareness of takaful and insurance benefits protection system (TIPS)	 50% 40% 25%	 55% 45% 30%	 60% 50% 35%
Stakeholders	A	Educated and informed stakeholders	2. Successful completion of key initiative(s): a. Review and implement Integrated Communications Plan b. Education programme	 Complete Implement and review	 Complete Implement and review	 Complete Implement and review
Stakeholders	B	Effective partnerships	3. PIDM's relationship with: a. Bank Negara Malaysia b. Member institutions c. Key suppliers and strategic partners d. Other deposit insurers e. Other stakeholders	 Strong Satisfactory Strong Strong Satisfactory	 Strong Satisfactory Strong Strong Satisfactory	 Strong Satisfactory Strong Strong Satisfactory
Stakeholders	B	Effective partnerships	4. International fora	Active participation	Active participation	Active participation
Stakeholders	B	Effective partnerships	5. The Financial Institutions Directors' Education (FIDE) Programme and the Alumni (FIDE FORUM)	Active participation	Active participation	Active participation
Governance and Internal Processes	C	Well-governed and well-managed organisation	6. Board assessment on: a. Best practices of governance adopted and maintained b. Significant policies and practices complied with and kept current and relevant c. Quality of management support to the Board	 High satisfaction High satisfaction High satisfaction	 High satisfaction High satisfaction High satisfaction	 High satisfaction High satisfaction High satisfaction
Governance and Internal Processes	C	Well-governed and well-managed organisation	7. Successful completion of key initiative(s): a. ERM Board Risk Policies and Reports b. Review MDIC Act 2011 and recommend amendments, where necessary	 Review and enhance Complete	 Review and enhance -	 Review and enhance -
Governance and Internal Processes	D	Robust risk assessment, monitoring, intervention and resolution capabilities	8. Successful completion of key initiative(s): a. Review and enhance Total Insured Deposits (TID) and Differential Premium Systems (DPS)-related regulations for DIS b. Differential Levy System (DLS) framework for TIPS: i. DLS framework for conventional ii. DLS framework for Takaful (Interim) c. Review and enhance TIPS-related regulations d. Risk Assessment and Monitoring Methodology and Framework: i. Enhance Risk Assessment System for DIS ii. Develop Risk Assessment System for TIPS e. Early Warning System (EWS) i. DIS ii. TIPS f. Intervention and Failure Resolution Framework including policies, processes and procedures: i. Operationalisation of IFR policies and procedures for member banks ii. Amend IFR policies and procedures to include consideration for insurer members	 Develop and consult Implement Research and develop Review and enhance Develop and implement Develop Develop and validate Research Develop Develop	 Implement Review Develop and implement Review and enhance Review and enhance Develop and implement Implement Develop Complete Complete	 Review Review Review Review and enhance Review and enhance Review and enhance Review Develop and validate Review Review

Perspective		Corporate Objectives	Key Performance Indicators (KPIs) / Corporate Initiatives	Targets 2013	Targets 2014	Targets 2015
Governance and Internal Processes	D	Robust risk assessment, monitoring, intervention and resolution capabilities	g. Evaluation Model and System - DIS and TIPS h. Recovery and resolution framework for complex financial institutions i. Policies and regulations: i. TIPS Information Regulations ii. Terms and Conditions of Membership Regulations - DIS and TIPS j. Simulation on Intervention and Failure Resolutions k. Develop the remaining audit programme to ensure integrity of Payout Data, Systems and Processes for member banks l. Claims management infrastructure, policies and procedures for insurer members: i. Phase 1a: Product Registry System ii. Phase 1b: Claims Management System iii. Phase 1c: Policy Holders Support Management System iv. Phase 2: Payment Management System m. Member institutions' compliance programme with MDIC Act	Develop Develop Develop and consult Implement Complete Complete Implement Develop Develop Develop Review and enhance	Complete - Implement - Complete Review and enhance Monitor Complete Complete Complete -	Review - Monitor - Complete - Monitor Implement Implement Implement -
Governance and Internal Processes	E	Sound business and financial practices	9. Reporting through: a. Annual Report b. Corporate Plan	Complete Complete	Complete Complete	Complete Complete
			10. Actual vs. approved budgets	±10% variance	±10% variance	±10% variance
			11. Internal Control Compliance	Strong	Strong	Strong
			12. Internal Customer Satisfaction	75%	75%	75%
			13. Successful completion of key initiative(s): a. Target Fund for TIPS b. Develop and implement the following strategic plans: i. Annual Information Technology Strategic Plan ii. Annual Business Continuity Management Plan c. Disaster Recovery Site and infrastructure d. Corporate Information Management	Research and develop Complete Complete Construct Implement	Implement Complete Complete Construct Review and enhance	Review and enhance Complete Complete Complete Full compliance
Learning and Growth	F	Competent and knowledgeable workforce	14. Continuous learning and development programmes	Complete	Complete	Complete
			15. Successful completion of key initiative: a. Knowledge Management Policies and Practices	Implement	Review and enhance	Implement
Learning and Growth	G	Conducive corporate environment	16. Employee Engagement Index (survey conducted once every two years to gauge level of employee satisfaction)	75%	-	75%
			17. Successful completion of key initiative: a. Employee-related programmes	Implement	Implement	Implement

APPENDIX
LIST OF MEMBER INSTITUTIONS

As at 31 December 2012, PIDM's member institutions are as follows:

Commercial Banks (27)

1. Affin Bank Berhad
2. Alliance Bank Malaysia Berhad
3. AmBank (M) Berhad
4. Bangkok Bank Berhad
5. Bank of America Malaysia Berhad
6. Bank of China (Malaysia) Berhad
7. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad
8. BNP Paribas Malaysia Berhad
9. CIMB Bank Berhad
10. Citibank Berhad *
11. Deutsche Bank (Malaysia) Berhad *
12. Hong Leong Bank Berhad
13. HSBC Bank Malaysia Berhad
14. India International Bank (Malaysia) Bhd.
15. Industrial and Commercial Bank of China (Malaysia) Berhad
16. J.P. Morgan Chase Bank Berhad
17. Malayan Banking Berhad
18. Mizuho Corporate Bank (Malaysia) Berhad
19. National Bank of Abu Dhabi Malaysia Berhad
20. OCBC Bank (Malaysia) Berhad
21. Public Bank Berhad
22. RHB Bank Berhad
23. Standard Chartered Bank Malaysia Berhad
24. Sumitomo Mitsui Banking Corporation Malaysia Berhad
25. The Bank of Nova Scotia Berhad
26. The Royal Bank of Scotland Berhad
27. United Overseas Bank (Malaysia) Bhd.

* *denotes this bank provides Islamic banking services*

Islamic Banks (16)

1. Affin Islamic Bank Berhad
2. Alliance Islamic Bank Berhad
3. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
4. AmIslamic Bank Berhad
5. Asian Finance Bank Berhad
6. Bank Islam Malaysia Berhad
7. Bank Muamalat Malaysia Berhad
8. CIMB Islamic Bank Berhad
9. Hong Leong Islamic Bank Berhad
10. HSBC Amanah Malaysia Berhad
11. Kuwait Finance House (Malaysia) Berhad
12. Maybank Islamic Berhad
13. OCBC Al-Amin Bank Berhad
14. Public Islamic Bank Berhad
15. RHB Islamic Bank Berhad
16. Standard Chartered Saadiq Berhad

Insurance Companies (34)

1. ACE Jerneh Insurance Berhad
2. Allianz General Insurance Company (Malaysia) Berhad
3. Allianz Life Insurance Malaysia Berhad
4. American International Assurance Bhd.
5. AmG Insurance Berhad
6. AmLife Insurance Berhad
7. AXA Affin General Insurance Berhad
8. AXA Affin Life Insurance Berhad
9. Berjaya Sompo Insurance Berhad
10. Chartis Malaysia Insurance Berhad
11. CIMB Aviva Assurance Berhad
12. Etiqa Insurance Berhad
13. Great Eastern Life Assurance (Malaysia) Berhad
14. Hong Leong Assurance Berhad
15. ING Insurance Berhad
16. Kurnia Insurance (Malaysia) Berhad
17. Lonpac Insurance Berhad
18. Manulife Insurance Berhad
19. MCIS Zurich Insurance Berhad
20. MSIG Insurance (Malaysia) Bhd.
21. Multi-Purpose Insurans Berhad
22. Overseas Assurance Corporation (Malaysia) Berhad
23. Pacific & Orient Insurance Co. Berhad
24. Progressive Insurance Berhad
25. Prudential Assurance Malaysia Berhad
26. QBE Insurance (Malaysia) Berhad
27. RHB Insurance Berhad
28. The Pacific Insurance Berhad
29. Tokio Marine Insurans (Malaysia) Berhad
30. Tokio Marine Life Insurance Malaysia Bhd.
31. Tune Insurance Berhad (formerly known as Oriental Capital Assurance Berhad)
32. Uni.Asia General Insurance Berhad
33. Uni.Asia Life Assurance Berhad
34. Zurich Insurance Malaysia (formerly known as Malaysian Assurance Alliance Berhad)

Takaful Operators (12)

1. AIA AFG Takaful Berhad
2. AmFamily Takaful Berhad
3. CIMB Aviva Takaful Berhad
4. Etiqa Takaful Berhad
5. Great Eastern Takaful Sdn. Bhd.
6. Hong Leong MSIG Takaful Berhad
7. HSBC Amanah Takaful (Malaysia) Sdn. Bhd.
8. ING PUBLIC Takaful Ehsan Berhad
9. MAA Takaful Berhad
10. Prudential BSN Takaful Berhad
11. Syarikat Takaful Malaysia Berhad
12. Takaful Ikhlas Sdn. Bhd.

APPENDIX
GLOSSARY OF TERMS

Assumption of control
Once a 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 the whole of the business, assets, liabilities and affairs of a non-viable member institution pursuant to paragraph 99(1)(c) of the Malaysia Deposit Insurance Corporation (MDIC) Act 2011, and effect intervention or failure resolutions in accordance with its mandate.

Bridge institution
An institution which is a subsidiary of PIDM (separate from the 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, certificate owners or policy owners, until a purchaser for the business, assets and liabilities can be found to acquire the bridge institution. In other jurisdictions, the bridge institution is often used as a resolution option to preserve the franchise value of the troubled institution, and to allow for more time to address the problems of the troubled institution and find a purchaser.

Capital Adequacy Ratio (CAR)
The CAR is the ratio of a financial institution's regulatory capital requirement to its risk exposures. BNM has set a Supervisory Target Capital Level at 130% CAR for insurance companies, below which supervisory actions of increasing intensity will be taken to resolve the financial position of the insurer member. For banks, the minimum CAR ratio recommended by international standards is 8%, intended to permit banks to absorb losses without becoming insolvent, so as to protect depositors.

Certificate owner
The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Conventional Deposit Insurance Fund
All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the direct cost of operating the conventional Deposit Insurance System (DIS).

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

Differential Levy System
A differential premium system where conventional insurer members are charged levies at differential rates, based on their risk profiles.

Differential Premium Systems
A system where member banks are charged premiums at differential rates, based on their risk profiles.

Enterprise Risk Management
The framework applied on an organisation-wide basis to ensure and demonstrate that an entity's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

Family Solidarity Takaful Protection Fund
All premiums received by PIDM from insurer members conducting family takaful business and returns made minus the direct costs of operating the Takaful and Insurance Benefits Protection System (TIPS).

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

Foreign currency
Any currency other than Ringgit Malaysia, the Malaysian currency.

General Insurance Protection Fund
All premiums received by PIDM from insurer members conducting general insurance business and interest earned minus the direct costs of operating TIPS.

APPENDIX
GLOSSARY OF TERMS

General Takaful Protection Fund
All premiums received by PIDM from insurer members conducting general takaful business and returns made minus the direct costs of operating TIPS.

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

Impairment
A loan / financing asset is considered impaired if there is objective evidence of impairment as a result of: (i) a loss event that occurred after the initial recognition of the asset; (ii) the loss event had an impact on its estimated future cash flows; and that (iii) a reliable estimate of the loss amount can be made.

Insurance benefits
The aggregate of insurance benefits for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Insurer members
All insurance companies licensed under the Insurance Act 1996 to conduct life and / or general insurance business in Malaysia, as well as takaful operators licensed under the Takaful Act 1984 to conduct family and / or general takaful business in Malaysia, as defined under the MDIC Act. Membership is compulsory under the MDIC Act. A full list of these insurer members is available on page 226.

Integrated Communications Plan
This five-year plan identifies the strategies and initiatives to enhance understanding and awareness of the protection systems.

Internal Capital Adequacy Assessment Process (ICAAP)
The Internal Capital Adequacy Assessment Process (ICAAP) is implemented by BNM to assess member institutions' (excluding takaful operators) overall capital adequacy in relation to their risk profile, and to ensure adequate capital to meet their capital requirements on an ongoing basis.

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

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 Islamic member banks or commercial member banks providing Islamic banking services and returns made minus the direct costs of operating the Islamic DIS.

Islamic Protection Funds
Islamic Protection Funds refer to Islamic Deposit Insurance Fund; General Takaful Protection Fund; and Family Solidarity Takaful Protection Fund.

Life Insurance Protection Fund
All premiums received by PIDM from insurer members conducting life insurance business and interest earned minus the direct costs of operating TIPS.

Member banks
All commercial banks (including 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 226.

Member institutions
Members of PIDM comprising member banks and insurer members.

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

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

Payout
A process undertaken by PIDM to reimburse insured deposits to eligible depositors, or protected benefits to eligible takaful beneficiaries or insured persons of a non-viable member institution in accordance with sections 56 and 57, and sections 80 and 81 of the MDIC Act.

Policy owner
The person who has the legal title to an insurance policy and includes the assignee, the personal representative of a deceased policy owner and the annuitant.

Protection Funds
Protection Funds refer to Islamic and Conventional Deposit Insurance Fund as well as Takaful and Insurance Benefits Protection Funds.

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 or protected benefits, 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-Based Capital Framework for Takaful Operators (RBCT)
Risk-Based Capital Framework for Takaful Operators (RBCT) refers to the framework introduced by BNM to govern how capital is calculated in relation to the operations of takaful operators. It also sets the expectation of BNM for takaful operator's maintenance of capital adequacy level to commensurate with the risk profile of the takaful operations, and act as financial buffer for the takaful exposure. This Framework will take effect from 1 January 2014.

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).

Standard File Format (SFF)
A text file of relevant deposit information that is prepared by member banks in accordance with the format set out in the Guidelines on Deposit Information Systems and Submission issued by the Corporation. The SFF has dual purposes, namely, to assist the Corporation to validate member banks' annual computation of total insured deposits as well as to facilitate the Corporation in undertaking its mandate of reimbursing insured depositors.

Takaful benefits
The aggregate of takaful benefits for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Takaful Protection Funds
Takaful Protection Funds refer to General Takaful Protection Fund; and Family Solidarity Takaful Protection Fund.

Target fund
A target fund, in general, is the level of accumulated funds required to adequately cover expected losses arising from intervention and failure resolution activities.

Total Insured Deposits
The sum of deposits insured by PIDM and held in a member bank.

APPENDIX
CONTACT DETAILS

For more information about PIDM

- Contact our Customer Service Call Centre at:
  Toll-free **1-800-88-1266**
  8.30 am to 5.30 pm, Mondays to Fridays

- Visit our website at **www.pidm.gov.my**
  FAQs on PIDM, DIS and TIPS are available on our website

- Email to **info@pidm.gov.my**

- Write to:
  Communications and Public Affairs Division
  Perbadanan Insurans Deposit Malaysia
  Level 12, Quill 7,
  No. 9, Jalan Stesen Sentral 5,
  Kuala Lumpur Sentral,
  50470 Kuala Lumpur.

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