



**Perbadanan Insurans Deposit Malaysia**  
**Protecting Your Insurance And Deposits In Malaysia**

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**CONSULTATION PAPER ON  
VALIDATION PROGRAMME:  
DIFFERENTIAL PREMIUM SYSTEMS AND  
TOTAL INSURED DEPOSITS**

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## SECTION 1: INTRODUCTION

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### 1.1 BACKGROUND AND PURPOSE

- 1.1.1 Perbadanan Insurans Deposit Malaysia (“PIDM”) was established on 15 August 2005 pursuant to the Akta Perbadanan Insurans Deposit Malaysia 2005 or the Malaysia Deposit Insurance Corporation Act 2005 (the “Act”). The mandated functions of PIDM are to administer a deposit insurance system under this Act, provide insurance against the loss of part or all deposits of member institutions (“MIs”), provide incentives for sound risk management in the financial system, and promote or contribute to the stability of the financial system. The deposit insurance system was officially launched on 1 September 2005.
- 1.1.2 The objective of the collection of deposit insurance premiums by PIDM is to provide depositors with an explicit guarantee and protection against the loss of their insured deposits placed with MIs by providing a mechanism for the immediate reimbursement of insured deposits to depositors in the event that a MI is unable to meet its financial obligation to depositors.
- 1.1.3 PIDM maintains and administers two separate funds, namely, an Islamic fund and a conventional fund. The funds comprise of all premiums received and all other monies or assets which may in any manner become lawfully payable to, received by or vested in PIDM.
- 1.1.4 Membership is compulsory and MIs include all commercial banks (including foreign banks operating in Malaysia) licensed under the Banking and Financial Institutions Act 1989 and all Islamic banks licensed under the Islamic Banking Act 1983.
- 1.1.5 All MIs are required to prepare and submit to PIDM, the Return on Total Insured Deposit (“TID”) in order to determine the amount of premium that needs to be paid. The annual premium is derived based on the amount of total insured deposits held by a MI at prescribed premium rates.

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1.1.6 Since its inception in September 2005, PIDM has applied a flat-rate premium of 0.06% to all its MIs. In line with PIDM's mandate to promote sound risk management practices among MIs, a differential premium system ("DPS") has been introduced. The objectives of implementing DPS are:

- (a) to provide incentives for MIs to adopt sound risk management practices;
- (b) to differentiate MIs according to their risk profiles;
- (c) to introduce more fairness into the premium assessment process; and
- (d) to promote stability of the financial system.

1.1.7 From the year of assessment 2008, MIs shall pay premiums by 31 May of each assessment year based on their ranking within the predefined premium category.

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## 1.2 OVERVIEW OF DIFFERENTIAL PREMIUM SYSTEMS

1.2.1 MIs shall be assessed and classified into different premium categories in an assessment year based on a combined quantitative and qualitative criteria approach. This approach scores MIs according to two (2) broad measures: quantitative criteria and qualitative criteria.

1.2.2 For qualitative criteria, assessment is based on BNM supervisory ratings and other information. Other information would include information relating to the safety, soundness, financial condition or viability of a MI.

1.2.3 The following table summarises the criteria and scoring system for the DPS:

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

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- 1.2.4 MIs shall be classified into four premium categories based on their DPS scores as follows:

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

- 1.2.5 The applicable annual premium rate for each MI is based on the premium category in which a MI is categorised.
- 1.2.6 All MIs shall be required to submit quantitative information in the pre-formatted DPS Reporting Form to PIDM by 30 April of an assessment year for purposes of computing the scores and identifying the premium category of the MIs.
- 1.2.7 MIs shall complete the Return on TID for submission to PIDM by 30 April of an assessment year for the calculation of total insured deposits and annual premiums payable to PIDM based on the scores and premium category identified under the DPS.
- 1.2.8 Two (2) separate assessments (based on same criteria) will be performed for DPS, namely Islamic and conventional assessments; segregated as follows:

#### Scope of Application

Entity	Business	Conventional DPS Criteria	Islamic DPS Criteria
Conventional MIs	Conventional	X	
	Islamic		X
Islamic MIs	Islamic		X

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### 1.3 OVERVIEW OF TOTAL INSURED DEPOSITS

1.3.1 The amount of total insured deposits (“TID”) shall be calculated separately for Islamic and conventional deposits and is derived as follows:<sup>1</sup>

Total insured deposits = Total insurable deposits – Aggregated deposit  
balances in excess of RM60,000

1.3.2 The total amount of insurable<sup>2</sup> deposits is derived from the summation of the following items:

Islamic	Conventional
<ul style="list-style-type: none"> <li>• RM Demand Deposits Accepted;</li> <li>• RM Savings Deposits Accepted;</li> <li>• RM Specific Investment Deposits Accepted;</li> <li>• RM General Investment Deposits Accepted;</li> <li>• RM Housing Development Account Deposits;</li> <li>• RM Other Deposits Accepted;</li> <li>• RM Profit Payable;</li> <li>• RM Bills Payable; and</li> <li>• RM Other Liabilities.</li> </ul>	<ul style="list-style-type: none"> <li>• RM Demand Deposits Accepted;</li> <li>• RM Savings Deposits Accepted;</li> <li>• RM Fixed Deposits Accepted;</li> <li>• RM Housing Development Account Deposits;</li> <li>• RM Other Deposits Accepted;</li> <li>• RM Interest Payable;</li> <li>• RM Bills Payable; and</li> <li>• RM Other Liabilities.</li> </ul>

1.3.3 The limit of coverage of TID is RM60,000 inclusive of principal and return/interest and will be applied in aggregate per depositor per MI.

<sup>1</sup> Please refer to the “Guidelines on Total Insured Deposits: Calculation and Completion of Return (2006)” and “Amendments to the Guidelines” dated 7 April 2008 for information on TID including its composition and how to compile and compute.

<sup>2</sup> MIs submit their deposit products to PIDM for certification purposes, under which PIDM specifies, pursuant to section 36 of the Malaysia Insurance Deposit Corporation Act 2005, whether these deposit products are eligible for deposit insurance or otherwise.

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1.3.4 Where a depositor has more than one deposit which is eligible for deposit insurance with a MI, the aggregate of those deposits shall be insured up to RM60,000. Accordingly, depositors who place deposits with more than one MIs will be insured separately for their deposits placed with each MI. Deposits placed with different branch offices of the same MIs are, however, not insured separately.

1.3.5 Notwithstanding the above, separate limits shall apply as follows:

- (a) For Islamic and conventional accounts, each deposit is aggregated and separately covered up to RM60,000.
- (b) For joint accounts, the deposits are insured separately from other types of deposit provided that :
  - (i) the deposit account is opened as joint account;
  - (ii) the deposit is held in an eligible deposit; and
  - (iii) sufficient details of joint owner disclosed on the records of a MI.

(Note: Joint accounts held with different joint owners shall enjoy separate coverage limit)

- (c) For trust accounts (including client deposit accounts held by professional practices), the deposits are insured separately from other types of deposit provided that:
  - (i) the deposit account is opened as a trust account;
  - (ii) the deposit is held in an eligible deposit; and
  - (iii) sufficient details of each beneficiary are disclosed on the records of a MI.

(Note: Trust accounts held by one trustee for different beneficiaries and trust accounts held by different trustees for the same beneficiaries shall enjoy separate coverage limits.)

- (d) For Deposits of a business entity operating as a sole proprietorship or partnership, these deposits are insured separately from deposits held by individuals.



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## 1.4 ANNUAL PREMIUMS

1.4.1 The annual premium payable to PIDM shall be calculated as follows:

- (a) Premium rates to be applied to a MI shall be based on the total insured deposits held by the MIs as at 31 December of the preceding assessment year;
- (b) The annual premiums of Islamic and conventional deposits shall be calculated separately; and
- (c) The applicable premium rate for each MI will be prescribed by PIDM based on the scores and premium category identified under the DPS.

1.4.2 The amount of total premium payable for Islamic or conventional deposits can be derived as follows:

Total premium payable = Total insured deposits x Prescribed premium rate

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## 1.5 REFERENCE MATERIALS

1.5.1 The following reference materials are available to assist MIs in the DPS and TID reporting process:

- (a) Malaysia Deposit Insurance Corporation Act 2005 issued on 11 August 2005;
- (b) Guidelines on Total Insured Deposits: Calculation and Completion of Return (2006) and Amendments to the Guidelines dated 7 April 2008;
- (c) Malaysia Deposit Insurance Corporation (Disclosure Requirements For Trust Accounts And Joint Accounts) Regulations 2007;
- (d) Guidelines on the Differential Premium Systems issued on 28 February 2008;
- (e) Malaysia Deposit Insurance Corporation (Differential Premium Systems) Regulations 2008;
- (f) Malaysia Deposit Insurance Corporation (Annual Premium And First Premium) Order 2008; and
- (g) Bank Negara Malaysia (BNM) guidelines relating to the submission of FISS Reports.

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## 1.6 FOR ENQUIRIES

### 1.6.1 Enquiries on the guidelines and regulations may be directed to:

General Manager  
Insurance, Risk Assessment and Monitoring Division  
Perbadanan Insurans Deposit Malaysia  
Level 19, 1 Sentral  
Jalan Travers  
Kuala Lumpur Sentral  
50470 Kuala Lumpur  
Malaysia

General Lines: 03 2173 7436  
Fax: 03 2173 7494  
Email: [khairuddin@pidm.gov.my](mailto:khairuddin@pidm.gov.my)

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## SECTION 2: REPORTING REQUIREMENTS

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2.1 All MIs shall by 30 April, be required to submit information of an assessment year to PIDM for purposes of computing premiums in the pre-formatted forms as follows:

- (a) Return on TID; and
- (b) DPS Reporting Form.

2.2 MIs are required to complete the submission based on information obtained from the FISS reports and/or the audited financial statements and any other relevant documents as at 31 December of the preceding assessment year.

Where relevant, for MIs whose financial year does not end on 31 December, the submission shall be based on information obtained from the FISS reports and Management Accounts approved by the Board for the calendar year end of 31 December of the preceding assessment year. In preparing the submission information, the following shall be considered:

- (a) Ascertain adequate cut-offs and accruals of income and expense are included in the approved Management Accounts for the calendar year end 31 December.
- (b) Change in accounting policies or adoption of new accounting standards coming into effect during the calendar year have been properly reflected in the approved Management Accounts, inclusive of any prior years' impact.

2.3 MIs shall complete separate reporting forms for its conventional and Islamic operations.

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- 2.4 The submitted reporting forms must be certified by the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) of the MIs to be accurate and reflective of the financial position of the MIs as at 31 December of the preceding assessment year, prior to submitting to PIDM. Please refer to **Appendix II A**.
- 2.5 The MIs’ reporting forms above are subject to validation by the MIs’ external auditor pursuant to the Validation Programme set out under Section 3 of this document. The MIs’ external auditor must submit an independent report to PIDM (see Section 3 for further details).
- 2.6 MIs are required to separately submit to PIDM by 31 May of each assessment year their detailed action plans and timelines on how to address the exceptions, if any, highlighted in the external auditor’s report arising from the Validation Programme. This document shall provide affirmation and more specific description about management’s action plans to address those exceptions as described in the external auditor’s report.
- 2.7 For additional information on DPS and TID requirements, compilation of Annual Returns and the submission, MIs should refer to the respective guidelines as indicated in 1.5.1, specifically:
- (a) Guidelines on Total Insured Deposits: Calculation and Completion of Return (2006) and Amendments to the Guidelines dated 7 April 2008; and
  - (b) Guidelines on the Differential Premium Systems issued on 28 February 2008.
- 2.8 The payment of the annual premiums shall be remitted to PIDM by way of executing a payment instruction via RENTAS latest by 31 May to the respective PIDM’s Operational Accounts with BNM as follows:
- (a) Islamic account number : 1554200047
  - (b) Conventional account number : 1554190755

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## 2.9 Consequences of non-compliance:

MLs need to be mindful that non-compliance with any requirement of PIDM's Guidelines may result in a premium surcharge pursuant to section 46 of the Malaysia Deposit Insurance Corporation Act 2005 ("Act").

Furthermore, any person who prepares, approves, concurs in or signs any account, return, report, statement or other document, required for submission to PIDM, that he or she knows or has reason to believe is false or contains false or misleading information, commits an offence punishable by fine and/or imprisonment.<sup>3</sup>

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<sup>3</sup> Pursuant to Section 85 of the Act, as regards the DPS and TID reporting and the Validation Programme, officers of MLs and external auditors are also subjected to this provision.

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## SECTION 3: VALIDATION PROGRAMME

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### 3.1 OBJECTIVE

3.1.1 Pursuant to Section 68 of the Act, PIDM can call for an external auditor to examine:

- (a) whether proper and adequate deposit records are maintained by a MI; or
- (b) whether reports made by a MI on its premiums are substantially correct.

3.1.2 In line with the above, PIDM requires the external auditor to validate the information provided by the MIs in the Return on TID and DPS Reporting Form.

In this respect, the Senior Management of the MIs shall:

- (a) provide the information that the external auditor requires; and
- (b) be responsible for the accuracy and completeness of the information on which the external auditor is to report.

3.1.3 The requirements and contents of the Return on TID and DPS Reporting Form, are set out in the following:

- (a) Guidelines on Total Insured Deposits: Calculation and Completion of Return (2006) and Amendments to the Guidelines dated 7 April 2008; and
- (b) Guidelines on the Differential Premium Systems issued on 28 February 2008.

3.1.4 The validation to be performed by the external auditors shall be carried out in accordance to AI4400 - Engagements To Perform Agreed-Upon Procedures Regarding Financial Information.

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3.1.5 The external auditor is to thereafter provide PIDM with a report by 30 November 2008 for assessment year 2008 and thereafter by 30 April of each subsequent assessment year.

3.1.6 PIDM reserves all its powers and rights under the Act, including but not limited to taking any actions outside the scope of this Validation Programme, such as, requiring the MIs to be subjected to an additional validation of its records.

### 3.2 SCOPE

3.2.1 The financial figures in the Return on TID and DPS Reporting Form for the period covering 1 January to 31 December shall form the scope of the examination as at 31 December.

3.2.2 For specific details on the requirements and contents of the Return on TID and DPS Reporting Form, the Guidelines as detailed in section 1.5.1 should be referred to, in particular:

- (a) Guidelines on Total Insured Deposits: Calculation and Completion of Return (2006) and Amendments to the Guidelines dated 7 April 2008; and
- (b) Guidelines on the Differential Premium Systems issued on 28 February 2008.

3.2.3 The approach for the validation of financial figures in the Return on TID and DPS Reporting Form is divided into two (2) modules as follows<sup>4</sup>:



#### **Module 1 Transaction Validation from Source:**

The focus of this module is on validation of recording of sampled transactions from source documents into the General Ledger focusing mainly on DPS Loan Concentration and Ageing.

<sup>4</sup> MIs' management and external auditors shall decide on the timing of the validation process and to manage costs, consider the involvement of the MIs' Internal Audit Function.

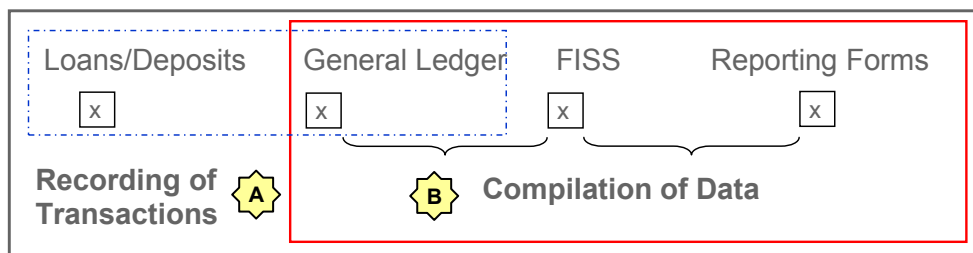


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## **Module 2 Validation of the Compilation of Data in the Reporting Forms:**

The focus of the module is on the validation of the data in the reporting forms to the General Ledger, FISS and Financial Statements or approved Management Accounts.



3.2.4 The validation over the Modules identified in 3.2.3 above shall be in accordance with the Agreed Upon Procedures Programme as set out in **Appendix 1** and applied in the following manner:

- (a) **Module 1:** To be applied yearly starting from the assessment year 2009 with a focus on the validation of Loan Concentration and Ageing for DPS reporting.<sup>5</sup>
- (b) **Module 2:** To be applied yearly starting from the assessment year 2008:
  - (i) Validation of FISS Reports against the General Ledger and/or other Sub Ledgers and Audited Financial Statements or Board Approved Management Accounts; and
  - (ii) Validation of information in the Return on TID and DPS Reporting Form against FISS and Audited Financial Statements or Board Approved Management Accounts and Sub Ledgers or other documents.

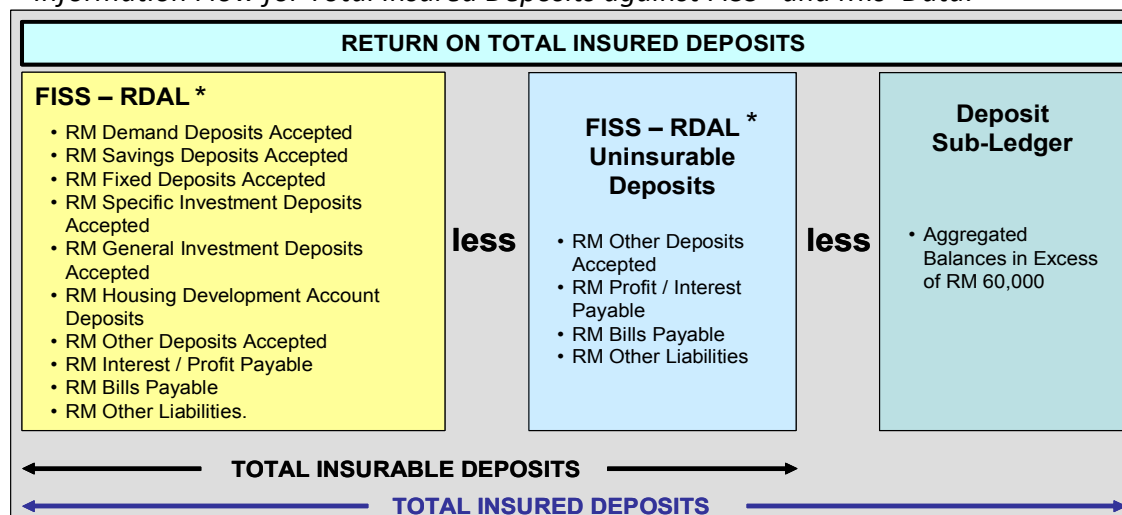
In conducting testing on loan tagging and concentration under Module 1, auditors shall consider performing these tests concurrently, whilst statutory audit procedures are being performed at the branches.

<sup>5</sup> Generally, the balances used in the preparation of the Return on TID are taken directly from the general ledger line items. Accordingly, for TID reporting, the focus of the work procedures shall focus on Module 2 requirements.

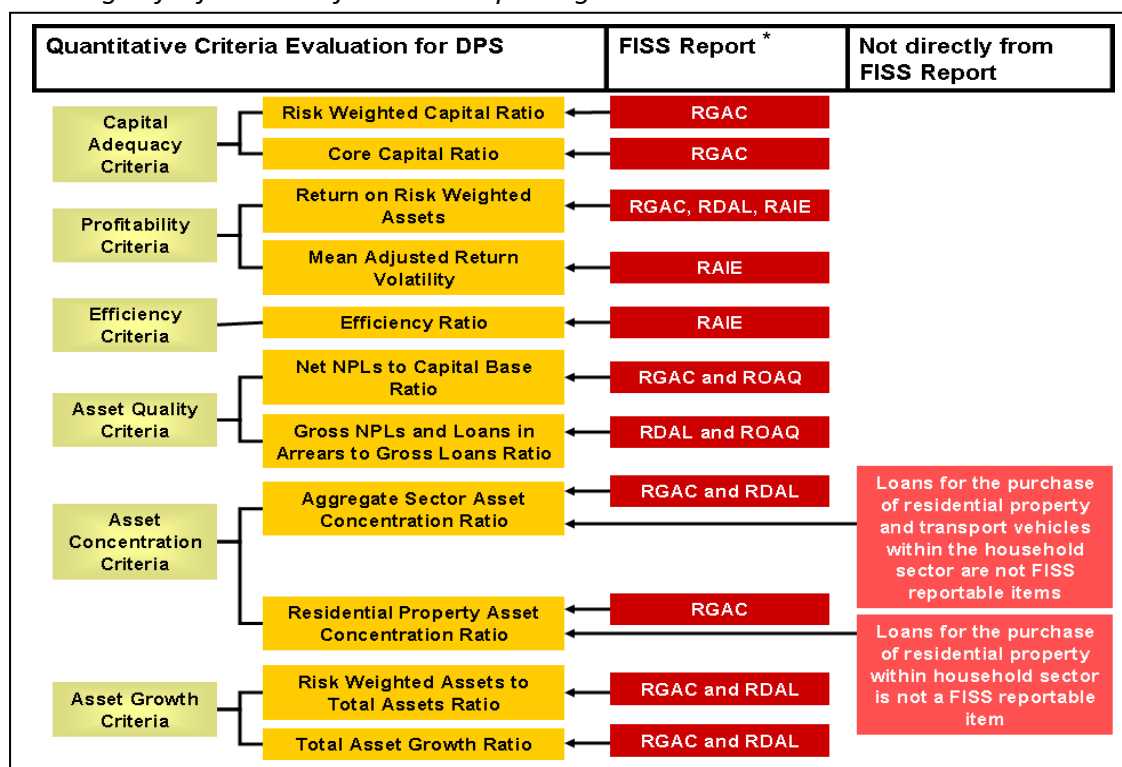
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3.2.5 Identified below is the linkage of the Return on TID and the DPS Reporting Form to the underlying data source, being the FISS Report as well as other sources of information to which data is to be extracted to complete the submission forms.

*Information Flow for Total Insured Deposits against FISS\* and MIs' Data:*



*Linkage of Information from DPS Reporting Form to FISS\*:*



*Note:*

*\*In the event of discrepancies between FISS reports and audited financial statements/approved Management Accounts, the latter shall prevail.*

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3.2.6 The format of the external audit report in respect of the validation of financial figures in the Return on TID and DPS Reporting Form is included in **Appendix II B**.<sup>6</sup>

### 3.3 TRANSITION YEAR INFORMATION (ASSESSMENT YEAR 2008)

3.3.1 The external auditor is to submit its validation report to PIDM by 30 November 2008.

In the ensuing years, procedures should be strategized to be conducted to enable a submission of the validation report by 30 April.

3.3.2 Rectification – For the transition year, any post submission rectifications (after CEO/CFO certification) that result in a change to the premium categories will be reviewed on a case by case basis to determine whether a penalty or premium surcharge may be imposed.

*Note:*

*As at the date of issuance of this Validation Programme, there are 35 MIs covered under this requirement, segregated by financial year ends, as follows:*

MIs Business	Financial Year End			
	31 December	31 March	30 June	31 October
Islamic	8	2	3	-
Conventional	17	2	2	1

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<sup>6</sup> In this connection, the MIs shall ensure that the engagement letter stipulates that the report should be addressed by the external auditor directly to PIDM.



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## **APPENDIX I: VALIDATION PROGRAMME – AGREED UPON PROCEDURES**

### **A. DIFFERENTIAL PREMIUM SYSTEMS AND**

### **B. TOTAL INSURED DEPOSITS**

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## OBJECTIVE:

To validate the accuracy of the recording of transactions and compilation of information in:

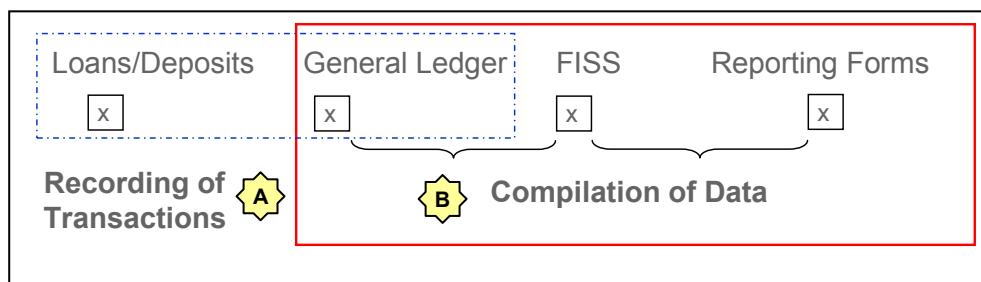
- (a) DPS Reporting Form; and
- (b) Return on TID

The validation shall be carried out in accordance to AI4400 - Engagements To Perform Agreed-Upon Procedures Regarding Financial Information.

This programme should be read in conjunction with the following Guidelines:

- (a) Guidelines on Total Insured Deposits: Calculation and Completion of Return (2006) and Amendments to the Guidelines dated 7 April 2008; and
- (b) Guidelines on the Differential Premium Systems issued on 28 February 2008.

The validation shall be performed in Modules, detailed as follows:



### Module 1 Transaction Validation from Source:

Validation of recording of sampled transactions from source documents into the General Ledger focusing mainly on DPS Loan Concentration and Aging - To be applied yearly starting from the assessment year 2009.

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## **Module 2 Validation of the Compilation of Data in the Reporting Forms:**

Validation of data in the reporting forms to the General Ledger, FISS and Financial Statements or approved Management Accounts - To be applied yearly starting from the assessment year 2008.

With the exception of Module 1 for DPS Reporting, tests conducted on information relating to the reporting should be based on 31 December balances.

### **PLANNING:**

In preparation for the validation, prior to executing work procedures, the following shall be conducted by the external auditor to gain and understanding of the guidelines and processes, as part of planning procedures:

- (a) Obtain an understanding of the guidelines and regulations relating to DPS and TID Reporting, as identified above, and confirm against the PIDM website of any changes to the guidelines at the point of the validation that would have an impact to the preparation, contents and submission of the Reporting Forms.
- (b) Obtain an understanding of applicable BNM regulations and requirements relating specifically to the composition of FISS.
- (c) Obtain an understanding of business activities, systems, processes, procedures and management controls for completing the Reporting Forms, including:
  - (i) Systems capability or other methods deployed in extracting reliable and adequate information for the preparation of the DPS Reporting Form (e.g. Loan System, loan tagging - concentration by sector, loan ageing) and the Return on TID (e.g. Deposit System, classification of deposit composition by type, ability to distinguish eligibility of deposits as insurable and uninsurable and ability to aggregate amounts in excess of RM60,000 per depositor).
  - (ii) Availability and adherence to documented operational policies and procedures pertaining to the preparation and submission of the Reporting Forms.

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- (iii) Reconciliation between Loan/Deposit Systems, General Ledger, FISS Reports, and Audited Financial Statements or Board approved Management Accounts as at 31 December;
- (iv) Review and approval process by MIs over the preparation of the Reporting Forms.

For MIs whose financial year ends are other than 31 December, the Management Accounts which have been approved by the Board (herein referred to as “approved Management Accounts”) shall be used.

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## A. DIFFERENTIAL PREMIUM SYSTEMS (“DPS”)

For information purposes, the linkage of information from DPS Reporting Form to FISS is identified below:

Quantitative Criteria Evaluation for DPS		FISS Report	Not directly from FISS Report
Capital Adequacy Criteria	Risk Weighted Capital Ratio	RGAC	
	Core Capital Ratio	RGAC	
Profitability Criteria	Return on Risk Weighted Assets	RGAC, RDAL, RAIE	
	Mean Adjusted Return Volatility	RAIE	
Efficiency Criteria	Efficiency Ratio	RAIE	
Asset Quality Criteria	Net NPLs to Capital Base Ratio	RGAC and ROAQ	
	Gross NPLs and Loans in Arrears to Gross Loans Ratio	RDAL and ROAQ	
Asset Concentration Criteria	Aggregate Sector Asset Concentration Ratio	RGAC and RDAL	Loans for the purchase of residential property and transport vehicles within the household sector are not FISS reportable items
	Residential Property Asset Concentration Ratio	RGAC	
Asset Growth Criteria	Risk Weighted Assets to Total Assets Ratio	RGAC and RDAL	Loans for the purchase of residential property within household sector is not a FISS reportable item
	Total Asset Growth Ratio	RGAC and RDAL	



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## WORK PROGRAMME:

### Module 1: Recording of Transactions from Source into the General Ledger

#### Loan Classification and Ageing - Extraction of Information

1. Based on samples selected by applying sample selection criteria identified below, ascertain that classifications and ageing of loans are correctly recorded, by performing the following:
  - 1.1 Compare the industry sector concentration classification of each of the samples from individual loan files against the classification in the Loan System.
  - 1.2 For these samples, check the ageing of loans by:
    - (a) Manually checking the months in arrears from the last payment date; or
    - Applying a data analytical tool (e.g. Audit Command Language) to recompute the ageing with loan history data extracts from the loan system.
    - (b) Compare recomputations against the ageing classifications in the Loan Sub Ledger/Loan System.

#### Sample selection criteria:

No of Branches in a MI	No of Branches to be selected	Sample size to be covered per Branch	Basis of selecting Branches	
			Mandatory *	Random
1 - 5	All Branches	100	All	N/A
6 - 50	5	100	3	2
51 - 100	10	100	5	5
> 100	20	100	10	10

*Note:*

*\* These relate to the specified number of branches with the largest loan exposures*

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## Module 2: Compilation of Information from the General Ledger to the Reporting Forms

### (A) Validation of FISS Report - Extraction of Information

**Objective: To confirm that the preparation of the components within the following FISS reports adhere to BNM Guidelines**

1. Obtain the following FISS reports as 31 December:

- (a) Report on Audited Income and Expenditure ("RAIE");
- (b) Report of Domestic Assets and Liabilities ("RDAL");
- (c) Report of Global Assets and Capital ("RGAC"); and
- (d) Report on Assets Quality ("ROAQ").

(Please note that there are many FISS lines within the above reports and not all the FISS lines are used to prepare the DPS Reporting.)

The procedures in section 2 below are performed to ascertain that the components of the FISS lines are extracted from the General Ledger/ Sub Ledgers according to BNM's requirements on FISS reports.

2. Ascertain that the correct account codes and the correct balances from the General Ledger/Sub Ledgers have been used to prepare the FISS reports. The following procedures would only be in respect of FISS lines applicable specifically to DPS reporting ("Relevant FISS Lines").

2.1 Perform the following:

(a) If the FISS Report is manually prepared:

- (i) Obtain the supporting schedules to support the derivation of the Relevant FISS Lines. Each FISS line may comprise of a few General Ledger/Sub Ledger accounts.
- (ii) Compare that the components that make up relevant FISS Lines are in accordance to BNM's requirements.
- (iii) Compare the balances for each component to the General Ledger/Sub Ledger accounts to determine that they are in agreement.

(b) If the FISS Report is system generated:

- (i) Obtain an understanding of how the FISS reports are system generated; which would involve data being extracted from the General Ledger/Sub Ledger systems.

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## Module 2: Compilation of Information from the General Ledger to the Reporting Forms

### (A) Validation of FISS Report - Extraction of Information

**Objective: To confirm that the preparation of the components within the following FISS reports adhere to BNM Guidelines**

- (ii) Generate an independent FISS report that comprise of the Relevant FISS Lines. This would involve extraction of data ("extracted data") from the General Ledger/Sub Ledgers systems that comprise the components that make up the Relevant FISS Lines (Use of data analytic tools such as Microsoft Excel or ACL may be required to sort the raw data downloaded General Ledger/Sub Ledger system into similar parameters as used for FISS reporting).
  - (iii) Compare the balances for each Relevant FISS Lines as generated in (ii) to the MIs' FISS reports to determine that they are in agreement.
- 2.2 Additional procedures to be performed specifically for criteria relating to loan concentrations:
  - (a) If the FISS Reports are manually prepared:
 

Compare the loan concentration totals by industry in the FISS reports to the concentration totals of the Loan Sub Ledger.
  - (b) If the FISS Reports are system generated:
    - (i) Using the extracted data from 2.1 (b) above, segregate loan related data using data analytic tools (Microsoft Excel or ACL) based on the set criteria of segregation by industry concentrations in FISS reporting.
    - (ii) Compare the above segregated loan data by industry sector loan concentration totals against similar categories in the Loan Sub Ledger.

*(Note: Use of Loan Sub Ledger for the comparison as the General Ledger comprises a total amount.)*
- 2.3 For 2.2 (a) and (b) above check that the total composition of the Loan Sub Ledger agrees to the General Ledger.
- 2.4 For 2.1, 2.2 and 2.3 above, if there are differences in comparison data:
 

Request for reconciliations if differences are noted and perform the following procedures:

  - a) Match opening and closing totals to source reports;
  - b) Check that the amounts are properly reconciled against relevant

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## **Module 2: Compilation of Information from the General Ledger to the Reporting Forms**

### **(A) Validation of FISS Report - Extraction of Information**

**Objective: To confirm that the preparation of the components within the following FISS reports adhere to BNM Guidelines**

- schedules; and
- c) Where adjustments arise from these reconciliations, check that MIs have effected these adjustments.

### **(B) Validation of DPS Reporting Form**

#### **i) Preparation**

1. Obtain the DPS Reporting Form and perform the following:
  - 1.1 To ascertain that the amounts extracted for the quantitative criteria categories in the DPS Reporting Form are from the correct FISS item codes as prescribed by the DPS Guidelines, perform the following:
    - (i) Compare each quantitative criteria in the DPS Reporting Form to the relevant lines in the respective FISS Reports (herein FISS information).
    - (ii) Compare the balances for each component of the DPS quantitative criteria to the audited financial statements or approved Management Accounts to determine that they are in agreement.
  - 1.2 Perform recomputation of the measurement/ ratios for mathematical accuracy for each quantitative criteria in the Reporting Form based on formulas determined in the DPS Guidelines.
  - 1.3 Specific Tests For Selected Criteria:
    - (i) To ascertain that Risk Weighted Assets are correctly classified in the appropriate categories of risk weights (0%, 10% and etc.).  
Check that risk weighted assets are correctly identified in the computation:
      - Check the composition of the risk weighted assets and agree the asset classification according to BNM's Risk Weighted Capital Adequacy Framework.
      - Match these risk weighted assets against the audited financial statements or approved Management Accounts, as applicable.
    - (ii) To ascertain that mean adjusted criteria for MIs that have insufficient quantitative information, are computed per the DPS Guidelines.

## (B) Validation of DPS Reporting Form

### i) Preparation

- In cases where there is insufficient quantitative information - where MIs have no records for the past three (3) years due to recent set up, check that MIs' computation methods for mean adjusted criteria match scores for these criteria as identified in paragraph 4.5 of the DPS Guidelines.

### (ii) Change in Accounting Policy – applicable for MIs with non 31 December Financial Year End

2. To ascertain that the preparation of the DPS Reporting Form addresses adoption of new accounting policies or changes in accounting policies (which may arise from new applicable accounting standards, BNM or regulations or changes in business operations), perform the following:
  - 2.1 Check that the computations of prior year adjustments, if any, arising from the adoption of the new accounting policies are correct. If differences are observed, MIs should rework the computations accordingly.
  - 2.2 Check that the restated results of the previous years are used in the DPS Reporting Form.

## Other Matters: Reporting

### Exceptions and Reporting

#### Objective: To address exceptions noted and EA reporting requirements to PIDM

#### 1. Module 1

Highlight exceptions in the report to PIDM specifying the following:

- 1.1 Exceptions observed and the relevant details; and
- 1.2 MIs' action plans and timeline to rectify these exceptions.

#### 2. Module 2

2.1 Discuss all exceptions with MIs.

- a) Where adjustments are effected for the exceptions, check that the amended DPS report is appropriately corrected by the MIs.
- b) Where adjustments are not effected for all the exceptions or certain exceptions, check the aggregation of the impact of these non adjusted exceptions (as prepared by the MIs) to:

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## Other Matters: Reporting

### Exceptions and Reporting

#### Objective: To address exceptions noted and EA reporting requirements to PIDM

- (i) each quantitative criteria; and
- (ii) the total score.

The objective of aggregating these non adjusted exceptions is to determine whether the total impact causes a change in the premium category of the MIs. Hence, check the effect of the total aggregated exceptions on the premium category.

2.2 All exceptions have to be reported in the auditors report.

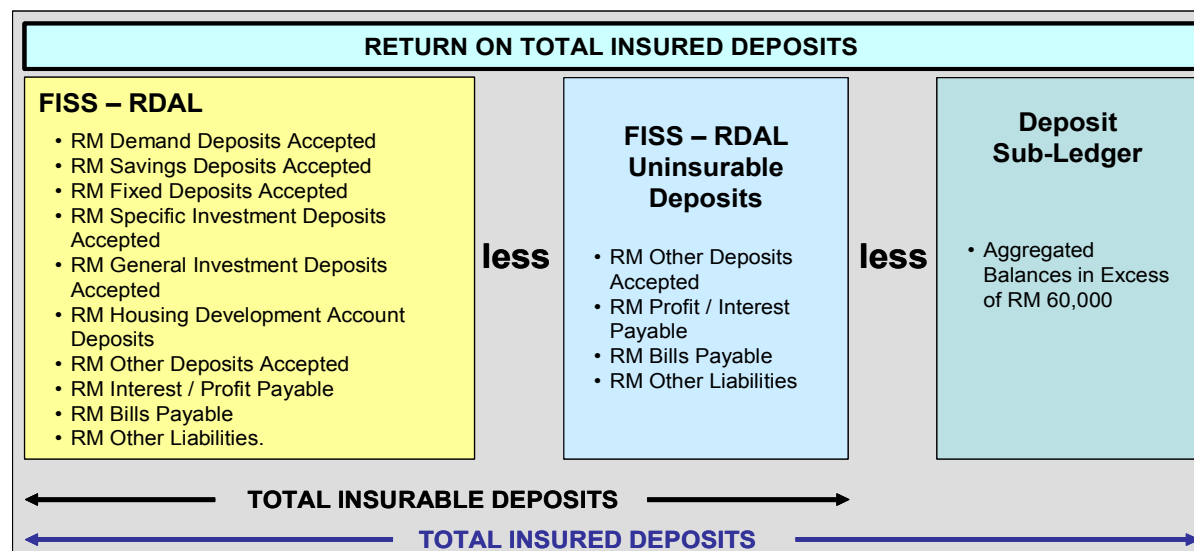
2.3 The exceptions within the auditors' report should be dealt with as follows:

- a) Identified as having been adjusted in the DPS Reporting Form.
- b) Identified as not being adjusted in the DPS Reporting Form categorised as follows:
  - (i) Impact by quantitative criteria and total score; and
  - (ii) Effect on the premium category.
- c) For the unadjusted exceptions, MIs' action plans and timeline to rectify these exceptions.

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## B. TOTAL INSURED DEPOSITS ("TID")

For information purposes, the linkage of information from Return on TID to FISS is identified below:



Generally, the recording of Deposits to the General Ledger are regarded as the principal recording whereby the deposit lines to be verified for the Return on TID can be directly extracted from individual General Ledger line items.

(This deviates from DPS Reporting whereby the validation requirements relate to secondary information such as loan concentrations).

Accordingly, for Return on TID, the focus of the work procedures shall focus on Module 2 requirements.

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## WORK PROGRAMME:

### (A) Validation of FISS RDAL - Extraction of Information

**Objective: To confirm that the preparation of the components within the following FISS reports adhere to BNM Guidelines**

1. Ascertain that the correct account codes and the correct balances from the General Ledger/Sub Ledgers have been used to prepare the FISS RDAL. This would only be in respect of FISS lines applicable specifically to the Return on TID. Perform the same procedures as tabulated in (A) 2.1 of the Validation Programme for DPS.

### (B) Validation of Return on TID

#### i) Preparation

1. Obtain the Return on TID and perform the following:
  - 1.1 To ascertain that the amounts extracted are from the correct FISS RDAL item code as prescribed by the TID Guidelines, perform the following:
    - (i) Agree the information in the Return on TID to the relevant lines in FISS RDAL.
    - (ii) Compare the respective line items in the Return on TID to the audited Financial Statements, where the information is available or approved Management Accounts (where relevant).
  - 1.2 Obtain from the MIs, a summary of Deposit Accounts segregated by Deposit Classifications and by Insurable and Uninsurable deposits ("Summary"), which support the preparation of the Return on TID.
  - 1.3 Check for mathematical accuracy of the Summary and the Return on TID.

#### (ii) Validation of Insurable Deposits Compilation

**Classifying, Aggregating and Excluding Aggregated Balances in Excess of RM60,000**

**- Data analysis to be performed using data analytical tools (e.g. Audit Command Language or Microsoft Excel)**

#### *Classification of Deposits*

2. Based on the data downloaded for the validation of FISS RDAL against the General Ledger ("Population"), perform the following:
  - 2.1 Segregate the deposits according to types of deposits and types of accounts in accordance with the TID Guideline classifications.
  - 2.2 Segregate further, the uninsurable deposits from the population in accordance with the FISS line exclusions identified in the TID Guidelines.



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## **(ii) Validation of Insurable Deposits Compilation**

### **Classifying, Aggregating and Excluding Aggregated Balances in Excess of RM60,000**

**- Data analysis to be performed using data analytical tools (e.g. Audit Command Language or Microsoft Excel)**

2.3 Based on the analysis of the above segregation, compare the results of the analysis of each of the categories above to the Summary prepared by MI and agree the amounts, focussing on:

- (i) Classification of reported categories; and
- (ii) Possibility of over exclusion of insurable deposits.

*Aggregation and Exclusion of Deposits:*

*By continuing to use the insurable deposits data above, perform the following:*

3. Because a depositor may have various insurable deposit accounts within a deposit type, aggregation by each depositor for these deposit accounts should be performed as they enjoy separate coverage. Aggregate the above deposit accounts, by depositor, as follows:

#### **Individuals:**

- (i) Bank-specific Customer Identification Numbers (CIN); or
- (ii) Identity Card (NRIC) numbers (both old & new) for individuals; or
- (iii) Passport Numbers (PN).

#### **Corporate Accounts:**

- (iv) Registration numbers for businesses (BRN).

#### **Joint Accounts:**

- (v) Similar segregation criteria (CIN, NRIC, PN or BRN) is used; Joint accounts with different joint owners enjoy separate coverage.

#### **Trust Accounts:**

- (vi) Similar segregation criteria (CIN, NRIC, PN or BRN) is used. (Note: There is a need to segregate the trust accounts by specific beneficiaries in each trust account). Beneficiaries with different trustees enjoy separate coverage.

Based on the aggregation above, compare this to the Summary prepared by MI to ascertain the following:

- (i) Check that MI has appropriately aggregated all deposit accounts of a depositor by deposit type in conducting the assessment.
- (ii) Check that each depositors' eligible coverage is capped at RM60,000.
- (iii) Where a depositor's account balance includes a trust account beneficiary

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## **(ii) Validation of Insurable Deposits Compilation**

### **Classifying, Aggregating and Excluding Aggregated Balances in Excess of RM60,000**

#### **- Data analysis to be performed using data analytical tools (e.g. Audit Command Language or Microsoft Excel)**

balance, check that MI has provided a separate coverage for the depositor being the beneficiary of the trust account from the depositor's other aggregated deposit accounts (e.g. savings and current accounts).

**Note: The aggregation of deposits, per the TID Guidelines is as follows:**

- (i) For Islamic and conventional accounts – aggregated & separately covered up to RM60,000.
  - (ii) For joint accounts –
    - insured separately if account opened as a joint account and sufficient details of joint owner disclosed.
    - several joint deposits with same owner aggregated - insured amount RM60,000.
  - (iii) For trust accounts –
    - account opened as a trust account and sufficient details of beneficiary is disclosed.
    - several trust accounts having the same trustee and beneficiary aggregated – insured amount RM60,000.
    - deposit held on trust for more than one beneficiary deemed to be a separate deposit held for each beneficiary and therefore, each beneficiary's portion is eligible for maximum coverage of RM60,000.
  - (iv) Deposits of a business entity operating as a sole proprietorship or partnership – separately insured from deposits held as an individual.
4. Trace the totals of the aggregations to the Return on TID criteria lines to verify that the amounts are correctly classified and reported.
  5. Request for reconciliations where differences are noted and obtain relevant explanations and perform additional validation as follows:
    - (i) Check that the amounts are properly reconciled.
    - (ii) Where adjustments are warranted, check that MI has effected the adjustment in the reporting form.

## **iii) Calculation of Annual Premium**

6. Prove the arithmetic accuracy of the annual premium by multiplying the Insured Deposit Balance with the premium rate as prescribed by PIDM.

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## (C) General

### Clearing Accounts

Un-cleared items (such as un-cleared cheques and cashiers orders, demand deposits in transit and etc) are considered as part of insurable deposits where payments are made from customers' deposit account with the MIs. The balances of customer's deposits shall be adjusted for these un-cleared items when computing the insured deposits.

For verification of the above, perform the following:

1. Obtain the bank-wide list of un-cleared items which should be segregated by deposit classifications, insurable deposit aggregations as well as identified to customer deposit accounts.
2. To ascertain completeness of the bank-wide list, match the total of this list to the relevant general ledger lines comprising clearing items.
3. For 50 samples randomly selected from the bank-wide list:
  - 3.1. To ascertain the accuracy of classification of these un-cleared items into insurable and uninsurable deposits, in comparison to the TID Guidelines, check classification of these un-cleared items against source documentation.
  - 3.2. Check also that the identification of individual customer names have been correctly identified within the list.
4. For these samples, check that the MI compiles correctly, the insurable inclusions and aggregation of customer balances up to RM60,000.

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## Other Matters: Reporting

### Exceptions and Reporting

#### Objective: To address exceptions noted and EA reporting requirements to PIDM

1. Discuss all exceptions with MIs.
2. Where adjustments are effected to correct the exceptions, check that the amended Return on TID had been appropriately corrected by the MIs.
3. Where adjustments are not effected to adjust for all the exceptions or certain exceptions, check the aggregation of the financial impact of the non adjusted exceptions and the computation of the impact to the premium payable (as prepared by the MIs).
4. All exceptions have to be reported in the auditors report.
5. The exceptions within the auditors' report should be dealt with as follows:
  - a. Identified as having been adjusted in the Return on TID.
  - b. Identified as not being adjusted in the Return on TID and the impact to the premium payable.
  - c. For the unadjusted exceptions, MIs' action plans and timeline to rectify these exceptions.



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## **APPENDIX II: CERTIFICATION AND REPORTS:**

### **A. CEO/CFO CERTIFICATION**

### **B. EXTERNAL AUDIT REPORT**

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## CEO/CFO CERTIFICATION

**Return on Total Insured Deposits (“TID”) and Differential Premium Systems (“DPS”) Reporting Form for the year 1 January to 31 December <Year>**  
**[Bank A Berhad]**

**[Bank A Berhad]**

These forms have been completed for submission to Perbadanan Insurans Deposit Malaysia in accordance with the Guidelines on Total Insured Deposits: Calculation and Completion of Return (2006) and Guidelines on the Differential Premium Systems respectively.

We declare that all the information given in the Return on TID and the DPS Reporting Form [***and annexure***] is true and correct, and effective key compliance and internal control have been maintained over the recording of transactions and the accuracy of the information compiled within.

I hereby declare that all information completed in this submission and its annexure are true and correct:

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*(Name of Chief Financial Officer)*  
 Chief Financial Officer

Date:

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*(Name of Chief Executive Officer)*  
 Chief Executive Officer

Date:

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## EXTERNAL AUDIT REPORT (EXAMPLE ONLY)

DATE

To: Perbadanan Insurans Deposit Malaysia<sup>7</sup>

### BANK A

#### AGREED UPON PROCEDURES REPORT ON RETURNS TO PERBADANAN INSURANS DEPOSIT MALAYSIA ("PIDM")

We have performed the procedures as set out in the work programme in Appendix 1 of X [PIDM Guidelines/Consultative Paper on Validation Programme] over [**Bank A**], with respect to the information in the Differential Premium Systems ("DPS") and Return on Total Insured Deposits ("TID") Reporting Form of [**Bank A**] for the year 1 January to 31 December xx, set forth in the accompanying appendices. Our engagement was conducted in accordance with AI4400: *Engagements To Perform Agreed-Upon Procedures Regarding Financial Information* issued by the Malaysian Institute of Accountants, applicable to agreed upon procedures engagements. The procedures were performed solely to assist you in evaluating the information in the DPS Reporting Form and Return on TID of [**Bank A**] as compared to the financial records of [**Bank A**] of the same date.

#### We report our findings below:

*With respect to the DPS Reporting Form and Return on TID of [**Bank A**] for the year 1 January to 31 December xx, we have not noted exceptions in the validation procedures as detailed in Appendix 1, except for the following:*

#### Where no exceptions are noted:

*Based on the procedures as enumerated in **Appendix 1**, we have no exceptions to report,*

**OR**

#### Where there are exceptions

*Based on the procedures as enumerated in **Appendix 1**, we report our findings as follows:*

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<sup>7</sup> MI must ensure its engagement letter with the external auditor contains an express stipulation that this report by the external auditor will be addressed directly to PIDM.

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## DPS

### (a) Exceptions in DPS Reporting Form which have been corrected prior to submission

With respect to the following procedures, we found exceptions as noted below, to which the DPS Reporting Form have been adjusted with the corrections:

Work step	Exception	Correction (RM)
A 2.1 (a) (iii)	The FISS component as set out in <i>FISS item code 15100-00-00-0000-X</i> relating to Fee Income did not agree to the General Ledger account	RMxx
xx	Xx	Xx
xx	Xx	Xx

### (b) Exceptions in DPS Reporting Form, without corrections in the submission

With respect to the following procedures, we found exceptions as noted below, to which no corrections have been effected in the DPS Reporting Form:

Workstep	Exception	Correction (RM)	Impact on Total Score (RM)	Impact of Change On Each Qualitative Criteria Score*									
				Risk Weighted Capital Ratio	Core Capital Ratio	Return on Risk-Weighted Assets	Mean Adjusted Volatility	Efficiency Ratio	Net NPLs to Capital Base Ratio	Gross NPLs and Loans In Arrears To Gross Loans Ratio	Aggregate Sector Asset Concentration Ratio and Residential Property Asset Concentration Ratio	Risk Weighted Assets To Total Assets Ratio and Total Assets Growth Ratio	
A 2.1 (a) (iii)	The balance for the FISS component as set out in <i>FISS item code 15100-00-00-0000-X</i> relating to Fee Income which did not agree to the General Ledger account	-57,850				-2	-3	-3					
xx	xx	xx							2	2			
xx	xx												
xx	xx												
xx	xx												
<b>Total</b>		<b>XX</b>	<b>-4</b>	x	x	-2	-3	-3	2	2	x	x	
Impact on Total Quantitative Score			-4										
Impact on Premium Category			-1										

\* Being the net change in scores if there is such an impact on the scores



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**(c) For the unadjusted exceptions above, MIs' action plans and timeline to rectify these exceptions**

Exception Noted		Action Plans	Timeline for Rectification
(i)	xx	xx	Completion Date
(ii)			

#### **TID**

**(a) Exceptions in Return on TID which have been corrected prior to submission**  
With respect to the following procedures, we found exceptions as noted below, to which the Return on TID have been adjusted with the corrections:

Work step	Exception	Correction (RM)
B (ii) 2.3	The Insurable Deposits - Classification Analysis did not agree with the total in the Summary prepared by management. Based on further validation, [Bank A] has recomputed the classifications and these are now found to be in agreement.	RMxx
xx	Xx	xx
xx	Xx	xx

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**(b) Exceptions in Return on TID, without corrections in the submission**

*With respect to the following procedures, we found exceptions as noted below, to which no corrections have been effected in the Return on TID:*

Work step	Exception	Correction (RM)	Impact
<b>(i) TID</b>			
B (ii) 2.3	The grand total in the Insurable Deposits - Classification Analysis did not agree with the total in the Summary prepared by management. Based on further verification, [Bank A] has recomputed the classifications and these are now found to be in agreement.	RMxx	
xx	Xx	xx	
<b>Total</b>		<b>XX</b>	
<b>Premium Rate</b>			<b>X%</b>
<b>Impact on Premium Payable (Total x Premium Rate)</b>			<b>X</b>

**(c) For the unadjusted exceptions above, MIs' action plans and timeline to rectify these exceptions**

Exception Noted		Action Plans	Timeline for Rectification
(i)	xx	xx	Completion Date
(ii)			

This report records the agreed upon procedures work on the above as agreed in our terms of reference. Our agreed upon procedures work is limited solely to those procedures set out in the attached Appendices.

The procedures that we performed do not constitute either an audit or a review made in accordance with Approved Standards on Auditing in Malaysia and, consequently we do not express any assurance on the information in the DPS Reporting Form and Return on TID of [Bank A] for the year 1 January to 31 December xx.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Approved Standards on Auditing in Malaysia, other matters might have come to our attention that would have been reported to you.



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Our report is solely for the purpose of **[Bank A]**'s submission to PIDM in relation to the DPS Reporting Form and Return on TID submitted to PIDM and is not to be used for any other purpose or to be relied upon by any other parties. This report relates only to the items specified above and does not extend to any financial statements of **[Bank A]**, taken as a whole.

Name of audit firm

AF: xxxx

Chartered Accountants

cc **[Bank A Berhad]**