

STATEMENT ON GOVERNANCE FOR THE YEAR ENDED 2019

PIDM benchmarks its corporate governance against relevant local and international best practices namely the International Association of Deposit Insurers' (IADI) "Core Principles for Effective Deposit Insurance Systems" and the Organisation of Economic Cooperation and Development's "Best Practice Principles for Regulatory Policy: The Governance of Regulators". PIDM also ensures compliance with Shariah requirements in relation to the Islamic protection systems it administers.

The Malaysia Deposit Insurance Corporation Act (PIDM Act) sets out the overall responsibility of the Board for the conduct of the business and affairs of the Corporation. The Board has adopted the Board Governance Policy as its charter. The Board Governance Policy sets out the roles and responsibilities of the Board with regard to corporate governance and the Board's expectations from Management in upholding high standards of corporate governance. The Board Governance Policy is available on PIDM's website, www.pidm.gov.my.

STANDARD 1: INDEPENDENCE OF THE BOARD

Board members will exercise independent judgement.

PIDM's Board of Directors comprises nine (9) Directors as stipulated under the PIDM Act. As a national resolution authority, PIDM's Board should comprise persons who are able to provide valuable guidance to PIDM's Management on how to facilitate resolution smoothly.

Cooperation between the key safety net players namely, Bank Negara Malaysia and the Treasury, is important and to facilitate this, the PIDM Act provides for the Governor of Bank Negara Malaysia and the Secretary General of the Treasury to serve as ex officio Directors. The rest of the Board members are non-ex officio Directors who are appointed by the Minister of Finance (the Minister).

The PIDM Act requires the appointment of at least one (1) public sector Director, and another Director who may be either from the public sector or who has public sector experience. These appointments are meant to provide a public sector perspective to Board discussions. The Chairman of the Board is required to have relevant private sector experience and up to four (4) other Directors with the relevant private sector experience may be appointed to the Board. One of these four (4) Directors should possess relevant banking and financial sector experience.

Principle 3 of the IADI's Core Principles for Effective Deposit Insurance Systems states that deposit insurers should be operationally independent, and insulated from external interference. The PIDM Act requires all PIDM's Directors to act honestly and in PIDM's best interests. The PIDM Act does not permit the appointment of Members of Parliament, office bearers in political parties or officers in PIDM's member institutions, to PIDM's Board.

In order to ensure that PIDM remains operationally independent and retains its ability to use its powers to fulfil its mandate without influence from external parties, the PIDM Act has clearly delineated the powers of the Minister, the Board and the Chief Executive Officer (CEO).

The Board is responsible for the conduct of PIDM's business and affairs while the CEO is responsible for administering PIDM's day-to-day business. The CEO is not a member of PIDM's Board which preserves the separation between the Board and Management. PIDM has an authority matrix which delineates the authority of the Board and the CEO. The Board exercises oversight of governance-related policies, succession plans for Directors, CEO and Corporate Officers, strategic plans, financial plans and statements, and risk policies. Management appraises the Board about corporate initiatives and significant operational matters. Management's performance is tracked against the corporate scorecard. The Chief Internal Auditor (CIA) and the Chief Risk Officer (CRO) report functionally to the Board through the Audit Committee.

The importance of operational independence is underscored by the Board Governance Policy which requires Board members to exercise their independent judgement in directing and overseeing operations. It is made clear that Board members do not serve under the specific direction of the Minister and that Directors from the public sector should exercise independent judgement in ways that fulfil their responsibilities to PIDM.

Directors are expected to actively challenge Management's proposals and the Board is encouraged to regularly hold *in camera* sessions without Management's presence. As a matter of practice, *in camera* sessions are always part of the agenda of PIDM's Board and Board Committee meetings. As part of Board independence, PIDM has a Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors, to permit the Board to have recourse to independent professional advice at PIDM's expense.

STANDARD 2: BOARD EFFECTIVENESS AND GOVERNANCE RESPONSIBILITIES

The Board will obtain and maintain an understanding of PIDM's objects and powers, as well as of its governance responsibilities.

To achieve this, the Board will:

- i. develop and maintain approaches to fulfilling those responsibilities and will evaluate objectively, on a regular basis, its effectiveness in doing so; and*
- ii. ensure that PIDM has arrangements for the orientation of new directors and ongoing training appropriate to the Board's governance responsibilities and needs.*

BOARD EVALUATION

In line with best practices, the performance of the Board and Board Committees is evaluated every year.

The evaluation questionnaire for 2019 was extensive and covered areas such as the Board's roles and responsibilities, the Board's structure, succession planning, competence and composition, ethics, diligence, dynamics, the Board's processes as well as the evaluation of Management's support to the Board. The questions included areas related to the performance of each of the Board Committees. The evaluation was conducted through a self-assessment process.

The evaluation showed that the Board's performance was "highly satisfactory". The areas in which the Board expressed the highest satisfaction were the Board's performance of its roles and responsibilities, oversight functions, leadership and management relations and Board dynamics. The Board evaluation indicated that moving forward, the Board would continue to focus on the performance of its committees.

BOARD ORIENTATION AND TRAINING

PIDM provides new Directors with orientation to enable them to understand, among other things, PIDM's accountability framework, governance responsibilities and relationships with other safety net players and stakeholders. PIDM conducted orientation sessions for Tan Sri Dr. Ismail Haji Bakar and Datuk Saat Esa, upon their appointments on 18 February 2019.

The Board is required to stay abreast of financial and economic trends and regulatory issues affecting PIDM's member institutions. With this in mind, Board members attended the following education sessions in 2019 to increase their knowledge and understanding of these topics:

List of Training Attended	Mode of Training	Date(s)
Differential Levy Systems for Insurance Companies and Takaful Operators	Internal Session	28 January 2019
Financial Stability Institute of the Bank of International Settlements	International Conference	12-13 March 2019
Reading the Signs: The Next Financial Crisis and its Potential Impact on Asia	FIDE Forum	14 March 2019
Digital Assets: Global Trends, Legal Requirements and Opportunities for Financial Institutions	FIDE Forum	26 March 2019
Financial Technology and Digitalisation	Internal Session	29 March 2019
Anti-Money Laundering and Counter Financing of Terrorism: Insurance and Takaful Sector	FIDE Programme	1 April 2019
Distinguished Board Leadership Series: Rethinking Strategy	FIDE Forum	23 April 2019
Trust and Confidence Index Framework	Internal Session	9 May 2019
Missions and Visions of Insurance Guarantee Schemes	International Conference	15-16 May 2019
Shifting Tides: The Future of Finance	External Session	17-21 June 2019
PIDM CEO's Dialogue	FIDE Forum	12 July 2019
Distinguished Board Leadership Series: Artificial Intelligence and its Role in Financial Institutions	FIDE Forum	24 July 2019
Value Based Intermediation: Directors' Role	FIDE Forum	1 August 2019
Economic Conditions in Malaysia	Externally facilitated session	19 August 2019
Indonesia Deposit Insurance Corporation's International Seminar	International Seminar	21-23 August 2019
Bank Resolution, Crisis Management and Deposit Insurance: What's Next and How to Prepare	International Conference	4-5 September 2019
Cybersecurity	Externally facilitated session	6 September 2019
18 th IADI Annual General Meeting and Conference	International Conference	7-11 October 2019
Target Fund Framework	Internal Session	14 November 2019

5 **STANDARD 3: ROLES AND RESPONSIBILITIES OF COMMITTEES**

Where the Board appoints a Committee, it will establish the responsibilities and authority of the Board Committees, as well as accountability requirements for them.

PIDM's Board has established three (3) Board Committees, namely the Audit Committee, the Governance Committee and the Remuneration Committee, to assist with oversight of the business and affairs of PIDM. Each Board Committee's responsibilities, authority and accountability are detailed in their respective charters. The role and membership of the Board Committees are found on page 24 of the Annual Report. The Board Committees report their work at each Board meeting, and their performance against their respective charters forms part of the Board evaluation process. These charters are available on PIDM's website on its [Corporate Governance](#) page.

The reports on the activities of the Board Committees are found on pages 12 to 14.

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 PIDM.

To achieve this, the Board will, in consultation with the CEO:

- 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*
- ii. have a Board succession plan to recommend to the Minister of Finance for the orderly turnover of Directors.*

The Board takes into account developments in the financial services industry, and legal and technological developments, among other areas, in assessing the skills it requires on the Board. It conducts a skills gap analysis of the current Board members against the desired skills which forms the basis for assessing and nominating potential candidates as non-ex officio Directors.

Under the PIDM Act, the Minister appoints non-ex officio Directors to the Board. The practice, whenever there is a vacancy, has been for the Board to be provided with a list of potential candidates for deliberation. The potential candidates are sourced by relying on recommendations from the Directors and Management, as well as through the services of a search firm. Once the Board has given its approval, the Chairman, together with other Directors, interview the nominated candidate and proposes his or her name to the Minister for appointment.

The current skills amongst Board members are shown below.

Qualifications, Skills, Knowledge or Experience
Previous or current leaders of statutory bodies or relevant public bodies
Financial expertise including professional qualifications as an accountant and extensive experience in auditing and financial management
Risk management
Economics
Legal matters concerned with commercial law, corporate finance, receiverships, bankruptcies and insolvencies, company restructurings, mergers and acquisitions (including relevant Shariah matters)
Regulation of the banking and financial services
Interventions and insolvency (including relevant Shariah matters)
Commercial or Islamic banking or business operations in commercial banking
Insurance or takaful industry or business operations in those industries
Human resource management best practice
Consumer issues related to member institutions, corporate governance and communications and stakeholder management

STANDARD 5: ROLES AND RESPONSIBILITIES OF THE CEO

The responsibilities and accountability of the Chairman and CEO should be clearly distinguished and documented.

In this connection, the Board will:

- i. develop a position description for the CEO;*
- 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*
- iii. establish an accountability relationship for the CEO to the Board.*

The division of responsibilities and accountability of the Chairman and the CEO is reflected in the PIDM Act¹ and in their respective position descriptions. The Chairman is expected to lead and manage Board meetings and represent PIDM at meetings with the Minister or other government officials. The CEO is responsible for operational matters as stated in the CEO's position description. The CEO is also responsible for stakeholder engagement with the Ministry of Finance, other government officials, financial safety net players, international organisations such as the IADI, industry associations, member institutions and members of the public.

Under the PIDM Act, the CEO is accountable to the Board for the exercise of his powers and the performance of his duties. The CEO's position description also describes that accountability relationship. PIDM has an authority matrix that clearly sets out the levels of approvals and the delegation of authorities.

The key performance indicators (KPIs) for the CEO are determined annually based on the Board-approved corporate objectives. The CEO's KPIs are approved by the Board on the recommendation of the Remuneration Committee. In 2019, the Board-approved corporate objectives were to have an effective resolution regime, to create more awareness about PIDM and to build its image and reputation through targeted stakeholder management, and talent development. The CEO's performance against those KPIs was tracked and considered by the Remuneration Committee and the Board at the end of 2019.

STANDARD 6: APPOINTMENT OF SENIOR CORPORATE OFFICERS

The Board will appoint the senior corporate officers of PIDM (other than the CEO) and determine their terms of office and compensation.

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:

- i. Chief Operating Officer and General Counsel;*
- ii. Chief Financial Officer (CFO);*
- iii. CRO;*
- iv. CIA; and*
- v. Corporate Secretary.*

In 2019, there were no new appointees among the corporate officers.

¹ Sections 11(1) and 19(2) of the PIDM Act

7 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 Remuneration Committee reviews matters pertaining to employee compensation and subsequently makes recommendations to the Board on the same. The Board is cognisant of the need to attract new talent and to retain PIDM's key talent, as PIDM's functions require specialised expertise. In line with this, employees of PIDM are also awarded performance-related bonuses based on their performance against KPIs and their behavioural competencies.

In December 2019, the Board approved salary increments for 2020 and performance bonuses for 2019 for PIDM employees. The total wages and salaries for employees in 2019 amounted to RM52.8 million. Refer to page 153 of the Annual Report for further information.

Each Director is paid an annual fee, allowances for attendances at meetings and any other remuneration as may be determined by the Minister. This is provided for under the PIDM Act.² There were no changes to the remuneration structure for the Board in 2019. The total fees and remuneration, including medical benefits, received by the Directors in 2019 amounted to RM0.9 million. Refer to page 154 of the Annual Report for further information.

STANDARD 8: SUCCESSION PLANNING

The Board will plan for the succession of the CEO and review succession plans for key senior management.

Under the PIDM Act, the CEO shall be appointed by the Minister on the recommendation of the Board.³ The Board gives serious consideration to the appointment of the CEO and key senior management. Each division within PIDM is headed by a General Manager supported by Deputy General Managers or Portfolio Managers.

Each year the Human Capital Division provides the profiles of the key senior management to the CEO together with information about potential successors. The CEO reviews the information and assesses the capabilities of these potential successors and provides reports on the status and progress of the succession plans to the Remuneration Committee.

² Section 16 of the PIDM Act

³ Section 19 of the PIDM Act

STANDARD 9: STANDARDS OF BEHAVIOUR AND ETHICS

The Board will ensure that Management develops adequate policies, strategies, process 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.

PIDM aims to have high standards of behaviour and ethics within the organisation as this is crucial to maintain trust and confidence in PIDM as a key financial safety net player. With this in mind, PIDM has several codes and policies in place to establish standards of conduct and ethical behaviour for PIDM's employees and Directors. These policies are frequently reviewed to incorporate latest local and global developments. The relevant policies are available on PIDM's website on its [Corporate Governance](#) page.

Each year, PIDM conducts an annual compliance test to gauge employees' understanding of rules on ethical behaviour. In 2019, the annual compliance test gauged employees' understanding of ethical conduct, prevention of conflict of interest, whistleblowing, procedures for public disclosure of information and information classification. All employees who were required to do so completed the compliance test. Employees were also provided with training on the whistleblowing policy in 2019, where they were informed about the types of improper conduct covered by the policy, the procedures to disclose improper conduct, and whistleblowers' rights under the policy.

Employees of PIDM are required to make annual declarations of their assets and financial obligations. Key employees of PIDM are also required, under the Conflict of Interest Code for Employees, to disclose if they or their connected persons hold any interest or key management position in any entity with which PIDM has contractual or business relations.

PIDM's Directors are required to make annual declarations of any interest or key management position that they hold in any entities which PIDM has contractual or business relations with, as well as interest in shares of any member institution or its affiliate, any loans or financing, lines of credit, guarantees, financial undertakings and facilities provided by any member institution and deposits held in any member institutions amounting to RM250,000 or more. Employees and Directors are also required to certify annually, that they have complied with the Conflict of Interest Codes for Employees and Directors, respectively.

The purpose of policies, strategies, processes and controls is to provide the Board with a high degree of assurance that a compliance system is in place and that PIDM and its employees are in compliance with laws and key policies. Reports on compliance with laws, standards and ethics are provided to the Audit Committee and Remuneration Committee.

STANDARD 10: SIGNIFICANT RISKS TO PIDM

The Board will:

- i. obtain an understanding of the principle risks of PIDM'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 PIDM continue to be effectively managed; and*
- iv. ensure that the CRO (or in his absence, a representative of the Enterprise Risk Management (ERM) Division) should regularly attend all scheduled Board meetings.*

The Board ensures that there is an appropriate ERM process in PIDM through the Board-approved ERM Policy which is benchmarked against the Committee of Sponsoring Organizations of the Treadway Commission's ERM – Integrated Framework and the International Organization for Standardization 31000:2018 (Risk Management - Guidelines).

The ERM Division has in place a risk management process to identify, assess and review significant risks faced by PIDM that could prevent it from achieving its mandate and objectives. The ERM Division formulates action plans to manage significant risks and monitors the implementation and effectiveness of these action plans. It provides the Audit Committee and the Board with regular risk reports which allow the Board to monitor compliance with the ERM programme to ensure that risk management practices are applied consistently and that the risk action plans to mitigate risks are carried out effectively. The CRO or a representative attends all Board meetings.

An annual ERM representation letter from each Head of Division is provided to the CRO to confirm that each Division's risks are being managed and that the Division meets the Board's expectations with regard to the Division's responsibilities in mitigating the risks as well as to instil Management accountability. The CRO provides the Board with an annual ERM representation letter confirming that PIDM's risks are being managed and that the relevant policies and ERM processes continue to be effective and relevant.

STANDARD 11: CONTROL ENVIRONMENT AND INTERNAL AUDIT

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 (including the risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.

In this connection the Board will:

- i. allocate resources for, and establish an internal audit group, setting out its mandate;*
- ii. approve its audit plan for each year; and*
- iii. seek from the internal audit group, on a regular basis, reasonable assurance regarding the monitoring of, and compliance with internal controls, the integrity of the system and that appropriate action is being taken to address any significant weaknesses or breakdowns identified.*

PIDM's Internal Control Framework (ICF) is benchmarked against the Committee of Sponsoring Organisations of the Treadway Commission Internal Controls – Integrated Framework (COSO) Framework. The ICF's components comprising the control environment, risk assessment, control activities, information and communication, and monitoring activities are mapped against PIDM's operations, by the Audit and Consulting Services (ACS) Division.

The ACS Division which was established under a Board-approved charter plays an important role in evaluating the effectiveness of PIDM's control systems. It reviews the state of internal control based on two (2) approaches comprising specific audits or limited reviews which are performed throughout the year, and internal audit observations obtained through consulting service activities such as involvements in projects, management and working committees and discussion sessions, as well as policy and procedures review exercises.

The Board annually approves the ACS Division's Audit Plan and monitors its performance in accordance with the plan. The Board also ensures that the ACS Division is sufficiently resourced to carry out its functions. The CIA's qualifications are stated in PIDM's [Executive Management Committees'](#) webpage.

In order to ensure the ACS Division's independence, the CIA reports functionally to the Board through the Audit Committee and has full and free access to the Audit Committee. The Chair of the Audit Committee will be consulted prior to the appointment or termination of the CIA, and will conduct entry and exit interviews with the CIA. The Chair of the Audit Committee may hold in camera sessions with the CIA without the presence of other members of Management.

The CIA provides an annual representation letter to the Audit Committee and the Board, which sets out the assessment results on PIDM's system of internal controls that covers the areas identified to be of significant risk, as well as those pertaining to PIDM's financial management and reporting. For 2019, there were no reported incidents of significant weaknesses or deficiencies in the adequacy and integrity of risk management and internal controls embedded in PIDM's systems, policies, practices and processes.

STANDARD 12: IN CONTROL

The Board will obtain, on a regular basis, reasonable assurance that PIDM is “in control”.

(Note: The concept of being “in control” refers to a state where PIDM’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.)

The Board has reasonable assurance that PIDM is “in control” for the following reasons:

- a. the Board Governance Policy sets out the Board’s expectations from Management;
- b. PIDM has an ICF which is benchmarked against the COSO Framework in place. This has been described in Standard 11;
- c. the Board receives a report under Standard 9 in respect of compliance with key policies and laws;
- d. the ERM Division has a process in place to identify, evaluate and review risks, and provides regular risk reports to the Board;
- e. the CRO and the CIA report functionally to the Board through the Audit Committee, on key risks or internal control matters. Their access to the Audit Committee provides them with an avenue to report on matters that are of concern to them, which may not have been highlighted to the Audit Committee by PIDM’s Management. As they attend all scheduled Board meetings, the Board can obtain their views on the reliability of the information provided;
- f. the Board receives comprehensive representation letters from the CEO, CFO and CRO that address the accuracy and reliability of the relevant information provided to the Board. The CRO and CEO in turn receive representation letters from the heads of division with respect to their responsibilities to identify and manage risks, as well as the performance of their functions. In addition, the CIA provides a representation letter to the Audit Committee and the Board on the integrity of and compliance with the internal control systems that govern the relevant information provided to the Board by Management; and
- g. the Board receives regular updates on risk assessment and monitoring of member institutions from the Risk Assessment and Resolution Division.

Based on the above and the effectiveness of PIDM’s frameworks, systems, policies, processes and procedures that have been implemented and maintained, the Board is of the view that a sound system of risk management and internal control has been established and maintained.

STANDARD 13: STRATEGIC MANAGEMENT PROCESS

The Board is responsible for reviewing and overseeing the development of and approving a strategic plan and direction for PIDM, taking into account the opportunities and risks facing PIDM.

To fulfil this responsibility, the Board will:

- i. periodically assess PIDM's objects to ensure their continuing relevance and, if thought appropriate, propose changes for consideration by the Minister of Finance;*
- ii. adopt a strategic planning process;*
- iii. at least annually, approve operating objectives and strategies, the operating budget, capital budget, borrowing plan, corporate plan, premium rates that are appropriate and prudent in light of PIDM's objects, current and anticipated environment, risks, resources and financial position;*
- iv. regularly evaluate PIDM's performance in implementing its approved plans and budgets; and*
- v. obtain, on a regular basis, reasonable assurance that PIDM has an effective strategic management process.*

The Board assesses PIDM's objects to ensure their continued relevance on a periodic basis.

Each year, Management conducts an external scan of PIDM's operating environment and identifies and assesses significant risks that PIDM needs to manage in order to achieve its objectives. It uses this information to develop a strategic plan that it presents to the Board for their views. Following this, a detailed Corporate Plan is developed with key corporate initiatives, objectives and performance targets, together with a financial plan to support the initiatives. Management regularly provides detailed updates to the Board on its achievements against the KPIs in the Corporate Plan.

The Board annually obtains reasonable assurance that PIDM's business and affairs are being managed effectively in accordance with the strategic management process in place. A summary of the Corporate Plan is made publicly available, and achievements against the KPIs in the Corporate Plan are provided in PIDM's Annual Report.

STANDARD 14: EFFECTIVE COMMUNICATION

The Board will ensure that PIDM communicates effectively with the public, Bank Negara Malaysia and other statutory bodies or regulators, depositors, policy owners, member institutions and other relevant parties.

The Board oversees the implementation of PIDM's communications and stakeholder engagement plans. As part of stakeholder engagement, PIDM's Annual Report and summary of its Corporate Plan are made publicly available.

As part of efforts to gain the trust and confidence of member institutions, PIDM's strategic plan is to engage with its stakeholders to create awareness and understanding of its mandate and to build its image and reputation through more effective engagement. In 2019, PIDM increased stakeholder engagement through industry dialogues, engagement sessions with member institutions, greater collaboration to strengthen relationships with key stakeholders and thought leadership through, for example, publications in reputable banking journals. PIDM continued to reach out to the public to build awareness about its mandate.

The report on PIDM's stakeholder engagement activities is found on page 13 of the Annual Report.

STANDARD 15: REVIEW OF THE BOARD GOVERNANCE POLICY

The Board will review the Board Governance Policy biennially to ensure that it remains responsive to the circumstances and needs of PIDM and that it continues to reflect the legislation to which PIDM is subject to, PIDM's mandate, guidance on matters of governance specific to statutory bodies and recognised best practices.

PIDM benchmarks its governance practices against international best practices. In 2019, the Board Governance Policy was amended to permit the Board to review the policy biennially instead of annually. This would allow PIDM to assess the impact of any new governance practices before recommending any amendment to the Board Governance Policy. The biennial review would not affect the ability of the Board to remain responsive to the circumstances and needs of PIDM.

PIDM also amended its charter of the Governance Committee to ensure the chairman of the Board does not act as the chairman of the Governance Committee. The amendment reflects best practices in corporate governance.

BOARD COMMITTEES

Throughout 2019, the Board was supported by the Audit Committee, the Governance Committee and the Remuneration Committee. In 2019, all the Board Committees fulfilled their responsibilities against their respective charters.

Audit Committee

The following is a summary report of the Audit Committee's key areas of work in 2019:

Internal Audit

In 2019, the Audit Committee considered four (4) internal audit reports issued by the ACS Division. The audit areas included but were not limited to:

- a. PIDM's financial statements and disclosures for the financial year ended 31 December 2018;
- b. Premium Reimbursement Information Management System (PRIMS), and Claims Management System (CMS) projects;
- c. PIDM's business continuity process simulation exercise;
- d. review of the Corporate Information Management;
- e. policy development, review and advisory processes;
- f. information technology security assessment - vulnerability assessment and penetration testing on PIDM's industry portal;
- g. enterprise risk assessment and reporting process;
- h. information technology security assessment-social engineering;
- i. Payment Management Systems (TIPS) project; and
- j. management of membership process.

Recommendations emanating from these audits were reported to the Audit Committee, and Management's responses and action plans were considered. For 2019, there were no reported incidents of significant weaknesses or deficiencies in the adequacy and integrity of risk management and internal controls embedded in PIDM's systems, policies, practices and processes. There were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in its systems of risk management and internal control.

The Audit Committee reviewed the ACS Division's plan for 2020 - 2022 and considered the financial plan and resource needs of the ACS Division. The Audit Committee monitored the internal audit function's performance against the ACS Division's plan on an annual basis and ensured that it is independent. The Audit Committee also monitored the implementation of action plans arising from previous internal audits.

Investment Policy

The Audit Committee also reviewed PIDM's Investment Policy and based on its feedback, PIDM established clear segregation between investment and operational cash management and devised separate policies for each of these activities.

Risk Appetite Statement

The Audit Committee considered PIDM's proposed risk appetite statement that would communicate a uniform and clear understanding of its risk appetite, and to determine which objectives to pursue as well as to manage those objectives within its risk appetite more effectively.

Integrated Report

The Audit Committee reviewed the draft Annual Report 2019 which was presented in the form of an integrated report, and provided its feedback which included ensuring that PIDM's material matters were sufficiently highlighted and presented in a manner that would enable readers to understand the material matters and how they have been addressed.

Financial Reporting

The Audit Committee assisted the Board in discharging its oversight role to ensure reliable, accurate and clear financial reporting by reviewing PIDM's financial statements and other information provided in the annual report and Corporate Plan. Under the PIDM Act, PIDM's annual report (including its financial statements and the report from the Auditor General) must be provided to the Minister, three (3) months after the year ended (31 December).

Financial Reporting Processes, Accounting Policies and Internal Control Structure

The Audit Committee reviewed and advised the Board with respect to the annual financial statements, external audit reports, and the review of the integrity of the financial reporting process and internal control reports. The Audit Committee also obtained a written certification from the CIA addressing PIDM's system of internal control.

Strategic and Financial Management Oversight

The Audit Committee fulfilled its responsibilities with regard to financial management oversight, including the management of the annual financial plan and investments. In particular, the Audit Committee reviewed regular reports on the progress against the Corporate Plan 2019 – 2021, and considered and recommended the Corporate Plan 2020 - 2022.

Risk Management

The Audit Committee provided advice and support to the Board in respect of risk management. It recommended a 'Manageable' risk rating for Operational Risk which comprised Information and Information Technology (IT) sub-risks, on the grounds that there were increasing significant risks to PIDM's operations due to external factors that were beyond PIDM's control.

The Audit Committee also monitored the identification, evaluation and management of significant risks through regular reports.

Ethical and Legal Compliance

The Audit Committee reviewed the report on compliance with applicable laws and key codes and policies from the General Counsel. The Audit Committee also noted the report on PIDM's compliance programme activities in 2019.

15 **Governance Committee**
 In 2019, the Governance Committee carried out the following:

- a. reviewed the annual Board education programme for Directors;
- b. reviewed PIDM's key governance policies and practices in light of recent developments in corporate governance;
- c. reviewed the corporate governance disclosures in the annual report and the Statement on Governance on the Corporation's website;
- d. reviewed the Board and Board Committee's performance and Management's support to the Board; and
- e. reviewed the individual and collective Board profiles.

Remuneration Committee

In 2019, the Remuneration Committee reviewed the following:

- a. the Corporation's achievement of key initiatives in the Corporate Plan;
- b. key policies relating to human capital matters and the relevant laws applicable to the Corporation; and
- c. the CEO's performance against his KPIs for 2019 as well as his KPIs for 2020.

The Remuneration Committee also recommended to the Board for approval, the employees' bonus awards for 2019 and salary increments for 2020.

Directors' Attendance at Board and Board Committees Meetings

Member	Meeting attendances			
	Board	Audit Committee	Governance Committee	Remuneration Committee
Tan Sri Dr. Rahamat Bivi Yusoff	5/5	-	2/2	-
Datuk Nor Shamsiah Mohd Yunus	4/5	-	-	-
Tan Sri Ahmad Badri Mohd Zahir	5/5	-	-	-
Tan Sri Dr. Ismail Haji Bakar ⁴	1/5	-	-	-
Datuk Saat Esa ⁵	3/4	2/2	-	-
Datuk Dr. Yacob Mustafa ⁶	1/1	-	-	-
Mr. Alex Foong Soo Hah	4/5	5/5	-	2/2
Dato Dr. Nik Ramlah Mahmood	4/5	-	2/2	-
Dato' Dr. Gan Wee Beng	4/5	5/5	-	2/2
Ms. Gloria Goh Ewe Gim	5/5	5/5	1/2	-

⁴ Tan Sri Dr. Ismail Haji Bakar – appointed on 18 February 2019

⁵ Datuk Saat Esa – appointed on 18 February 2019 and retired with effect from 30 October 2019

⁶ Datuk Dr. Yacob Mustafa – appointed on 1 November 2019

ACCOUNTABILITY AND AUDIT

Financial Reporting

PIDM adopts the Malaysian Accounting Standards Board's Approved Accounting Standards in Malaysia for Entities Other than Private Entities. It administers six (6) distinct and separate funds under the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). These funds are reported and accounted for separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2019 and the accompanying Statement by Directors are found on pages 100 to 103 of the Annual Report.

Five (5) subsidiaries were incorporated in 2012 for operational readiness to carry out any intervention or failure resolution activities. These companies are currently dormant. In line with section 35 of the PIDM Act, the financial results of the subsidiaries were not consolidated with the financial statements of PIDM. PIDM believes that consolidating its financial statements with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM. 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 Standard 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. Refer to Note 2.2(c) to the financial statements for details.

Audit

Pursuant to the PIDM Act, the financial statements of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. PIDM maintains a collaborative working relationship with the external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all Audit Committee meetings. NAD representatives receive, as a matter of course, all Audit Committee reports and documentation prior to the Audit Committee meetings. NAD representatives attended two (2) out of five (5) Audit Committee meetings held in 2019. The annual fees paid to the NAD are found on page 154 of the Annual Report.

ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

PIDM seeks advice and endorsements from the Shariah Advisory Council of Bank Negara Malaysia on Shariah issues relating to the operations of the Islamic deposit insurance system and takaful benefits protection system. The arrangements and salient features of the Islamic deposit insurance system and takaful benefits protection system 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, levies and income from investments are pooled in the Islamic Deposit Insurance Fund or the Takaful Benefits Protection Funds respectively. Only Shariah-permissible expenses will be charged to the Islamic Deposit Insurance Fund or the Takaful Benefits Protection Funds.

In the event of an intervention and failure resolution of an Islamic member bank or takaful operator, the Islamic Deposit Insurance Fund and the Takaful Benefits Protection Funds will be used respectively. All surplus amounts must be used to meet its obligations (if any) in respect of Islamic insured deposits or eligible takaful benefits. Funding arrangements will be structured according to Shariah principles should PIDM need to raise any funding from the Government and the market.

Please refer to the Governance Overview in PIDM's [Annual Report 2019](#) for further information.