



SAFEGUARDING
FINANCIAL CONSUMERS
ANNUAL REPORT 2016



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia



Safeguarding Financial Consumers

The myriad of colours on the cover depicts the richness and vibrancy of Malaysia, a progressive nation that continues to develop and thrive. PIDM is an integral part of the nation's financial safety net system. Within the multiple layers of economic and social interactivity, we play a steadfast role in safeguarding the interests of financial consumers, ensuring peace of mind, and promoting and contributing to public confidence towards financial system stability.



This Annual Report is available at
www.pidm.gov.my

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SECTION

1

OVERVIEW

Corporate Profile

The Year at a Glance

Five-Year Highlights of Our Accomplishments

Financial Summary: Five-Year Performance

Organisation Structure

Board of Directors: Members and Profiles

Executive Management Committee: Members and Profiles

Other Management Committees

CORPORATE PROFILE

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act (PIDM Act). PIDM reports to Parliament through the Minister of Finance and is governed by a nine-member Board of Directors. The Corporation is also known internationally as the Malaysia Deposit Insurance Corporation.



OUR VISION

To be a best practice financial consumer protection and resolution authority



OUR MISSION

To execute our mandate effectively, with a commitment to make a difference to our community and our employees



OUR CORPORATE VALUES

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



OUR CORPORATE OBJECTIVES

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

As an integral part of the national financial safety net system, PIDM administers the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). PIDM insures depositors and protects takaful certificate and insurance policy owners in the event of a member institution failure up to the limits set out in the PIDM Act. The Corporation is also mandated to provide incentives for sound risk management in the financial system, as well as to promote and contribute to the stability of the financial system.

CORPORATE PROFILE

PIDM is mandated to provide incentives for sound risk management in the financial system as well as promote and contribute to the stability of the financial system.

MEMBER INSTITUTIONS AND FUNDS

PIDM's member institutions comprise:

- commercial banks (including locally incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Financial Services Act 2013;
- Islamic banks licensed under the Islamic Financial Services Act 2013;
- insurance companies (including locally incorporated subsidiaries of foreign insurance companies operating in Malaysia) licensed under the Financial Services Act 2013 to conduct life or general insurance business in Malaysia; and
- takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family or general takaful business in Malaysia.

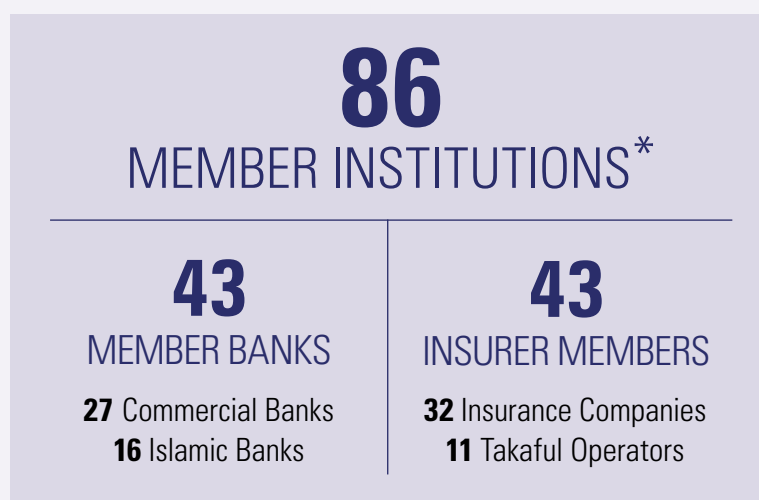
The Corporation administers six separate and distinct Funds:

- Conventional Deposit Insurance Fund
- Islamic Deposit Insurance Fund
- General Insurance Protection Fund
- Life Insurance Protection Fund
- General Takaful Protection Fund
- Family Takaful Protection Fund

The Islamic Deposit Insurance Fund and Takaful Protection Funds are administered in accordance with Shariah principles.

FINANCIAL SYSTEM STABILITY

In carrying out its mandate, PIDM works closely with Bank Negara Malaysia (BNM), the primary regulator and supervisor. There is a Strategic Alliance Agreement between the parties which facilitates timely exchange of information on member institutions, collaboration in risk assessment and monitoring, as well as intervention and failure resolution activities.







The Corporation is the resolution authority in Malaysia for its member institutions and has at its disposal a range of legislative powers to intervene early in distressed member institutions to mitigate the effects of a failure and to bolster public confidence. If necessary, once a member institution is deemed to be no longer viable by BNM, the Corporation can assume control over the institution or take such intervention action to resolve the member institution in a manner that minimises costs to the financial system. PIDM also provides incentives for its member institutions to implement sound risk management practices.

Public confidence in DIS and TIPS is a key component for the stability of the financial system. In that regard, PIDM carries out a multi-year public awareness programme through various channels to enhance the level of awareness and understanding about the benefits, coverage and limitations of PIDM's financial consumer protection systems.

* Refer to Appendix for the list of member institutions

THE YEAR AT A GLANCE

 Stakeholders	Public awareness	<ul style="list-style-type: none"> Exceeded the targeted awareness levels for PIDM, DIS and TIPS.
	Knowledge sharing	<ul style="list-style-type: none"> Executed a Memorandum of Understanding (MOU) with the Federal Deposit Insurance Corporation of the United States and an enhanced MOU with the Korea Deposit Insurance Corporation.
 Governance and Internal Processes	Board succession planning	<ul style="list-style-type: none"> Implemented the concept of an 'evergreen' Board of Directors (Board). Smooth implementation of the Board succession planning process and execution of Board orientation.
	Corporate Social Responsibility	<ul style="list-style-type: none"> Increased the number of scholarship recipients from 10 to 20 external scholars.
	Business Continuity Management	<ul style="list-style-type: none"> Completed the construction of the Disaster Recovery Centre.
	Operational readiness – Intervention and Failure Resolution	<ul style="list-style-type: none"> Demonstrated PIDM's ability to effect a three-day payout of a hypothetical mid-sized member bank through a payout simulation. Completed the Least Cost Analysis financial modelling for insurer members under a liquidation scenario.
	Operational readiness – Funding	<ul style="list-style-type: none"> Implemented the Target Fund for the Life Insurance Protection Fund. Implemented the enhanced Differential Levy Systems Framework for insurance companies. Completed the documentation templates, work processes and funding details, following the agreement signed with Cagamas Berhad on 2 December 2015 as part of our alternative liquidity funding arrangement.
	Recovery and Resolution Planning	<ul style="list-style-type: none"> Completed the draft Recovery and Resolution Planning Framework as well as the Resolution Planning Framework; drafted the Resolution Planning Guidelines and information package; and developed the draft Resolvability Assessment Framework.
 Learning and Growth	Career management	<ul style="list-style-type: none"> Developed the career management strategy for employees as part of our talent management strategy. Enhanced the Competency Model to meet PIDM's changing needs.
	Learning organisation	<ul style="list-style-type: none"> Developed a Learning Organisation Framework that describes the building blocks, key strategies and action plans for a learning organisation.
 External Recognition	<ul style="list-style-type: none"> Recipient of the Marketing Excellence Awards 2016 in two categories – Excellence in Government Sector Marketing (Silver) and Excellence in Marketing Communications / Public Relations (Bronze). 	

FIVE-YEAR HIGHLIGHTS OF OUR ACCOMPLISHMENTS

2012

STAKEHOLDERS

- Implemented the first year of the Integrated Communications Plan 2012 - 2016.
- Conducted the first separate dialogue session for insurer members, in conjunction with the 2011 Annual Report launch.
- Implemented the enhanced education programme, with new components.

GOVERNANCE

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

INTERNAL PROCESSES

- Developed the Differential Levy Systems (DLS) framework and regulations for conventional insurer members.
- Implemented the Supervisor Validation framework on Returns on Calculation of Premiums for Takaful and Insurance Benefits Protection System (TIPS).
- Implemented the Malaysia Deposit Insurance Corporation (Return or Interest on an Index-linked Deposit held by a Deposit-Taking Member) Rules 2012.
- Incorporated five subsidiaries, namely, four bridge institutions and one asset management company, for the purpose of intervention and failure resolution (IFR).
- Conducted the first simulation exercise on the failure of an insurance company.
- Completed the trial run on the validation of Standard File Format for member banks.
- Completed the research on claims management system and infrastructure.
- Triggered the Business Continuity Plan (BCP) and mobilised resources to the interim Disaster Recovery Site (DRS) following the earthquake in Aceh, Indonesia.

LEARNING AND GROWTH

- Completed the competency mapping exercise for employee development purposes.
- Conducted training sessions for selected employees, on the failure of an insurance company.
- Developed the Knowledge Management Policy and Practices.

EXTERNAL RECOGNITION

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

2013

STAKEHOLDERS

- Continued to implement the enhanced education programme, with additional new components.
- Hosted the international seminar on Payout and Claims Settlement Strategy, System, Processes and Controls.
- Hosted the Open House for the African Region and study visits for delegates from the Indonesia Deposit Insurance Corporation (IDIC).
- Executed Memoranda of Understanding (MOUs) with the Philippine Deposit Insurance Corporation and the Korea Deposit Insurance Corporation (KDIC).
- Signed a collaboration agreement with the Federation of Chinese Associations Malaysia (or *Hua Zong*) and collaborated with the Federation of Malaysian Consumers Associations (FOMCA) to reach out to the community.

GOVERNANCE

- Conducted four Board education sessions.
- Established a Succession Planning Committee.

INTERNAL PROCESSES

- Developed the Takaful and Insurance Risk Assessment Framework (TIRAF) for takaful operators.
- Issued the Guidelines on the DLS for conventional insurer members and the Guidelines on Validation Programme: DLS and Premiums Calculation.
- Issued the Guidelines on Deposit Information Systems and Submission (DISS) as well as the Guidelines on Validation Programme for DISS.
- Conducted a simulation exercise on the failure of an insurance company.
- Conducted a simulation exercise to test the BCP and Disaster Recovery Plan (DRP) at the interim DRS, with a focus on most time-critical functions, i.e., call centre, reception and communication to relevant stakeholders.

LEARNING AND GROWTH

- Organised leadership training programmes for employees with a supervisory role.
- Conducted training sessions for selected employees on insurance-related topics.
- Achieved Employee Engagement Index of 90% and Sustainable Engagement Index of 94%.

EXTERNAL RECOGNITION

- Recipient of the NACRA 2013 for ‘Best Annual Report of Non-Listed Organisations’ award for our 2012 Annual Report.
- Recipient of the PMAA Order of Merit for the ‘Best Brand-Building Campaign Award’ under the Malaysian Chapter.

2014

STAKEHOLDERS

- Signed a collaboration agreement with Money Compass to enhance awareness among the Chinese community.
- Collaborated with the Malaysian Insurance Institute and member institutions for the Train-the-Trainer accreditation programme.
- Completed the implementation of PIDM Project MoneySmart education programme in all national secondary schools in Malaysia.
- Executed an enhanced MOU with IDIC and the Deposit Protection Agency, Thailand.
- Hosted the Asia-Pacific Regional Committee (APRC) Technical Seminar.

GOVERNANCE

- Conducted five Board education sessions.
- Continued to support the Financial Institutions Directors’ Education Programme alumni, FIDE FORUM.
- Forwarded the proposed legislative amendments to the PIDM Act to the Attorney General’s Chambers (AGC).

INTERNAL PROCESSES

- Implemented the Rating Prediction Model of the Early Warning System for member banks.
- Issued the Guidelines on Total Insured Deposits and Premiums.
- Conducted a walkthrough of the payout process and system in the event of an IFR.
- Issued the Guidelines on Assessment of Compliance by Deposit-Taking Members with the PIDM Act and Subsidiary Legislation and Guidelines for Insurer Members on the Submission of Product Information.
- Revised the Authority Matrix.
- Conducted a call-tree test on a ‘surprise basis’ to activate the BCP.
- Implemented the Corporate Information Security Framework.

LEARNING AND GROWTH

- Implemented the 360-degree assessment for senior management as part of leadership development.
- Initiated a job rotation exercise for selected divisions and a career profiling inventory exercise for senior management as part of career management planning.
- Conducted a training session on insurance companies’ resolution for employees.

EXTERNAL RECOGNITION

- Recipient of the NACRA ‘Certificate of Merit’, the highest award presented in the non-listed category for our 2013 Annual Report.
- Recognised as a ‘Partner in Co-curriculum’ by the Ministry of Education.

2015

STAKEHOLDERS

- Partnered with the famous cartoonist, Lat, on a new advertising campaign.
- Launched the PIDM Interactive Learning Platform for employees of member institutions and the public.
- Signed a collaboration agreement with Lions Clubs International District 308 B1 Malaysia to reach out to the community.
- Collaborated with member institutions to certify their employees under PIDM’s Train-the-Trainer accreditation programme.
- Hosted international conferences and seminars.

GOVERNANCE

- Conducted six Board education sessions.
- The legislative amendments to the PIDM Act were enacted by Parliament.
- Continued to support FIDE FORUM.

INTERNAL PROCESSES

- Issued the Guidelines on Differential Premium Systems for Deposit Insurance System (DIS); Guidelines on Validation Programme: Differential Premium Systems and Total Insured Deposits; and Guidelines on TIPS: Submission of Returns on Calculation of Premiums for Takaful and Insurance Businesses.
- Issued the Regulations and Order for the DLS for takaful operators.
- Conducted an IFR workshop on liquidation base-case followed by a simulation exercise of a bank failure.
- Developed an option for alternative liquidity funding arrangements.
- Completed the Target Fund for the General Insurance Protection Fund.
- Consulted with the industry and completed a public consultation on Information Regulations for DIS and TIPS.
- Developed an evaluation model to help assess the liquidation cost of a member institution in the event of a failure.

LEARNING AND GROWTH

- Completed the career profiling exercise for employees.
- Achieved a Sustainable Engagement Index of 88%.

EXTERNAL RECOGNITION

- Recognised as a ‘Partner in Co-curriculum’ by the Ministry of Education.

2016

STAKEHOLDERS

- Continued to partner with the famous cartoonist, Lat, on advertising campaign.
- Revised the DIS and TIPS information brochures as well as the membership decal utilising Lat’s artwork.
- Executed a MOU with the Federal Deposit Insurance Corporation of the United States and an enhanced MOU with KDIC.

GOVERNANCE

- Conducted an orientation session for new Directors and three Board education sessions.
- Conducted an evaluation of the Board’s performance.
- Implemented the concept of an ‘evergreen’ Board.
- Submitted the draft Terms and Conditions of Membership Regulations for DIS and TIPS to the AGC for gazetting.
- Increased our scholarship recipients from 10 to 20 external scholars as part of our Corporate Social Responsibility initiative.

INTERNAL PROCESSES

- Completed the draft Recovery and Resolution Planning Framework as well as the Resolution Planning Framework; developed the draft Resolution Planning Guidelines and information package as well as the draft Resolvability Assessment Framework.
- Conducted a payout simulation exercise to demonstrate PIDM’s ability to effect a three-day payout of a hypothetical mid-sized member bank.
- Implemented the Target Fund for the Life Insurance Protection Fund.
- Completed the Least Cost Analysis financial modelling for insurer members under a liquidation scenario.
- Implemented the enhanced DLS Framework for insurance companies.
- Completed the documentation templates, work processes and funding details with Cagamas Berhad as part of our alternative liquidity funding arrangement.
- Completed the Corporate Information Security Programme and conducted an internal assessment for the Corporation to be ISO 27001:2013 certification ready.
- Completed the construction of the Disaster Recovery Centre.

LEARNING AND GROWTH

- Enhanced the Competency Model to meet the Corporation’s changing needs.
- Developed the career management strategy for employees as part of our talent management strategy to engage, retain and reward our talent.
- Developed a Learning Organisation Framework that describes the building blocks, key strategies and action plans for a learning organisation.

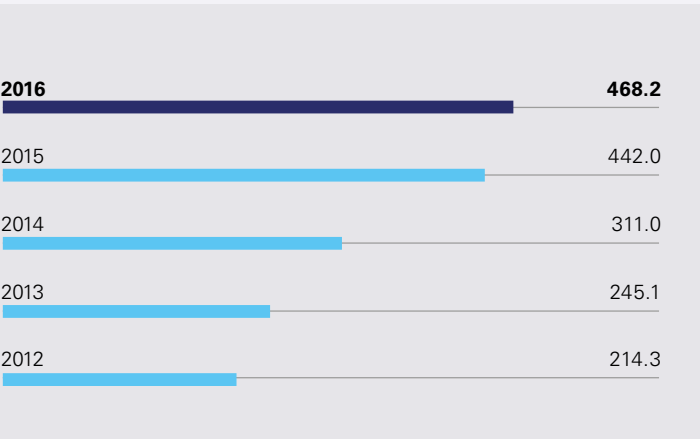
EXTERNAL RECOGNITION

- Recipient of the Marketing Excellence Awards 2016 in two categories – Excellence in Government Sector Marketing (Silver) and Excellence in Marketing Communications / Public Relations (Bronze).

FINANCIAL SUMMARY: FIVE-YEAR PERFORMANCE

Premium and Levy Revenues

(Amount denoted in RM Million)



Investment Income

(Amount denoted in RM Million)



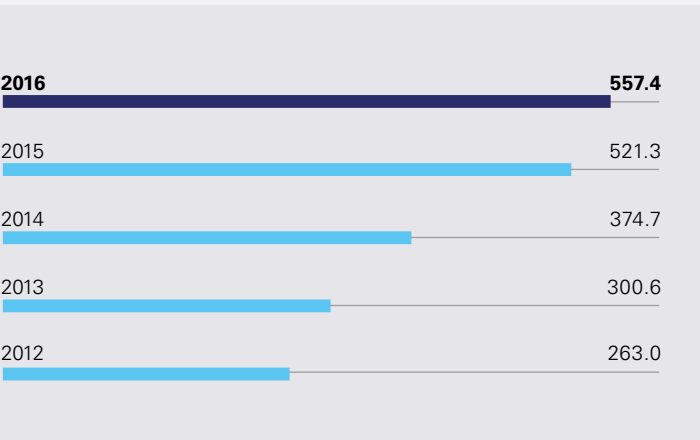
Deposit Insurance Funds

(Amount denoted in RM Million)



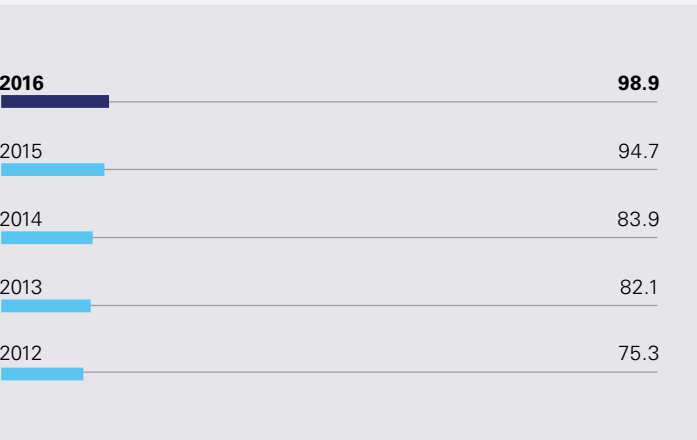
Total Income

(Amount denoted in RM Million)



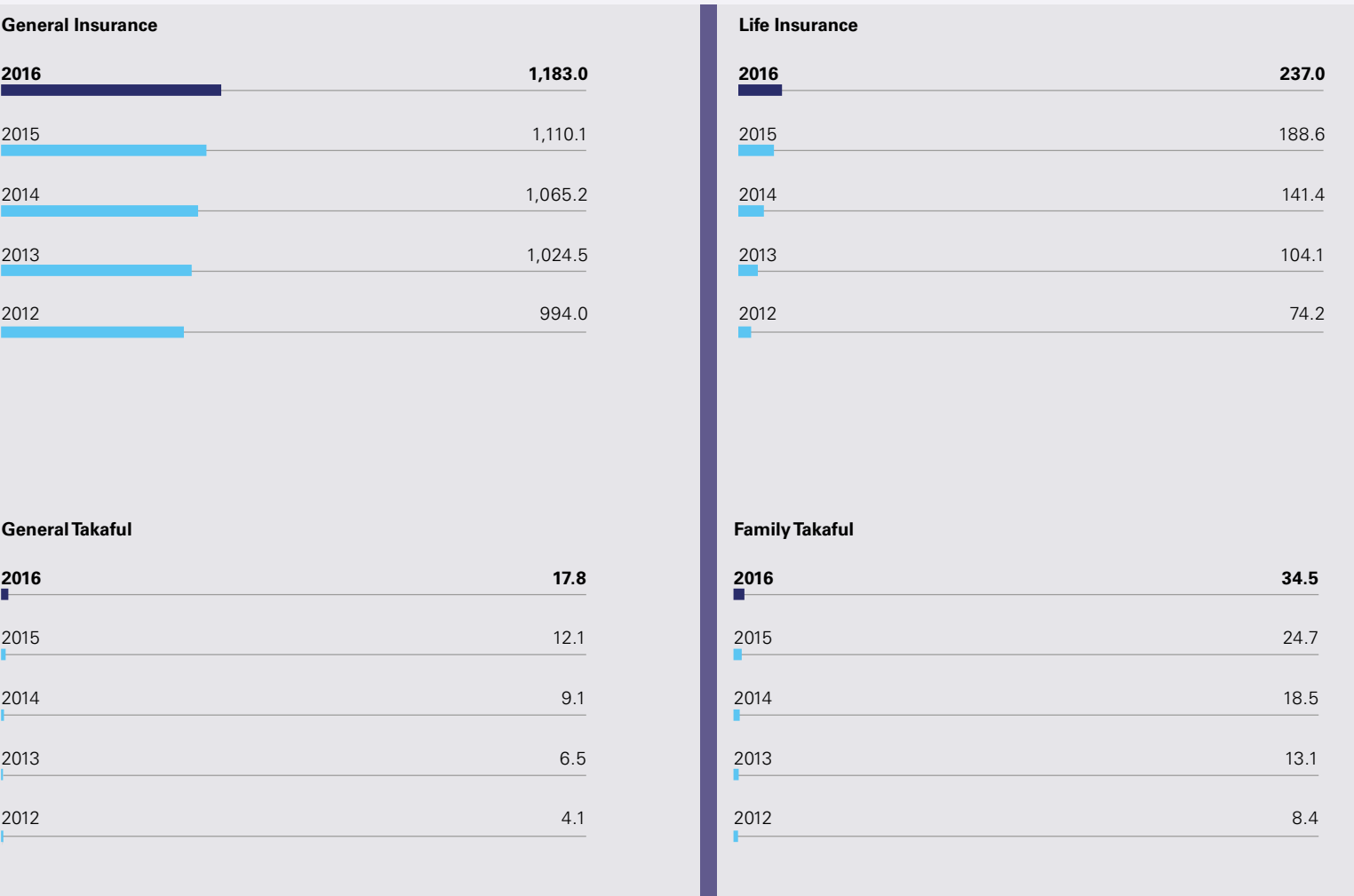
Total Expenses

(Amount denoted in RM Million)



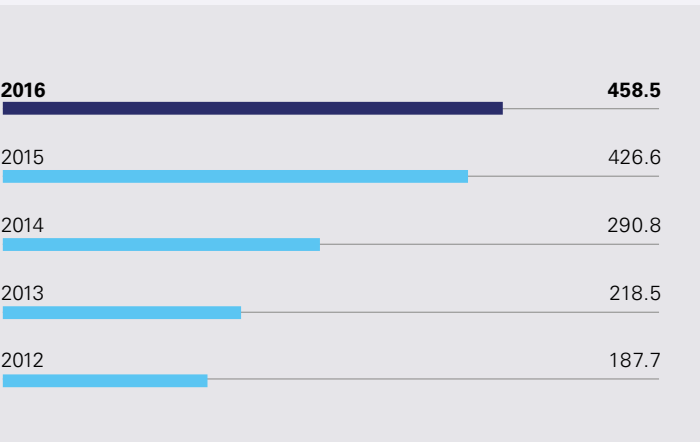
Takaful and Insurance Benefits Protection Funds

(Amount denoted in RM Million)



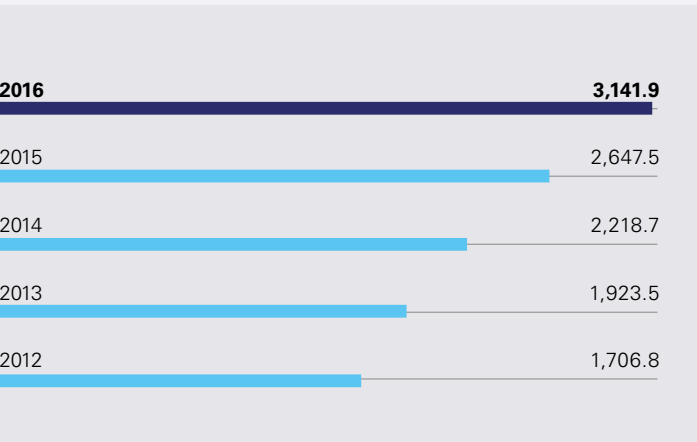
Operational Net Surplus

(Amount denoted in RM Million)



Total Assets

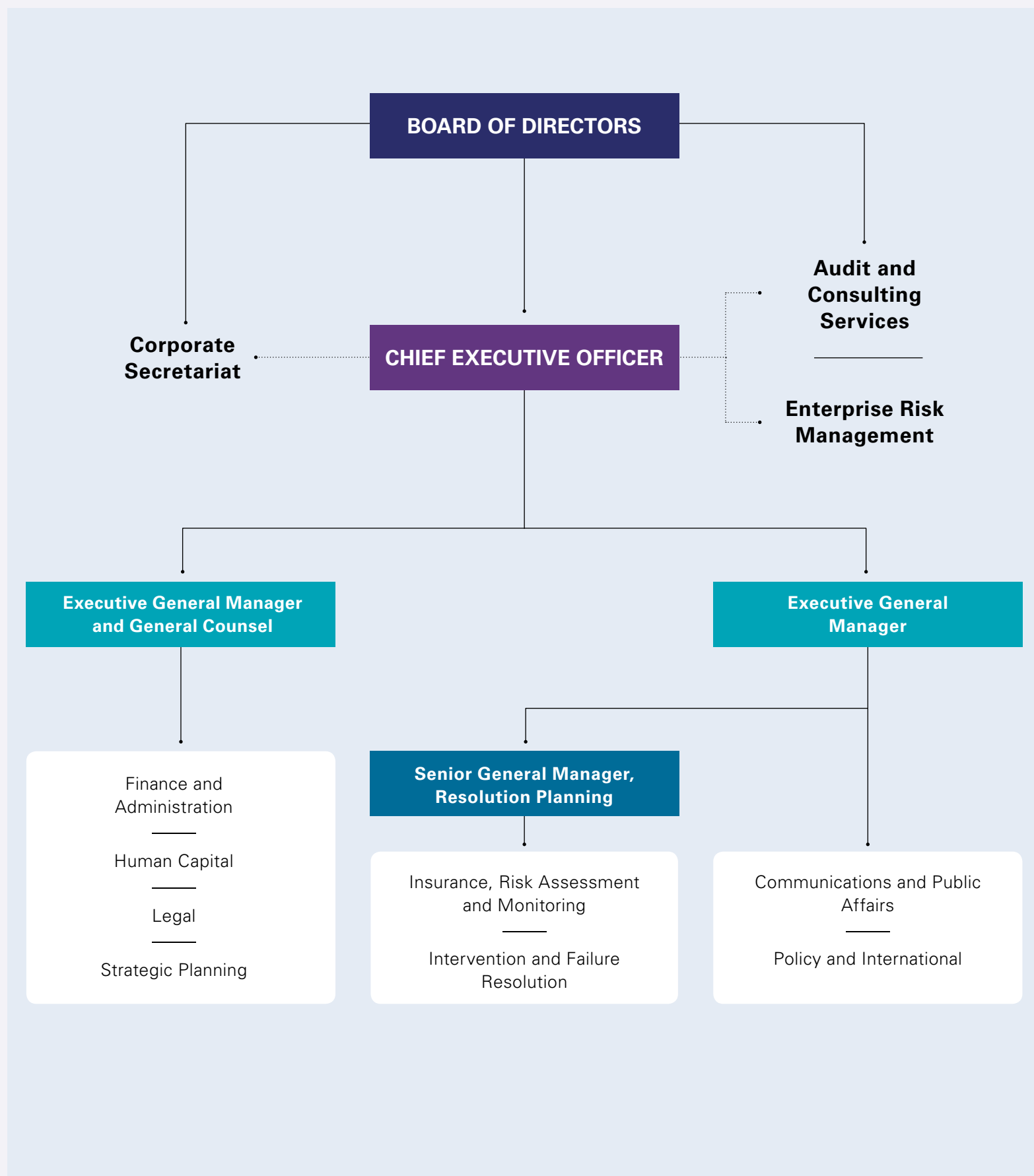
(Amount denoted in RM Million)



FINANCIAL SUMMARY: FIVE-YEAR PERFORMANCE

	2016	2015	2014	2013	2012
	RM Million				
SELECTED ITEMS FROM THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER					
Premium and Levy Revenues	468.2	442.0	311.0	245.1	214.3
Deposit Insurance Funds	388.4	359.2	239.7	180.3	126.5
Takaful and Insurance Benefits Protection Funds	79.8	82.8	71.3	64.8	87.8
Investment Income	89.2	78.5	63.7	56.1	48.7
Deposit Insurance Funds	46.1	36.7	26.2	20.5	16.5
Takaful and Insurance Benefits Protection Funds	43.1	41.8	37.5	35.6	32.2
Miscellaneous Income	-	0.8	-	-	-
Realised (losses) / gains from divestment of investment securities	-	-	-	(0.6)	-
Deposit Insurance Funds	-	-	-	-	-
Takaful and Insurance Benefits Protection Funds	-	-	-	(0.6)	-
Total Income	557.4	521.3	374.7	300.6	263.0
Total Expenses	98.9	94.7	83.9	82.1	75.3
Operational Net Surplus for the Year	458.5	426.6	290.8	218.5	187.7
Net gains / (losses) on available-for-sale investments	-	-	-	0.2	0.4
Moneys received from Insurance Guarantee Scheme Funds	35.0	-	-	-	-
Net Surplus for the Year Representing Total Comprehensive Income for the Year	493.5	426.6	290.8	218.7	188.1
SELECTED ITEMS FROM THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER					
Total Assets	3,141.9	2,647.5	2,218.7	1,923.5	1,706.8
Total Liabilities	14.4	13.6	11.4	7.0	9.0
Funds and Reserves	3,127.5	2,633.9	2,207.3	1,916.5	1,697.8
Deposit Insurance Funds	1,655.2	1,298.4	973.1	768.3	617.1
Conventional Deposit Insurance Fund	1,388.3	1,095.7	831.3	660.9	533.8
Islamic Deposit Insurance Fund	266.9	202.7	141.8	107.4	83.3
Takaful and Insurance Benefits Protection Funds	1,472.3	1,335.5	1,234.2	1,148.2	1,080.7
General Insurance Protection Fund	1,183.0	1,110.1	1,065.2	1,024.5	994.0
Life Insurance Protection Fund	237.0	188.6	141.4	104.1	74.2
General Takaful Protection Fund	17.8	12.1	9.1	6.5	4.1
Family Takaful Protection Fund	34.5	24.7	18.5	13.1	8.4
Total Liabilities, Funds and Reserves	3,141.9	2,647.5	2,218.7	1,923.5	1,706.8

ORGANISATION STRUCTURE



BOARD OF DIRECTORS

Members and Profiles



TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

Chairman

Appointed

Private Sector Director in August 2005 and Chairman in August 2011



A Fellow of the Institute of Chartered Accountants in Australia, Tan Sri Datuk Dr. Abdul Samad has had extensive experience in auditing and accounting. He is also a member of the Malaysian Institute of Certified Public Accountants and the Malaysian Institute of Accountants. In 2006, Tan Sri Datuk Dr. Abdul Samad received global recognition through the Association of Chartered Certified Accountants' Award for Achievement in Asia.

Tan Sri Datuk Dr. Abdul Samad received his Bachelor of Commerce from the University of Western Australia and was conferred a PhD in Accounting from Universiti Utara Malaysia.



MUHAMMAD BIN IBRAHIM

Ex Officio Director

Appointed

May 2016



Appointed in May 2016, Muhammad bin Ibrahim is the present Governor of Bank Negara Malaysia. He is the Chair of the Bank's Monetary Policy Committee and Financial Stability Committee.

In the course of more than three decades at the central bank, Governor Muhammad's experience spans a multitude of areas, including banking regulation and supervision, strategic planning, payment systems, insurance, offshore banking, treasury and financial markets. Prior to his appointment as Governor, he was the Deputy Governor responsible for the development of the financial markets, monetary policy implementation and reserve management. He also oversaw the development of the banking and insurance sectors including Islamic finance.

Governor Muhammad served as the Chairman of the Irving Fisher Committee on Central Bank Statistics of the Bank for International Settlements where he strengthened collaboration with other international statistical institutions. He was involved in the United Nations Advisors Group on Inclusive Financial Sectors where key global stakeholders deliberated on strategic issues in financial inclusion. He currently chairs the Global Standards and Policy Committee of the Alliance for Financial Inclusion which advises on the engagement with international standard-setting bodies towards advancing the global financial inclusion agenda.

Governor Muhammad holds postgraduate qualifications from Harvard University and International Islamic University Malaysia. He is a Fellow of the Asian Institute of Chartered Bankers and a member of the Malaysian Institute of Accountants.

BOARD OF DIRECTORS

Members and Profiles



TAN SRI DR. MOHD IRWAN SERIGAR ABDULLAH

Ex Officio Director

Appointed

August 2012



Tan Sri Dr. Mohd Irwan Serigar Abdullah was appointed as the Secretary General of Treasury, Ministry of Finance (MOF) since 24 August 2012.

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

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

Tan Sri Irwan also serves as a Board member of notable organisations including Malaysia Airlines Berhad (MAB), Petroliaam Nasional Berhad (PETRONAS), Mass Rapid Transit Corporation Sdn. Bhd. (MRT Corp), Regional Corridor Development Authority (RECODA), Bank Negara Malaysia (BNM), Razak School of Government (RSOG) and Lembaga Tabung Haji (TH). He is also the Chairman of Retirement Fund Incorporated, Inland Revenue Board of Malaysia and Cyberview Sdn. Bhd.

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



DATUK SERI DR. RAHAMAT BIVI YUSOFF

Public Sector Director

Appointed

January 2012



Datuk Seri Dr. Rahamat Bivi Yusoff has been in the Malaysian Civil Service for over 30 years, starting out as Assistant Secretary Tax Division in the Ministry of Finance (MOF), and later served in various positions including Director for Budget at MOF, Deputy Director of Macro Economy Section at the Economic Planning Unit (EPU), Project Officer at Institut Tadbiran Awam Negara (INTAN) and Director at the Energy Commission. Before assuming her current post as the Director General of the EPU, she was the Deputy Secretary General of Treasury, MOF in charge of the System and Control Division.

Datuk Seri Rahamat is also a member of the Board of Directors in other agencies such as Malaysia-Thailand Joint Authority (MTJA), Federal Land Development Authority (FELDA) and Mass Rapid Transit Corporation Sdn. Bhd. (MRT Corp). She is also a council member of Iskandar Regional Development Authority (IRDA), Sabah Economic Development and Investment Authority (SEDIA), Regional Corridor Development Authority (RECODA) and East Coast Economic Region Development Council (ECERDC).

Datuk Seri Rahamat holds a Bachelor of Social Sciences (Economics) (Honours) degree from Universiti Sains Malaysia and a Masters degree in Economics from Western Michigan University, United States. She was conferred a PhD from the Australian National University.

Retired from the Board on 2 January 2017

BOARD OF DIRECTORS Members and Profiles



DATO DR. NIK RAMLAH MAHMOOD

Public Sector Director

Appointed
August 2016



Dato Dr. Nik Ramlah Mahmood retired as a career regulator, having served the Securities Commission Malaysia (SC) for 23 years until her retirement on 31 March 2016. She joined the SC in 1993 as Manager for Law Reform and worked in various capacities including as Director of Policy and Development, Senior Executive Director, Managing Director and Deputy Chief Executive.

She currently sits on the Board of the Securities Industry Development Corporation (SIDC), United Malacca Berhad and Amanah Saham Nasional Berhad, and is a member of the Professional Development Panel (Senate) of International Centre for Education in Islamic Finance (INCEIF) as well as an Adjunct Professor, Faculty of Law, Universiti Teknologi MARA.

Dato Dr. Nik Ramlah graduated with First Class Honours in Law in 1979 from the University of Malaya and obtained her Masters of Law (LLM) and PhD from the University of London, United Kingdom.



MR. GEORGE ANTHONY DAVID DASS

Private Sector Director

Appointed
February 2009



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

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

He holds a law degree from the University of Singapore and a Masters of Law (LLM) from Kings College, University of London, United Kingdom.

Retired from the Board on 2 February 2017

BOARD OF DIRECTORS

Members and Profiles



MR. ALEX FOONG SOO HAH

Private Sector Director

Appointed

August 2011



Mr. Alex Foong Soo Hah sits on the Boards of Bank Simpanan Nasional, MRCB Quill Management Sdn. Bhd., Aviva Ltd. Singapore and Private Pension Administrator Malaysia. He has extensive experience in the insurance industry, having served as the Chief Executive Officer of a leading insurance company from 1996 to 2009, and another public listed insurance company prior to that. He has also served as president of both the Life Insurance Association Malaysia and the Actuarial Society of Malaysia.

Mr. Foong is a Fellow of Society of Actuaries, United States and a Registered Financial Planner with the Malaysian Financial Planning Council. He holds a Master of Actuarial Science from Northeastern University, Boston, United States and a Bachelor of Science (Honours) in Mathematics from the University of Malaya.



ENCIK MOHAMAD ABDUL HALIM AHMAD

Private Sector Director

Appointed

January 2012



Encik Mohamad Abdul Halim Ahmad was the Group Chief Executive of the Peremba Group of Companies until his retirement in 2014. In 1988, he served as General Manager of Finance and Finance Director of Landmarks Berhad, which is involved in a wide range of activities including hotel business, property investment and development, healthcare services and infrastructure works. From 1996 to 2005, he was the Managing Director of Landmarks Berhad. From 1994 to 2008, he sat on various Boards including Rashid Hussain Berhad, Saujana Consolidated Berhad, Shangri-La Hotels (Malaysia) Berhad, Landmarks Berhad and TDM Berhad.

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

BOARD OF DIRECTORS Members and Profiles



DATO' DR. GAN WEE BENG

Private Sector Director

Appointed
August 2016



Dato' Dr. Gan Wee Beng has held several key positions in CIMB Group including as Advisor for Investment Banking, Deputy Chief Executive Officer (Risk Management) and Executive Director at CIMB Bank, CIMB Investment Bank and CIMB Securities Bhd. His other appointments outside CIMB Group were as Senior Advisor, Economics Department of the Monetary Authority of Singapore and Consultant to the World Bank, International Labour Organisation and Bank Negara Malaysia (BNM). He was also a Research Fellow at the Malaysian Institute of Economic Research. Currently, he is a member of the Board of Directors of Retirement Fund Incorporated.

Dato' Dr. Gan received his Bachelor's and Master's degrees in Economics from the University of Malaya and holds a PhD in Economics from the Wharton School, University of Pennsylvania, United States.



ENCIK JOHAN MAHMOOD MERICAN

Public Sector Director

Appointed
January 2017



Encik Johan Mahmood Merican is the Deputy Director General (Human Capital) of the Economic Planning Unit (EPU) since June 2016. Prior to his current appointment, he was the Chief Executive Officer of Talent Corporation Malaysia Bhd. (TalentCorp) since the agency's inception in January 2011. Under his leadership, TalentCorp drove public-private partnerships to meet Malaysia's talent needs. Between 2004 and 2010, he served as the Principal Private Secretary to the Minister of Finance and the EPU where he focussed on policy development. Before his career in the public sector, Encik Johan has had nine years of experience working in corporate finance and accounting roles at Malaysian Resources Corporation Berhad (MRCB), Sime Darby Berhad and PricewaterhouseCoopers.

He holds a Bachelor of Economics (Honours) from the University of Cambridge, United Kingdom. He is a trained Chartered Accountant and is a member of the Institute of Chartered Accountants of England and Wales.

BOARD OF DIRECTORS

Members and Profiles

**MS. GLORIA GOH***Private Sector Director***Appointed**

February 2017



Ms. Gloria Goh is a retired Partner of Ernst & Young, Malaysia and a former Council Member of the Malaysian Institute of Accountants and the ASEAN Federation of Accountants. She is a past president of the Information Systems Audit and Control Association (ISACA) Malaysia Chapter and currently sits on the Advisory Board of the Faculty of Business and Economics, University of Melbourne, Australia.

She holds a Bachelor of Commerce (Honours) from the University of Melbourne, Australia. She is a member of the Malaysian Institute of Certified Public Accountants, a Fellow of Certified Practising Accountant (Australia) and a member of the Malaysian Institute of Accountants.

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles

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



JEAN PIERRE SABOURIN

Chief Executive Officer

Appointed

August 2005

Jean Pierre Sabourin is the CEO of PIDM and has held this position for over 11 years. Jean Pierre began his career at the Canada Deposit Insurance Corporation (CDIC) in 1976 and moved progressively to more senior positions until his appointment by the Government of Canada as President and CEO of CDIC in 1990, a position he held for 15 years until his retirement in April 2005. Under his leadership, CDIC developed into a best practice deposit insurer, successfully resolving over 40 financial institution failures.

In his over 40-year career in the field of deposit insurance both in Malaysia and Canada, Jean Pierre has gained unparalleled experience in all aspects of deposit insurance. His expertise has been widely sought by many jurisdictions around the globe planning to establish or improve their deposit insurance systems.

Jean Pierre's many accomplishments include chairing the International Study and Working Groups of the Financial Stability Forum (FSF), now the Financial Stability Board (FSB), on the establishment of Effective Deposit Insurance Systems from 1999 until 2001. He also led the first-ever Asia Pacific Economic Cooperation (APEC) Policy Dialogue on Deposit Insurance which made recommendations to APEC Ministers on enhancing deposit insurance systems. In May 2002, he led the development and establishment of the International Association of Deposit Insurers (IADI) and was elected its first Chair of the IADI Executive Council and President, a post he held until 2007.

Jean Pierre is a member of Bank Negara Malaysia's Financial Stability Executive Committee. He holds a Master of Business Administration from the Rotman School of Management, University of Toronto, Canada.

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



LIM YAM POH¹

*Executive General Manager and
General Counsel*

With effect from
June 2014

Lim Yam Poh has oversight over the Finance and Administration Division, Human Capital Division, Legal Division, and Strategic Planning Division. She joined PIDM in 2006 as the General Counsel and Corporate Secretary.

Yam Poh has had both private sector and public sector experience in law and policy-making. She spent over seven years in legal practice in Kuala Lumpur. Between 1997 and 2000, she worked at the Securities Commission Malaysia following which she worked at the Hong Kong Securities and Futures Commission in the Market Supervision as well as Corporate Finance Divisions until 2005.

She holds a Bachelor of Laws degree from the University of Birmingham, United Kingdom and has been called to the Bar of England and Wales and in Malaysia.



RAFIZ AZUAN ABDULLAH¹

Executive General Manager

With effect from
June 2014

Rafiz Azuan Abdullah has oversight over Resolution Planning, the Insurance, Risk Assessment and Monitoring Division, Intervention and Failure Resolution Division, Communications and Public Affairs Division, and Policy and International Division.

He joined PIDM in 2007 and was previously in the Insurance, Risk Assessment and Monitoring Division where he spearheaded the completion of the Risk Assessment System for PIDM. In 2011, with the expansion of PIDM's mandate to also include the Takaful and Insurance Benefits Protection System, Rafiz led the establishment of the risk assessment and Differential Levy Systems framework for insurer members.

On the international front, Rafiz was appointed as the Chairman of the Islamic Deposit Insurance Group in 2013, one of the working committees within the Research and Guidance Committee of the International Association of Deposit Insurers (IADI).

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

He graduated from Lancaster University, United Kingdom in 1995 majoring in Accounting and Finance. He then pursued a professional accounting qualification (Association of Chartered Certified Accountants – ACCA) at Emile Woolf College in London, United Kingdom.

¹ Corporate officers appointed by the Board

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



LEE YEE MING

Senior General Manager, Resolution Planning

With effect from
December 2016

Lee Yee Ming is responsible for the development and ongoing review of resolution plans for PIDM's member institutions, development of the Resolvability Rating Framework and methodology to incorporate resolvability assessment into the Corporation's differential premium systems as well as the Corporation's operational readiness to undertake a resolution of a member institution.

Yee Ming joined PIDM in 2007 as the Chief Risk Officer and was subsequently appointed as the General Manager, Policy and International Division.

Yee Ming is actively involved in the International Association of Deposit Insurers (IADI) and was re-elected to its Executive Council (EXCO) for a three-year term in 2014. The roles of the IADI EXCO include recommending the process for the development and establishment of the guidance to enhance the effectiveness of deposit insurance systems, and the development of policies for the provision of advice on deposit insurance issues. She is also the Chair of the IADI's Data and Survey Standing Committee and the designated PIDM representative at the International Forum of Insurance Guarantee Schemes (IFIGS).

Prior to joining PIDM, Yee Ming had over 10 years of consulting and banking experience in Enterprise Risk Management, Basel II, corporate governance and internal audit. She began her career with a financial institution in Illinois, United States and subsequently joined Ernst & Young in the Kuala Lumpur, Malaysia and Taipei, Taiwan offices.

She holds an honours degree in Business Administration (summa cum laude) and a Master of Business Administration in Finance from Western Michigan University, United States. She is also a Certified Internal Auditor.



AFFEIZ ABDUL RAZAK¹

Chief Risk Officer and General Manager, Enterprise Risk Management

With effect from
June 2014

Affeiz Abdul Razak is responsible for the implementation of PIDM's Enterprise Risk Management (ERM) framework and assists the Board, Audit Committee and Management in ensuring that the Corporation's risks are being consistently and continuously identified, assessed, managed, monitored and reported on. He is also tasked with implementing the Business Continuity Management (BCM) framework for PIDM.

He has vast experience in providing assurance services to both private and public-listed companies in Malaysia, Hong Kong, China and United States, focussing on ERM, internal audit, grant audit, due diligence and corporate governance. Prior to joining PIDM in 2011, he was General Manager, Internal Audit at Kumpulan Perangsang Selangor Berhad and Head of Internal Audit at Malaysian Technology Development Corporation (MTDC). He has also worked at IBM and KPMG in the Risk Advisory & Internal Audit Services Practice.

He is a Certified Financial Services Auditor (United States), Certified Business Continuity Institute (United Kingdom) Professional, Chartered Member of The Institute of Internal Auditors Malaysia, Member of the Business Continuity Institute (United Kingdom), Member of the Asian Institute of Chartered Bankers (AICB), Associate Member of the Association of Certified Fraud Examiners (United States), Member of the International Committee of The Risk Management Society and Affiliate Member of the Institute of Risk Management (United Kingdom). He is accredited by The Institute of Internal Auditors Inc. United States to perform internal quality assessment or validation for internal audit functions.

¹ Corporate officers appointed by the Board

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



LIM LEE NA¹

Corporate Secretary

With effect from
June 2014

Lim Lee Na provides secretariat services to the Board and the Board Committees. She also supports the Board in the development and maintenance of governance best practices through research and advice. Lee Na joined PIDM in 2007 as a Senior Legal Advisor and has led the development of the Product Registry System to automate the process of reviewing and rating the insurability status of deposit products offered by member banks as well as PIDM's programme for monitoring member institutions' compliance with PIDM's regulations.

She has over 20 years of combined experience mainly in the banking industry and legal practice, having worked with Sumitomo Mitsui Banking Corporation Malaysia Berhad, OCBC Bank (Malaysia) Berhad, Southern Bank Berhad, Malaysia Airports Holdings Berhad and Messrs Jeff Leong Poon & Wong. She has also been a legal editor with Reed Elsevier.

Lee Na holds a Bachelor of Commerce degree in Accounting and a Bachelor of Laws degree from the Australian National University. She was called to the Malaysian Bar in 1991.



NOORIDA BAHARUDDIN¹

*Chief Financial Officer and General
Manager, Finance and Administration*

With effect from
June 2014

Noorida Baharuddin is responsible for the management and control of the accounting and treasury functions as well as functions related to information technology, office administration and operational business policies, processes and controls. Noorida joined PIDM in 2006 and prior to this appointment, served as the Chief Internal Auditor.

She brings with her experience in external and internal auditing, risk management and policy development through her career with PricewaterhouseCoopers, Malaysia Airlines System Berhad (MAS), two regulatory bodies – Securities Commission and Labuan Financial Services Authority, as well as an attachment with the Islamic Financial Services Board.

Noorida has been instrumental in establishing an internal auditors group for deposit insurers and spearheading international seminars with the objective of sharing knowledge, promoting best practices and principles, and capacity building. She has presented on investment and funding-related subjects at various international events.

Noorida holds a Bachelor of Business degree in Accounting from the University of Tasmania, Australia and a Bachelor of Laws degree from Universiti Teknologi Mara (UiTM), Malaysia. She is a Certified Practising Accountant (Australia) and a member of the Malaysian Institute of Accountants. Noorida is also a Certified Financial Planner with the Financial Planning Association of Malaysia, a Chartered Member of The Institute of Internal Auditors Malaysia and has obtained a Certification in Risk Management Assurance from The Institute of Internal Auditors.

¹ Corporate officers appointed by the Board

EXECUTIVE MANAGEMENT COMMITTEE Members and Profiles



**WAN AHMAD IKRAM WAN
AHMAD LOTFI¹**

*Chief Internal Auditor and General
Manager, Audit and Consulting Services*

With effect from
June 2014

Wan Ahmad Ikram Wan Ahmad Lotfi is responsible for providing assurance and consulting services to improve the effectiveness and efficiency of PIDM's operations, reliability and integrity of financial reporting, as well as ensure compliance with applicable laws and regulations. He is also responsible for reviewing, maintaining and reporting of PIDM's Internal Control framework. Ikram joined PIDM in 2006 as the Chief Financial Officer (CFO).

Ikram started his career with Telekom Malaysia Berhad before pursuing his professional accounting career with KPMG in Melbourne, Australia. Upon his return to Malaysia, he joined Tahan Insurance Malaysia Berhad as the Chief Internal Auditor and was later appointed its CFO.

He has gained extensive experience in various roles within several organisations in the areas of external and internal auditing, risk management, office operations and administration, accounting and finance operations, treasury and fund management, corporate planning, corporate finance, corporate restructuring, business process management and compliance as well as information technology.

Ikram holds a Bachelor of Commerce degree from the University of Melbourne, Australia. He is also a Fellow of the Institute of Chartered Accountants in Australia and a member of the Malaysian Institute of Accountants.



AFIZA ABDULLAH

*General Manager, Policy and
International*

With effect from
December 2016

Afiza Abdullah is responsible for PIDM's key policy areas and international relations. Her main responsibilities are to assess, develop and propose policies that concern the mandate and operations of PIDM, advance the views and interests of PIDM through involvement in relevant policy discussions by supranational bodies as well as strategically position PIDM in the international arena. Afiza joined PIDM in 2011 as the Deputy General Manager, Policy and International Division.

Prior to joining PIDM, Afiza had over nine years of regulatory experience with Bank Negara Malaysia (BNM), and had been involved in, among others, prudential policy formulation for insurance and banking sectors, the modernisation of the Central Bank Act 2009 as well as the regulatory laws and was a core team member in the development of the BNM Financial Blueprint. She began her career in an audit firm in London, United Kingdom and joined a local investment bank upon her return to Malaysia, before joining BNM.

She holds a Bachelor of Finance and Accounting (Honours) degree from the University of Salford, United Kingdom.

¹ Corporate officers appointed by the Board

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



CHUA EE LEEN

General Manager, Strategic Planning

With effect from
January 2012

Chua Ee Leen is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in setting the strategic direction as well as the development of strategic and financial plans. She is also responsible for monitoring and reporting performance against the approved plan, including financial performance against budgets. She leads the project management office for one of the key corporate initiatives including monitoring the progress to ensure successful completion of the project.

Ee Leen was previously in the Enterprise Risk Management (ERM) Division and assisted in the implementation of PIDM's ERM framework.

Prior to joining PIDM in 2007, she had over seven years of experience in auditing, risk management, as well as the development of policies and procedures through her career at Ernst & Young Kuala Lumpur office, including a one-year secondment to a global group of energy and petrochemical companies. Her auditing experience includes external and internal auditing, Sarbanes-Oxley independent compliance review as well as certification-related review.

She holds a Bachelor of Commerce degree in Accounting and Finance from Curtin University of Technology, Perth, Australia. She is a Certified Practising Accountant (Australia) and a member of the Malaysian Institute of Accountants.



HELENA PREMA JOHN

General Manager, Human Capital

With effect from
November 2015

Helena Prema John is responsible for the development of human capital strategies and plans to maximise both organisational and individual effectiveness, and the provision of the full range of human capital policies, programmes and services to ensure that PIDM can continuously attract, develop, engage and retain the highest calibre workforce to fulfil its mandate.

Prior to joining PIDM in 2010, she had more than 20 years of experience in human capital development in various multinational manufacturing companies, local conglomerates and the services industry.

Helena holds a Bachelor of Economics (Honours) from the University of Malaya and a Diploma in Management Programme (DIMP) from the Malaysian Institute of Management (MIM). In addition, she is also a certified professional trainer and a certified practitioner of Neuro-Linguistic Programming (National Federation of NLP) and Neuro-Semantics (International Society of Neuro Semantics).

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



LIM KONG KUAN

*General Manager, Intervention and
Failure Resolution*

With effect from
March 2010

Lim Kong Kuan is responsible for conducting timely and effective intervention and failure resolution (IFR) activities of PIDM. He has been instrumental in leading the development of the Corporation's IFR framework and a full suite of policies and procedures on the various IFR options as well as the integrated Payout System. He has also spoken on IFR-related subjects at various events, both locally and internationally. He joined PIDM in 2006 as the Deputy General Manager, Insurance, Risk Assessment and Monitoring Division.

Prior to PIDM, he served for 11 years at Bank Negara Malaysia (BNM). His experience in BNM included developing and reviewing prudential policies on capital adequacy requirements and banking risk management, particularly market risk and Basel II-related regulations.

He obtained a Bachelor of Economics degree (Accounting) from the University of Sydney, Australia and completed his Masters of Science in Mathematical Trading and Finance from City University Business School, City University London, United Kingdom where he graduated with distinction.



LIM TAI CHING

General Manager, Legal

With effect from
January 2015

Lim Tai Ching is responsible for the provision of a range of legal services, including the maintenance and development of relevant legislation to ensure that they remain relevant to enable PIDM to effectively fulfil its mandate, and ensuring compliance with all applicable statutory requirements. She also chairs the Corporate Social Responsibility Committee, a position held since 2011, leading initiatives that are focussed on community development, environmental conservation and sustainability for PIDM. She joined PIDM in 2010 as a Legal Advisor.

She commenced her legal career at Messrs Shook Lin & Bok. After leaving legal practice, she joined the United Nations High Commissioner for Refugees, supporting its operations in the Malaysia and Cambodia offices.

Tai Ching holds a Bachelor of Laws degree from the University of London, United Kingdom, a Certificate in Legal Practice by the Legal Profession Qualifying Board and a Master of Laws in International Legal Studies from Kyushu University, Japan. She was called to the Malaysian Bar in 2002.

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



MOHD IZAZEE ISMAIL

*General Manager, Insurance, Risk
Assessment and Monitoring*

With effect from

June 2014

Mohd Izazee Ismail is responsible for the analysis and monitoring of member institutions' risk levels as well as the premium and levy collection function at PIDM. He was previously the Deputy General Manager, Insurance, Risk Assessment and Monitoring Division.

Prior to joining PIDM in 2007, Izazee had 12 years of banking and rating experience. He began his career in 1995 with RHB Sakura Merchant Bankers Berhad (now known as RHB Investment Bank Berhad) where he acquired extensive experience in corporate banking, origination and advisory work in the Malaysian Ringgit debt market in both conventional and Islamic securities instruments. He then joined Rating Agency Malaysia in 2001 as Islamic finance specialist. He was also involved in structured finance, credit ratings of financial institutions and other industry sectors.

Izazee holds a Bachelor of Science degree in Economics from the London School of Economics and Political Science, United Kingdom as well as a Postgraduate Diploma in Islamic Banking and Finance from the International Islamic University Malaysia.



SYED MOHAMMED IDID DATO' SYED AHMED IDID

*General Manager, Communications and
Public Affairs*

With effect from

August 2015

Syed Mohammed Idid Dato' Syed Ahmed Idid is responsible for the full range of communications initiatives for PIDM's public awareness, stakeholders' engagement, public relations, advertising and promotions programmes.

Syed joined PIDM in 2015 and has over 25 years of strategic brand communications and media relations experience. He was formerly a managing partner of a boutique Public Relations (PR) consultancy and has worked on both sides of the PR fence. He has worked in regional as well as international PR firms as lead client counsel and also in the corporate communications division of a global British bank and one of Malaysia's leading national insurance company.

He holds a Professional PR Diploma in Government Relations and Corporate Communications from the Institute of Public Relations Malaysia (IPRM) and remains a Fellow of the Public Relations Consultant's Association of Malaysia (FPRCAM).

OTHER MANAGEMENT COMMITTEES

SENIOR MANAGEMENT COMMITTEE

Established to:

- act as a forum for information exchange and highlight key issues affecting the respective divisions or functions;
- inform of the Board's major deliberations and decisions after each Board meeting;
- facilitate effective communications, teamwork and collaboration throughout all divisions of PIDM; and
- serve as a channel for information to all employees.

Chair

Executive General Manager and General Counsel

Members

- Chief Executive Officer (ex officio)
- Executive General Manager
- Senior General Manager
- General Managers (all divisions)
- Deputy General Managers (all divisions)
- Senior Managers (directly supporting the General Managers)

Secretary

Executive Assistant, CEO's Office

ENTERPRISE RISK MANAGEMENT COMMITTEE

Established to:

- provide assurance that risks are appropriately identified and managed;
- advise and provide the Audit Committee and the Board an understanding of the significant risks affecting PIDM; and
- provide oversight on business continuity management related matters of PIDM.

Chair

Executive General Manager

Members

- Chief Executive Officer (ex officio)
- Executive General Manager and General Counsel
- Senior General Manager
- General Managers (all divisions)
- Deputy General Manager, Enterprise Risk Management Division
- Any other officer or employee of PIDM, as determined by the Chair

Secretary

Manager, Enterprise Risk Management Division

Observer

Chief Internal Auditor

STRATEGIC PLANNING AND ENTERPRISE RISK MANAGEMENT WORKING COMMITTEE

Established to:

- identify, assess, monitor, update, advise and support the Enterprise Risk Management Committee in facilitating and coordinating risk management and business continuity management activities across PIDM.

Chair

Deputy General Manager, Enterprise Risk Management Division

Members

- Chief Risk Officer (ex officio)
- Representatives of the following divisions in PIDM:
 - CEO's Office
 - Communications and Public Affairs Division
 - Corporate Secretariat Division
 - Finance and Administration Division
 - Human Capital Division
 - Insurance, Risk Assessment and Monitoring Division
 - Intervention and Failure Resolution Division
 - Legal Division
 - Policy and International Division
 - Strategic Planning Division
- Any other officer or employee of PIDM, as determined by the Chair

Secretary

Manager, Enterprise Risk Management Division

Observers

Representatives from the Audit and Consulting Services Division

OTHER MANAGEMENT COMMITTEES

ASSET AND LIABILITY MANAGEMENT COMMITTEE

Established to:

- review matters related to funding, liquidity, investment and financial risk management of PIDM; and
- discuss investment and financial risk management practices that may influence investment and funding strategies including the implications of decisions to PIDM's asset and liability management.

Chair

Chief Financial Officer

Members

- Executive General Manager
- Executive General Manager and General Counsel
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- General Manager, Policy and International Division
- Deputy General Manager, Economics and Research, Policy and International Division
- Deputy General Manager, Finance Department

Secretary

Senior Manager, Treasury and Corporate Finance, Finance Department

Observers

- Chief Internal Auditor
- Chief Risk Officer

INFORMATION TECHNOLOGY STEERING COMMITTEE

Established to:

- provide oversight, manage and implement Information Technology (IT) strategies, plans, budgets and IT Governance related matters;
- review the status and progress of IT projects in the IT Strategic Plan, major procurements, budget utilisation, and deliberate on Corporate IT and information policies; and
- monitor, manage and address IT-related risks and opportunities.

Chair

Deputy General Manager, Insurance, Risk Assessment and Monitoring Division

Members

- Executive General Manager (ex officio)
- Chief Financial Officer
- General Manager, Communications and Public Affairs Division
- General Manager, Human Capital Division
- General Manager, Insurance, Risk Assessment and Monitoring Division
- General Manager, Intervention and Failure Resolution Division
- General Manager, Legal Division
- General Manager, Policy and International Division
- General Manager, Strategic Planning Division
- Deputy General Manager, Information Technology Department

Secretary

Project Administrator, Information Technology Department

Observers

- Chief Internal Auditor
- Chief Risk Officer
- Manager, Strategic Planning Division

CORPORATE COMPLIANCE COMMITTEE

Established to:

- support the Board in fulfilling its corporate governance and oversight responsibilities in relation to PIDM's compliance with laws, regulations, policies and procedures, contractual obligations and organisational standards applicable to PIDM by virtue of its business activities and functions;
- ensure that compliance is integrated into the various divisions and identify areas for improvement to ensure compliance on a Corporate-wide basis;
- increase awareness and understanding of key policies and procedures; and
- implement practices to ensure compliance with applicable laws, where relevant.

Chair

Corporate Secretary

OTHER MANAGEMENT COMMITTEES

Members

- Chief Financial Officer
- Chief Internal Auditor
- Chief Risk Officer
- General Manager, Human Capital Division
- General Manager, Legal Division
- General Manager, Strategic Planning Division
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Senior Manager, Communications and Public Affairs Division
- Senior Manager, Intervention and Failure Resolution Division
- Senior Manager, Organisation and Methods and Corporate Procurement Department
- Senior Manager, Human Capital Division
- Legal Counsel
- Manager, Corporate Secretariat Division

Secretary

Governance Officer, Corporate Secretariat Division

SAFETY AND HEALTH COMMITTEE

Established in accordance with the Occupational Safety and Health Act 1994 and the Occupational Safety and Health (Safety and Health Committee) Regulations 1996 to:

- promote and maintain a safe, healthy and conducive working environment for all employees, contractors, consultants, visitors and any others who have dealings with PIDM;
- ensure the maintenance of safe and healthy conditions in the workplace as well as the provision of adequate facilities for the welfare of employees; and
- review the measures taken to ensure safety and health at the workplace, conduct investigation and resolve any matters related to safety and health.

Chair

General Manager, Human Capital Division

Members

- Chief Risk Officer
- Deputy General Manager, Insurance, Risk Assessment and Monitoring Division
- Deputy General Manager, Intervention and Failure Resolution Division
- Deputy General Manager, Policy and International Division

- Deputy General Manager, Facilities and Materials Management Department
- Representatives of the following divisions in PIDM:
 - Human Capital Division
 - Legal Division
- Any other officer or employee of PIDM, as determined by the Chair

Secretary

Senior Manager, Insurance, Risk Assessment and Monitoring Division

Observer

Senior Manager, Audit and Consulting Services Division

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Established to:

- undertake PIDM's commitment to carry out its business and affairs in a socially responsible, sustainable and meaningful way through community involvement and environmental conservation activities.

Chair

General Manager, Legal Division

Members

- Representatives of the following divisions in PIDM:
 - Audit and Consulting Services Division
 - Communications and Public Affairs Division
 - Enterprise Risk Management Division
 - Finance and Administration Division
 - Human Capital Division
 - Insurance, Risk Assessment and Monitoring Division
 - Intervention and Failure Resolution Division
 - Policy and International Division

Secretary

Manager, Strategic Planning Division

The background is a solid purple color with various white and light purple geometric patterns and icons. These include concentric circles, arrows, a target, a bar chart, a group of people, a dollar sign, and a padlock. The patterns are arranged in a way that suggests a corporate or financial theme.

SECTION

2

MESSAGES

Message from the Chairman

Message from the Chief Executive Officer

MESSAGE FROM THE CHAIRMAN

Tan Sri Datuk Dr. Abdul Samad Haji Alias



The highest standards of governance have always been a must. As a regulator and safety net player, trust is key to promote public confidence.

We are keenly aware that the slightest deficit in trust will constrict our ability to carry out our mandate. Thus, we commit to transparency, objectivity and accountability.

MESSAGE FROM THE CHAIRMAN

Tan Sri Datuk Dr. Abdul Samad Haji Alias

I am pleased to report another good year of progress for PIDM, as we continue to maintain our strong foundations – standards of governance – as well as state of preparedness, with an eye on our past, present and future.

As I reflect on the Chairman's Messages in our previous Annual Reports, I cannot but notice recurring themes. In our 2005 Annual Report, we spoke about 'Foundations'. Tan Sri Dato' Abdul Aziz Haji Taha, our then Chairman, stated that "The strength of an institution's governance begins with its Board. ... the Board focussed on building an effective organisational and reporting structure, and PIDM's governance framework. Our objective is to establish strong foundations for PIDM, by incorporating the highest of governance standards ...".

Five years on, in our 2010 Annual Report, he also spoke of 'Readiness'. To quote, "... we concentrate on the practical implementation of the matters needed to successfully achieve our mandate. Thus, building foundations and operationalising our system has been a key preoccupation of the Corporation ..., with the ultimate objective of achieving a state of readiness ...".

GOVERNANCE

The highest standards of governance have always been a must. As a regulator and safety net player, trust is key to promote public confidence. We are keenly aware that the slightest deficit in trust will constrict our ability to carry out our mandate. Thus, we commit to transparency, objectivity and accountability. In developing regulatory policies, we promote the most suitable international regulatory standards for Malaysian circumstances. We make sure that we also consult extensively so that our regulations are focussed and meet their intended objectives.

In 2016, as always, we benchmarked against developments in corporate governance to ensure our approaches remain best practice, current and relevant. Some of our key corporate governance initiatives in 2016 include the following:

- **Diversity**
In 2016, three new Board Members were appointed to the Board of Directors (Board), and in early 2017, two more. This new composition continues to achieve diversity in terms of gender, age and key experiences.
- **Board succession planning and refreshment**
The Board approved a plan for the future that addresses how we would practically implement the 'evergreen' principle (where at least one Director retires each year).

Going forward, this plan will ensure that our Board composition will allow for new perspectives whilst retaining knowledge.

- **Management succession planning**
In line with its responsibility, the Board works directly with the Chief Executive Officer (CEO) to ensure succession plans are in place and effected for all of the key senior management positions.
- **Evaluation**
With the membership transitions on the Board, the Board decided to defer the external evaluation of the Board's performance to 2017, although a self-evaluation did take place. We remain nevertheless committed to external evaluations to enhance the Board's effectiveness and improve governance.

READINESS

Over the years, we have worked on operational readiness, establishing the systems, infrastructure, policies and processes that would allow us to be effective in carrying out our mandate. We carry out risk assessments and monitoring and ensure our readiness to intervene or resolve any troubled member institution. For public confidence, we have also worked on educating the public through our awareness initiatives, achieving significant progress throughout the years. We are especially pleased with the results achieved for 2016.

Again, however, nothing remains static. As pointed out in our 2014 Annual Report, challenges and risks abound, with financial innovation, cross-border flows and interconnectedness. The unpredictability of our operating environment requires PIDM, its people and approaches, to be adaptable and resilient.

GOING FORWARD

2016 was thought to have signalled the third major political and economic turning points for the world. Given recent history, 2017 is expected to exhibit a change of direction in terms of politics, macroeconomic and trade policies, accompanied with risks and uncertainties. Current indicators point to tightening global liquidity, trade frictions and political risks.

Amid a weak global economic environment, digitalisation and regulation also threaten to change and shape the financial services landscape.

MESSAGE FROM THE CHAIRMAN Tan Sri Datuk Dr. Abdul Samad Haji Alias

Emerging trends include the following:

- The potential for financial technology (fintech). China has already blazed the path for digital payments and is dominant in online lending. The Monetary Authority of Singapore (MAS), has established a fintech lab. Elsewhere, government initiatives (such as in the United States and Britain) encourage supply-chain financing to support small businesses, including through fintech. In Malaysia, fintech ventures range from insurance, micro-insurance, blockchain and peer-to-peer (P2P) lending, involving non-traditional service providers such as mobile network operators.
- Regulators are working on understanding emerging issues related to new business models for the delivery of financial services, such as branchless banking, which in some countries are significant channels for low income populations. It has become increasingly important to properly understand the risks to consumers and to the stability of the financial system itself. PIDM is keeping close track of these developments so that we may also follow, and participate in the evolution of regulatory approaches on fintech, financial inclusion, as well as the potential role of deposit insurance in these areas. Fintech (and its accompanying risks) has become a space to watch. The data-driven era also brings with it potential cybersecurity risks.
- On the measures for financial institution resilience, Basel III reform proposals are being finalised, most likely with stricter capital requirements. The International Association of Insurance Supervisors is developing the first global risk-based capital standard for internationally-active insurance groups, while the Financial Stability Board also focusses on effective policies and regimes for systemically important non-bank financial institutions.

While keeping an eye on these emerging trends and risks, going forward, PIDM must and will continue to focus on ensuring readiness. Fortunately for us, the Malaysian financial services industry remains stable and robust. This notwithstanding, given the potential for the unexpected, we must necessarily strive to achieve the highest state of preparedness. As before, we will not only need to proactively monitor solvency, but also resolvability risks. Financial institutions can expect continuous, more intense engagements and forward-looking discussions with regulators, with a view to identifying potential issues at an early stage. From the readiness perspective, member institutions will also be expected to work with PIDM towards enhancing resolvability.

We will also continue working closely with our strategic partner, Bank Negara Malaysia (BNM), including on the recovery and resolution planning initiative. In 2016, PIDM participated in several global crisis management group discussions on resolution planning. It also signed a Memorandum of Understanding (MOU) with the Federal Deposit Insurance Corporation of the United States and renewed its MOU with its Korean counterpart. Cross-border engagements will continue.

CONCLUSION

Despite the uncertainties, we are determined not to be deflected from our goal of promoting financial system stability and the well-being of Malaysians; to be a world class regulator supporting the needs of the Malaysian public. Looking to the future, it is clear that we have many new challenges, not least in resolution planning. Yet we also have the exciting prospect of moving to a more robust and effective resolution regime, which we hope will bring us even closer to the heart of our core purpose.

The Board acknowledges the immense contributions of our retired Board Members, former Governor of BNM, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz, Dato' Halipah Esa, Mr. Lim Tian Huat, Datuk Seri Dr. Rahamat Bivi Yusoff and Mr. George Anthony David Dass. We also warmly welcome our new Directors, Governor Muhammad bin Ibrahim, Dato Dr. Nik Ramlah Mahmood, Dato' Dr. Gan Wee Beng, Encik Johan Mahmood Merican and Ms. Gloria Goh. We do not forget the insights and value we derive from Tan Sri Dr. Mohd Irwan Serigar Abdullah, Mr. Alex Foong Soo Hah and Encik Mohamad Abdul Halim Ahmad.

Finally, the Board would recognise the hard work and contributions of our CEO, the Management team and employees. We would also like to thank our strategic partners and member institutions for their support. With your help, we have continued to deliver on our mandate and objectives, and we offer sincere thanks to all.

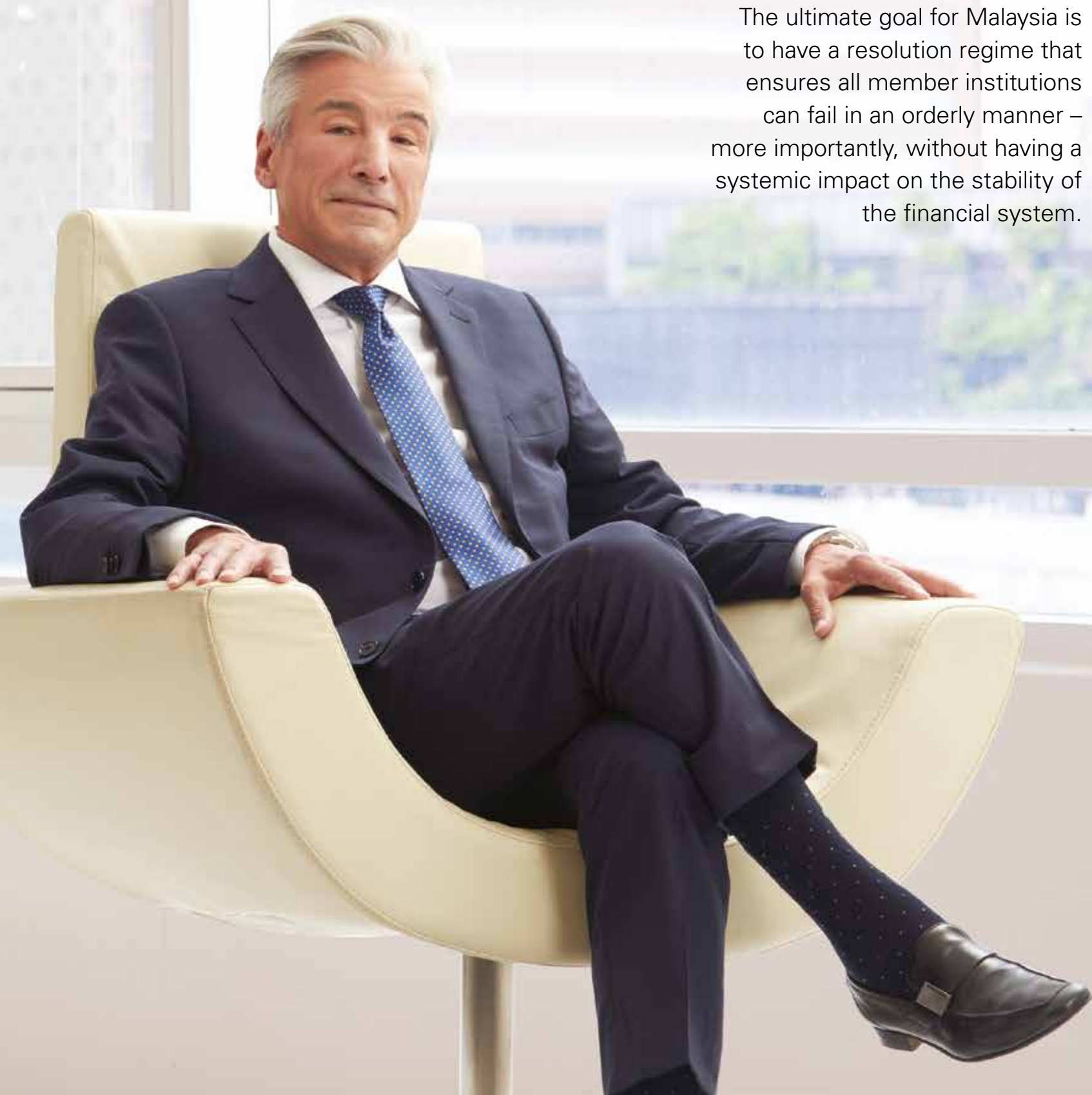


Tan Sri Datuk Dr. Abdul Samad Haji Alias

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jean Pierre Sabourin

The ultimate goal for Malaysia is to have a resolution regime that ensures all member institutions can fail in an orderly manner – more importantly, without having a systemic impact on the stability of the financial system.



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jean Pierre Sabourin

In 2016, the surprise element in global events was a regular feature, with some of these events expected to continue to impact the world for years to come. Shocks and surprises ranged from outbreaks of infectious diseases, acts of terrorism, social unrest, leaks, natural hazards, to sports and political upheavals. We witnessed the Zika virus epidemic, supercyclone Winston in Fiji, the Panama papers scandal, the Leicester City soccer win, Brexit and the United States elections.

Given the world's recent history, our 'continuity bias', namely, our tendency to believe that things will always continue as before, must by now surely be tempered.

What then can we do amid such uncertainties? One way to mitigate the impact of the unexpected is to invest in enhancing our resilience and to do so with a long-term view. The writer, Andrew Zolli, in 'Resilience, Why Things Bounce Back' defines resilience as "... the ability of people, communities, and systems to maintain their core purpose and integrity among unforeseen shocks and surprises".

As an organisation, working on maintaining our core purpose and integrity underlines the key themes of our work in 2016 and will continue to help us steer our path forward. The two feature articles in this Annual Report – resolution planning and human capital – are also really all about this.

OUR CORE PURPOSE – PREPAREDNESS

A key purpose of PIDM's business and affairs is essentially about preparedness. The need to be prepared is a constant. As the operating environment changes, as member institutions grow or shrink, or their business models change, whether our mandate expands or stays the same, the demand from PIDM is the same. We must be prepared to meet our mandate, which calls for us to contribute to the stability of the financial system and to be ready to resolve relevant financial institutions.

Our key initiatives in 2016 were also about preparedness. To address how we are funded and provide incentives for sound risk management, we issued the Guidelines on Differential

Levy Systems Framework for Takaful Operators; enhanced the Guidelines on Differential Levy Systems Framework for Insurance Companies; and implemented the Target Fund for Life Insurance Protection Fund. We also continued our work on alternative funding for liquidity purposes.

To ensure our readiness for intervention and failure resolution, we continue to test our capabilities including, among others, our ability to carry out a prompt resolution should we be called to do so. In 2016, we carried out a payout simulation and demonstrated the ability and capacity of our systems and people to carry out a three-day payout in the event of a liquidation of a hypothetical mid-sized member bank.

A critical aspect of preparedness over the long term for the stability of our financial system is our resolution planning effort. The ultimate goal for Malaysia is to have a resolution regime that ensures all member institutions can fail in an orderly manner – more importantly, without having a systemic impact on the stability of the financial system. This effort will heighten our state of preparedness, and effectiveness in mitigating key risks to the stability of the financial system and ultimately, to the economy. Thus in 2016, we focussed on resolution planning, establishing the key frameworks and the detailed planning for implementation of this initiative.

Going forward, together with Bank Negara Malaysia, we will be consulting member institutions as well as setting expectations on recovery and resolution plans. Over time, and after our pilot exercises with identified member institutions, we plan to issue the final explicit guidance outlining our expectations from all member institutions on resolution plans. We will also work with other authorities, domestically and internationally, to formalise the arrangements for cooperation, information exchange and coordination before, during and after a resolution. Our approach in relation to resolution planning is described in more detail in the feature article 'Planning for Effective and Orderly Resolution' in Section 7.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jean Pierre Sabourin

INTEGRITY – GOVERNANCE AND OUR PEOPLE

Insofar as integrity is concerned, our key tenet has always been to adhere to sound corporate governance. Arrangements that ensure checks and balances as well as align incentives, and the principles of transparency, objectivity and accountability are critical to the long-term success and credibility of an organisation such as ours.

Just as important are the people who form the organisation, and ensuring we have the right competencies at the right time. In 2016, we continued our focus on human capital-related initiatives, in line with our Strategic Human Capital Plan, reviewing our Competency Model, continuing leadership development as well as implementing our career management strategy. Our aim, as we describe in the feature article 'Striving for People Excellence' in Section 7, is to ensure collective people excellence, which, for PIDM, translates into regulatory excellence.

As to how we would measure regulatory excellence, metrics or best practices for regulators might help demonstrate such excellence, and we strive to ensure accountability by reporting our progress against our Corporate Plan initiatives. At the same time, the nature of our work, which involves attempting to control outcomes caused by the behaviour of others, is an inherent challenge. As pointed out by Professor Cary Coglianese of the University of Pennsylvania, measuring what makes an excellent regulator can be likened to measuring what makes an excellent parent. Success or failure could depend on a range of factors, not all of which are necessarily within the regulator's control.

Which brings me to this key point – given these uncertain and possibly unrewarding outcomes, do we give up striving for excellence? My answer (and answer of many parents) would clearly be, "no".

In attracting, developing and retaining talent, beyond skills and experience, what we look for in particular are the following attributes – first, the desire to contribute to public service, and second, grit or perseverance. And why these particular attributes? Precisely because we want people who believe in the value of the efforts and our vision, and who will continue to self-motivate, in spite of the vagaries of 'objectivity' in measuring regulatory excellence.

I would quote Teddy Roosevelt, who in 1907 said this – "It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strived valiantly; who errs, who comes again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause ...".

CONCLUSION

In closing, I thank my colleagues for sharing in our purpose and vision, and for all of your valiant strifes. With over 40 years' experience as a regulator and deposit insurer, I will assure you that we do indeed contribute to a worthy cause. Going forward, I can only promise more challenges and more unforeseen events. However, I believe that our people strategy, a clear purpose, coupled with great enthusiasm and devotion, will provide the necessary momentum for us to rise up to these challenges.

I sincerely acknowledge the tremendous support of the Board, whose critical eyes and fresh perspectives reflect a commitment to the highest standards of corporate governance for PIDM. In this, I thank our Members of the Board, both past and present, for their valued contributions. I would also thank fellow regulators, domestic and international, member institutions and other strategic partners, for your invaluable cooperation and input. I very much look forward to your continued collaboration.



Jean Pierre Sabourin



SECTION

3

CORPORATE GOVERNANCE

Statement on Corporate Governance
Statement on Risk Management and Internal Control
Corporate Social Responsibility

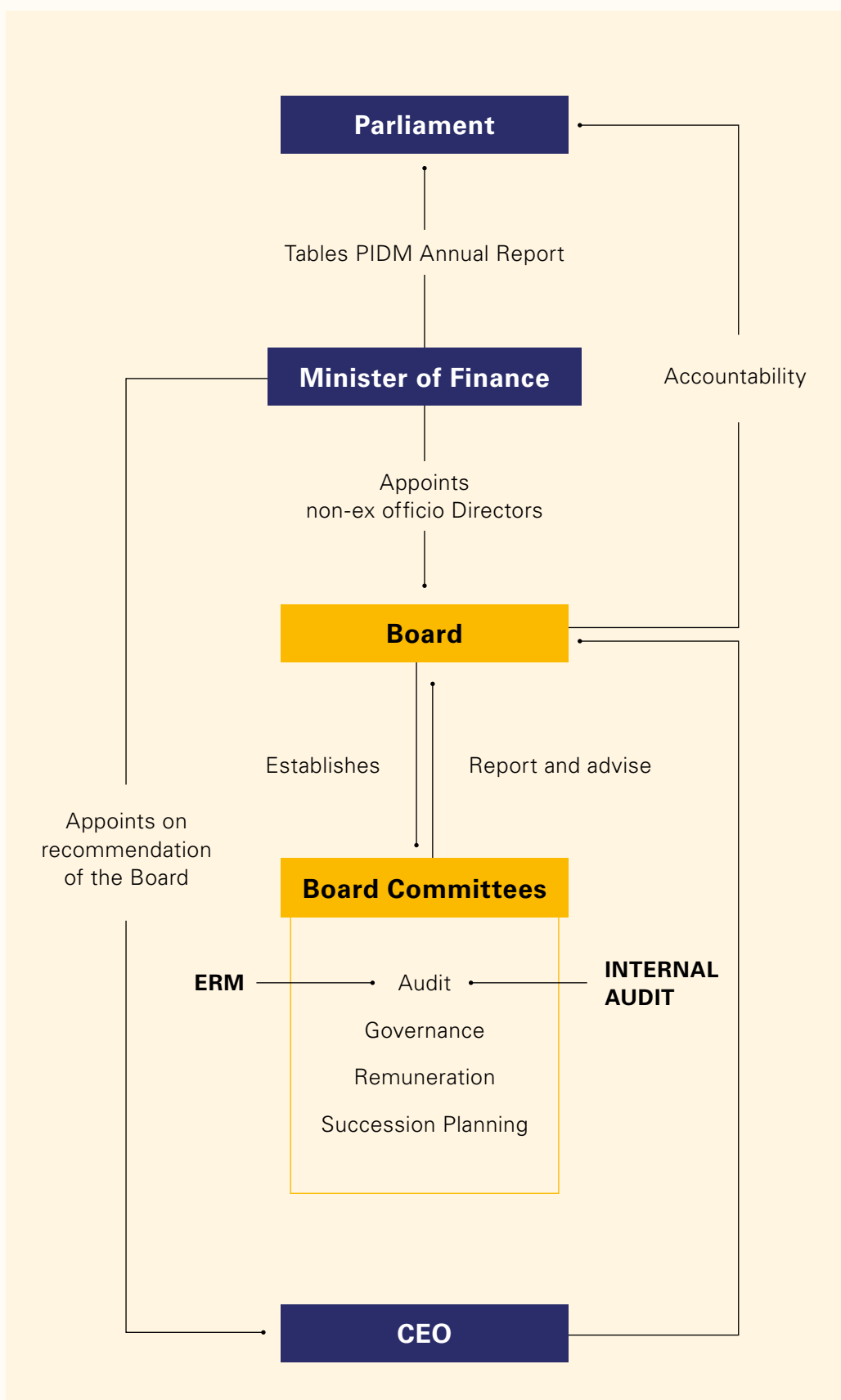
STATEMENT ON CORPORATE GOVERNANCE

OUR GOVERNANCE STRUCTURE

The Board of Directors (Board) believes that good governance underpins the integrity and effectiveness of the Corporation. The Board remains committed to maintaining a strong governance framework and adhering to best practices in governance.

Our Board Governance Policy, which adopts the principles of openness (transparency), integrity and accountability, sets out the standards that the Board should observe in carrying out its responsibilities.

This Statement on Corporate Governance is a report on the Board's performance against the standards of the Board Governance Policy and its work in 2016. Other information about key aspects of the Corporation's governance framework is also found in this Statement.



More Information on Governance

For more information on how PIDM is governed, including the Board Governance Policy and other corporate governance documents, visit our website at www.pidm.gov.my

STATEMENT ON CORPORATE GOVERNANCE

For the year 2016, the Board is pleased to report full compliance with each of the 15 standards set out in the Board Governance Policy. Details are found on pages 38 - 46.

Shariah Governance

PIDM also ensures compliance with Shariah requirements in relation to the Islamic Deposit Insurance System (IDIS) and the Takaful Benefits Protection System (TBPS) it administers. PIDM seeks the advice and endorsements from the Shariah Advisory Council of Bank Negara Malaysia (BNM) on Shariah issues relating to the operations of the IDIS and the TBPS. Details are found on page 54.

BOARD OF DIRECTORS

Composition, Appointment and Remuneration

The Board comprises nine non-executive Directors,¹ two of whom are ex officio Members of the Board, namely the Governor of BNM and the Secretary General of Treasury, Ministry of Finance. The Chief Executive Officer (CEO) is not a Member of the Board.

All other non-ex officio Board Members are appointed by the Minister of Finance, on the recommendation of the Board. Of these, two are from the public sector or have public sector experience and five are from the private sector. As required under the PIDM Act, the Chairman must have relevant private sector experience.

On 30 April 2016, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz retired as the Governor of BNM. Pursuant to the PIDM Act, Muhammad bin Ibrahim, as the Governor of BNM then became an ex officio Director of the Corporation.

In 2016, the Minister of Finance, on the recommendation of the Board, appointed two new non-ex officio Directors to fill the vacancies arising from the retirement of Dato' Halipah Esa and Mr. Lim Tian Huat on 15 August 2016. The new Directors are Dato' Dr. Gan Wee Beng and Dato Dr. Nik Ramlah Mahmood.

Each Board Member is paid an annual fee and allowances for attendances at meetings and work of the Corporation. In 2016, the Minister of Finance, on recommendation of the Board, approved a new remuneration structure for the Board. The total fees and remuneration, which includes medical benefits, received by the Directors collectively in 2016 were RM712,000.

Board Responsibilities

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

The roles and responsibilities of the Board are set out in more detail in the Board Governance Policy and in their position descriptions.

¹ In 2017, following the retirement of Datuk Seri Dr. Rahamat Bivi Yusoff and Mr. George Anthony David Dass, Encik Johan Mahmood Merican and Ms. Gloria Goh were appointed to the Board effective 3 January 2017 and 3 February 2017 respectively

STATEMENT ON CORPORATE GOVERNANCE

Attendance at Board and Board Committee Meetings

Attendance at Board and Board Committee meetings in 2016 was as follows:

	Board Committee Meetings				
	Board	Audit Committee ²	Governance Committee ³	Remuneration Committee ⁴	Succession Planning Committee
Number of meetings	5 ⁵	5	2	2	2
Attendance					
Private Sector Directors					
Tan Sri Datuk Dr. Abdul Samad Haji Alias	5		2		2
Dato' Dr. Gan Wee Beng ⁶	3			1	
Mr. George Anthony David Dass ⁷	4	5	2		
Mr. Alex Foong Soo Hah	4	5			2
Encik Mohamad Abdul Halim Ahmad	5	5		2	2
Public Sector Directors					
Datuk Seri Dr. Rahamat Bivi Yusoff ⁸	2			2	
Dato Dr. Nik Ramlah Mahmood ⁹	3		1		
Ex Officio Directors					
Muhammad bin Ibrahim ¹⁰	4				
Tan Sri Dr. Mohd Irwan Serigar Abdullah	2				
Directors who retired during the year					
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz ¹¹					
Dato' Halipah Esa ¹²	2		1		
Mr. Lim Tian Huat ¹³	2			1	

² Encik Johan Mahmood Merican and Ms. Gloria Goh were appointed to the Audit Committee on 3 January 2017 and 3 February 2017 respectively

³ Ms. Gloria Goh was appointed to the Governance Committee on 3 February 2017

⁴ Encik Johan Mahmood Merican was appointed to the Remuneration Committee on 3 January 2017

⁵ Includes a Strategic Planning session of the Board

⁶ Dato' Dr. Gan Wee Beng was appointed to the Board effective 16 August 2016

⁷ Mr. George Anthony David Dass retired from the Board on 2 February 2017

⁸ Datuk Seri Dr. Rahamat Bivi Yusoff retired from the Board on 2 January 2017

⁹ Dato Dr. Nik Ramlah Mahmood was appointed to the Board effective 16 August 2016

¹⁰ Muhammad bin Ibrahim was appointed to the Board effective 1 May 2016

¹¹ Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz retired from the Board on 30 April 2016

¹² Dato' Halipah Esa retired from the Board on 15 August 2016

¹³ Mr. Lim Tian Huat retired from the Board on 15 August 2016

STATEMENT ON CORPORATE GOVERNANCE

THE WORK OF THE BOARD IN 2016

In 2016, the Board carried out its strategic and oversight role as usual, and details of how it adhered to the standards and expectations are set out under the 'Compliance with the Board Governance Policy' on pages 38 - 46.

In 2016, other than the usual oversight and monitoring of the affairs of the Corporation, the Board was also occupied with the following matters:

(a) Orientation of new Directors

There were changes in the composition of the Board in view of the change in the Governor of BNM, and the retirements of one Director with public sector experience¹⁴ as well as one private sector Director. Time was spent to ensure that new Directors were quickly orientated and brought on board.

(b) Planning for Board succession

Taking a long-term view for Board effectiveness, the Board also adopted the principle of 'evergreening' the Board.¹⁵ This means that, over time, at least one Board Member should retire annually. This was with the view to achieving regular rejuvenation of the Board, while retaining institutional memory. Thus in 2016 the Board also spent time planning, for the future, how to stagger terms of appointments to give full effect to the 'evergreening' principle.

(c) Planning for leadership changes

The Board had, in 2009, established a CEO succession plan, way in advance of the end of the term of the incumbent. As reported in the 2013 Annual Report, the Board had established a Succession Planning Committee, which has been actively ensuring the progress of this plan, so as to ensure as smooth a transition in leadership as possible. Recommendations will be made to the Minister of Finance in 2017. The Board, working with its various Committees, also monitored the succession plans for key senior management, who are the bench strength for the future success of the Corporation.

All of these efforts demonstrate the Board's commitment to ensure a clear path for the continued effectiveness of the Board, as well as to ensure critical roles in leadership are adequately addressed. This was considered important so that the rest of the Corporation can remain focussed on its mandate, vision and mission even with changes at the helm.

As for its effectiveness, in 2016 the Board conducted an evaluation of its performance, resulting in a highly satisfactory rating. The Board also recognises that trust in the credibility of the evaluation process is also a key factor for its success. As noted in our earlier Annual Reports, the Board has adopted the practice of appointing an external evaluator to assess its performance every few years. This is to obtain an objective assessment from a third party of its effectiveness. This practice will continue going forward. Taking into account the ongoing changes in the composition of the Board, the independent third party evaluation is scheduled for next year.

¹⁴ Section 11(2) of the PIDM Act

¹⁵ The 'evergreen' Board concept is where one Director would retire annually based on a rotation system and a new Director appointed to his or her stead to ensure the retention of institutional memory at the Board level while regularly rejuvenating it. This concept was propounded by Dr. Ram Charan at the 2nd FIDE FORUM Distinguished Board Leadership Series: Board's Strategic Leadership: Innovation & Growth in Uncertain Times session on 21 May 2015

STATEMENT ON CORPORATE GOVERNANCE

Compliance with the Board Governance Policy

The following describes how the Board has adhered to each of the standards in the Board Governance Policy.

Standard 1: Independence of the Board

Board Members will exercise independent judgement.

As required under the PIDM Act, all Directors are non-executive and must use their independent judgement to act in the best interest of the Corporation. The CEO is not a Member of the Board.

Standard 2: Board effectiveness and governance responsibilities

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

To achieve this, the Board will:

- (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 the Corporation has arrangements for the orientation of new directors and ongoing training appropriate to the Board's governance responsibilities and needs.

Understanding of objects, powers and governance responsibilities

As part of the Board-approved orientation programme, new Board Members are provided with written material and briefings necessary to obtain an understanding of the Corporation's objects, powers and governance responsibilities. Regular Board education sessions are also held to reinforce the understanding in these areas.

Approaches and evaluation

The Governance Committee supports the Board by providing regular benchmarking of governance approaches and recommendations for improvement in specific areas for Board effectiveness. As described earlier, the Board is committed to an annual evaluation of the effectiveness of the Board and Board Committees. Appropriate action plans for continuous improvement are also developed. The Board is also committed to obtaining external evaluation every few years to ensure the objectivity of assessments.

Orientation and ongoing education to fulfil responsibilities

The key objective of the Board Orientation Programme is to ensure that new Directors can be quickly brought up to speed on the work of the Corporation, and thus contribute to the work of the Board. In 2016, orientation for new Directors was carried out. In view of further changes to the composition of the Board in 2017, the Board also reviewed the Board Orientation Programme to ensure it remained current and relevant.

The Board Education Programme for 2016 included sessions on the topic of Recovery and Resolution Planning. To bring the Board up-to-date with developments in the operating environment of the Corporation, an external expert provided a briefing on Malaysian economic conditions prior to the Board's Strategic Planning session in September. Several Directors attended the 15th Annual Conference of the International Association of Deposit Insurers (IADI), the International Forum of Insurance Guarantee Schemes (IFIGS) Asia Meeting and the Global Islamic Finance Forum. The Directors also availed themselves for sessions held in conjunction with the Financial Institutions Directors' Education (FIDE) Programme as well as FIDE FORUM events.

Management also provides the Board with updates on developments relevant to the Corporation, including up-to-date material and publications on relevant topics which are accessible online by Board Members.

STATEMENT ON CORPORATE GOVERNANCE

Standard 3: Roles and responsibilities of Committees

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

The responsibilities, authority and accountability requirements of the Board Committees are set out in their respective charters. Reports on their work are made to the Board at each meeting and each Committee regularly assesses whether it has fulfilled its key responsibilities. In 2016, the Board reviewed the Charters of the Board Committees to ensure that they remain current and relevant. The summary reports of the work of the Committees are found on pages 47 - 51.

Standard 4: Board composition and succession

The Board constitution should maintain independence, and there should be an appropriate mix of skills and capabilities, given the objectives and strategic direction of the Corporation.

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

- (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.

Board composition and succession plan

The PIDM Act sets out prohibitions on who can be a member of the Board, with a view to ensuring the independence of the Board from external influence in carrying out its responsibilities and mandate.¹⁶ The Act also specifies certain requirements to ensure there are both public and private sector perspectives on the Board.

The Corporation's Board succession plan, developed in 2007, includes a Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors, the Board profiles (collective and individual) and a periodic skills gap analysis. This plan allows the Board to assess whether the skills and expertise available on the Board meet the current and future needs of the Corporation. This plan was communicated to and noted by the Minister of Finance as part of the process for the Board's recommendations on the appointment of Directors.

In 2016, the Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors was reviewed. The Board approved that, in line with the adoption of the 'evergreening' principle (described on page 37), the Policy be amended so that, generally, the maximum tenure for non-ex officio Directors would be two consecutive terms of three years each.

Board profiles, skills gap analysis

The collective and individual Board profiles are reviewed on a regular basis taking into consideration the current needs, the stage of development and aspirations of the Corporation. These form the basis for determining the skills and experience required when filling upcoming Board vacancies. Any gaps identified in the current Board would also be considered in developing the list of suitable candidates.

The Board regularly carries out a skills gap analysis, comparing the skills, knowledge and experience that are available on the Board against the desired profiles. This is to ascertain if there are any gaps in skills, knowledge and experience required on the Board.

As part of its Board succession plan, the Board also maintains a list of candidates who could fit the required Board profile. The list is updated from time to time for the purposes of recommending the appointment of Directors when the need arises.

¹⁶ Section 14 of the PIDM Act

STATEMENT ON CORPORATE GOVERNANCE

In 2016, there was an orderly succession on the retirements of Dato' Halipah Esa and Mr. Lim Tian Huat. Following recommendations by the Board to the Minister of Finance, Dato' Dr. Gan Wee Beng and Dato Dr. Nik Ramlah Mahmood were appointed to the Board on 16 August 2016. Muhammad bin Ibrahim succeeded Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz as the Governor of BNM and became a Board Member of PIDM on 1 May 2016.

Standard 5: Roles and responsibilities of the CEO

The responsibilities and accountability of the Chairman and the 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 responsibilities and accountability of the Chairman and the CEO are clearly distinguished and documented in the position descriptions for both roles. The Board is responsible for recommending the appointment of the CEO to the Minister of Finance.

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. In 2016, the Board-approved position description for the CEO was reviewed and found to be current and relevant.

The Key Performance Indicators (KPIs) for the CEO are determined annually based on the Board-approved corporate objectives. The CEO's performance against those KPIs is tracked and considered by the Board at the end of each year. A report on the CEO's performance was presented to the Board at the end of 2016.

Standard 6: Appointment of senior corporate officers

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

Senior corporate officers are appointed by the Board and their terms of service and compensation are determined by the Board. Pursuant to the Corporate By-Law, the holders of the following offices must be appointed by the Board:

- (a) the Executive General Manager and General Counsel;
- (b) the Executive General Manager;
- (c) the Chief Financial Officer (CFO);
- (d) the Chief Risk Officer (CRO);
- (e) the Chief Internal Auditor (CIA); and
- (f) the Corporate Secretary.

The Board has appointed these senior corporate officers.

STATEMENT ON CORPORATE GOVERNANCE

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 and makes recommendations to the Board on matters pertaining to employee compensation. The Board-approved employee compensation and benefits policy and performance management policy are in line with PIDM's business model, which requires a specialised team of people with the ability to achieve PIDM's mandate, assisted by key strategic partners and suppliers when needed.

The Board annually benchmarks the compensation of PIDM's officers and employees against the general market compensation levels to ensure competitiveness and the ability to retain talent for the purposes of the Corporation's needs.

In 2016, the Board reviewed the remuneration structure for the Directors, as set out under the 'Composition, Appointment and Remuneration' on page 35.

Standard 8: Succession planning

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

The Board, with the support of the Succession Planning Committee, continues to monitor the implementation of the CEO succession plan. In 2014, an executive search firm was appointed to provide advisory and consulting services to the Succession Planning Committee and the Board for the CEO succession plan. Work is progressing as scheduled as set out under 'The Work of the Board in 2016' on page 37.

The Governance Committee continues to assist the Board with the oversight of the succession plans for key senior management.

Standard 9: Standards of behaviour and ethics

The Board will ensure that Management develops adequate policies, strategies, processes and controls within the Corporation to maintain an organisational climate that fosters ethical behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction.

The Corporation has a set of codes and policies on ethical behaviour and conflict of interest for its employees and Board Members. Processes and controls are also in place to ensure compliance with such codes and policies. Details of the Corporation's policies, strategies, processes and controls as set out under the 'Ethical and Legal Compliance' on page 51.

Among others, the Corporate Secretary has reported on compliance with applicable laws, standards and ethics to the Board, through the Remuneration Committee and the Audit Committee. The Corporation has a whistleblowing policy, and consequences for breaches are clearly set out. The Corporation also carries out a regular Employee Voice Survey to gauge employee satisfaction as well as to obtain employees' perspectives on the Corporation's commitment to ethical behaviour.

The Board has a high degree of assurance that a compliance system is in place and that the Corporation and its employees are in compliance with laws and key policies.

STATEMENT ON CORPORATE GOVERNANCE

Standard 10: Significant risks to the Corporation

The Board will:

- (i) obtain an understanding of the principal risks of the Corporation's business;
- (ii) ensure that appropriate and prudent risk management systems to manage these risks have been implemented and are reviewed regularly;
- (iii) obtain reasonable assurance, on a regular basis, that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed; and
- (iv) ensure that the CRO (or in his absence, the Deputy General Manager from the Enterprise Risk Management (ERM) Division) should regularly attend all scheduled Board meetings.

Understanding of principal risks and risk management systems

The Board obtains an understanding of the nature and magnitude of significant risks to the Corporation by receiving and reviewing regular reports on the soundness of member institutions as well as risks to the Corporation's business and affairs.

The Board-approved ERM Policy states and affirms PIDM's commitment to sound ERM practices. These practices ensures that any risks that may impede the achievement of PIDM's mandate and objectives are identified and dealt with. In line with its commitment to the ERM Policy and this standard, the Board:

- (a) monitors compliance with the ERM programme to ensure consistent application of risk management practices in identifying, assessing, evaluating, monitoring and reporting risks;
- (b) monitors Management's undertaking of a complete cycle of the ERM process and receives regular risk reports that identify controls and action plans to mitigate the risks identified;
- (c) considers and agrees to the significant risk profiles; and
- (d) receives a detailed report on its Board Risk Policies.

Details are found in the 'Statement on Risk Management and Internal Control' on page 55.

Reasonable assurance that risks affecting the Corporation are effectively managed

The following enables the Board to have reasonable assurance that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed:

- (a) For independence from Management, the CRO functionally reports to the Board through the Audit Committee. The CRO also attends all scheduled Board meetings.
 - (b) Annually, the CRO provides a formal representation letter to the Audit Committee and the Board.
 - (c) The Board also receives and reviews regular reports from the Audit and Consulting Services (ACS) Division on compliance with internal controls and certain key areas of audit. The CIA also validates the ERM reports, through audits on compliance with internal controls as well as the overall review of the components of the Internal Control Framework, which includes the Corporation's risk management practices. For details, refer to the 'Statement on Risk Management and Internal Control' on page 55.
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STATEMENT ON CORPORATE GOVERNANCE

Standard 11: Control environment and internal audit

The Board will ensure that the Corporation has a control environment that supports the prudent management of its operations and of the risks to which it is exposed (including risks to the attainment of its objects) and has effective policies and practices to assure the integrity of internal controls and management information systems.

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 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.

The Board accepts overall responsibility for the Corporation's systems of internal control and risk management and obtains assurance from Management, the CRO and the CIA respectively. For details, refer to the 'Statement on Risk Management and Internal Control' on page 55.

Allocation of resources for, and establishment of an internal audit group

The Board has established the ACS Division, an internal audit function, approved its charter, and provided adequate resources to ensure that it can fulfil its roles and responsibilities. The audit function's charter is reviewed periodically to ensure that the mission, scope of work, accountability and responsibility, authority and standards of conduct of the audit function remain relevant.

Annual assurance plan

The Board has established a process to approve a rolling three-year assurance plan each year. In 2016, the Board approved the assurance plan for 2017 - 2019. Performance in accordance with the plan is reported and reviewed on an annual basis.

Monitoring of, and compliance with internal controls

The Corporation has established an Internal Control Framework, which is reviewed on a periodic basis.

In 2016, the Board considered the ACS Division's report on its assessment of Management's compliance with internal controls based on agreed criteria. The Internal Control Framework and system provides the Board with 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. The CIA also provides reasonable assurance on the compliance with internal controls and the integrity of the internal control system through a formal letter of representation to the Audit Committee and the Board.

Standard 12: In control

The Board will obtain, on a regular basis, reasonable assurance that the Corporation is 'in control'.

(Note: The concept of being 'in control' refers to a state where the Corporation's operations are subject to effective governance by the Board and are being managed in accordance with an ongoing strategic and risk management process in an appropriate control environment and where significant weaknesses related to those matters will be identified, addressed and brought forward to the Board's attention.)

STATEMENT ON CORPORATE GOVERNANCE

In addition to the assurances obtained by the Board as described in relation to Standards 10, 11 and 13, the Board has reasonable assurance that the Corporation is 'in control' for the following reasons:

- (a) Board papers that are presented to the Board are comprehensive and set out the purpose of the report, the issues to be considered, the risk implications of the proposals together with quality assessment, analyses and sound recommendations. Board Members have access to senior management and if needed, the Board can question Management and conduct detailed enquiry about any matter.
- (b) At the end of each year, the Board evaluates the support from Management in terms of the information provided to the Board, and the Board gives Management detailed feedback and an overall rating.
- (c) In addition, the Board can also question the CRO and the CIA, who report directly to the Board through the Audit Committee, on the key risks or internal control matters and their views on the reliability of the information provided. The CRO and the CIA attend all scheduled Board meetings.
- (d) In 2016, the Board was satisfied with its ability to obtain reliable, relevant and timely information from Management and with the quality of information provided.

The Board is also satisfied with the overall management approach, by which senior management directs and controls the organisation. There are systems and processes to ensure that critical information reaching senior management is sufficiently complete, accurate and timely to enable appropriate Management decision making. In particular:

- (a) In line with the criteria set out in the Internal Control Framework, the Board has, in 2016, obtained reasonable assurance that the Corporation's business and affairs are being managed effectively in accordance with the strategic and risk management processes in place within an appropriate control environment.
- (b) Senior management monitors and directs using a combination of reporting and management control structures. In 2016, the development of the automated financial management information system was also completed to provide Management with easy and timely access to financial information.
- (c) Regular meetings are also held to ensure that strategies, directions and instructions from Management are carried out systematically and effectively.
- (d) The Board receives comprehensive representation letters from the CEO, CFO and CRO that address the accuracy and reliability of relevant information provided to the Board. Each head of division in turn provides representation letters to the CRO as well as the CEO with respect to their responsibilities to identify and manage risks, as well as to 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 the ERM function.

Further, the Board has approved the Policy Against External Interference, which is a policy that helps guide employees to address any potential external interference by escalating the matter for the attention of the Board.

STATEMENT ON CORPORATE GOVERNANCE

Standard 13: Strategic management process

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

To fulfil this responsibility, the Board will:

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

Assessment of the Corporation's objects

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

Strategic planning process, approval of objectives and monitoring

The Corporation's strategic management process incorporates an external scan of our operating environment and the identification and assessment of the significant risks that the Corporation will need to manage so that they do not affect the achievement of the Corporation's objectives. The strategic planning process has been adopted by PIDM since its inception.

Each year, the Board considers the strategic plan of the Corporation. As part of the process, the Board of PIDM is involved at an early stage. In 2016, Management sought the Board's views on the Corporation's strategic direction in September. This was to allow the Board to debate on Management's recommendations, given the operating environment, risks and other factors. Once this direction has been set, Management will develop the detailed Corporate Plan setting out the courses of actions with timelines, KPIs, including financial and resource plans, which will again be tabled to the Board for final approval. In 2016, the Corporate Plan was approved by the Board in December. Reports on the progress of the Corporation's KPIs and initiatives against the Corporate Plan are presented to the Board on a regular basis. A summary of the Corporate Plan is also published and distributed to key stakeholders as part of PIDM's transparency and accountability regime.

Reasonable assurance that the Corporation has an effective strategic management process

In line with the criteria set out in the Internal Control Framework, the Board has, in 2016, obtained reasonable assurance that the Corporation's business and affairs are being managed effectively in accordance with the strategic management processes in place.

STATEMENT ON CORPORATE GOVERNANCE

Standard 14: Effective communication

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

In 2016, the Board-approved Communications Policy was reviewed and was found to be current and relevant. In terms of communications:

- (a) The Board oversees the implementation of the Corporation's five-year Integrated Communications Plan, which is an extensive engagement plan with various stakeholders, in particular, members of the public.
- (b) Each year, PIDM's Corporate Plan and Annual Report are distributed to its key stakeholders.
- (c) The Corporate Outreach Programme, an annual event organised by the Corporation, was held in Negeri Sembilan from 13 to 14 May.

PIDM works closely with BNM in line with the Strategic Alliance Agreement, which is reviewed from time to time. PIDM also holds sessions with industry associations and member institutions to communicate its work and upcoming changes that affect the industry.

As for engagement with international counterparts, in 2016, the Corporation signed Memoranda of Understanding (MOUs) with the Federal Deposit Insurance Corporation (FDIC) of the United States and the Korea Deposit Insurance Corporation (KDIC). The MOUs facilitate the sharing and exchange of information, as well as mutual collaboration between the Corporation and the FDIC and KDIC respectively.

Standard 15: Review of Board Governance Policy

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

Annually, the Board, through the Governance Committee, benchmarks its governance arrangements against corporate governance best practices. The Board also reviews the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation.

Conclusion

In conclusion, the Board is in compliance with the Board Governance Policy, which is benchmarked against best practices.

A more detailed report on the work of the Board Committees that support the Board follows.

STATEMENT ON CORPORATE GOVERNANCE

BOARD COMMITTEES

Four Board Committees supported the Board throughout 2016. These are the Audit Committee (AC), the Governance Committee (GC), the Remuneration Committee (RC) and the Succession Planning Committee (SPC).

In 2016, all Board Committees fulfilled their responsibilities against their respective Charters.

Audit Committee

Members and meeting attendances

The AC Members and their attendances at meetings in 2016 are set out on page 36. The AC Charter requires that meetings be held at least four times a year. In 2016, the AC held five meetings, one of which was convened to specifically deliberate on risk-related matters.

AC Charter and principal responsibilities

The AC Charter is set out in the Appendix on page 246. A review of the Charter was conducted in 2016 and no significant changes were considered necessary.

The principal responsibilities of the AC include assisting the Board with oversight of:

- the integrity of the Corporation's financial statements, the financial reporting process, the systems of internal accounting and financial controls;
- the performance of the Corporation's internal audit function;
- the identification and management of the Corporation's significant risks; and
- the Corporation's compliance with ethics-related policies, and legal and regulatory requirements.

Summary of activities of the AC in 2016

The following is a summary report of the AC's key areas of work in 2016:

Internal audit

In 2016, the AC considered 11 internal audit reports issued by the ACS Division.

These included the annual review of the Corporation's internal control compliance and audit reports on the Corporation's financial statements and disclosures for the financial year ended 31 December 2015, the Disaster Recovery Centre (DRC) project management, the organisation of the IADI 2015 Annual Conference which the Corporation had hosted, the monitoring of member institutions' compliance with the Corporation's regulations and guidelines, the Corporation's processes relating to employee recruitment and selection, compensation and benefits, as well as the management of the overall office safety and security, to name a few.

Recommendations emanating from these audits were reported to the AC and Management's responses and action plans were considered.

The AC reviewed the ACS Division's Plan for 2017 - 2019 and considered the budget and resource needs of the Division. The AC monitored the internal audit function's performance against the ACS plan on a semi-annual basis and ensured its independence. The AC also reviewed the progress and status of action plans by Management in addressing the findings from previous internal audits, which were either completed or on track for completion.

STATEMENT ON CORPORATE GOVERNANCE

Management audit

The AC also reviewed and recommended to the Board for approval, the proposed framework and methodology of the management audit that will be conducted on the Corporation by the ACS Division. The main objective of the management audit is to assess the Corporation's effectiveness in fulfilling its mandate, vision and mission through the review of the implementation of strategies and approaches, application of methodologies and processes as well as the utilisation of resources in administering the operations of the Corporation. The results of the management audit will be used to realign or enhance the Corporation's operations to achieve its mandate more effectively.

Direct reports

The CIA and the CRO report directly to the Board through the AC. In 2016, the AC continued to review reports on the performance of their respective functions. The AC, in consultation with the CEO, assessed the CIA's and the CRO's performances for 2016.

Financial reporting

The AC assisted the Board in discharging its oversight role of reliable, accurate and clear financial reporting by reviewing PIDM's financial statements. It also considered the 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 external auditors, namely the Auditor General) must be provided to the Minister of Finance, three months after year end (31 December).

Financial reporting processes, accounting policies and internal control structure

The AC:

- (a) reviewed and advised the Board with respect to the annual financial statements, Management's Discussion and Analysis, the external audit report and the review of the integrity of the financial reporting process and internal control reports as well as Management representations; and
- (b) obtained a written certification from the CIA addressing the Corporation's system of internal controls.

Strategic and financial management oversight

In 2016, the AC fulfilled its responsibilities with regard to financial management oversight, including management of annual budgets and investments. The AC received regular reports on progress against the Corporate Plan 2016 - 2018, and considered and recommended the Corporate Plan 2017 - 2019, which included the operating budget, capital budget and financial projections, for Board approval.

Risk management

In relation to risk management, the AC provided advice and support to the Board in respect of the matters reported against Standards 10 to 12 of the Board Governance Policy on pages 42 - 44, relating to risks and internal control. In carrying out its duties, the AC has unrestricted and direct access to the CRO, who regularly reports on the activities of the ERM Division and the significant risks.

Ethical and legal compliance

The AC reviewed the report on compliance with applicable laws and regulations as well as key codes and policies. The AC also noted the report on the Corporation's compliance programme activities in 2016.

Matters of concern

The AC has unfettered access to the external auditors and Management, as well as to external independent counsel pursuant to the Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors. In 2016, the AC held two *in camera* sessions with different members of Management, and with the external auditors as part of good governance practices. These sessions also provided opportunities to discuss areas of concern, if any. The AC also held an *in camera* session without Management.

STATEMENT ON CORPORATE GOVERNANCE

Governance Committee

Members and meeting attendances

The GC Members and their attendances at meetings in 2016 are set out on page 36. The GC Charter requires that meetings be held at least twice a year. In 2016, the GC held two meetings.

GC Charter and principal responsibilities

The GC Charter is set out in the Appendix on page 240. A review of the Charter was conducted in 2016 and no significant changes were made.

The principal responsibilities of the GC include:

- to ensure that appropriate structures and processes are in place to provide effective oversight of, and direction for PIDM's activities;
- to ensure compliance with governance policies and high governance standards; and
- to review the appropriate balance of skills, experience and knowledge of the Board and identify skills gaps, as well as recommend future appointments for non-ex officio positions on the Board.

Summary of activities of the GC in 2016

The following is a summary report of the GC's key areas of work in 2016:

Board education

The GC developed the annual Board Education Programme for the Directors' continuing training and education.

Governance best practices

In 2016, the GC reviewed key governance policies in line with its responsibilities under its Charter, to ensure they remained current and relevant. The GC also reviewed developments in corporate governance best practices in Malaysia and other jurisdictions.

Board remuneration

In 2016, the GC reviewed the Board and Board Committee Members' allowances and fees and recommended the same for Board approval. The new allowance and fee structure was subsequently approved by the Minister of Finance.

Board effectiveness

The GC reviewed the results of the assessment on the effectiveness of the Board, the Board Committees and Management's support to the Board for the year 2016 and noted that a highly satisfactory rating was obtained for all the areas evaluated.

Board objectives and schedule planner

The GC considered the Board objectives and the proposed schedule for Board and Board Committee meetings for 2017.

Board orientation

The GC reviewed the Corporation's formal orientation programme for new Directors and noted that it remained generally in line with best governance practices.

Board succession

The GC considered and made recommendations to the Board, in respect of potential Director candidates who possess the skills, experience, knowledge and characteristics needed on the Board. The Board subsequently approved that these potential Director candidates be proposed to the Minister of Finance to fill the vacancies that will arise in 2017.

STATEMENT ON CORPORATE GOVERNANCE

Remuneration Committee

Members and meeting attendances

The RC Members and their attendances at meetings in 2016 are set out on page 36. The RC Charter requires that meetings be held at least twice a year. In 2016, the RC held two meetings.

RC Charter and principal responsibilities

The RC Charter is set out in the Appendix on page 243. In 2016, the RC Charter was reviewed and no change was considered necessary.

The principal responsibilities of the RC include, reviewing and making recommendations to the Board on a range of human capital issues, such as employee compensation, compliance with human capital-related legal requirements, personnel policies, training and complaints.

Summary of activities of the RC in 2016

The following is a summary report of the RC's key areas of work in 2016:

Human Capital strategy

The RC continued to monitor the implementation of the Human Capital (HC) strategies for the Corporation.

Compliance

The RC noted the report on compliance with key human capital-related policies and legal requirements.

Compensation

The RC reviewed and recommended to the Board for approval, the employees' bonus awards for 2016 and salary increments for 2017.

Employee-related policies

The RC considered and recommended to the Board, certain amendments to the Performance Management Policy and the Compensation and Benefits Policy following a review of the same.

Scholarship programme

RC reviewed and recommended to the Board for approval, the revisions to the Board-approved scholarship programme for undergraduate studies of Malaysians in need of financial assistance. The revisions include an expansion of the approved courses, the list of universities and colleges and the consideration to cater for international student exchange programmes.

HC activities

The RC also reviewed reports on human capital-related matters.

STATEMENT ON CORPORATE GOVERNANCE

Succession Planning Committee

Members and meeting attendances

The SPC Members and their attendances at meetings in 2016 are set out on page 36. The SPC Charter requires that meetings be held at least twice a year. In 2016, the SPC held two meetings.

SPC Charter and principal responsibilities

The SPC Charter is set out in the Appendix on page 253. A review of the SPC Charter was not conducted in 2016 as the SPC would be obsolete once a successor CEO is appointed in 2017.

The principal responsibilities of the SPC include advising and making recommendations to the Board on CEO succession planning, and in particular, reviewing the long-term plan for CEO succession and the contingency plan for any unplanned vacancy.

Summary of activities of the SPC in 2016

In 2016, the SPC reviewed the CEO profile and the methodology to assess the candidates for CEO succession. At the same time, the SPC also continued to monitor the development plans of the Executive General Managers.

Committees' Progress

All the Committees adopt the practice of reviewing their progress against their roles and responsibilities in their Charters over the entire year. In addition, Board Members who sit on a Committee are required to assess the effectiveness of the Committee. Responses are then discussed at the Board.

OTHER INFORMATION

Ethical and Legal Compliance

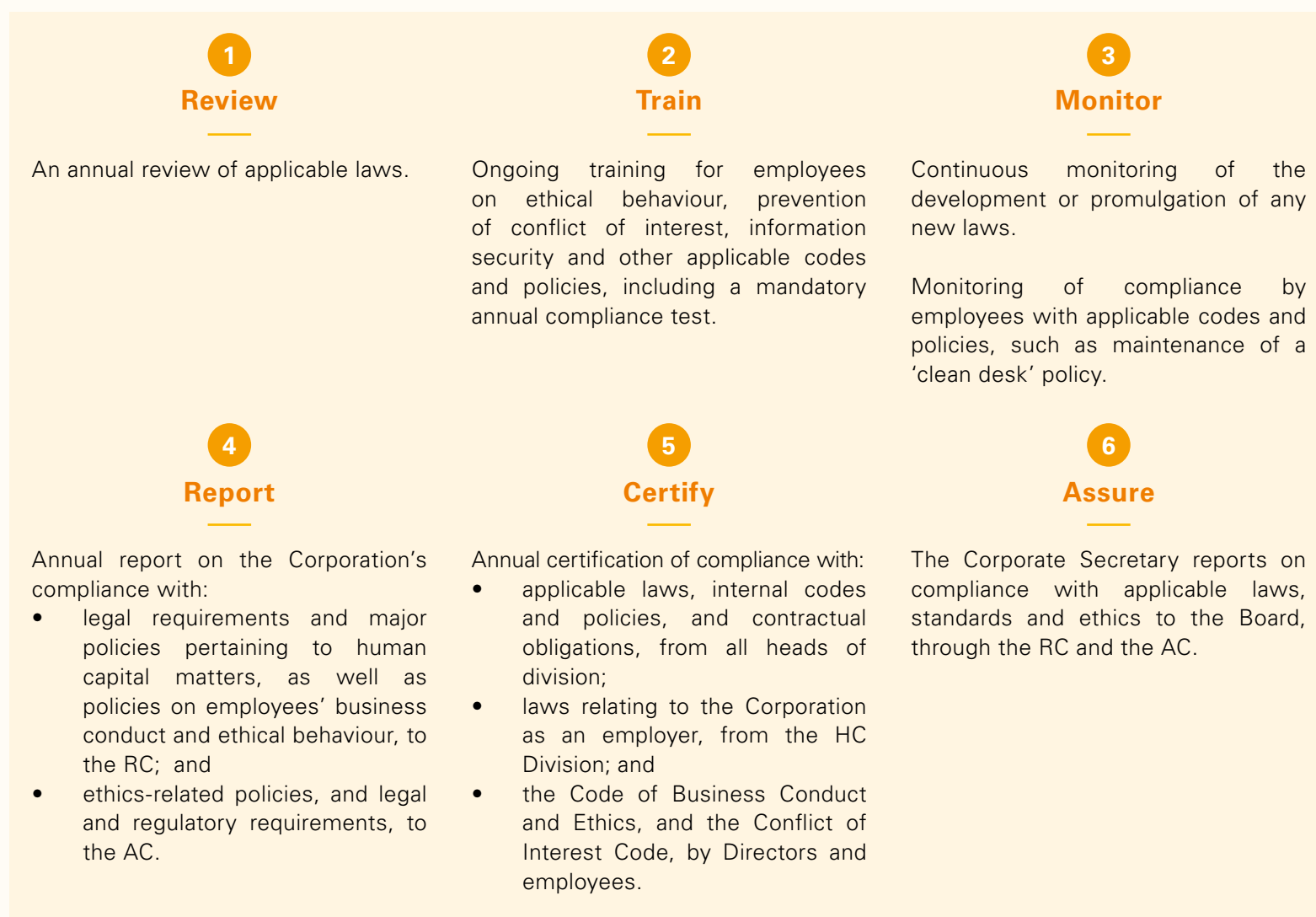
The Board has established standards of behaviour and ethics expected of Directors and employees to maintain an organisational climate that fosters ethical behaviour. These standards reflect and reinforce the Corporation's commitment to its corporate values.

Codes and Policies on Ethical Behaviour

- Code of Business Conduct and Ethics
- Conflict of Interest Code
- Policy for Disclosure of Information Concerning Improper Conduct (Whistleblowing Policy)
- Policy and Procedures on Public Disclosure of Information
- Policy on Workplace Harassment
- Policy Against External Interference

STATEMENT ON CORPORATE GOVERNANCE

The Corporation has also established controls and processes to ensure compliance with such standards as well as laws and contractual obligations applicable to the Corporation. This includes a Board-approved compliance programme. A Corporate Compliance Committee was established in 2009. These controls and processes include:



No incidents of non-compliance were noted in 2016.

Stakeholder Communications

In line with PIDM's mandate, the Corporation's Communications Policy seeks to promote public confidence in the stability of the financial system through:

- (a) the creation of awareness and understanding of the Corporation's mandate by disseminating accurate, timely and relevant information in response to stakeholders' and the public's needs, to assist them in making informed decisions about their savings and investments; and
- (b) the promotion of transparency and accountability by providing information and being accessible to the public and stakeholders to gain their trust and support.

STATEMENT ON CORPORATE GOVERNANCE

As a matter of transparency, we continue to provide quality reporting in our Annual Reports. PIDM's Annual Reports have been recognised and have received the National Annual Corporate Report Awards (NACRA) for excellence in reporting numerous times. Our key policies, practices and procedures on areas such as governance, ethics and procurement are also made available on our website, which is available in the four main languages.

Our communications strategy also involves the dissemination of PIDM-related materials to members of the public including our Corporate Plans, Annual Reports and information brochures in the four main languages. More information about our communications initiatives is found in Section 8.

ACCOUNTABILITY AND AUDIT

Financial Reporting

We adopt the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other than Private Entities. We administer six distinct and separate Funds under the DIS and TIPS as stated in the Corporate Profile in Section 1. These Funds are reported and accounted for separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2016 and the accompanying Statement by Directors are found on page 125.

Five subsidiaries were incorporated in 2012 as part of the Corporation's efforts to ensure 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. This was because the Corporation believes that consolidating its financial statements together with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM, as the financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific Fund(s) to which that member institution relates. Furthermore, in accordance with the requirements of the Malaysian Financial Reporting Standards 10 (MFRS 10) *Consolidated Financial Statements*, PIDM did not prepare consolidated financial statements as PIDM did not meet all the criteria required for having 'control' over its subsidiaries, as defined in MFRS 10.

Risk Management and Internal Control

The Statement on Risk Management and Internal Control is found on page 55.

Audit

Pursuant to the PIDM Act, the accounts of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. The Corporation maintains a collaborative working relationship with the external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC reports and documentation prior to the AC meetings. NAD representatives attended four out of five AC meetings held in 2016. Annual fees paid are found on page 175.

STATEMENT ON CORPORATE GOVERNANCE

ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

The Corporation seeks advice and endorsements from the Shariah Advisory Council of BNM on Shariah issues relating to the operations of the IDIS and TBPS. The arrangements and salient features of the IDIS and TBPS have been endorsed by the Council. Premiums and levies collected from Islamic and takaful member institutions are managed separately and invested according to Shariah principles.

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

All surplus amounts must be used to meet its obligations (if any) in respect of Islamic insured deposits or eligible takaful benefits. Should the Corporation need to raise any funding from the Government and the market, funding arrangements will be structured according to Shariah principles.

MANAGEMENT

The CEO is responsible for the day-to-day management of PIDM. His authority is derived from the PIDM Act and the Board-approved position description. PIDM's organisation structure is found in Section 1.

As part of the annual financial audit, Management provides comprehensive representation letters to the Board and the NAD. The CEO and the CFO also provide an enhanced statutory declaration on the Corporation's financial statements and quality of internal controls. The statutory declaration can be found on page 126.

Accessibility of Records and Information

Directors have access to Management as well as to the Corporation's records and information. They receive regular detailed reports on the financial and operational aspects of the Corporation's business and affairs and may, at any time, request further information on such reports. They also receive regular updates on information affecting PIDM's operating environment, and on key developments relating to the Corporation's current initiatives.

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

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

This Statement has been prepared in accordance with the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers (Guidelines) issued on 31 December 2012. These Guidelines provide guidance for companies complying with paragraph 15.26(b) of the Listing Requirements of Bursa Malaysia and Principle 6 of the Malaysian Code on Corporate Governance issued in March 2012. As a statutory body, PIDM is not required to adhere to the Guidelines. However, in line with best practices, the Corporation has chosen to comply with the same.

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

GOVERNANCE, RISK MANAGEMENT AND CONTROL

The Statement on Corporate Governance on page 34 explains how the Board has complied with the 15 standards outlined in the Board Governance Policy. The Board Governance Policy incorporates recognised best practices in corporate governance.

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

The management of risk through the ERM Framework is supported by a sound control environment that includes clearly defined corporate values, codes of conduct and ethics as well as comprehensive policies and procedures.

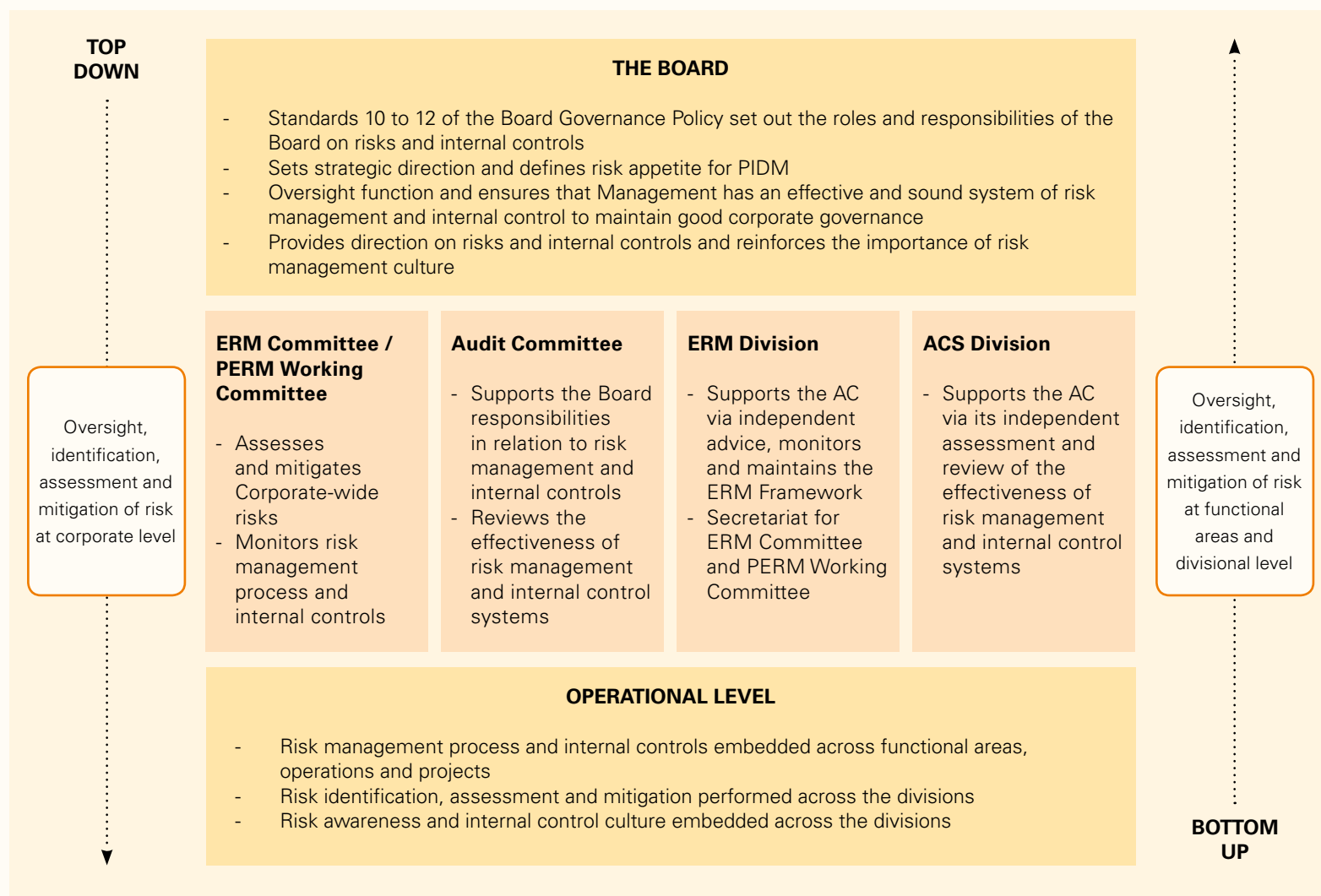


STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

ELEMENTS FOR SOUND SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROL

The diagram below sets out the roles and responsibilities in the governance framework for risk management and internal control.

Diagram 1: Governance Framework for Risk Management and Internal Control



Risk Management

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

The ERM Charter, ERM Policy, ERM Procedures and Board Risk Policies are updated regularly to ensure that they remain current and relevant, and are made available to all employees to ensure a consistent approach to risk. The Board Risk Policies outline the oversight function of the Board in relation to specific risks and the Board's expectations of Management's roles in supporting them.

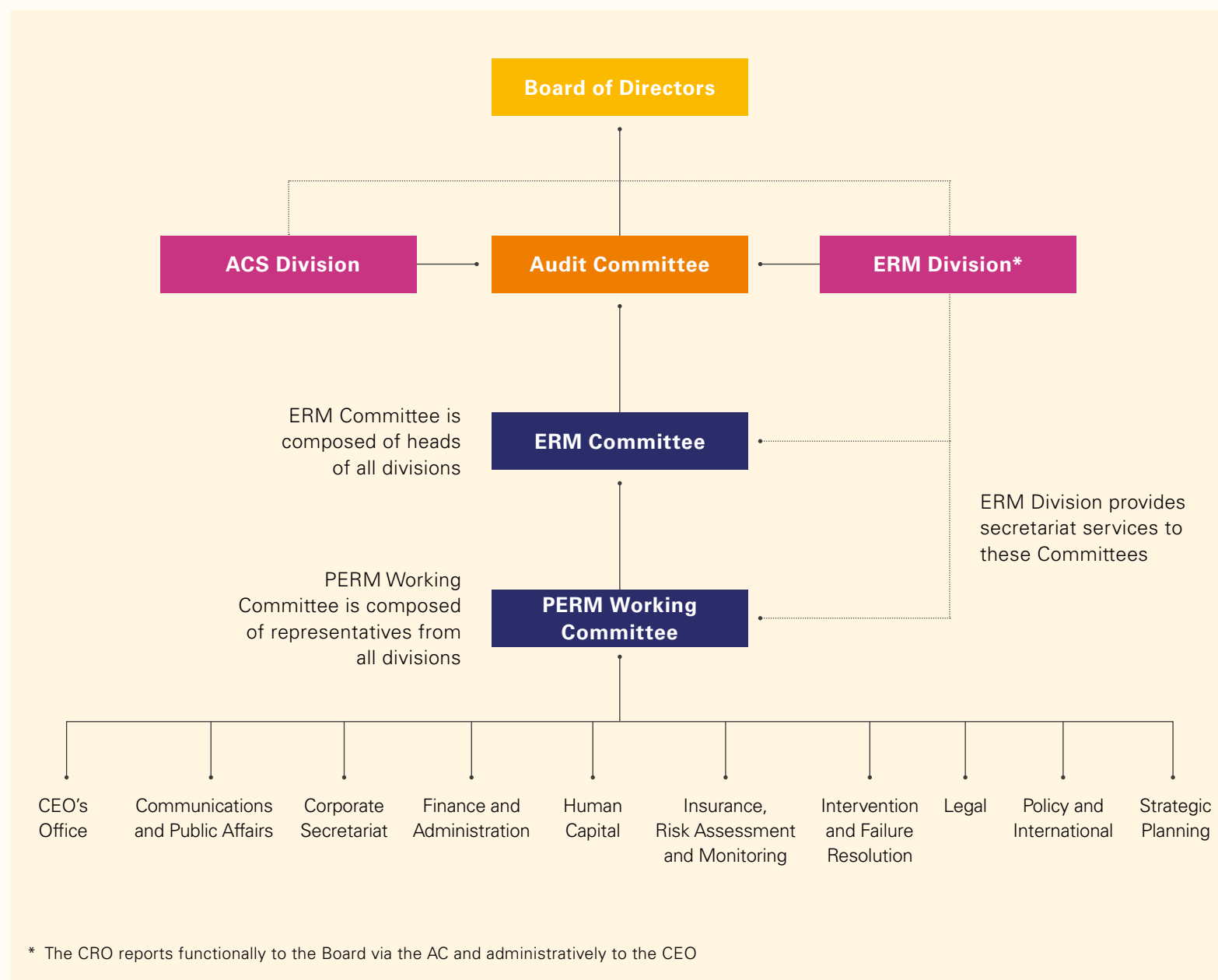
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

In addition, the Corporate Board Risk Report furnishes the AC and the Board with key risk action plans being taken to lower the residual risk for each of the risk category.

Management's and employees' commitment towards the risk management process is constantly emphasised and reinforced through the ERM Committee, PERM Working Committee, risk assessment workshops and employee briefing sessions. The ERM oversight structure, as shown in Diagram 2, provides clear accountabilities and responsibilities for a risk management culture and process. This ensures that the risk management activities remain appropriate and prudent, and that significant risks are managed and monitored continuously within PIDM's risk appetite.

Diagram 2: ERM Oversight Structure



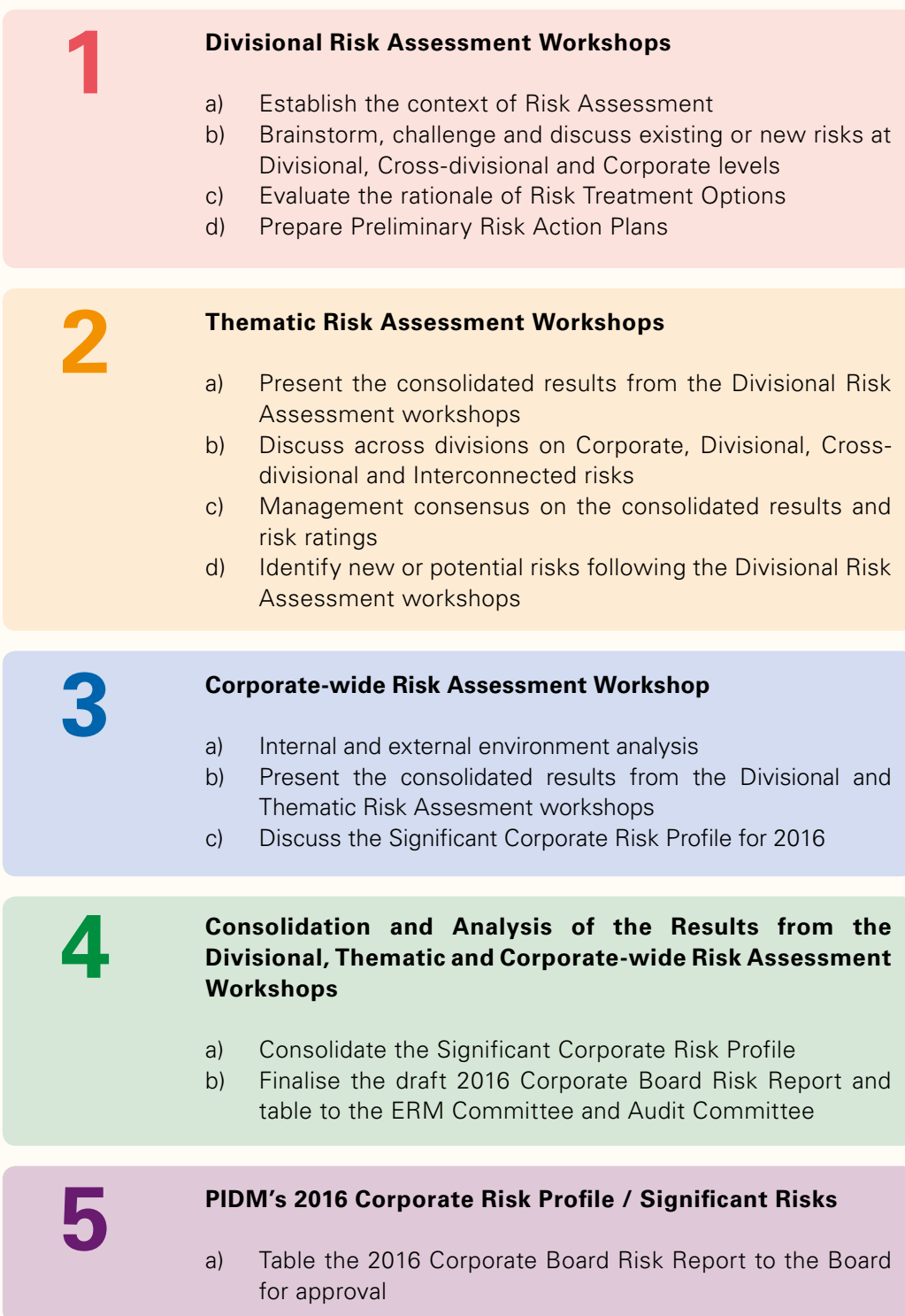
STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The ERM Division provides independent advice, monitors the implementation of and maintains the ERM Framework, promotes effective management of all risk categories and fosters the establishment and maintenance of an effective risk culture throughout PIDM. The ERM Division assists and provides information to the AC on all ERM activities and outcomes of the ERM process. The CRO provides regular reports to the Board via the AC on significant risks affecting PIDM and how such risks are being managed. The CRO reports functionally to the Board through the AC and administratively to the CEO, and has unrestricted access to the AC and the Board. This ensures his independence and ability to fulfil his responsibilities effectively.

Annual ERM process

In 2016, Management completed a full cycle of the ERM process, which is to identify, assess, evaluate, treat, monitor, report and communicate the risks facing PIDM. The key activities of the annual ERM process are summarised in Diagram 3.

Diagram 3: Annual ERM Process



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL



PIDM's 2016 significant corporate risk profile

Following the completion of risk assessment activities, Management has identified and managed the key risks that could prevent the Corporation from achieving its objectives. Based on the assessment of the six risk categories, Management has assessed two risk categories to be 'Acceptable' while four other risk categories are assessed to be 'Manageable'.

The key risk action plans and initiatives to address the six risk categories are as follows:

Risk Category	Risk Action Plans and Initiatives	Residual Risk Rating	Risk Trend
(a) Financial	The Corporation's investment portfolio is invested in accordance with the Corporation's Board-approved Investment Policy and the Corporation is also able to meet its ongoing operating cash requirements.	Acceptable	○
(b) Insurance	<p>The Corporation continues to assess and monitor the financial condition and risk profile of each member institution and the industry.</p> <p>The Corporation does not expect any need for an intervention or failure resolution (IFR) in respect of any member institution. Nevertheless, the Corporation has undertaken and completed a multitude of initiatives that are key to its operational readiness. Such preparation, coupled with partnerships with its key service providers, will enable the Corporation to effectively undertake an IFR action.</p> <p>To further enhance its readiness, the Corporation continues to work on arrangements and processes to ensure quick access to liquidity from internal and external funding for an IFR should the need arise.</p> <p>The Corporation also continues to review and enhance the PIDM Act to ensure it has sufficient and wide legislative powers to carry out its mandate as the resolution authority for member institutions in an IFR.</p>	Manageable	▲
(c) Operational	There were no significant issues that resulted in a major breakdown in the Corporation's day-to-day operations, processes and systems for the year under review. The Corporation continues to develop and strengthen its infrastructure and technologies including enhancements to policies, security, tools and applications. Regular awareness briefings are carried out to promote information security culture among the employees.	Acceptable	○
(d) Reputation	<p>The Corporation continues its focus on enhancing public awareness and understanding of PIDM, DIS and TIPS through its advertising campaign in collaboration with Malaysia's well-known cartoonist, Lat.</p> <p>The Corporation continues to review its multi-year communications plan to ensure relevance and continued effectiveness.</p>	Manageable	○

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL




Risk Category	Risk Action Plans and Initiatives	Residual Risk Rating	Risk Trend
(e) Strategic	<p>The Corporation continues to enhance stakeholder engagement and relations with its stakeholders, regulators, other deposit insurers and insurance guarantee schemes, as well as member institutions, through various engagement platforms and knowledge sharing sessions.</p> <p>The Corporation continues to advance its corporate governance practices. Risk management and internal control remain key elements of the Corporation's governance.</p>	Manageable	
(f) People¹⁷	The Corporation continues to focus on human capital matters including talent acquisition, technical and leadership capability development, employee engagement and talent retention through its Strategic Human Capital Plan. Work-life balance is also emphasised.	Manageable	

The CRO is of the opinion that there are no risk categories that would warrant heightened scrutiny, as adequate controls are in place and the appropriate risk action plans have been formulated to mitigate these risks effectively. Nonetheless, the CRO will continually monitor the risk ratings for the risk categories and the implementation of the risk action plans in order to strengthen the Corporation's ability to achieve its mandate and objectives.

Residual Risk Rating Definitions

Residual Risk Rating	Definition
Acceptable	Overall, the residual risk is acceptable and appropriate risk management practices are in place.
Manageable	Overall, the residual risk warrants risk action plans as mitigation, and appropriate and timely action is being taken to manage the risk.
Cautionary	Overall, the residual risk warrants close monitoring, and / or that previously identified initiatives to enhance the management of the risk are not fully implemented, albeit appropriate and timely action is being taken to do so.
Serious Concern	Overall, the residual risk is unacceptable; including that significant gaps may exist in risk management practices and controls.

Risk Trend

 Stable
  Increasing
  Decreasing

¹⁷ People Risk was previously a sub-risk category under the Operational Risk

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Internal Control

Annual review of PIDM's compliance with internal controls

Management carried out an annual review of PIDM's compliance with internal controls towards the end of the financial year pursuant to the requirements of PIDM's Internal Control Framework (ICF), which was endorsed by the AC for implementation in January 2008. The ICF is founded on the internationally recognised Committee of Sponsoring Organisations of the Treadway Commission Internal Controls – Integrated Framework (COSO Framework), mirroring the five components integral to the effective design and implementation of internal control. Management had conducted a benchmarking review to assess the applicability of PIDM's ICF as a result of the updated COSO Framework that was released in 2013.

The annual review was carried out using the evaluation tool recommended in the COSO Framework. The tool is intended to provide guidance and assistance in evaluating PIDM's internal control systems and compliance, focussing on the five components stated in the ICF.

For the year under review, the results of the assessment of internal controls using the five components of the ICF and their corresponding sub-components confirmed that, overall, Management has ensured that sound internal control has been established with the following focus:

- good practices in corporate governance with effective Board oversight responsibilities for Management's design, implementation and conduct of risk management and internal controls;
- effective and strong leadership with plans in place for succession and development of new leaders;
- a commitment to ethics and shared corporate values and culture that are defined in PIDM's policies and procedures on business conduct and ethics, and are understood by all levels of PIDM as well as by stakeholders, service providers and strategic partners;
- a corporate environment that enforces accountability through an effective performance measurement system and appropriate targets and goals for employees at all levels, which are aligned to the corporate objectives; and
- effective communications internally and externally (through appropriate channels) which ensures accurate, complete and timely flow of information as well as proper safeguarding of PIDM's data and information.

Information security

PIDM is currently not classified as a Critical National Information Infrastructure entity and as such, the ISO/IEC¹⁸ certification is not mandatory. Notwithstanding this, PIDM is of the view that certification would provide assurance to the Corporation's stakeholders regarding the security of information received and produced by PIDM. The Corporate Information Security Framework was completed in August 2014 and a plan to prepare for certification has been implemented in phases since 2015. A review of PIDM's state of certification readiness has been completed. Further reviews to assess compliance levels against the ISO/IEC standards will be conducted on an annual basis.

PIDM continues to organise information security awareness training for all employees to reinforce the importance of information security for critical business functions and processes.

¹⁸ Information security standard published by the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC)

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Business continuity and disaster recovery

PIDM has completed another full cycle of the business continuity (BC) life cycle phase in 2016. The BC life cycle phase consists of the Risk Analysis and Review, Business Impact Analysis and Recovery Strategy as well as the BC Plan updates.

The construction of the Corporation's permanent DRC was completed in 2016. The resilience of its BC Plan and Disaster Recovery Plan, policies, procedures at the newly constructed facilities are to be tested during the next simulation exercise scheduled in 2017.

Key policies, practices and processes

The following key policies, practices and processes have been established as part of PIDM's systems of governance, risk management and internal control:

- **PIDM's Organisational Structure and Authority Matrix**

PIDM's organisational structure is adequately segregated by functions, and there is proper assignment of authority and responsibilities. This enables employees at the appropriate levels of the Corporation to make decisions and be accountable for their performance against approved KPIs. PIDM's Authority Matrix is another key control document that formally sets out the delegation of authorities. It is a comprehensive document that summarises the Board's and Management's strategic and operational delegated authorities in line with the PIDM Act and PIDM's corporate and operational policies and procedures. PIDM has also established succession plans and programmes for senior management as well as for the Board, in order to ensure long-term sustainability of the Corporation.

- **Codes of Conduct**

Management continues to promote a risk management and internal control culture by conducting training and awareness sessions about PIDM's corporate values, compliance with the Code of Business Conduct and Ethics, and the Conflict of Interest Code. Employees are also required to submit an annual declaration of personal assets and liabilities. A Code of Business Conduct and Ethics has also been developed for the Board. Orientation programmes for new employees are carried out by the HC Division to introduce and guide new employees on PIDM's structure, work practices, culture, and policies and procedures. The annual mandatory compliance test has been implemented to ensure that all employees are aware of key policies and codes of conduct and ethics, conflict of interest as well as policies on information management and disclosure.

The Corporation has in place a whistleblowing policy i.e., the Policy for Disclosure of Information Concerning Improper Conduct, which can be accessed on our website. This provides guidance for employees or any other person in making disclosures in relation to concerns about possible wrongdoings to the relevant authorised officer. To ensure its operational independence, PIDM has also put in place the Policy Against External Interference, which sets out the guidance for employees to deal with and report on any encounters or attempts at external interference.

- **Systems, Policies and Procedures**

The Organisation and Methods function continues to monitor the development and maintenance of policies and procedures as well as oversee the streamlining and integration of key operational policies and procedures. The ERM and ACS Divisions are involved in the review of policies and procedures to ensure that risk management and internal controls as well as fraud preventive measures are embedded in these policies and procedures. This provides assurance that the controls are embedded into processes towards achieving effectiveness and efficiency in key operations and systems, ensuring accuracy in financial reporting as well as safeguarding the interests and assets of PIDM. Policies and procedures for key processes include guidelines on procurement and tender activities.

PIDM also has an Investment Policy that sets out the primary guidelines for the Corporation to carry out its investment activities within the parameters of the PIDM Act. The primary objectives of the Investment Policy are preserving capital invested and maintenance of liquid assets.

The selection of PIDM's accounting policies and principles is in accordance with the requirements of applicable laws and the approved accounting standards.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

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

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

- The Board considered the reports of various Board Committees on a regular basis. These included the AC's report on the review of PIDM's financial statements; its compliance with laws and ethics, and the effectiveness of controls embedded in systems or processes audited by the ACS Division; the report from the RC on compliance with key human capital policies and related laws; and the report from the GC on compliance with key governance policies.
- The Board considered, on a semi-annual basis:
 - (i) PIDM's financial reports, including the utilisation of resources compared to the approved budget; and
 - (ii) the update and progress of Management's overall performance against approved initiatives and targets set out in the Corporate Plan, as well as Management's assessment of internal and external factors that may impair the performance of the Corporate Plan.
- In addition, views of the Chairman of the Board were also obtained on the current strength of the Corporation's internal control environment.

THE BOARD'S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Representations

The Board receives an annual ERM Management Representation Letter from the CRO confirming that the Corporation's risks are being managed and that the Board Risk Policies and ERM process continue to be effective and relevant. An annual ERM Management Representation Letter from each head of division is also provided to the CRO to confirm that each Division's risks are being managed and meet the Board's expectations with regard to the Division's responsibilities in mitigating the risks as well as to instil Management accountability.

The effectiveness of PIDM's compliance with internal controls as of 31 December 2016 has been assessed by Management and validated by the ACS Division based on the criteria set out in the ICF. An annual Representation Letter is provided to the AC and the Board from the CIA, which sets out the assessment results on PIDM's system of internal controls that covers the areas judged to be of significant risk, as well as those pertaining to PIDM's financial management and reporting, i.e., the controls that support the preparation of the financial statements.

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

- (a) PIDM continues with the effective implementation of a very strong 'tone at the top'. This tone at the top has been established since the first year of PIDM's establishment and focusses on upholding ethics and integrity, from the Board to Management and ultimately all employees.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

- (b) PIDM, as an organisation, continues to adopt strong corporate governance and internal control practices. Clear delineation of independence of the Board from Management enables the Board to effectively discharge its role and duties in ensuring effective governance and internal controls. The composition of Board Members from various backgrounds and the annual evaluation of the appropriateness of Board Members' mix of skills, experience and capabilities, further support the Board in fulfilling its roles and responsibilities.
- (c) PIDM's financial reporting process is reliable and that the Corporation has effective policies and procedures for ensuring compliance with applicable laws and regulations.
- (d) PIDM's reporting on its performance provides clear disclosure of its activities and achievements, which demonstrates that PIDM has a strong accountability regime.
- (e) PIDM undertakes ongoing identification and assessment of risks at all levels and on a Corporate-wide basis. Management identifies and assesses risks formally in conjunction with the annual review of the Corporate Plan for the next planning period, reports to the Board on the management of the risk categories on an annual basis and performs ongoing risk identification and assessment throughout the year. The risk categorisation provides a basis for each identified risk to be segregated into any of the six risk categories to enable PIDM to focus its efforts towards the implementation of effective and adequate risk management strategies and plans to address the risks.
- (f) PIDM's direction and Corporate Plan provide relevant guidance on the objectives that the Corporation needs to achieve and the specific initiatives that need to be undertaken to mitigate significant risks. New initiatives are being identified to address potential new events, risks or activities that may affect the achievement of the strategic objectives. The progress of the corporate initiatives is being monitored against the Corporate Plan.
- (g) Control activities and other mechanisms have been established through policies and procedures to ensure that Management's action plans to manage and mitigate risks that may impair the achievement of PIDM's objectives are carried out. Control activities are performed at all levels and stages within the business and operational processes and includes the information technology environment.
- (h) Information systems designed to provide Management with timely information needed for strategic and operational decision-making purposes are embedded with the necessary controls to ensure the integrity and security of the Corporation's information. Employees have appropriate communication channels within PIDM and with external parties. Internal and external communications are governed by PIDM's Information Classification Policy, and the Policy and Procedures on Public Disclosure of Information, which aim to control information flow and access to information within PIDM and externally.
- (i) Management monitors the entire system of risk management and internal control continuously, addresses issues on a timely basis and communicates to relevant parties responsible for corrective actions.

For 2016, 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, and there were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in its system of risk management and internal control.

This Statement is made in accordance with the Board's resolution dated 21 February 2017.

CORPORATE SOCIAL RESPONSIBILITY

"The greatest good you can do for another is not just to share your riches but to reveal to him his own."

Benjamin Disraeli

Our Corporate Social Responsibility (CSR) initiatives are focussed on community involvement, especially in the area of education and environmental conservation, by our commitment to sound business practices in minimising our carbon footprint. Our CSR activities are conducted with the engagement of our CSR Committee, which is a group of volunteer employees of the Corporation.

PIDM UNDERGRADUATE SCHOLARSHIP PROGRAMME

The PIDM Undergraduate Scholarship Programme, which was established in 2010, aims to contribute towards the development of human capital in the country. There is no bond attached to the scholarships. The scholarship provides funding of tuition fees and living expenses as well as learning aids for talented and deserving students for their tertiary education.

In 2016, the Corporation awarded scholarships to 20 scholars to pursue a wide spectrum of disciplines ranging from Accounting, Actuarial Science, Business Administration, Finance, Law and International Affairs Management. The selection of recipients is based on academic achievement, extracurricular involvement, communication skills, level of maturity and potential leadership qualities, as well as access to financial support.

As the programme enters its seventh year, the outcome has been highly encouraging. A total of 37 out of the 80 scholars have successfully graduated, and the remaining 43 scholars are still pursuing their degrees. More than 80% of our graduate scholars have gained employment with our member institutions and strategic partners, while others are attached to reputable organisations.

Our Commitment

Our commitment towards the PIDM scholarship programme is to develop a future generation of young Malaysians who are balanced in all areas. The scholars have been assigned mentors from the Management team to provide guidance and advice, both academically as well as for personal growth and professional development. In addition, the programme also provides various soft skills training programmes and internship opportunities at PIDM.



CORPORATE SOCIAL RESPONSIBILITY

PIDM Scholars Alumni

The Corporation's involvement with the scholars does not end upon their graduation. With the establishment of an alumni for its scholars in 2015, PIDM continues to provide personal and professional guidance to both the current scholars as well as alumni members who are already in the workforce. Close relations continue to be maintained through a messaging platform and the alumni members continue to be role models to their peers and peer coaching is encouraged for the long term. We see this as an opportunity for the scholars to learn from one another and is a form of encouragement for the alumni members to take their first step in giving back to the society.

To quote Nelson Mandela, "Education is the most powerful weapon you can use to change the world". We are proud to play a significant role in changing the lives of our scholars and their families to help them shape a better future.



OTHER CSR ACTIVITIES

Wisma Harapan

Since 2014, we have been supporting Wisma Harapan, a school for students with learning disabilities. This year, we organised a collection drive to help 18 students remain in school upon learning that their families could no longer afford to pay their school fees. We managed to raise RM138,336 enabling these students to remain in school for at least three years.

As part of their continuous fund-raising efforts, Wisma Harapan and its affiliate schools organised a 'Charity Carnival' on 27 November. The employees of PIDM supported the cause by purchasing the coupon booklets for the carnival, sponsoring items for the lucky draw and volunteering at the event.

Women's Aid Organisation (WAO)

WAO is a non-profit organisation that provides counselling and shelter for abused women and their children. We had rolled out the 'CSR Gives Back' initiative in May to raise funds to meet the needs of the WAO shelter. During this month, the CSR Committee sold roses and breakfasts to PIDM employees for a small profit that then went towards the cause. The initiative was concluded with a live auction of goods and services provided by employees, such as beading classes, swimming lessons and self-defence classes. Through this initiative, we raised a total of RM23,411.80. Part of the proceeds were used to purchase a closed-circuit television (CCTV) system and an industrial refrigerator for the shelter. Together with WAO, PIDM will identify and purchase other items required by the shelter with the balance of the proceeds. On 17 December, our employees volunteered at the annual 'WAO Year End Party 2016', hosted for the former and current residents of the shelter.

CORPORATE SOCIAL RESPONSIBILITY

Pusat Jagaan Persatuan Kebajikan Islam Peribadi Mulia

Pusat Jagaan Persatuan Kebajikan Islam Peribadi Mulia is a home for orphaned and underprivileged children which received patronage from an employee of PIDM. In conjunction with the holy month of Ramadhan, the children were treated to a *Buka Puasa* event on 24 June. 57 children and four caretakers of the home attended the event. The children also received a set of *baju raya* and *duit raya* while the caretakers were given a token in appreciation of their contribution and support for the home.



Book and Schools Supplies Donation Drive

In July, PIDM held a book and school supplies donation drive in support of the Malaysian National News Agency (BERNAMA). The CSR programme, 3B (*Baca Bersama Bernama*) or 'Read with Bernama' is aimed at instilling a reading habit among the underprivileged community. We successfully collected 480 books and some stationery supplies.



Bursa Bull Charge Run

PIDM participated in the annual Bursa Bull Charge Run on 8 September. The purpose of the event was to, among others, raise funds for charities whose causes include economic sustainability among disadvantaged communities, support for entrepreneurs and the improvement of financial literacy.



Going Green

In contributing towards a green environment, recyclable office waste was sold and the proceeds from which were added to the CSR fund. The monies collected were matched ringgit for ringgit by the Corporation and is held in trust for charitable causes, which the Corporation chooses to contribute to from time to time. Employees are also encouraged to bring recyclable items from their homes for this purpose.

CONCLUSION

Our commitment to be socially responsible is deeply ingrained in our culture and is owned by our employees themselves. We take great pride in the social and environment causes we support and will continue to implement meaningful initiatives that contribute towards community development as well as environmental conservation and sustainability.



SECTION

4

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Environment
Review of 2016 Operations and Achievements
Financial Overview
Summary of the Corporate Plan 2017 - 2019

OPERATING ENVIRONMENT

In 2016, the Malaysian economy remained resilient. Despite a very challenging external environment, the economy achieved an encouraging real Gross Domestic Product (GDP) growth of 4.2% (2015: 5%), supported mainly by private domestic demand.

Looking forward into 2017, global economic growth is expected to pick up modestly, driven by a recovery in the United States economy and turnaround in growth in some emerging economies. However, considerable downside risks still persist. Uncertainty over the increased headwinds in the form of rising political risks, anti-trade and protectionist sentiments, possible currency volatility, policy uncertainty in the United States, a sharper than expected slowdown in China and the volatility in portfolio flows, will weigh heavily on the global economy.

Overall, 2017 is expected to be yet another challenging year for the global economy, especially the emerging markets, due to an uncertain macroeconomic backdrop and the changing policy and regulatory landscape.

In Malaysia, domestic demand is expected to be the key driver of growth, with further support from an improvement in external demand. Private consumption growth is expected to be sustained by continued wage and employment growth, while investment activity will be supported by ongoing infrastructure development projects and capital spending in the manufacturing and services sectors. In addition, a turnaround in commodity prices is expected to provide further support. It is therefore expected that the Malaysian economy will continue to grow within the range of 4% to 5%.¹

In addition, a diversified structure and strong macroeconomic fundamentals, including a stable and well-capitalised banking system, manageable levels of external debt, supported by an accommodative monetary policy, will give Malaysia the flexibility to withstand potential external shocks.

Going forward, PIDM continues to remain vigilant and will closely monitor the risk profiles of our member institutions. The overview of PIDM's membership can be found in Section 6.



¹ Budget 2017

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

OVERVIEW

As long-term sustainability and continuing success are the strategic objectives for PIDM, the following are the Corporation's three strategic priorities for the Corporate Plan 2016 - 2018.

Strategic Human Capital Plan	Effective Resolution Regime	Stakeholder Engagement and Corporate Governance
Implement our long-term Strategic Human Capital Plan that addresses the critical resources and core competencies that will help us reach our goals.	Develop and implement an Effective Resolution Regime.	Enhance stakeholder engagement and promote best practices in corporate governance.

PIDM's greatest asset is its people. In 2016, PIDM continued to focus on talent management including leadership development and succession, employee engagement and developing a framework towards becoming a learning organisation.

As part of PIDM's mandate to promote financial system stability, and as part of our plan to have an effective resolution regime for Malaysia, PIDM in collaboration with Bank Negara Malaysia (BNM), have commenced the recovery and resolution planning project for member institutions. Specifically, BNM will be leading the recovery planning while PIDM will be leading the resolution planning. We will also continue to ensure operational readiness and are enhancing our processes, systems and infrastructure in the areas of risk assessment and monitoring, as well as intervention and failure resolution. In recognition of the importance of having all the necessary functions, infrastructure and people ready for interventions and failure resolutions to the highest possible standards, we successfully completed a three-day payout simulation exercise and continued our work on alternative funding.

Stakeholder engagement is also clearly essential for PIDM to execute its mandate effectively. As such, we continued our public awareness efforts, with a good degree of success.² We also continued to enhance PIDM's profile and credibility through media profiling. In relation to corporate governance, we have developed a framework for the promotion of good corporate governance practices and continued to support and collaborate with the Financial Institutions Directors' Education (FIDE) Programme alumni, FIDE FORUM in relation to corporate governance for member institutions.

These key initiatives, which are aligned with PIDM's strategic priorities, are described in the divisional operations review.

² Refer to the results of our annual consumer survey in Section 8

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

DIVISIONAL OPERATIONS REVIEW

The Corporation's organisation structure and human capital model reflect the need to support its statutory objects. The Corporation's organisation structure has changed since its establishment in 2005 to cater for its expanded mandate in respect of the Takaful and Insurance Benefits Protection System (TIPS) as well as for succession planning purposes. Our human capital model has been to hire and retain a team of professional and highly dedicated personnel who are experts in their respective areas, supplemented by external experts when needed.³

Our expectations of our employees are also clearly articulated in the Corporation's Board-approved Code of Business Conduct and Ethics. Employees must perform their duties in a way that protects and enhances public confidence and trust in the integrity, objectivity and impartiality of the Corporation. Values and principles are set out in that Code.

We also embrace diversity and inclusion as stated in Principle 10 in our Code of Business Conduct and Ethics for Employees. The relevant provision states that "The Corporation recognises the immense benefits brought to the Corporation by having a diverse multi-cultural and multi-disciplinary workforce. Employees are expected to respect and value the different cultures, gender, religion and uniqueness." This principle was specifically approved by the Board, in recognition of the need to respect different cultures and recognise diversity as a source of strength. As at 31 December 2016, our workforce comprises 42% male and 58% female, with 59% of employees below 40 years old.

All of the key initiatives in 2016 were completed by the 11 divisions in PIDM, with a number of initiatives involving cross-functional collaborations. The following tables provide a brief description of the respective functions of the divisions and their key activities and accomplishments in 2016.

AUDIT AND CONSULTING SERVICES DIVISION

Provides independent and objective assurance as well as consulting services, to add value and improve PIDM's operations.

Key Achievements

Audit:

- Completed the following reviews and audits in accordance with the Assurance Plan 2016 - 2018:
 - Scoping review and audit on recruitment, selection, and compensation and benefits;
 - Scoping review and audit on learning and development;
 - Limited review on the general environment surveillance and monitoring functions;
 - Scoping review and audit on office safety and security management;
 - Assurance review of the payout simulation exercise 2016;
 - Audit on the Corporation's information security assessment – penetration testing and vulnerability assessment (Phase 1); and
 - Audit on the Corporation's financial statements and disclosures for the financial year ended 31 December 2016.
- Assessed the Corporation's state of internal control. Further details can be found in Section 3 – Statement on Risk Management and Internal Control.

Consulting and advisory:

Continued to support the relevant divisions in relation to PIDM's key initiatives, including payout simulation and payout readiness, the construction of the Disaster Recovery Centre (DRC) as well as the development of key Information Technology (IT) systems.

³ Refer to the article on 'Striving for People Excellence' in Section 7

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

COMMUNICATIONS AND PUBLIC AFFAIRS DIVISION

Develops and communicates messages to the public and targeted market segments through ongoing public awareness campaigns and initiatives to enhance public understanding of PIDM's role, Deposit Insurance System (DIS) and Takaful and Insurance Benefits Protection System (TIPS).

Key Achievements

Advertising and public relations:

- Continued to partner with the famous cartoonist, Lat, for the Corporation's advertising campaign.
- Received the Marketing Excellence Awards 2016 in two categories, namely, Excellence in Government Sector Marketing (Silver) and Excellence in Marketing Communications / Public Relations (Bronze).
- Revised the DIS and TIPS information brochures as well as membership decal utilising Lat's artwork.
- Exceeded the targeted awareness levels for PIDM, DIS and TIPS.

Stakeholder engagement:

- Organised a carnival for members of the public and conducted a briefing session for the representatives from the State Government Office, as part of the Corporate Outreach Programme in Negeri Sembilan.
- Held the annual meeting with liaison officers of member institutions as well as participated in exhibitions and roadshows.
- Conducted a total of 77 briefing sessions for various stakeholders including member institutions, Government agencies, institutions of higher learning and the general public.
- Continued to collaborate with strategic partners and key stakeholders to create awareness of financial consumer protection among the target audiences.

More details on the advertising, public relations and stakeholder engagement initiatives are described in Section 8 – Communications Initiatives.

Consumer behavioural study:

Commenced research on the scope of work and approach for a consumer behavioural study, aimed at understanding the link between levels of public awareness and the likely behaviour of the target audiences in situations of uncertainty.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

CORPORATE SECRETARIAT DIVISION

Provides secretariat services and governance advisory support to the Board and is responsible for matters relating to the proceedings and administration of the Board and Board Committees.

Key Achievements

Corporate governance:

- Organised the annual Board Education Programme.
- Supported the implementation of the Board Succession Plan.
- Carried out the Board Orientation Programme for new Board Members.
- Developed the framework for the promotion of good corporate governance.
- Developed the Corporate Secretariat (COSEC) Knowledge Management System, a platform to capture all Board-related information as well as knowledge pertaining to the COSEC Division.
- Developed the Board and Board Committee Paper Management System, a platform to organise and manage all Board and Board Committee papers.
- Supported the effectiveness assessments of the Board and the Board Committees.

Management's support to the Board:

Conducted an evaluation of Management's support to the Board. The support was rated 'Highly Satisfactory' by the Board.

Corporate compliance:

Implemented the annual compliance test for all employees, in collaboration with the Corporate Compliance Committee, on policies and procedures related to the Code of Business Conduct and Ethics for Employees, Conflict of Interest Code for Employees, Information Classification Policy as well as Policy and Procedures on Public Disclosure of Information. All employees passed the test.

The details on the Board's work on corporate governance are described in Section 3 – Statement on Corporate Governance.

ENTERPRISE RISK MANAGEMENT DIVISION

Implements, monitors and maintains best practice Enterprise Risk Management (ERM) and Business Continuity Management processes and procedures within PIDM as well as provides risk advisory services.

Key Achievements

ERM policies and practices:

- Completed a full cycle of the Corporation's risk assessment process, which included discussions by division, theme-based discussions on the six key risk categories and a Corporate-wide workshop.
- Supported the ongoing risk assessment of issues and developments in the external environment that may affect the Corporation's ability to achieve its mandate.

Business continuity management:

Updated the Business Continuity Plan including the Business Impact Analysis and Recovery Strategy to determine the critical business functions of the Corporation during a crisis or disaster.

Risk advisory:

Continued to support the relevant divisions in relation to PIDM's key initiatives, including payout, the construction of the DRC and the development of key IT systems.

More details on how PIDM manages its significant risks are described in Section 3 – Statement on Risk Management and Internal Control.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

FINANCE AND ADMINISTRATION DIVISION

Provides effective and efficient support services in the areas of financial management, investment operations, general office administration, office facilities management, IT management, records management and operational business processes, policies and controls to ensure smooth operations of PIDM.

Key Achievements

Financial management:

- Implemented Phase 2 of the Enhanced Financial Management System (EFS) on the core modules in relation to the employee self-service portal, to enhance the payment processing function and service level performance.
- Implemented the Travel Requisition System which was integrated with the EFS and Budgeting System to enhance efficiency in the travel requisition process.
- Implemented the Budgeting System to facilitate online budget submissions and consolidation of divisional budgets into the Corporation's budget.

Investment operations:

Implemented the Investment System to increase the efficiency and effectiveness of investment transaction processing and portfolio management reporting.

Funding:

- Completed the annual review of the Target Fund model for DIS to ensure that the Target Fund range remains current and relevant.
- Conducted research and development in respect of alternative funding arrangements for liquidity purposes.

Information technology:

Completed the key strategic and operational initiatives that have been prioritised in the Corporation's IT Strategic Plan except for four operational systems that have been rescheduled. Further details can be found on page 83.

Corporate information security management:

Completed the Corporate Information Security Programme and conducted an internal assessment of the Corporation's readiness for ISO 27001:2013 certification.

Disaster Recovery Centre and infrastructure:

Completed the construction of the DRC, which will be used as a disaster recovery centre and an offsite storage facility.

Effective partnerships:

Coordinated the Corporation's participation in the annual sports event organised by the Ministry of Finance to foster a collaborative working relationship.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

HUMAN CAPITAL DIVISION

Responsible for the full spectrum of PIDM's human capital management.

Key Achievements

Employee competencies, leadership and development:

- Reviewed the Competency Model to keep it current and relevant to meet the Corporation's changing needs. The model will be further validated and integrated with key human capital processes.
- Continued with the leadership executive coaching programme and development initiatives for the Management team.
- Continued to customise and provide learning and development programmes for employees. Provided other development opportunities for employees including leadership, soft skills and technical training, opportunities to lead projects, on-the-job training, job rotation and job sharing. Another key aspect of learning included knowledge transfer and sharing of best practices with local and international organisations. The average training days per employee in 2016 totalled seven days.
- Launched the Training Database Management System, an in-house system for employees to access and apply for training as well as monitor their training history.

Employee engagement and career management:

- Organised focus group sessions to identify key issues and recommendations arising from the 2015 Employee Voice Survey.
- Continued to reinforce PIDM's corporate values and enhance employee engagement and communications by organising town hall sessions, mini teambuilding, annual dinner and wellness-related programmes.
- Implemented the individual development plan as part of the career management strategy.

Learning organisation:

Supported the development of a Learning Organisation Framework that describes the building blocks, key strategies and action plans for a learning organisation.

Scholarship programme:

Awarded scholarship to 20 external scholars. Further details can be found in Section 3 – Corporate Social Responsibility.

Safety and health:

The Safety and Health Committee continued to monitor and identify related issues as well as put in place action plans for improvement, where necessary. An office ergonomics assessment was conducted to understand and address the employees concerns.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

INSURANCE, RISK ASSESSMENT AND MONITORING DIVISION

Provides independent, accurate and timely risk assessment and monitoring of member institutions to enable early detection of high-risk member institutions as well as efficient premium and levy administration.

Key Achievements

Risk assessment and monitoring:

- Issued the following:
 - Guidelines on Differential Levy Systems Framework for Takaful Operators;
 - Guidelines on Differential Levy Systems Framework for Insurance Companies;
 - Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Levies for Takaful and Insurance Businesses;
 - Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation; and
 - Guidelines on the Differential Premium Systems for Deposit Insurance System.
- Reviewed the risk assessment methodology and approach.
- Conducted a survey to gather member banks' feedback as part of the review process in enhancing the premium administration related guidelines.

Target Fund:

- Implemented the Target Fund for the Life Insurance Protection Fund.
- Completed research on the Target Fund for Takaful Funds.

Fund administration:

Developed a Fund Administration Framework for member institutions.

Effective partnerships:

- Continued to maintain strong and collaborative relationships with key stakeholders including BNM, member institutions as well as their industry associations.
- Organised a BNM-PIDM employee sports event with three Supervision Departments of BNM.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

INTERVENTION AND FAILURE RESOLUTION DIVISION

Responsible for intervention preparedness, which involves the development of intervention and failure resolution (IFR)-related policies and procedures including payout system and infrastructure as well as to manage and conduct IFR-related activities in a manner that minimises costs to the financial system.

Key Achievements

Resolution Planning:

- Completed the draft Recovery and Resolution Planning Framework as well as the Resolution Planning Framework.
- Drafted the Resolution Planning Guidelines and information package for the purpose of pilot exercises to develop resolution plans for identified member banks.
- Developed the draft Resolvability Assessment Framework.
- Signed a Memorandum of Understanding (MOU) with the Federal Deposit Insurance Corporation of the United States as part of the Corporation's efforts to enhance capability and operational readiness, particularly to facilitate cross-border exchange of information on recovery and resolution planning matters.

IFR:

- Completed the enhancement to the Submission Tracking and Rating System to efficiently track and analyse the various submissions of required information by member banks.
- Developed the framework for the transfer of Qualified Financial Agreements for intervention purposes.
- Completed the documentation templates, work processes and funding details, following the agreement signed on 2 December 2015 with Cagamas Berhad to develop an alternative liquidity funding arrangement as part of its operational readiness.

Payout:

- Demonstrated the Corporation's ability to effect a three-day payout of a hypothetical mid-sized member bank through a payout simulation.
- Developed the Deposit Liability Information Management System (DLIMS) Lite for member banks which validates that the deposit information provided is in the required standard file format.
- Enhanced and issued the Guidelines on Deposit Information Systems and Submission to incorporate additional requirements to support the Corporation's three-day payout.

Evaluation Model:

Completed the Least Cost Analysis financial modelling for insurer members under a liquidation scenario.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

LEGAL DIVISION

Provides legal advice and services to PIDM on matters related to its affairs, drafting of contracts and documentation to protect PIDM's interests as well as ensuring compliance with all applicable statutory requirements.

Key Achievements

Legislation:

- Supported the drafting of the subsidiary legislation to operationalise the PIDM Act.
- Continued the review of the PIDM Act for relevant and necessary amendments.

Compliance programme for member institutions:

Developed a Framework for Compliance Monitoring of Member Institutions and Enforcement Actions for Non-Compliance.

Legal advisory services:

- Provided legal advice for the Resolution Planning project.
- Drafted and provided legal advice on contracts entered into by the Corporation to ensure its interests are fully protected.

Corporate Social Responsibility:

Led the successful implementation and organisation of the Corporation's Corporate Social Responsibility (CSR) initiatives and activities together with the CSR Committee.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

POLICY AND INTERNATIONAL DIVISION

Assesses and develops robust policies in relation to PIDM's mandate and operations as well as leads and coordinates international relations activities.

Key Achievements

Policies and regulations:

- Submitted the following draft regulations and order for gazetting:
 - revised the Terms and Conditions of Membership Regulations for DIS and TIPS;
 - Basis of Ascertaining Refund of Contribution or Premium Order for TIPS; and
 - Determination and Classification of Assets, Application of the Proceeds of Disposal of Assets and the Order of Priority for Payments of Different Categories of Islamic Deposits in the Winding Up of a Deposit-Taking Member.
- Commenced the review of the scope and limit of coverage for DIS and TIPS.
- Commenced the development of the Funding and Liquidity Adequacy Framework.
- Conducted research on policy considerations for a comprehensive and effective resolution regime in Malaysia.

Compliance programme for member banks:

Reviewed the outcome of member banks' adherence to the Provision of Information on Deposit Insurance Regulations.

Effective partnerships:

- Renewed the MOU with the Korea Deposit Insurance Corporation to promote cooperation and collaboration by providing opportunities for the sharing of knowledge, expertise and experiences through study visits, secondments and bilateral meetings.
- Continued to maintain good relationships with BNM and key stakeholders including other deposit insurers through active participation in the International Association of Deposit Insurers (IADI) and the International Forum of Insurance Guarantee Schemes.
- Joined as a member of the International Public Asset Management Company Forum.
- Amended the Strategic Alliance Agreement to reflect the provision of liquidity assistance by BNM and restructuring assistance by the Corporation.

Knowledge sharing and international fora:

- Participated in international fora, involving local and international participants, in various capacities including promoting knowledge sharing through meetings, attachments and training with our counterparts, as well as providing resource persons to speak at conferences at both local and international events.
- Participated in various knowledge-sharing sessions, organised study visits for PIDM employees and hosted study visits for other deposit insurers, insurance guarantee schemes and central banks.
- Developed the draft Core Principles for Effective Islamic Deposit Insurance Systems and draft discussion paper on Shariah Governance for Islamic Deposit Insurance Systems as part of the initiatives under IADI's sub-committee of the Islamic Deposit Insurance Group.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

STRATEGIC PLANNING DIVISION

Responsible for the implementation of PIDM's strategic planning process, including reviewing budgets, monitoring financial performance against budgets as well as assisting the Board and Management in the setting of PIDM's strategic direction and plan.

Key Achievements

Strategic planning:

- Organised and facilitated the annual strategic planning cycle for senior management to discuss the strategic priorities, key focus, key planning assumptions, corporate and divisional Key Performance Indicators and initiatives for the planning period.
- Conducted the annual Board Strategic Planning session and reviewed the budgets, aligning them to the initiatives to be undertaken for the planning period.
- Supported the development of the Corporate Plan 2017 - 2019, which highlights the Corporation's strategic priorities and focus, financial plan for 2017 and financial projections for 2018 and 2019.

Performance management:

Continued to track and monitor the Corporation's performance against the targets set out in the approved Corporate Plan, including financial performance against budgets.

Project Management Office:

Provided project management support for the Resolution Planning project, prepared progress reporting to the Board and Management, and monitored the project to ensure successful completion of the key deliverables.

Corporate publications:

Managed the development and publication of the Corporation's Corporate Plan and Annual Report in collaboration with the Communications and Public Affairs Division and the Finance and Administration Division.

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

SNAPSHOT OF 2016 CORPORATE SCORECARD



In 2016, all of the planned key initiatives were completed within the approved financial plan. Other initiatives, which are ongoing developments spanning beyond one year, are progressing as scheduled. Our progress and performance against the set targets in the Corporate Plan are monitored via the Balanced Scorecard approach and our achievements are summarised in the 2016 Corporate Scorecard below.

A Target achieved, initiative completed


F Not yet initiated / future date

P Progressing as scheduled; and / or within budget



D Deferred due to reprioritisation

Corporate Objectives		Corporate Initiatives	Target 2016	Results Dec 2016	
 Stakeholders	A	Educated and informed stakeholders	1. Public awareness index:		
			a. General awareness of PIDM	58%	A
			b. General awareness of Deposit Insurance System (DIS)	46%	A
			c. General awareness of Takaful and Insurance Benefits Protection System (TIPS)	28%	A
			2. Successful completion of:		
			a. Integrated Communications Plan	Complete	A
	B	Effective partnerships	3. PIDM's relationship with:		
			a. Bank Negara Malaysia (BNM)	Strong	A
			b. Member institutions and their industry associations	Satisfactory	A
			c. Ministries and other Government regulatory agencies	Strong	A
			d. Key suppliers and strategic partners	Strong	A
			e. Deposit insurers and insurance guarantee schemes	Strong	A
f. Other key stakeholders			Satisfactory	A	
4. Other international fora			Active participation	A	
 Governance and Internal Processes	C	Well-governed and well-managed organisation	5a. Best practices of governance adopted and maintained	Compliance	A
			5b. Laws and significant corporate policies and practices complied with, and kept current and relevant	Full compliance and updated	A
			5c. Quality of management support to the Board	High satisfaction	A
			6. The Financial Institutions Directors' Education Programme alumni, FIDE FORUM	Active support and participation	A
			7. Successful completion of:		
			a. PIDM legislation kept current and relevant	Review	A

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

Corporate Objectives		Corporate Initiatives	Target 2016	Results Dec 2016
 Governance and Internal Processes	D	Robust risk assessment, monitoring, intervention and resolution capabilities	8. Successful completion of:	
			a. Early Warning System for TIPS	Research A
			b. Evaluation Model for DIS and TIPS	Develop P¹
			c. Intervention and resolution plans for complex financial institutions:	
			i. Resolution Planning Framework and Guidelines	Develop and complete A
			ii. Resolvability Assessment Framework	Develop and complete A
			d. Claims management system, policies and procedures for insurer members:	
			i. Premium Reimbursement Information Management System	Develop P²
			ii. Claims Management System	Develop P³
			iii. Policy Holders Support Management System	- F⁴
			iv. Payment Management System	- F⁴
			e. Regulations:	
			i. TIPS Information Regulations	Implement D⁵
			ii. Terms and Conditions of Membership Regulations – DIS and TIPS	Monitor P⁶
			f. Member institutions' compliance programme with PIDM legislation for insurer members	Develop P⁷
	E	Sound business and financial practices	9. Reporting through:	
			a. Annual Report	Complete A
			b. Corporate Plan	Complete A
			10. Financial performance against approved budgets	±10% variance A⁸
			11. Internal Control and Risk Management Compliance	Strong A

REVIEW OF 2016 OPERATIONS AND ACHIEVEMENTS

Corporate Objectives		Corporate Initiatives	Target 2016	Results Dec 2016
 Governance and Internal Processes	E	Sound business and financial practices	12. Successful completion of:	
			a(i). Target Fund for TIPS:	
			i(1). General Fund	Review A
			i(2). Life Fund	Implement A
			i(3). Takaful Funds	Research A
			a(ii). Alternative funding arrangements	Complete A ⁹
			b. Annual Information Technology Strategic Plan	Complete P ¹⁰
			c. Disaster Recovery Centre (DRC) and infrastructure	Complete A
 Learning and Growth	F	Competent and knowledgeable workforce	13. Strategic Human Capital Plan	Develop A
	G	Conducive corporate environment	14. Sustainable Engagement Index (survey conducted once every two years to gauge level of employee engagement)	- F ¹¹

¹ The development of the Evaluation Model is progressing and is expected to be completed in 2017.

² The development of the Premium Reimbursement Information Management System is progressing as scheduled.

³ The development of the Claims Management System is progressing as scheduled.

⁴ This initiative has been planned for development in 2017 in line with the 2017 - 2019 Plan.

⁵ This initiative has been reprioritised, to conduct a comprehensive assessment to enhance the regulations following consultation with the insurance industry and members of the public.

⁶ The revised Regulations is expected to be gazetted in 2017.

⁷ The development of the framework has been completed and the compliance programme will be developed upon completion of the TIPS Information Regulations.

⁸ Achieved positive variances for both operating and capital expenditures.

⁹ Research and development in respect of this initiative has been completed. A comprehensive plan to bring together the various possible arrangements will be developed in line with the 2017 - 2019 Plan including to take into account developments in resolution planning.

¹⁰ Completed the key strategic and operational initiatives that have been prioritised in PIDM's IT Strategic Plan. The following operational systems have been rescheduled for the following reasons:

- the development of the Enterprise Risk Assessment and Auditing systems and a corporate performance management dashboard for the executive information system. Further research is recommended in order to ensure optimisation of data integration between risk management and audit with other functions such as planning and compliance; and
- the development of the Human Resource Information System (HRIS) dashboard for the executive information system. This has been reprioritised, pending the enhancements to the Training and Development Management System as well as the performance management module in the HRIS.

¹¹ This initiative will be conducted in 2017 in line with the 2017 - 2019 Plan.

FINANCIAL OVERVIEW

OPERATING RESULTS

	2016 Actual RM'000	2016 Budget RM'000	Variance Actual vs Budget RM'000	%	2015 Actual RM'000
Premium and levy revenues	468,245	512,550	(44,305)	(9)	442,006
Investment income from cash and investment securities	89,191	91,350	(2,159)	(2)	78,478
Miscellaneous income	-	-	-	-	777
Total Income	557,436	603,900	(46,464)	(8)	521,261
Employee benefits	56,460	58,750	(2,290)	(4)	51,561
Public relations and advertising	10,853	14,100	(3,247)	(23)	12,734
Depreciation of property and equipment	3,622	4,970	(1,348)	(27)	7,143
Operating leases	6,048	6,260	(212)	(3)	5,896
Other expenses	21,899	36,920	(15,021)	(41)	17,337
Total Expenses	98,882	121,000	(22,118)	(18)	94,671
Operational Net Surplus	458,554	482,900	(24,346)	(5)	426,590
Moneys received from Insurance Guarantee Scheme Funds	35,032	-	35,032	-	-
Net Surplus for the Year Representing Total Comprehensive Income for the Year	493,586	482,900	10,686	2	426,590

CAPITAL EXPENDITURES

	2016 Actual RM'000	2016 Budget RM'000	Variance Actual vs Budget RM'000	%	2015 Actual RM'000
Furniture, fittings and office refurbishments	2,014	3,160	(1,146)	(36)	1,108
Office equipment and computer systems	5,091	7,590	(2,499)	(33)	11,864
Motor vehicles	300	450	(150)	(33)	440
Total Capital Expenditures	7,405	11,200	(3,795)	(34)	13,412

FINANCIAL OVERVIEW

COMMENTARY ON 2016 FINANCIAL PERFORMANCE

For the financial year ended 31 December 2016, PIDM recorded a total income of RM557.4 million, an increase of RM36.2 million or 6.9% compared to the previous financial year. The increase was mainly due to higher premiums received from member banks during the year as well as higher investment income, which was primarily attributable to the increase in the base of investable funds.

As for our expenses in 2016, apart from the ongoing operational expenses required to sustain our operations, our expenses were mainly directed toward key initiatives related to our three strategic priorities, namely:

- (a) building the capacity and capabilities of our human capital in line with our Strategic Human Capital Plan;⁴
- (b) key initiatives in support of establishing an effective resolution regime such as the Recovery and Resolution Planning (RRP) project⁵ and other initiatives to enhance our operational readiness; and
- (c) key initiatives and activities to enhance public understanding and appreciation of PIDM's role and the protection systems it administers, as part of stakeholder management and corporate governance initiatives.

The following are some highlights:

- (a) Our expenses for 2016 totalled RM98.9 million, which was an increase of RM4.2 million or 4.4% from the previous year and RM22.1 million or 18.3% below budget.
- (b) Our operational net surplus totalled RM458.5 million in 2016, an increase of RM31.9 million from 2015.
- (c) During the year, PIDM also received a distribution from the liquidation of an insurance company previously covered under the Insurance Guarantee Scheme Funds (IGSF), which amounted to RM35 million. This distribution received was recognised as an exceptional item in the Statement of Profit or Loss and Other Comprehensive Income.
- (d) As at 31 December 2016, we contracted RM7.4 million for capital expenditures, which represents 66.1% of the capital expenditures budgeted for 2016 of RM11.2 million. The positive variance of 33.9% was primarily due to savings from the procurement of interior fit-out for the DRC and rescheduling of some IT-related initiatives. Refer to pages 97 and 98 for further details.

The balances of the Funds by the respective systems as at the end of the financial years 2016 and 2015 are as follows:

Funds by System	2016	2015	Variance	
	RM'000	RM'000	Year-on-Year RM'000	%
Deposit Insurance Funds	1,655,200	1,298,403	356,797	27
Takaful and Insurance Benefits Protection Funds	1,472,279	1,335,490	136,789	10
Total	3,127,479	2,633,893	493,586	19

⁴ Refer to the article on 'Striving for People Excellence' in Section 7

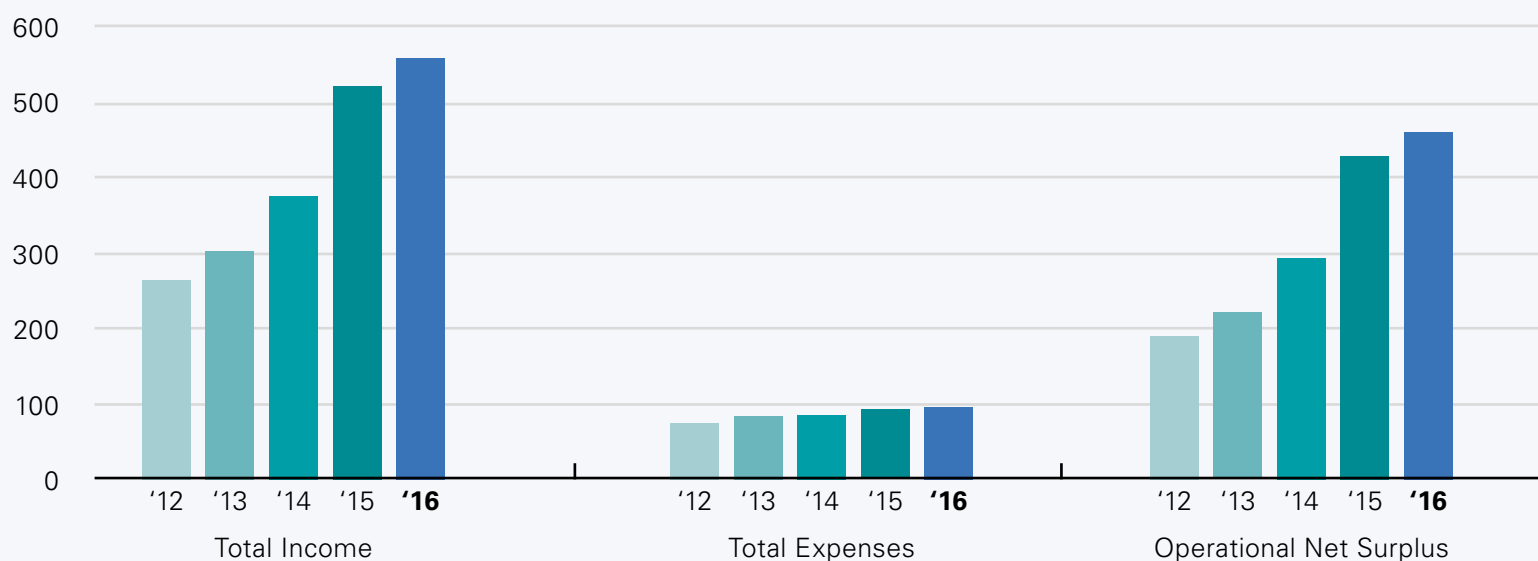
⁵ Refer to the article on 'Planning for Effective and Orderly Resolution' in Section 7

FINANCIAL OVERVIEW

The surplus held in the Deposit Insurance Funds (DIFs) and the Takaful and Insurance Benefits Protection Funds (TIPFs) are to be used to cover any losses that may arise from providing protection to depositors as well as takaful certificate and insurance policy owners.

Chart 1: Key Financial Trends from 2012 to 2016

RM Million



INCOME

Premium Revenues – Deposit Insurance System

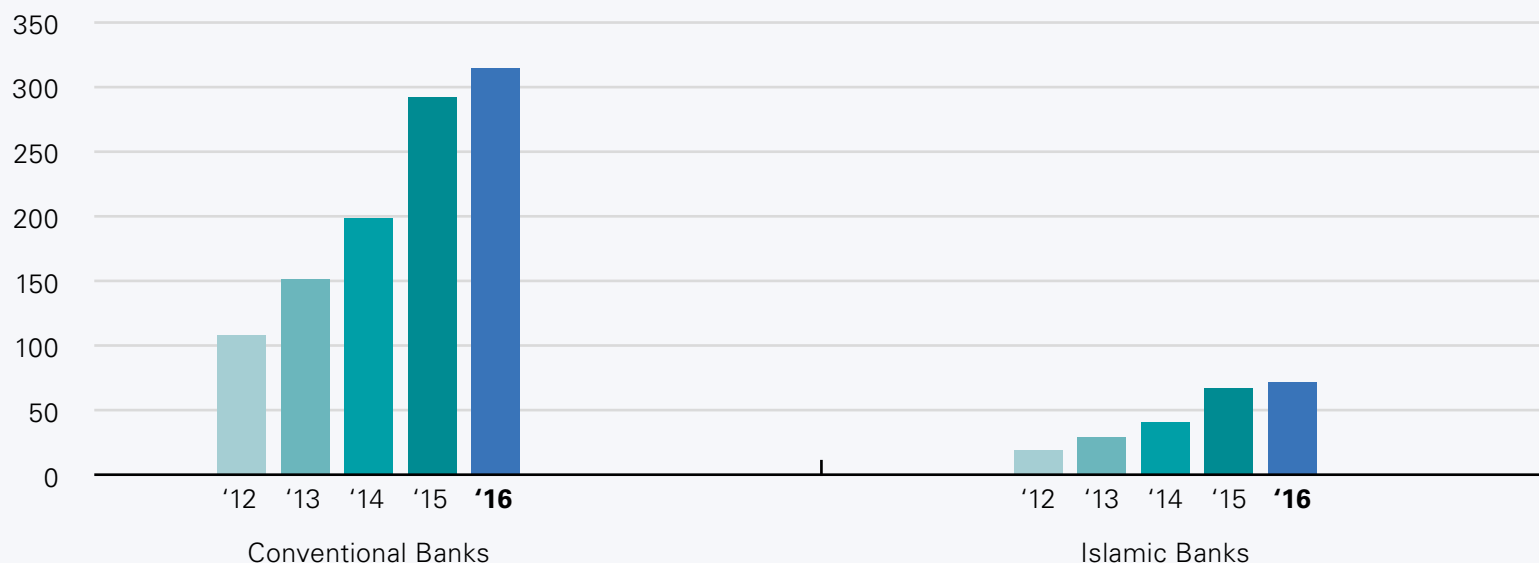
The annual premiums for DIS are calculated based on the member banks' Total Insured Deposits (TID) as at 31 December of the preceding assessment year and the applicable premium rates. For the assessment year 2016, the total premiums collected from member banks amounted to RM388.4 million, compared to RM359.2 million in the previous year. The increase in the total premiums collected was in tandem with the growth in TID.

The premiums collected for the Conventional Deposit Insurance Fund amounted to RM316.1 million, an increase of 8.3% from the RM291.8 million collected in the previous year. For the Islamic Deposit Insurance Fund, the premiums collected rose by 7.3% to RM72.3 million from RM67.4 million in the previous year.

FINANCIAL OVERVIEW

Chart 2: Trend of Premiums for DIS from Assessment Years 2012 to 2016

RM Million



For the assessment year 2017, we expect a premium collection of RM397 million for DIS in line with the expected moderate growth in the overall TID base.

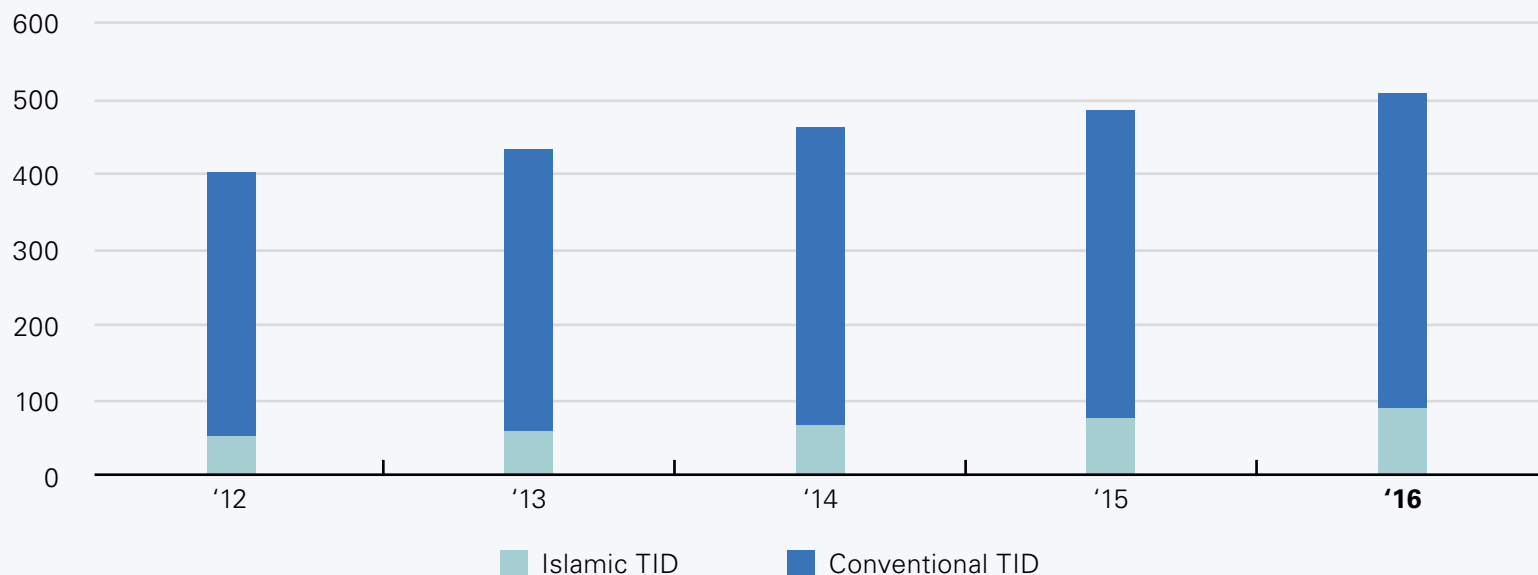
Total Insured Deposits

For the assessment year 2016, TID stood at RM508.5 billion compared to RM483.7 billion in the previous year. The growth of RM24.8 billion or 5.1% in TID was in tandem with the deposits growth trend of member banks in 2015. TID for the conventional banking business increased by RM12.1 billion or 3% and stood at RM420.3 billion as at the end of December 2015. For the Islamic banking business, TID totalled RM88.2 billion compared to RM75.5 billion in the previous year, an increase of RM12.7 billion or 16.8%.

FINANCIAL OVERVIEW

Chart 3: Trend of TID from Assessment Years 2012 to 2016

RM Billion



Differential Premium Systems Framework for Member Banks

The premium assessment of member banks is based on the Differential Premium Systems (DPS) framework for member banks. Under the DPS framework, member banks with lower risk profiles are placed in better premium categories compared to member banks with higher risk profiles. The DPS framework for member banks is aimed at ensuring fairness of the premium assessment process and providing incentives to member banks to enhance their risk management practices and minimise excessive risk-taking. The DPS framework for member banks is also in line with our mandate of promoting sound risk management and contributing to the soundness of the financial system.

Premium Rates for Conventional and Islamic Banking Businesses

Premium rates applicable to member banks are prescribed in the Premium Order.⁶ Table 1 depicts the annual premium rates and minimum annual premium amount for the respective premium categories for both the conventional and Islamic banking businesses.

Table 1: Premium Rates and Minimum Annual Premium Amount for DIS

Premium Category	Annual Premium Rates	Minimum Annual Premium Amount (RM)
1	0.06%	100,000
2	0.12%	200,000
3	0.24%	400,000
4	0.48%	800,000

⁶ Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2012. Deposit-taking members are also referred to as member banks

FINANCIAL OVERVIEW

Levy Revenues – Takaful and Insurance Benefits Protection System

The annual levies payable by insurer members are based on the applicable levy rates and the total actuarial valuation liabilities (AVL) of qualified certificates or policies⁷ as at 31 December of the preceding assessment year for the family takaful or life insurance businesses. In the case of general takaful or general insurance businesses, levies are based on the total net contributions or net premiums received during the preceding assessment year in relation to qualified certificates or policies.

For the assessment year 2016, the total levies collected from insurer members amounted to RM79.8 million, compared to RM82.8 million in the previous assessment year. The detailed breakdown is as follows:

(a) **General Insurance Protection Fund**

The levies collected for the General Insurance Protection Fund (GIPF) was reduced to RM5.4 million, lower than the RM12.8 million collected in the previous year. This was in line with the revision of the levy rates for the general insurance business for the assessment year beginning 2016.

(b) **Life Insurance Protection Fund**

The levies collected for the Life Insurance Protection Fund (LIPF) of RM57.2 million was slightly lower than the levies of RM58.2 million collected in the previous assessment year.

(c) **General Takaful Protection Fund**

The levies collected for the General Takaful Protection Fund amounted to RM6.2 million. This was an increase of 60.1% from RM3.9 million collected in the previous year. For the assessment year beginning 2016, the levy assessment for takaful operators was based on the Differential Levy Systems (DLS) framework for the family and general takaful businesses.

(d) **Family Takaful Protection Fund**

The levies collected for the Family Takaful Protection Fund rose by 39.1% to RM11 million, compared to RM7.9 million collected in the previous year.

For the assessment year 2017, we project levy collection of RM85 million from insurer members in line with the projected growth in AVL and net premiums or contributions.

⁷ Qualified certificates or policies refer to certificates or policies that contain part or all of those benefits protected under TIPS, as prescribed in the Malaysia Deposit Insurance Corporation (Protected Benefits) Regulations 2011, Malaysia Deposit Insurance Corporation (Protected Benefits Limits) Order 2011, and Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Levies for Takaful and Insurance Businesses (2016)

FINANCIAL OVERVIEW

Chart 4: Trend of Levies for TIPS from Assessment Years 2012 to 2016

RM Million

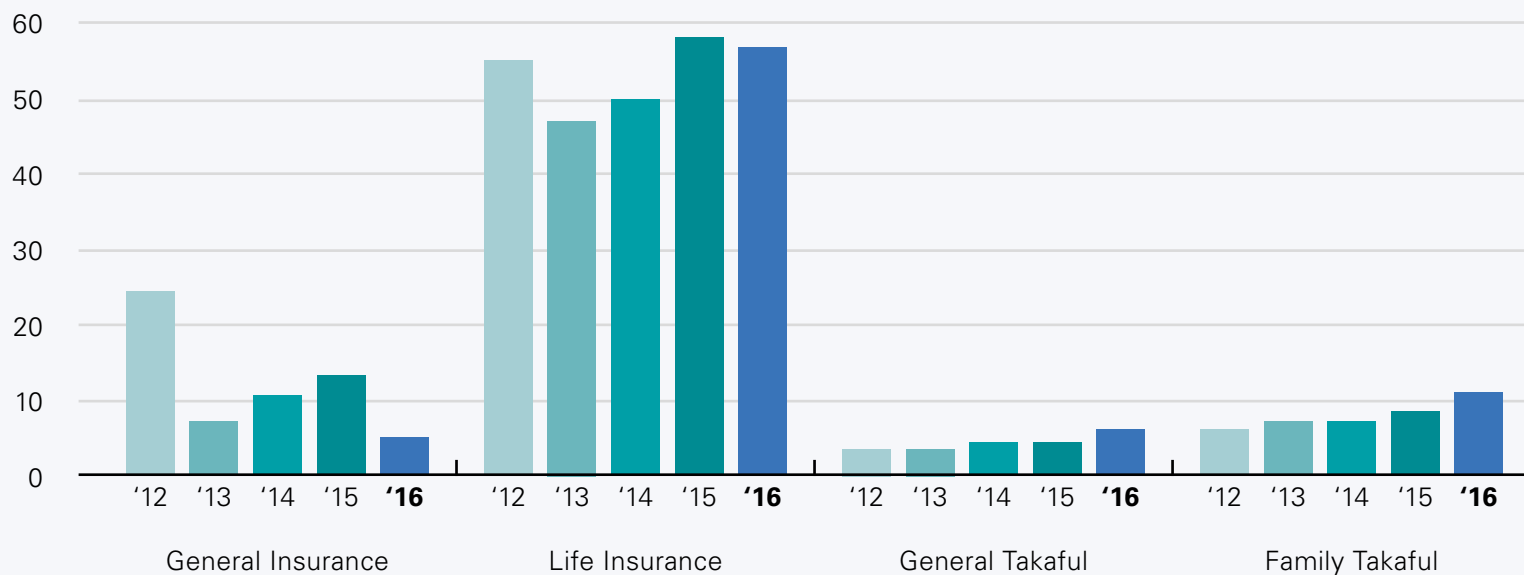
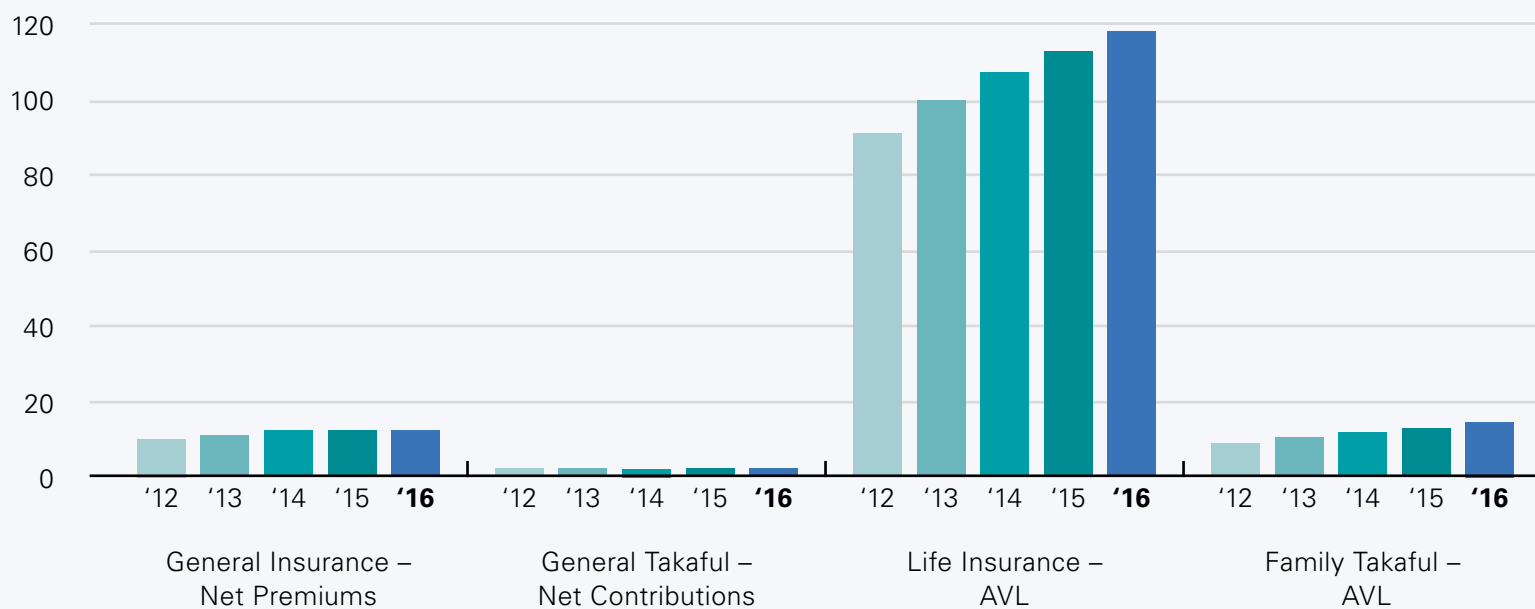


Chart 5: Trend of Net Premiums, Net Contributions and AVL for Assessment Years 2012 to 2016

RM Billion



FINANCIAL OVERVIEW

Differential Levy Systems Framework for Life and General Insurance Businesses

Similar to member banks, the levy assessment for conventional insurer members is based on the DLS framework. Under the DLS framework, conventional insurer members with lower risk profiles are placed in better levy categories compared to those with higher risk profiles. The DLS framework aims to ensure fairness of the levy assessment process and to provide incentives for conventional insurer members to enhance their risk management practices. The DLS framework has been established for conventional insurer members since 2013. During the year, PIDM enhanced the DLS framework for conventional insurer members, which included revisions to some indicators.

Levy Rates for Life and General Insurance Businesses

Following the implementation of the Target Fund framework for the GIPF in 2015, the levy rates and minimum annual levy for the general insurance business were revised and prescribed in the Order⁸, which was gazetted on 4 March 2016. The rates were effective from the assessment year beginning 2016.

Table 2: Business Types, Levy Rates and Minimum Annual Levy Amount for Conventional Insurer Members

Levy Category	Life Insurance Business		General Insurance Business	
	Levy Rates	Minimum Annual Levy Amount (RM)*	Levy Rates	Minimum Annual Levy Amount (RM)
1	0.025%	75,000	0.025%	25,000
2	0.05%	150,000	0.05%	
3	0.1%	300,000	0.1%	
4	0.2%	600,000	0.2%	

* The annual levy payable for an assessment year by a conventional insurer member carrying on both the business of life insurance and general insurance shall not be lower than the minimum amount of annual levy of the life insurance business

Differential Levy Systems Framework for Family and General Takaful Businesses

In line with PIDM's mandate to provide incentives for sound risk management among its member institutions, the DLS framework for the family and general takaful businesses was implemented in 2016. Similar to the DLS framework for the life and general insurance businesses, a key aspect of the DLS framework for the family and general takaful businesses is that takaful operators are assessed based on their risk profiles. Takaful operators with low-risk profiles will be placed in better levy categories. The DLS framework for the family and general takaful businesses adopt a similar approach to the DPS framework for member banks as well as the DLS framework for the life and general insurance businesses by using a combination of quantitative and qualitative criteria to classify takaful operators into different levy categories.

⁸ Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2016

FINANCIAL OVERVIEW

Levy Rates for Family and General Takaful Businesses

Up until 2015, PIDM had assessed the levy against takaful operators on a flat rate of 0.06% of the AVL for the family takaful business and 0.25% of net contributions for the general takaful business.

For the assessment year beginning 2016 and with the implementation of the DLS framework for the family and general takaful businesses, the levy rates were based on the levy categories. The levy rates apply a 'double up' approach to provide incentives for takaful operators to improve their overall risk profiles. The levy rates applicable for the four levy categories are set out in Table 3.

Table 3: Levy Rates and Minimum Annual Levy Amount for Takaful Operators

Levy Category	Levy Rates		Minimum Annual Levy Amount (RM)
	Family Takaful Business	General Takaful Business	
1	0.025%	0.1%	75,000
2	0.05%	0.2%	150,000
3	0.1%	0.4%	300,000
4	0.2%	0.8%	600,000

Investment-Related Income

PIDM's investment activities and operations are governed by the Board-approved Investment Policy that is aligned with the PIDM Act as well as policies relating to the management of financial risks, i.e., liquidity, market and credit risks that are approved by its Board. Pursuant to its Investment Policy, PIDM invests in short-term and medium-term Ringgit Malaysia-denominated Government and BNM securities or securities of high investment grade issued by Government-related entities, which are government guaranteed or with a minimum rating of AAA, of varying maturities. It is PIDM's policy that investments are held to maturity.

In relation to the day-to-day operational cash management, PIDM continues to invest in short-term Ringgit Malaysia-denominated securities issued by the Government or BNM as well as placements of excess operational funds in short-term money market instruments and fixed deposits.

Besides Malaysian Government Investment Securities and BNM Notes, PIDM also holds investments in Private Debt Securities (PDS) issued by Government-Linked Companies (GLCs). These formed part of the former IGSF investment portfolio previously administered by BNM. The PDS were transferred to PIDM in 2011.

During the year, PIDM invested in PDS with a rating of AAA issued by a Government-related entity with a principal value of RM130 million.

PIDM's investment income for 2016 of RM89.2 million (DIFs: RM46.1 million, TIPFs: RM43.1 million) was lower than budget. This was mainly due to the actual Weighted Average Effective Yield Rates (WAEYR) for investment securities for all Funds being lower by 20 basis points at 3.05% compared to the budgeted WAEYR of 3.25%. The WAEYR for other cash equivalents and investments as well as placements in short-term money market instruments and fixed deposits were 3.06% (2015: 3.12%) and 3.03% (2015: 3.18%) for DIFs and TIPFs respectively. Details of the WAEYR by the type of portfolio as well as by the respective Funds are presented in Note 12(c) to the financial statements.

FINANCIAL OVERVIEW

Chart 6: Trend of Investment Income from 2012 to 2016

RM Million

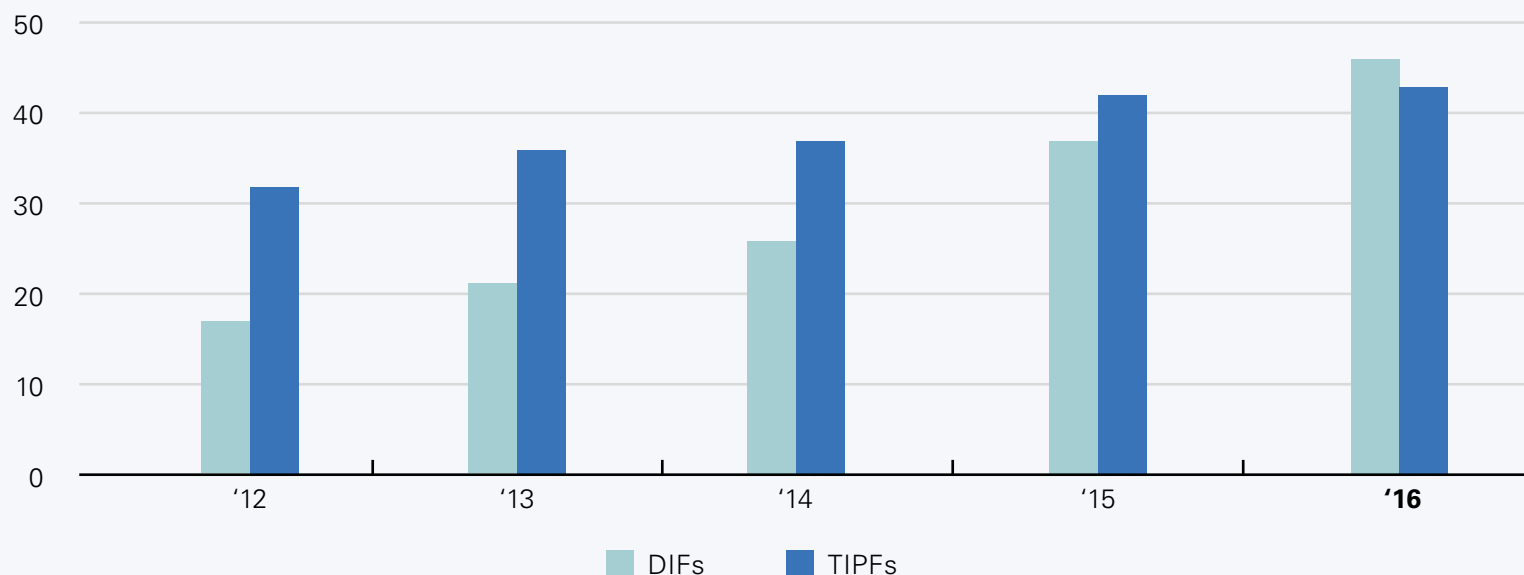
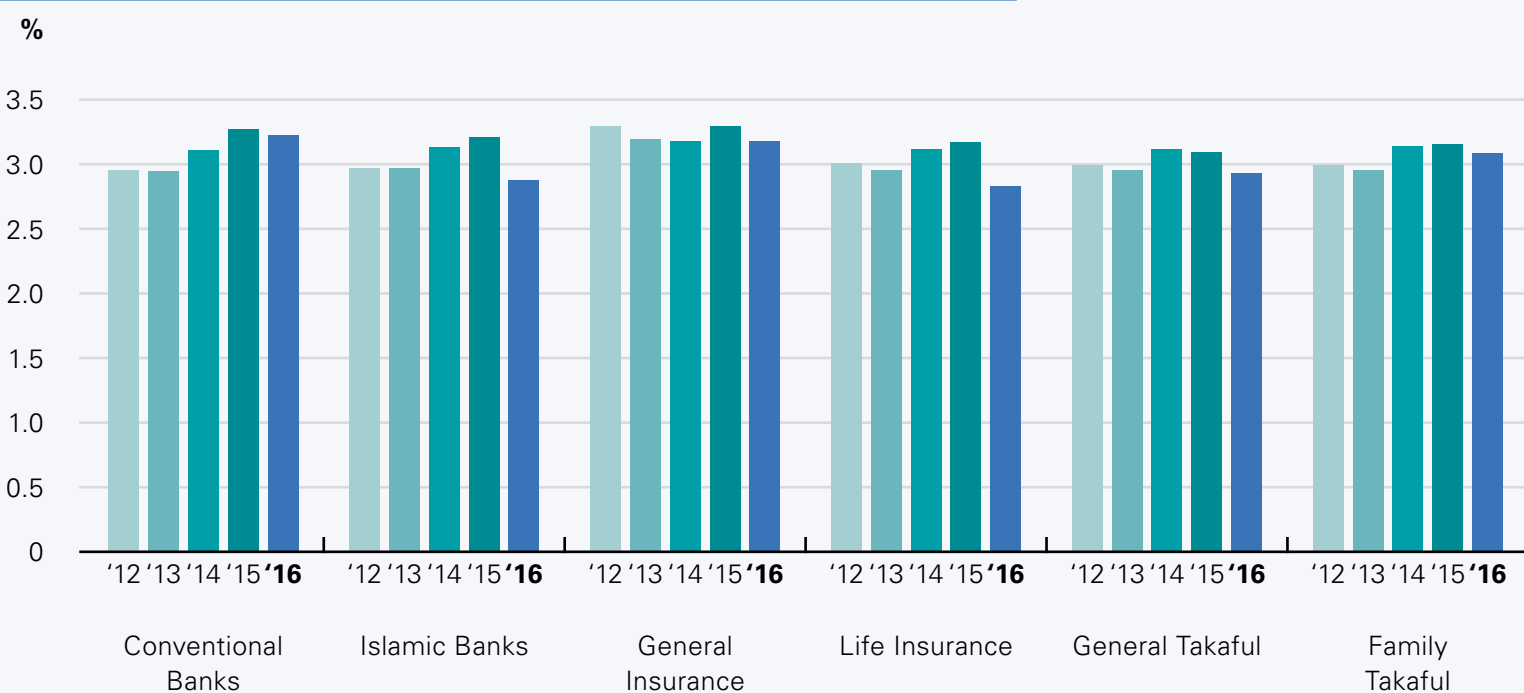
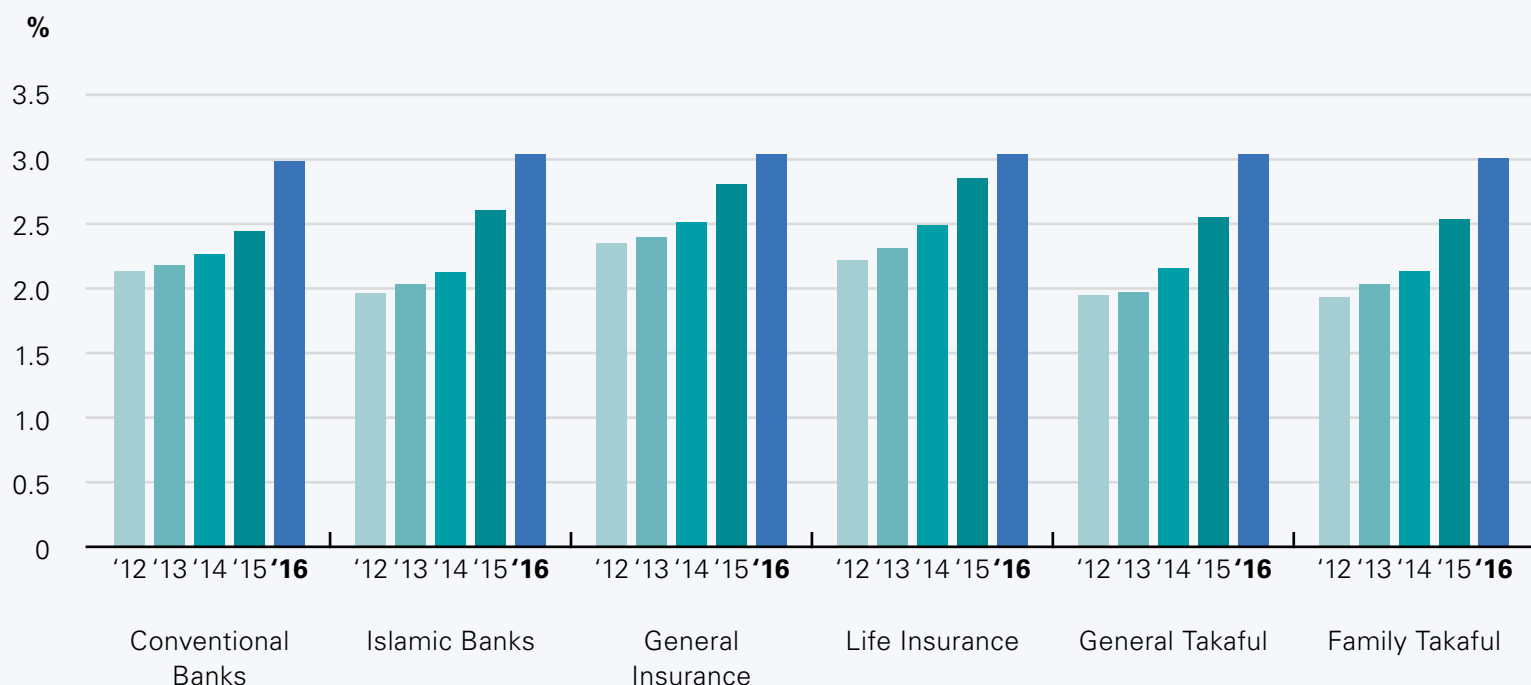


Chart 7: Trend of Weighted Average Effective Yield Rates for Cash Equivalents (Short-term Investments) and Investments from 2012 to 2016



FINANCIAL OVERVIEW

Chart 8: Trend of Weighted Average Effective Yield Rates for Placements in Short-term Money Market Deposits from 2012 to 2016

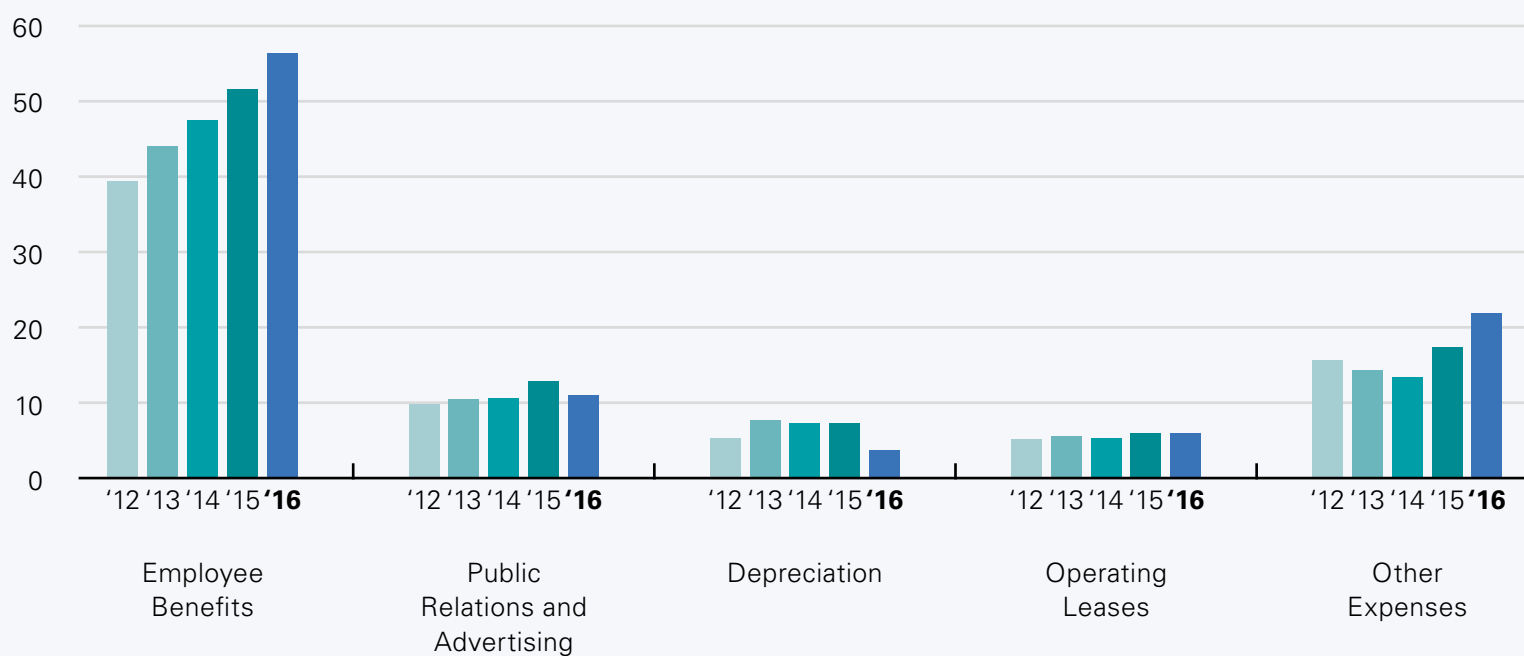


EXPENSES

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

Chart 9: Trend of Expenses from 2012 to 2016

RM Million



FINANCIAL OVERVIEW

Total expenses for 2016 was RM98.9 million, an increase of 4.4% from 2015. This was largely attributable to the following:

- (a) Employee-related expenses for 2016 were higher compared to the previous year due to annual salary increments for eligible employees, increases in medical and insurance premiums and the full impact of new hires.
- (b) Higher professional and consultancy fees mainly related to the RRP project, which is one of our strategic initiatives for establishing an effective resolution regime.
- (c) Rental of additional office space as well as expenses relating to the DRC.

Notwithstanding the overall increase in total expenses, our budget for 2016 saw a positive variance of 18.3% with lower actual amounts expended in several areas:

- (a) In relation to our general and administration expenses, we expended less than the budgeted amount in particular for professional and consultancy fees, Board-related expenses, hosting of international events, training and development, office maintenance and travelling.
- (b) On communications-related expenses, lower expenses were incurred for public relations and advertising as the existing advertising materials continued to be utilised following the success of the previous year's campaign.

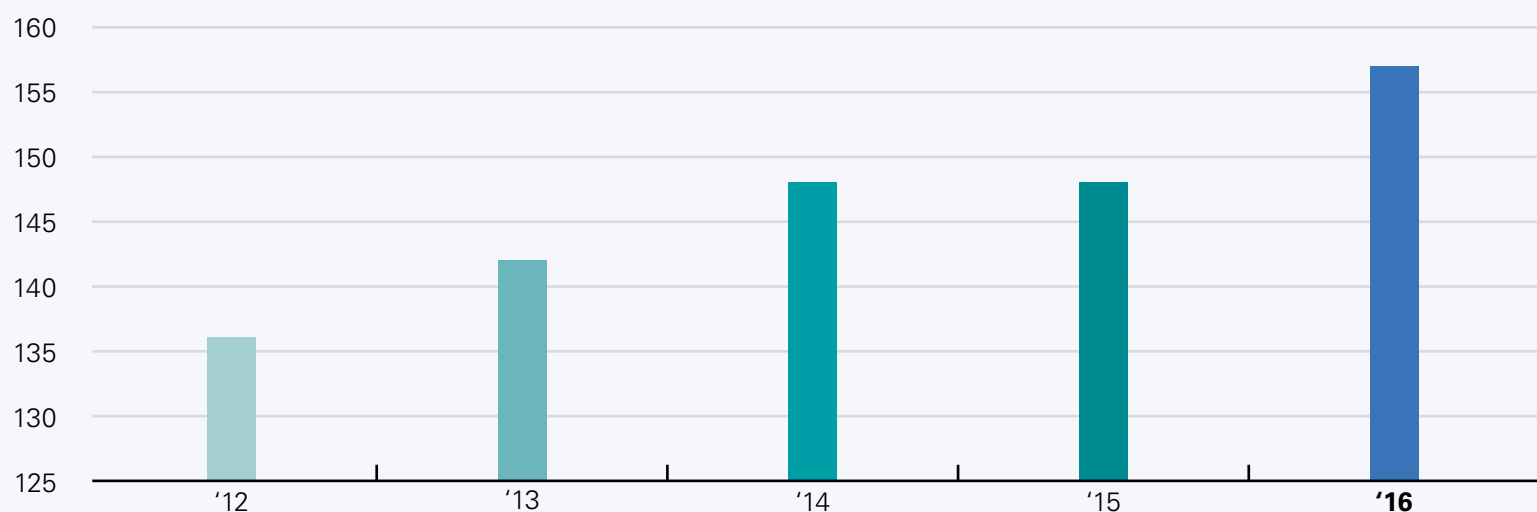
Our approach to budgeting for expenses is to utilise the budget as a plan. It is not our objective, as an end game, to expend the approved operating budget fully. During the year, we made spending decisions based on updated information and other operational developments. The trend of our expenses is expected to increase moderately over the next three years.

Employee Benefits

In line with our human capital philosophy, PIDM continues to benchmark our employee compensation and benefits against the external market in order to remain competitive and retain our talents.

Chart 10: Trend of Employee Headcount from 2012 to 2016

Number of Employees



FINANCIAL OVERVIEW

A total of RM56.5 million was expended on employee compensation and benefits in 2016 (2015: RM51.6 million), representing a 9.5% increase from the previous year. The increase was related to the following:

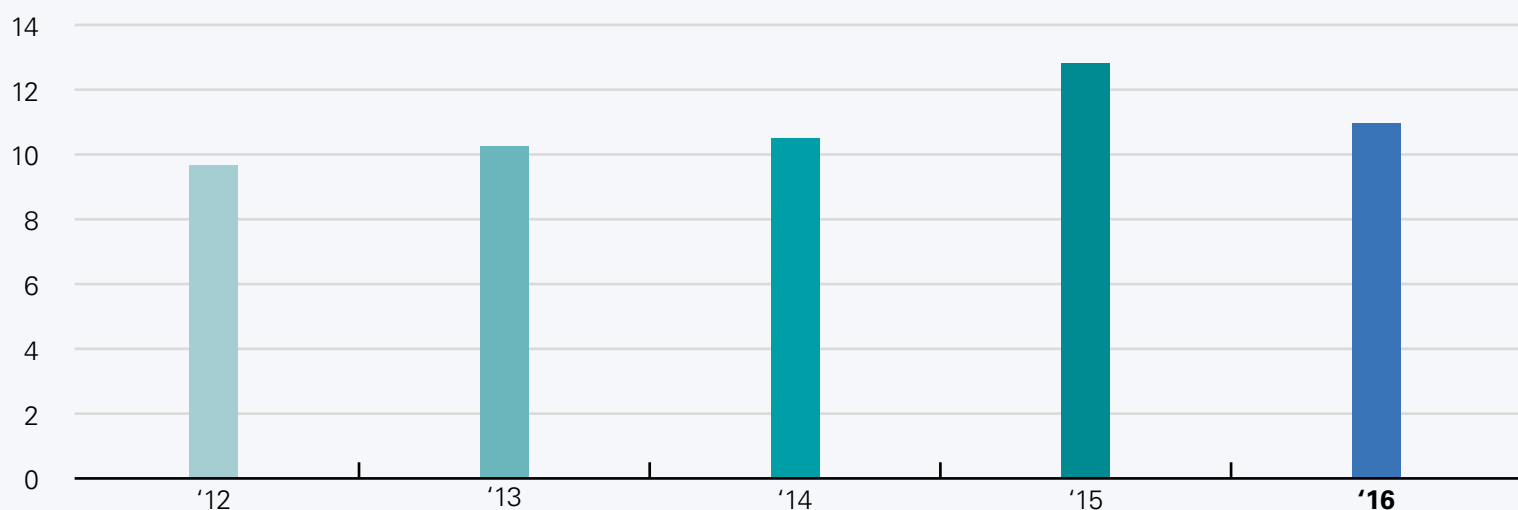
- Payroll-related expenses of RM4.1 million or a 8.4% increase, primarily due to the increase in headcount compared to the previous year.
- During the year, PIDM had also implemented a Long Term Retirement Plan (LTRP) for its employees, which is an unfunded retirement benefit plan. As at the end of the year, PIDM had recognised a provision for the LTRP for the first time, amounting to RM0.25 million. Refer Note 9 to the financial statements for details of the basis of the provision.

Nevertheless, the overall employee benefits expenses for 2016 was lower than budget by RM2.3 million or 3.9%, primarily due to lower headcount compared to budget as well as the timing of hiring of employees during the year.

Public Relations and Advertising

Chart 11: Trend of Public Relations and Advertising Expenses from 2012 to 2016

RM Million



Communications and public awareness programmes continue to be a key tool in educating financial consumers on DIS and TIPS, so as to contribute to public confidence in the stability of our financial system. In 2016, we recorded improved levels of public awareness.⁹ These surpassed the targets set for the year, as follows:

- Awareness level of PIDM increased to 59% from 53% year-on-year.
- Awareness level of DIS increased to 50% from 41% year-on-year.
- Awareness level of TIPS increased to 34% from 26% year-on-year.

Our expenses for advertising and public relations in 2016 totalled RM10.9 million, which was 14.8% lower than RM12.7 million the previous year and 23% lower than budget. Advertising remains a key initiative and accounts for the majority of our communications expenses for 2016. On the whole, the costs incurred for our advertising campaign in 2016 amounted to RM8.3 million (2015: RM10.9 million), a decrease of 23.9% from the previous year. The decrease was largely due to the use of existing creative materials developed for the Lat campaign in 2015, which allowed us to gain savings on production of new advertising materials. Refreshed Lat-inspired creatives were developed during the year for print, radio and digital media, to complement the existing Lat television commercials produced in 2015. Details of our communications initiatives in 2016 are provided in Section 8.

⁹ As shown from the results of our annual consumer survey conducted by an independent research agency

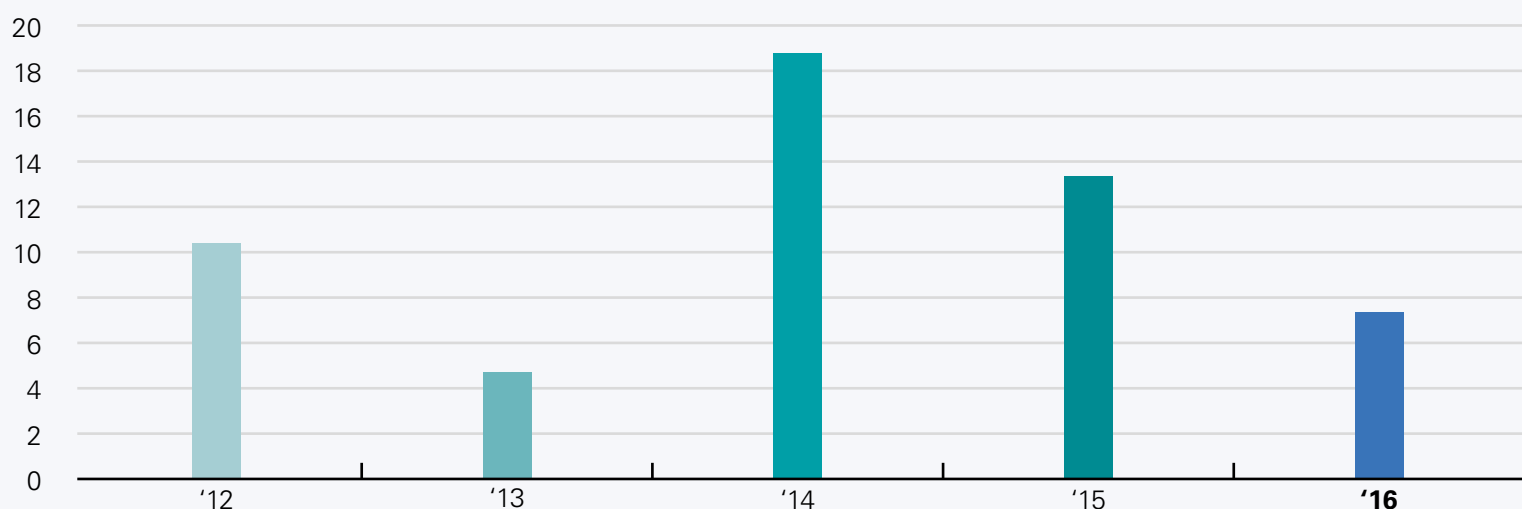
FINANCIAL OVERVIEW

Capital Expenditures and Depreciation

We continued to build strong and effective operational infrastructure.

Chart 12: Trend of Capital Expenditures from 2012 to 2016

RM Million

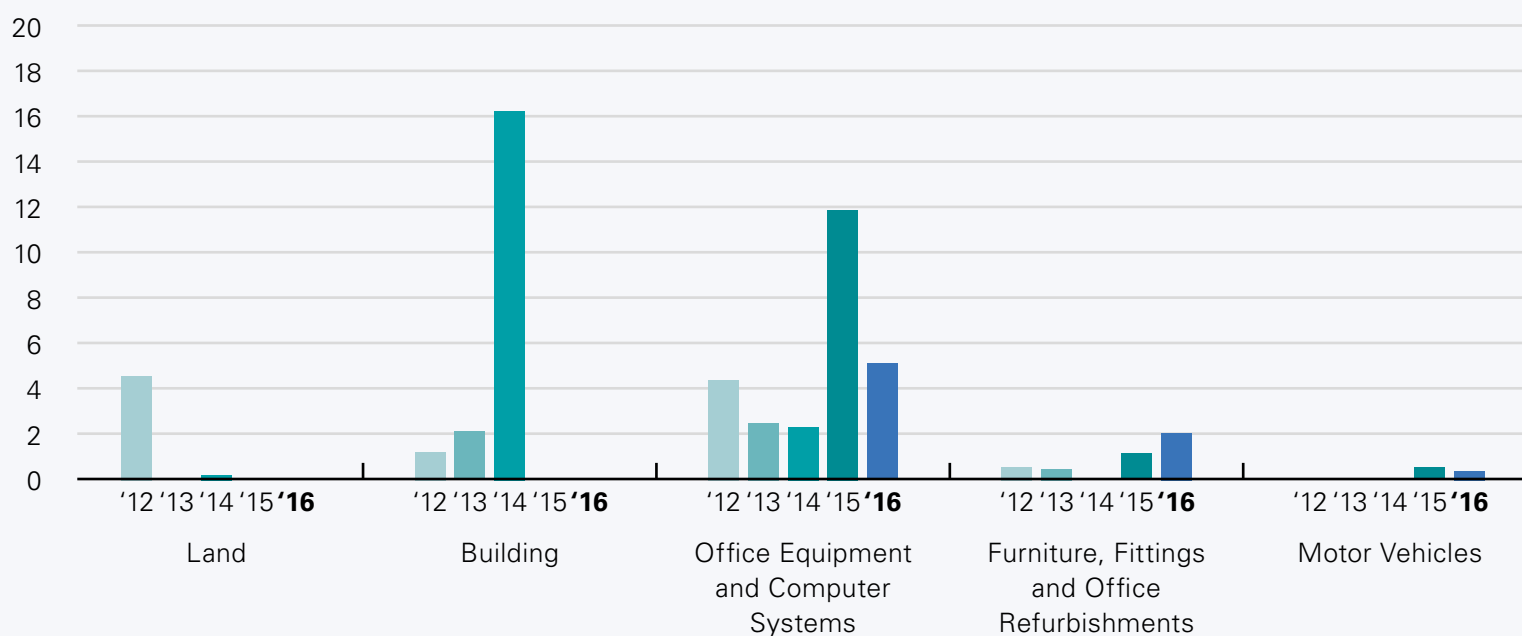


As at 31 December 2016, we contracted RM7.4 million for capital expenditures, which represents 66.1% of the capital expenditures of RM11.2 million budgeted for 2016. The positive variance was mainly due to:

- (a) Cost savings from the procurement of the interior fit-out for the DRC.
- (b) Reprioritisation of several IT-related initiatives such as the IT infrastructure resilience enhancement project and other operational administrative systems.

Chart 13: Trend of Major Capital Expenditure Items from 2012 to 2016

RM Million



FINANCIAL OVERVIEW

Depreciation expenses for the year amounted to RM3.6 million, which was lower compared to the previous year. While more assets have been fully depreciated, new assets have also been capitalised and depreciated during the year. Depreciation expenses were lower than budgeted by 27.1% due to the deferred capitalisation of several assets including the DRC.

Operating Leases and Other Expenses

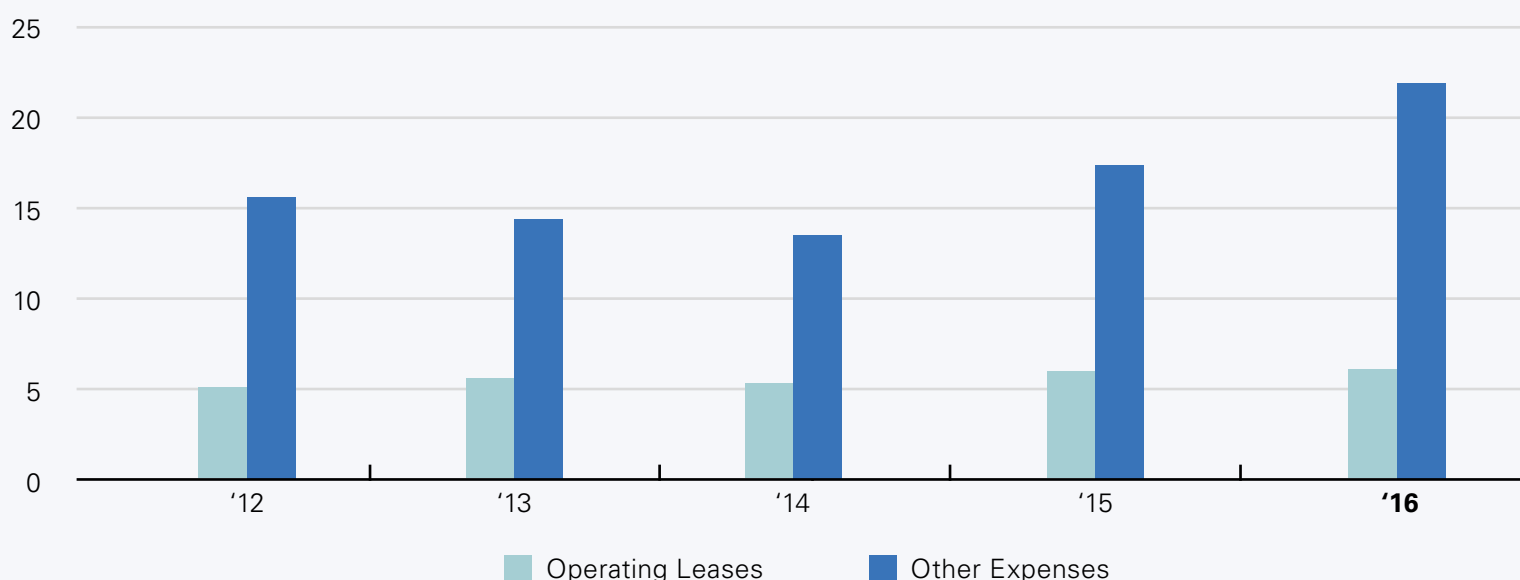
The operating leases of RM6 million relate mainly to the rental of our office premises and space for the interim Disaster Recovery Site and leases for office equipment. The slight increase in operating leases from the previous year was due to the rental of additional office space in our main office. Nevertheless, the operating lease expenses were below budget.

Other expenses are primarily expenses relating to our general and administration expenses, such as professional and consultancy fees, training and development, printing and stationery costs, telecommunications and computer systems operating costs as well as utilities, office maintenance and general insurance expenses. Other expenses increased by 26.3% from RM17.3 million in 2015 to RM21.9 million in 2016 but was below budget by RM15 million or 40.7%. The increase compared to the previous year was primarily attributed to the professional and consultancy fees as we embarked on the RRP project during the year.

The significant positive variance against budget was due to savings on several key initiatives and activities including the RRP project, telecommunications and IT-related expenses, travelling as well as Board-related expenses. The positive variance against budget was also attributed to the timing of several operating expenses particularly relating to the DRC.

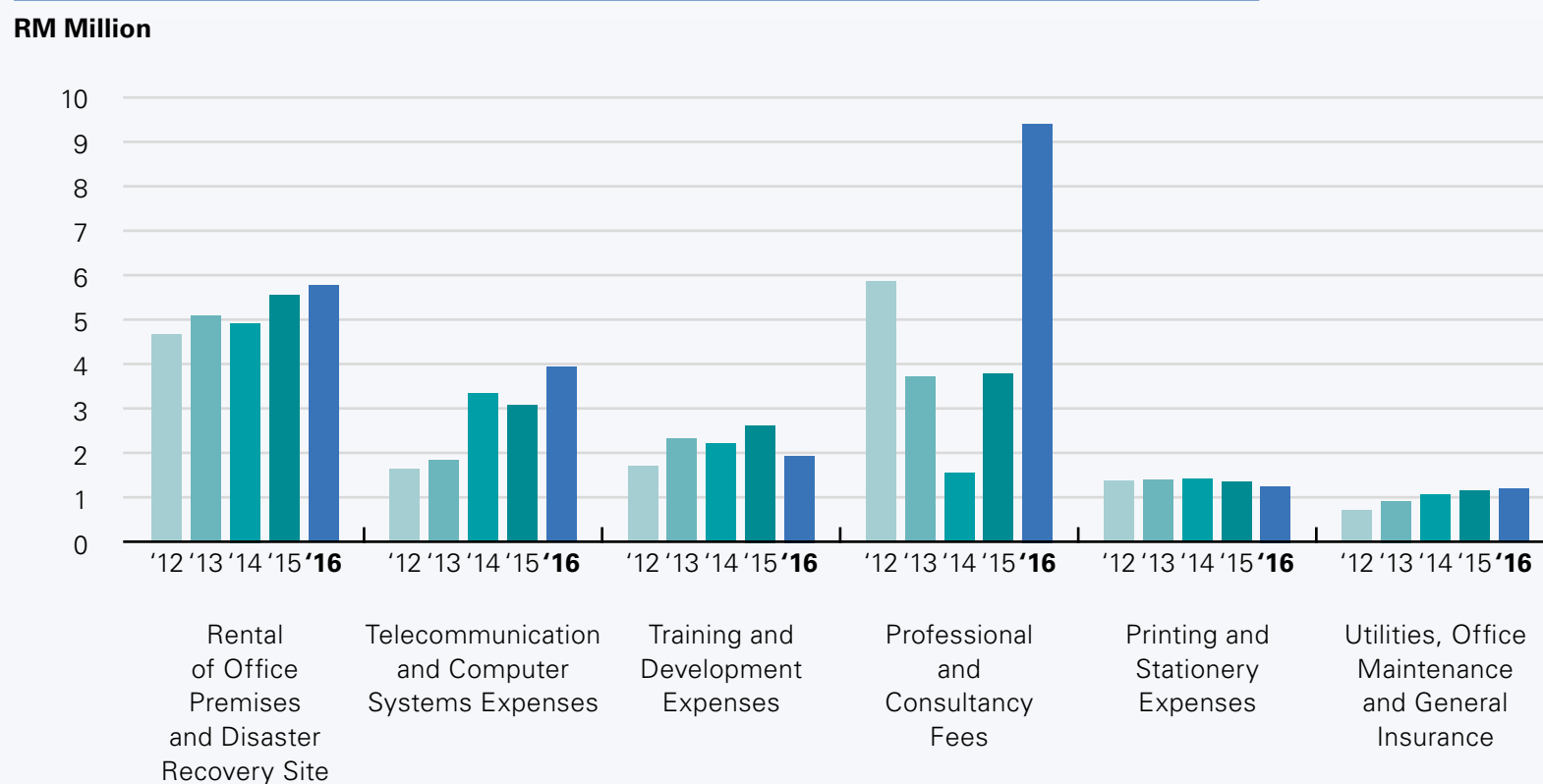
Chart 14: Trend of Operating Leases and Other Expenses from 2012 to 2016

RM Million



FINANCIAL OVERVIEW

Chart 15: Trend of Major Items within Operating Leases and Other Expenses from 2012 to 2016



FINANCIAL OVERVIEW

Value Added Statement

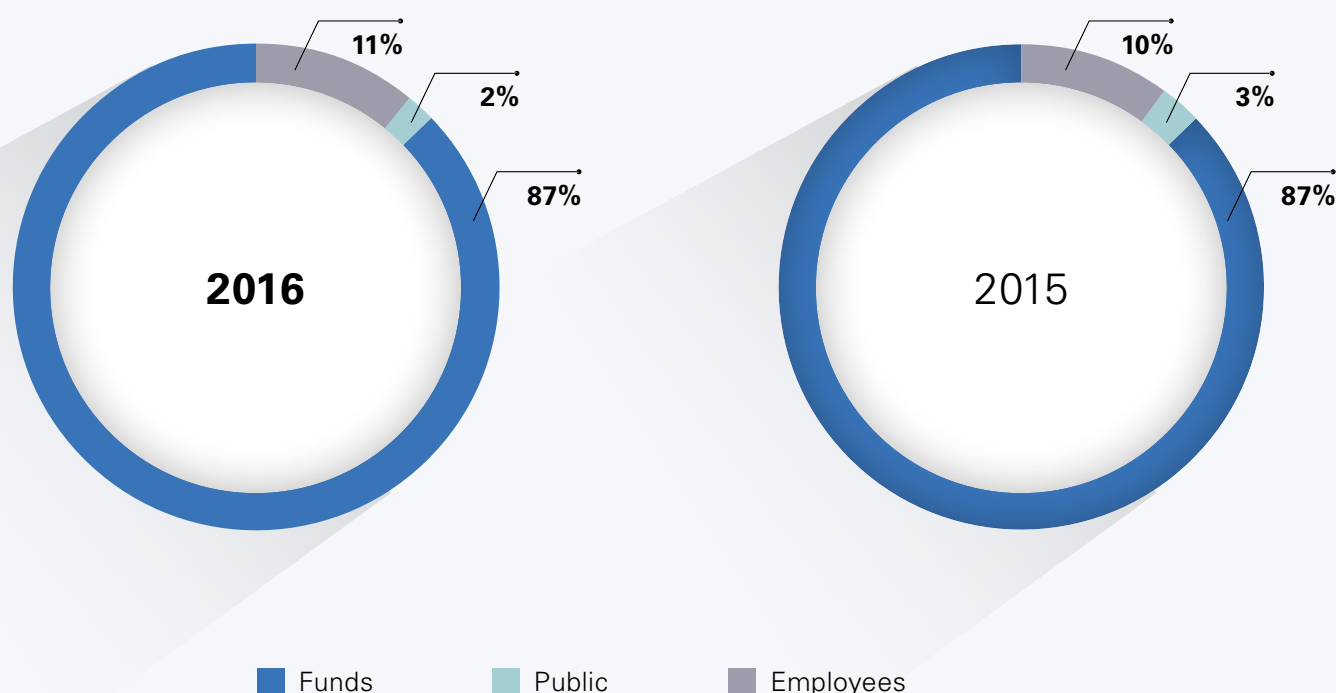
Value added is a measure of funds created by PIDM from its operations. The Value Added Statement indicates the total monetary value of the funds created during the financial year and its allocation to key stakeholders: (a) internal stakeholders, i.e., our employees; and (b) the funds retained in the respective Funds for the protection of our member institutions.

	2016 RM'000	2015 RM'000
Value Added		
Premium and levy revenues*	468,245	442,006
Investment income*	89,191	78,478
Total expenses excluding employee benefits expenses, public relations and advertising expenses as well as depreciation*	(27,947)	(23,233)
Miscellaneous income*	-	777
Value added available to be allocated	529,489	498,028
Distribution of Value Added		
To employees:		
Employee benefits expenses*	56,460	51,561
To public:		
Public relations and advertising expenses*	10,853	12,734
Retain in PIDM:		
Depreciation expenses*	3,622	7,143
Funds		
- <i>Conventional Deposit Insurance Fund</i>	292,566	264,468
- <i>Islamic Deposit Insurance Fund</i>	64,231	60,812
- <i>General Insurance Protection Fund</i>	37,920	44,900
- <i>Life Insurance Protection Fund</i>	48,362	47,175
- <i>General Takaful Protection Fund</i>	5,663	3,053
- <i>Family Takaful Protection Fund</i>	9,812	6,182
Total allocated to Funds	458,554	426,590
Total allocated	529,489	498,028

* Refer Note 20 to the Financial Statements for the breakdown of the income and expenses allocated to the respective Funds

FINANCIAL OVERVIEW

Chart 16: Allocation of Value Added for 2016 and 2015



The premium and levy revenues and investment income go towards the accumulation of the Funds, net of PIDM's total expenses. As the Funds increase over time, their respective investment income will also increase. Eventually, this will result in an increase in the proportion of funds allocated to the Funds, and a decrease in the proportion of funds allocated to expenses. Ultimately, it is expected that the investment income will be sufficient to cover PIDM's overall expenses and in that case, the premiums and levies collected from the member institutions will go entirely towards the accumulation of the Funds.

Segment Information

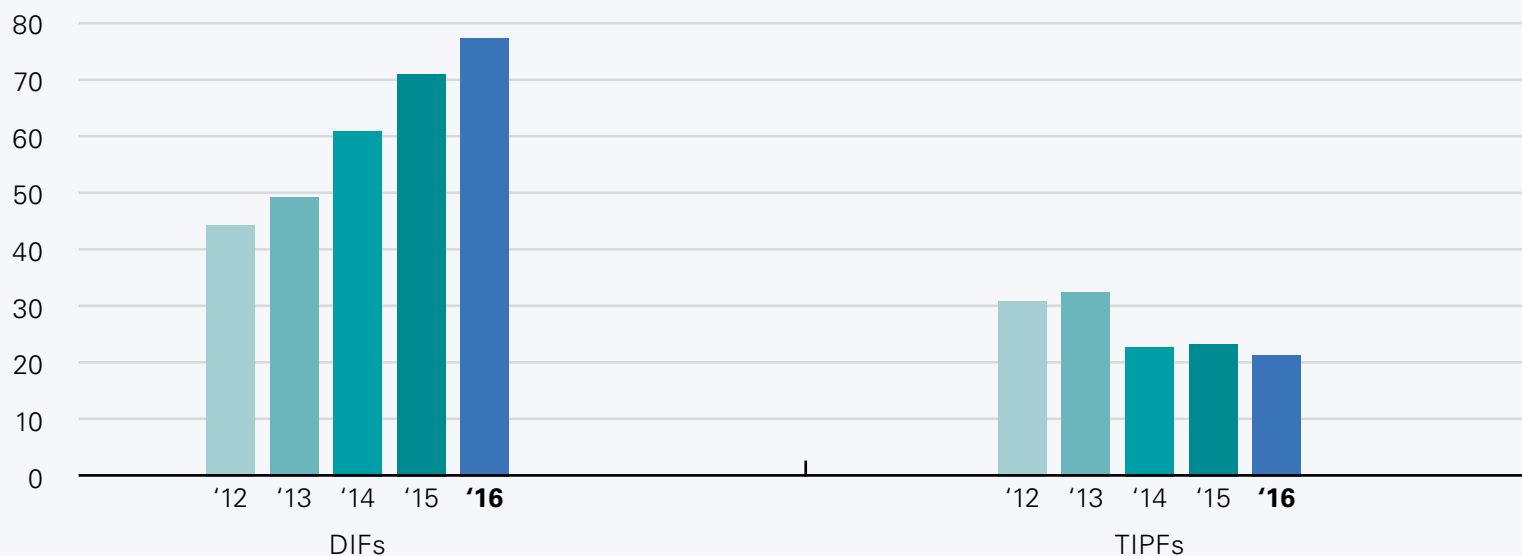
In administering DIS and TIPS, we maintain six distinct and separate Funds for each of the business segments for which we provide financial consumer protection. There is no commingling of funds between the six separate Funds to ensure no cross-subsidisation between the business segments as well as to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

The crediting and charging of our income and expenses are made in accordance with the provisions of the PIDM Act. All income are attributed directly to the specific Fund or Funds to which they relate. Expenses are charged to the respective Funds in accordance with the requirements under the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011 (Costs Allocation Order). The Costs Allocation Order requires direct expenses to be charged to the respective Fund or Funds while indirect expenses are to be charged to DIFs, TIPFs or allocated across all six Funds, based on the premiums and levies received in the previous year. Note 2.2(f) to the financial statements sets out the basis and allocation percentages used to allocate indirect expenses to the respective Funds in accordance with the Costs Allocation Order.

FINANCIAL OVERVIEW

Chart 17: Trend of Expenses Charged to DIFs and TIPFs from 2012 to 2016

RM Million

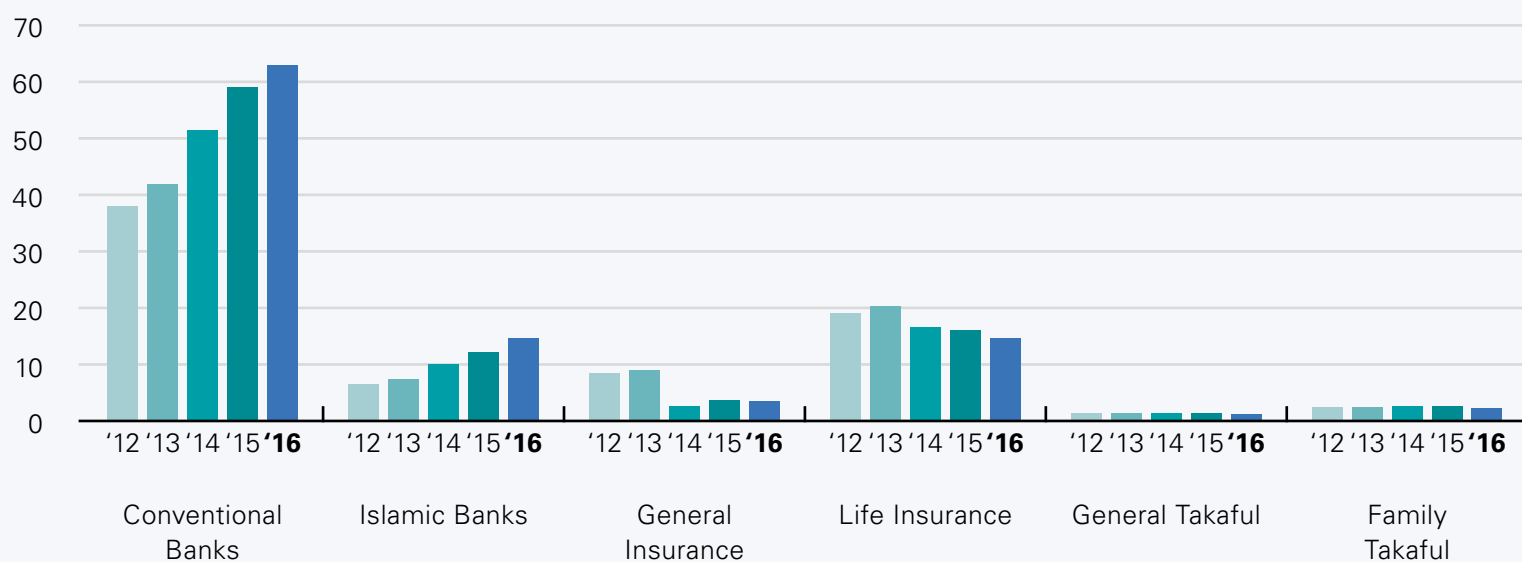


The continued change in the allocation of expenses between the DIFs and TIPFs during the year was primarily due to higher premium collection for DIS as a result of the gradual revision of premium rates on member banks for the assessment years 2013 to 2015.

From the perspective of the six Funds, the share of total expenses of the respective Funds for 2016 is set out in Chart 18 below.

Chart 18: Trend of Expenses Charged to the Six Funds from 2012 to 2016

RM Million



FINANCIAL OVERVIEW

Charts 19a, 19b and 19c provide a snapshot of the key financial trends pertaining to the six Funds from 2012 to 2016. Details of the financial position as well as the financial performance of the six Funds for the year 2016 are available in Note 20 to the financial statements.

Chart 19a: Key Financial Trends (Total Income) for the Six Funds from 2012 to 2016

RM Million

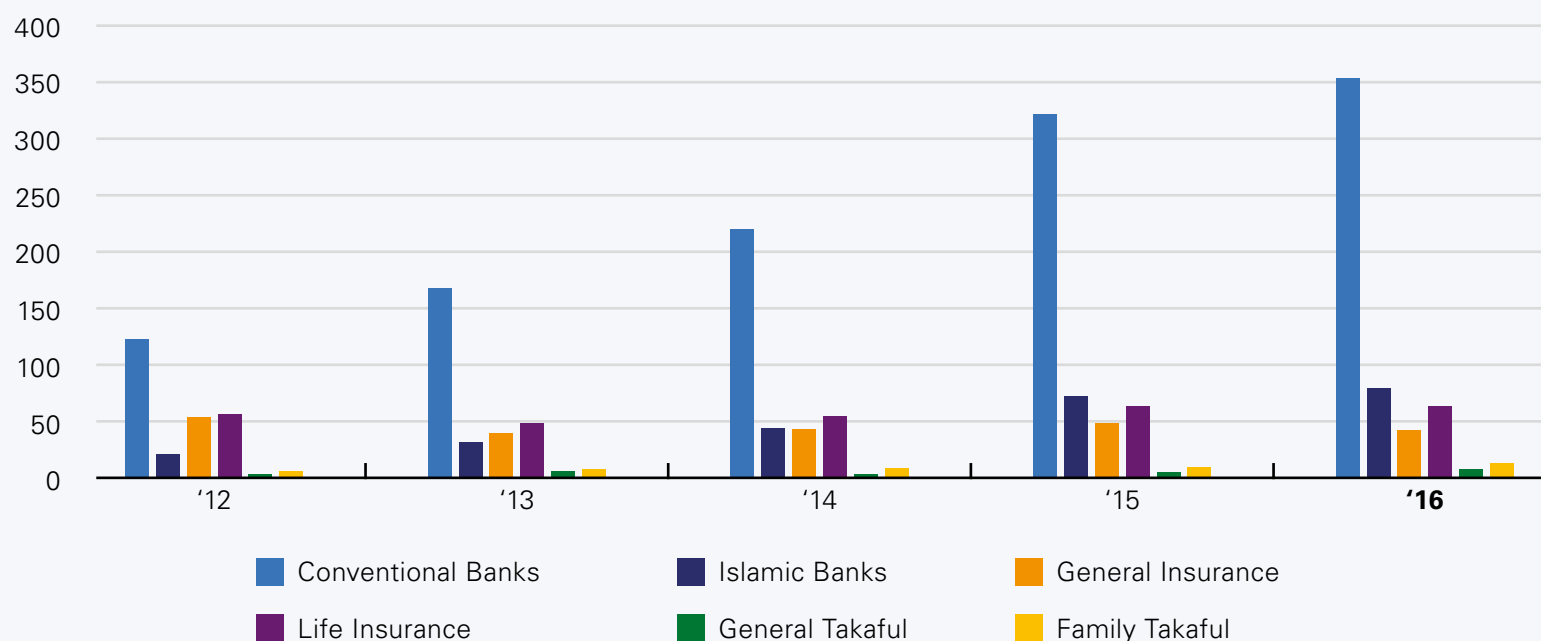
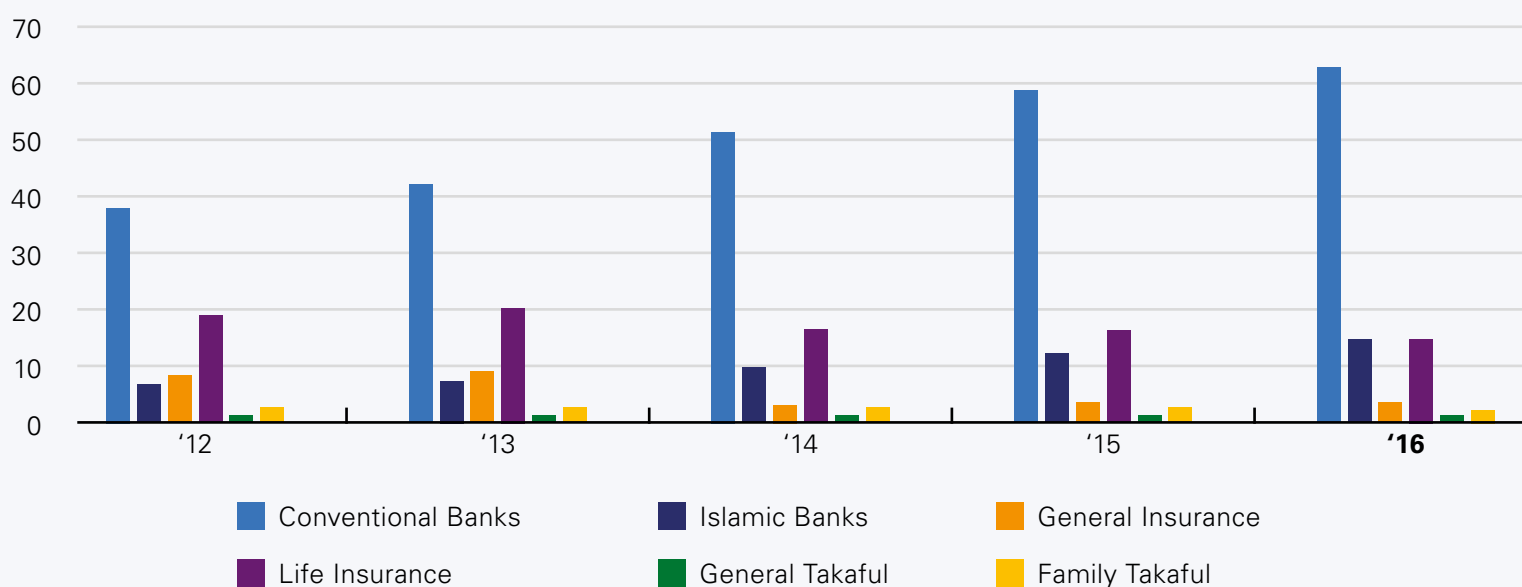


Chart 19b: Key Financial Trends (Total Expenses) for the Six Funds from 2012 to 2016

RM Million



FINANCIAL OVERVIEW

Chart 19c: Key Financial Trends (Operational Net Surplus) for the Six Funds from 2012 to 2016

RM Million

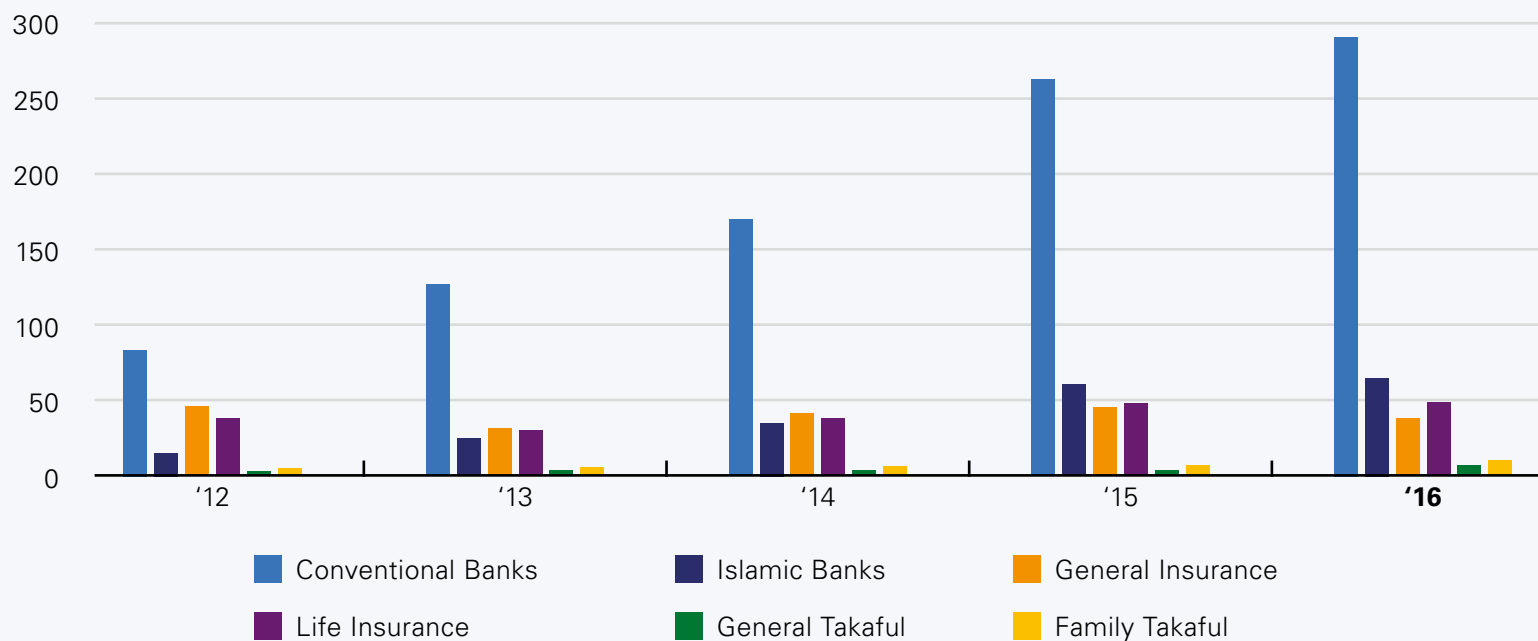
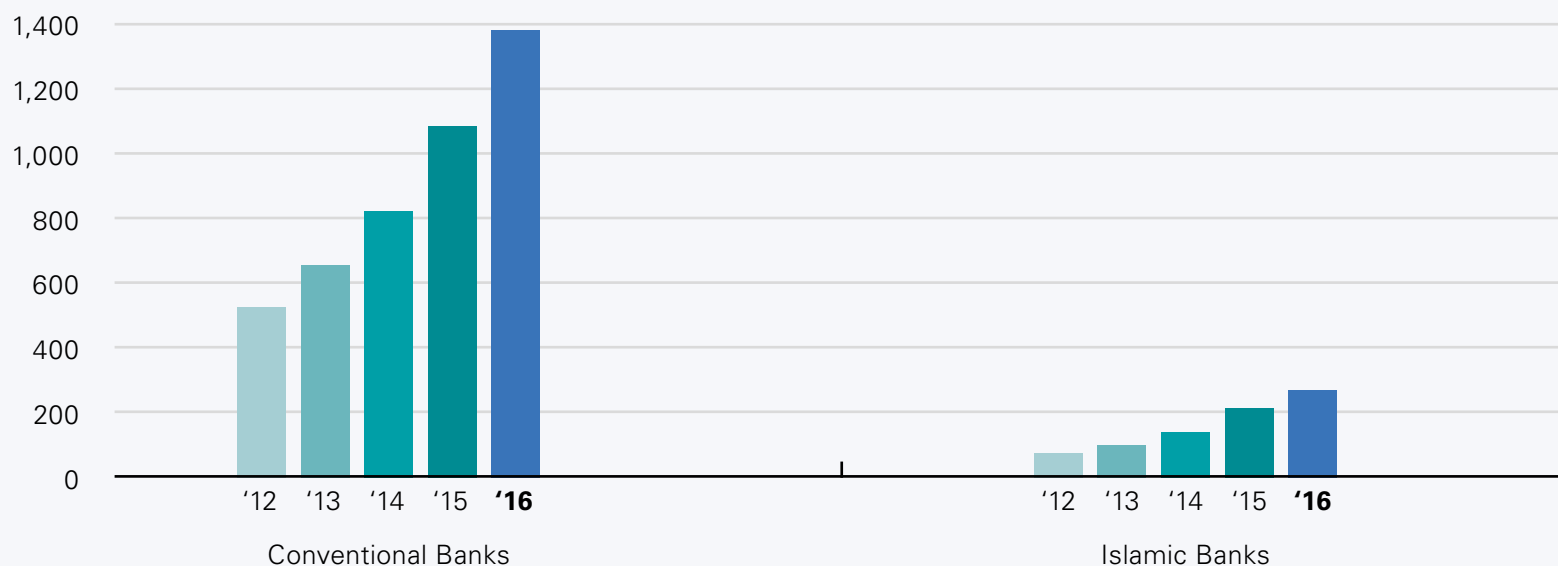


Chart 20: Trend of Conventional and Islamic DIFs from 2012 to 2016

RM Million

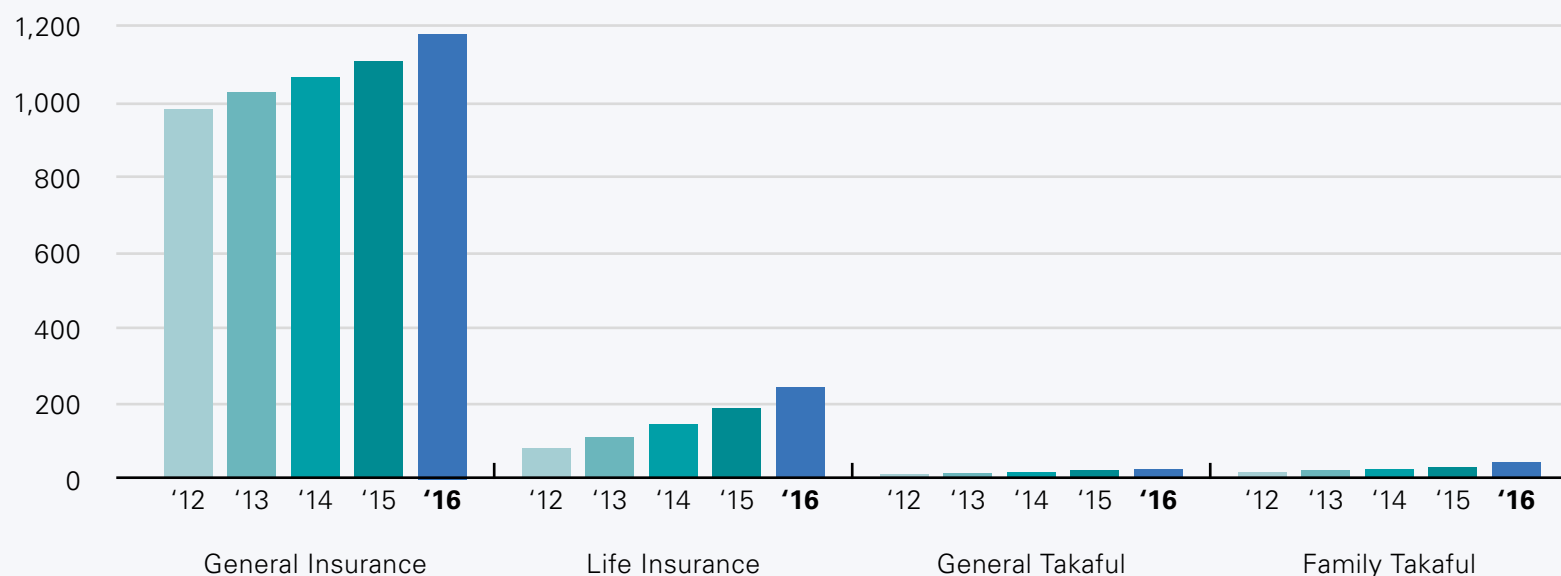


Total DIFs as at 31 December 2016 amounted to RM1.7 billion, an increase of 27.5% from the previous year. The Conventional DIF increased to RM1.4 billion or by 26.7% while the Islamic DIF increased to RM266.9 million or by 31.7%.

FINANCIAL OVERVIEW

Chart 21: Trend of TIPFs from 2012 to 2016

RM Million

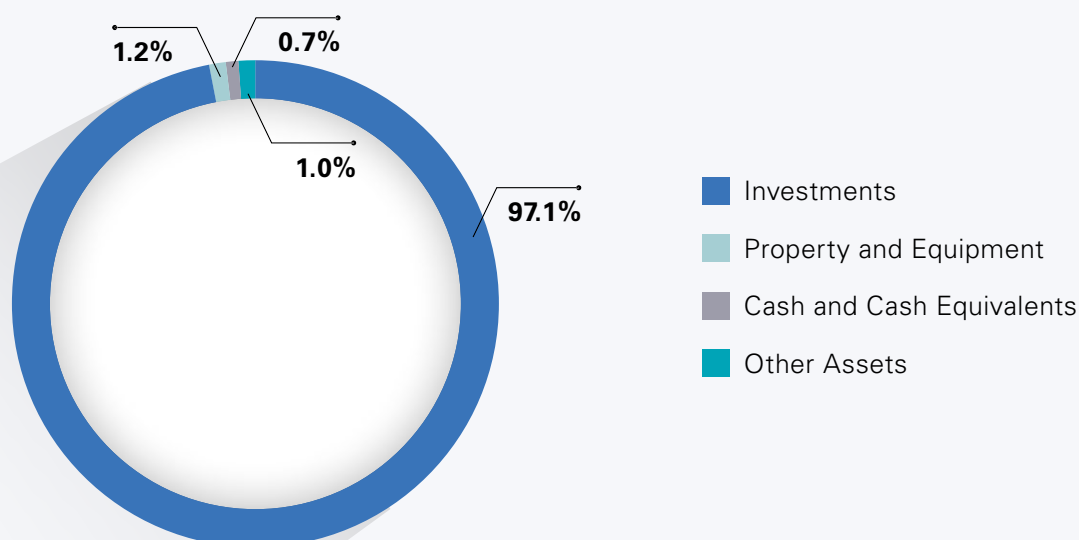


Total TIPFs as at 31 December 2016 amounted to RM1.5 billion, an increase of 10.2% from the previous year. The GIPF increased by 6.6% while the LIPF increased by 25.6%. The General Takaful Protection Fund and the Family Takaful Protection Fund increased by 46.8% and 39.8% respectively. The significantly lower growth for the GIPF compared to the other TIPFs was primarily due to its larger base of fund arising from the transfer of the former IGSF to PIDM in 2011 as well as the impact of the lower levies collected during the year arising from the reduction in levy rates for the general insurer members effective assessment year 2016.

FINANCIAL OVERVIEW

HIGHLIGHTS OF THE STATEMENT OF FINANCIAL POSITION

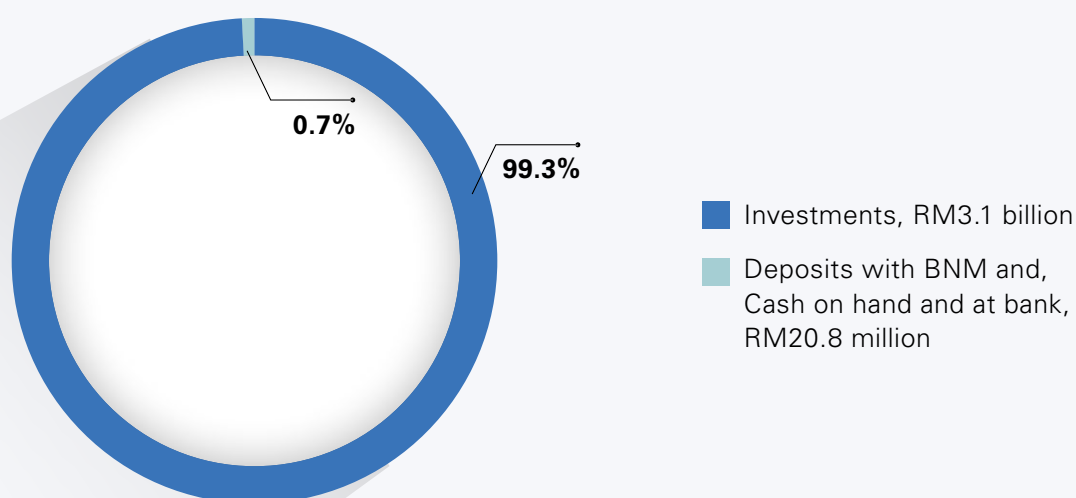
Chart 22: Asset Composition as at 31 December 2016



Cash, Cash Equivalents and Investments as at 31 December 2016

Our assets remain liquid with cash, cash equivalents and investments, which stood at RM3.1 billion, representing 97.8% of our total assets as at 31 December 2016.

Chart 23: Classification of Cash, Cash Equivalents and Investments as at 31 December 2016



As at 31 December 2016, our cash and cash equivalents (which include short-term investments of less than 90 days from the date of acquisition), deposits as well as cash on hand and in the bank totalled RM20.8 million (DIFs: RM15.6 million and TIPFs: RM5.2 million).

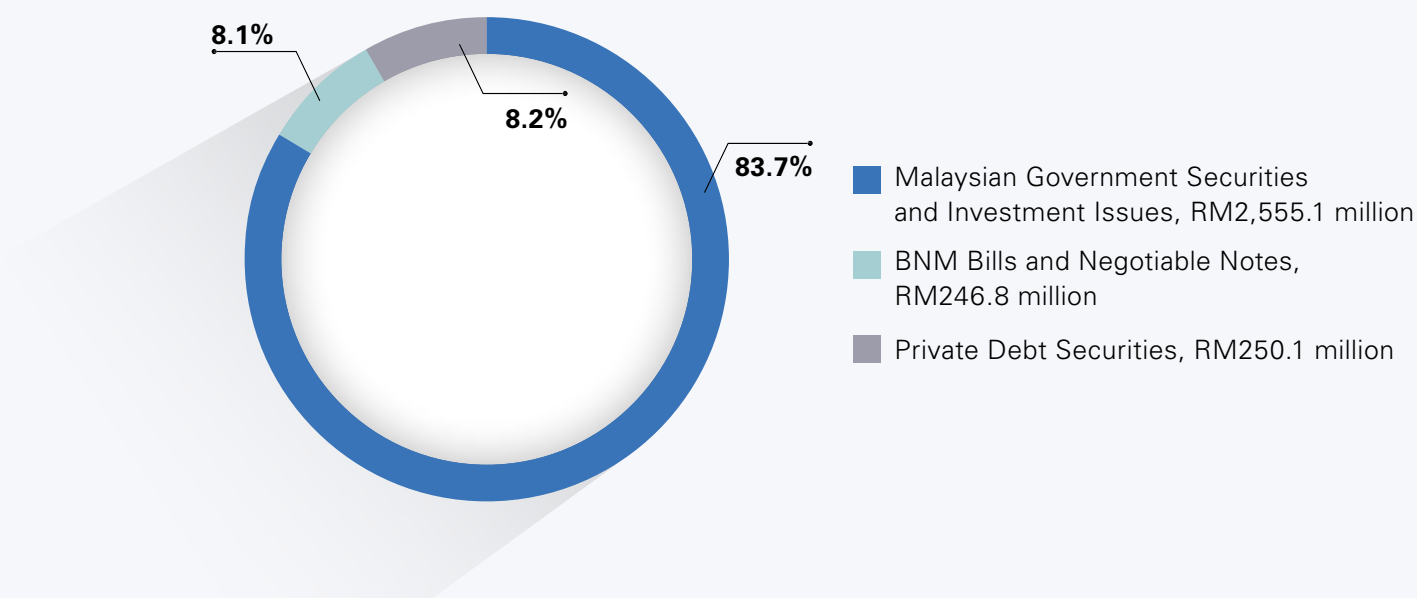
Our investments as at 31 December 2016 totalled RM3.1 billion, an increase of 18.6% compared to RM2.6 billion in 2015. All of these investments were classified as held-to-maturity investments and were stated in the financial statements at cost, adjusted for accretion of discounts net of amortisation of premiums.

FINANCIAL OVERVIEW

All investments, except for investment securities from the former IGSF portfolio were invested in accordance with the Board-approved Investment Policy. These investments, as at 31 December 2016, comprised Malaysian Government Investment Securities and BNM Notes and with short-term tenures ranging from 34 days to 1,034 days. The longest tenure for these investments is until October 2019. As for the former IGSF portfolio, specific approval from the Board was obtained to retain all of the Government investment securities (including tenures exceeding 36 months) as well as PDS issued by GLCs. The longest tenure for the retained investment securities is until July 2021. Refer Note 21(b) to the financial statements for the breakdown of the investment portfolio (by Funds) and their tenure to maturity.

As at 31 December 2016, PIDM has also invested RM130 million in new PDS, which are securities of high investment grade issued by a Government-related entity with a minimum rating of AAA, as permitted under the Investment Policy. Refer Note 21(e) to the financial statements for the value and rating of investments in PDS.

Chart 24: Composition of Investment Securities (including Cash Equivalents) as at 31 December 2016



The sources and uses of cash and cash equivalents are described in the Statement of Cash Flows in Section 5. We have also prepared a Statement of Cash Flows using an indirect method, which is presented in Note 4(b) to the financial statements.

Property and Equipment and Other Assets as at 31 December 2016

As at 31 December 2016, our property and equipment amounted to RM37.4 million (2015: RM21.9 million). The key additions to property and equipment in 2016 were attributed to the capitalisation of the DRC construction costs as well as the development and implementation of IT systems, particularly the Submission Tracking and Rating System, Investment System, Budgeting System, enhancement to Depositor Support Management System, DLIMS as well as the EFS, and implementation of upgrades to the IT infrastructure.

Other assets comprised deposits and prepayments, investment income receivables, other assets and other receivables amounting to RM31.7 million. The balance as at the end of the year was higher than the previous year, primarily attributable to the increase in investment income receivables. The increase in the investment income receivables was due to the nature of PIDM's investment securities holdings as there was an increase in coupon-based investment instruments held during the year compared to the previous year.

FINANCIAL OVERVIEW

Investments in Subsidiaries as at 31 December 2016

We have incorporated five subsidiaries in 2012 in accordance with section 10 of the PIDM Act. These subsidiaries comprise an asset management company and four bridge institutions (namely a conventional bank, an Islamic bank, an insurance company and a takaful operator). The subsidiaries were incorporated as part of our efforts to ensure operational readiness for any failure of a member institution, and hence will remain dormant until activated to carry out any necessary intervention or failure resolution activity. The names of the subsidiaries are as follows:

- (a) The Federal Asset Management Agency of Malaysia Berhad
- (b) The Federal Commercial Bank of Malaysia Berhad
- (c) The Federal Islamic Bank of Malaysia Berhad
- (d) The National PIDM Insurance Corporation of Malaysia Berhad
- (e) The Federal Takaful Corporation of Malaysia Berhad

The basis of accounting and details of the subsidiaries are further described in Note 2.2(c), Note 3.1(a) and Note 7 to the financial statements.

Liabilities as at 31 December 2016

Our liabilities include payables for utilities, communication services, IT systems, provision for unutilised leave, accruals for services rendered in respect of consultancy engagements and the supply of goods as well as provision for LTRP. The LTRP, which was implemented effective 1 January 2016, is an unfunded defined benefit plan that provides benefits to employees in the form of a guaranteed level of one lump sum retirement payment based on the employees' length of service and their salary in the final year leading up to retirement. The LTRP obligation is determined by a qualified actuary and is reviewed at each reporting date. As at 31 December 2016, the balance of the provision for LTRP represents accrued but not vested benefits.

SOURCES OF FUND AND FINANCIAL ABILITIES

Funding Framework

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

Our funding framework explicitly highlights the need for adequate financial resources to effectively carry out our mandate as well as to address the risks to which we are exposed. The main objectives of our funding framework are to:

- (a) ensure the availability of sufficient financial resources to enable PIDM to fund its day-to-day operations; and
- (b) accumulate reserves to ensure our ability to meet future obligations to depositors as well as takaful certificate and insurance policy owners.

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

FINANCIAL OVERVIEW

Internal Funding

Our internal funds are built through the accumulation of net surpluses from our operations. The annual net surplus is credited into and accumulated in the respective Funds as reserves to meet future obligations that may arise from providing the financial consumer protection systems. As noted earlier, expenses are credited against the respective Funds on the costs allocation basis as described in Note 2.2(f)2 to the financial statements and there is no commingling of the Funds.

Target Fund Objectives and Guiding Principles

The Target Funds are established to cover the expected net losses arising from any intervention or failure resolution activity. The objectives of developing a Target Fund framework are to: (a) provide a basis in assessing the adequacy of the current levels of the Funds; and (b) identify a systematic approach to specifying the target levels for the Funds.

The Target Fund frameworks for the DIFs and the GIPF were established in 2011 and 2015, respectively. The development of the Target Fund framework for the LIPF was completed during the year. The Target Fund framework for the Takaful Protection Funds are planned for completion during the planning period 2017 to 2019.

The development of the Target Fund frameworks for the DIFs, GIPF and LIPF were based on the same guiding principles, as follows:

- (a) **First Principle:** The Target Fund should be built to address periodic failures and not systemic failures.
- (b) **Second Principle:** The Target Fund should cover the expected net losses arising from intervention and failure resolution activities.
- (c) **Third Principle:** Optimally, the determination of the Target Fund level should be balanced against the impact on stakeholders, both in terms of the Target Fund size and time frame for achieving the set target.
- (d) **Fourth Principle:** The Target Fund level should be specified as a 'range' rather than an absolute amount.

FINANCIAL OVERVIEW

Risks and Sensitivity of the Target Fund Modelling

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

Table 4: Key Sensitive Factors of the Target Fund Modelling

Operating environment
The model is based on the assumption that the environment in which member institutions operate does not deviate significantly in the foreseeable future. This includes economic conditions and the risk profiles of individual member institutions, the financial industry landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in a different Target Fund level within certain ranges than previously required. Nevertheless, the operating environment will be reviewed and validated against the model annually.
Mandate and powers
The mandate and powers are set out in the PIDM Act, which, among others, enable PIDM to intervene and resolve a troubled member institution promptly to minimise losses to the financial system. The Target Fund modelling and estimation were made based on the current mandate and powers set out in the PIDM Act. Any significant changes to our mandate and powers may affect the modelling assumptions and thus the estimation of the Target Fund level. However, we do not expect significant changes to our mandate and powers in the near future.

The Target Fund is not static and is reviewed and validated annually to ensure its relevance and to reflect any changes in the assumptions or inputs used.

Target Fund Modelling Approach

In developing the Target Funds, we adopted both the statistical modelling as well as a discretionary approach in determining the range of our Target Fund:

(a) **Statistical modelling approach**

We adopted the Value-at-Risk (VaR) statistical model in developing the Target Fund framework. Under this statistical modelling approach, VaR is determined to assess PIDM's exposure to net losses based on estimates of the member institution's default probability, exposure at default, correlations of default and the possible recoveries in any given intervention or failure resolution action on a non-viable member institution. In determining the sufficient level of funds to cover PIDM's net losses, given a specified confidence level, we leveraged on the Monte Carlo simulation used in the VaR statistical model. Simulations using a significant number of loss scenarios to build up a statistical loss distribution were run from the model to ascertain the Target Fund level that will be able to cover losses or to meet the costs of insolvency in a specified time horizon with a specified confidence level.

(b) **Discretionary approach**

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

FINANCIAL OVERVIEW

Target Fund for DIFs

The determination of the Target Fund for DIFs is based on macroeconomic conditions in the market that may, directly or indirectly, affect the potential default rates of member banks. The Target Fund, which is set as a range of Target Fund levels (lower and upper ranges) and expressed as a percentage of TID, is dependent on, among others, the risk profile of each member bank, the expected financial exposure to PIDM in providing deposit insurance protection as well as the expected recoveries from potential intervention and failure resolution activities.

Key Input Variables for the Statistical Model

The statistical model determines our expected loss using the following key input variables:

(a) **Probability of Default (PD)**

In determining PD, we take into consideration the credit ratings assigned by External Credit Assessment Institutions (ECAI), PIDM's internal ratings assessment as well as the supervisory risk rating. The most conservative risk rating is then benchmarked against the average cumulative default rate reported by international ECAI in their annual default study.

(b) **Exposure At Default (EAD)**

In determining the EAD, we consider the two broad approaches to intervention namely, a liquidation or a going-concern resolution approach. The TID (at the limit of RM250,000 per depositor per member bank) and the potential re-capitalisation of member banks are applied as proxies for EAD.

(c) **Loss Given Default (LGD)**

The LGD adopted takes into consideration the potential recoveries in any given intervention or failure resolution action taken by PIDM.

The Target Fund range is between 0.6% and 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2015, the range in RM billion or RM million is between RM2.5 billion and RM3.8 billion for Conventional DIF and between RM528 million and RM792 million for Islamic DIF. The underlying assumptions in the Target Fund model, as well as the Target Fund levels, were reviewed during the year as part of the annual review process and were determined to still be current and relevant. The present balances of DIFs, compared to the Target Fund range, are described in Table 5.

Table 5: Target Fund Range for DIFs as at 31 December 2016 and 2015

Deposit Insurance Funds	Target Fund			
	2016 Actual RM Million / %	2015 Actual RM Million / %	Lower Range RM Million / %	Upper Range RM Million / %
Conventional Deposit Insurance Fund				
Balance	1,388.30	1,095.74	2,522	3,784
Percentage of Total Insured Deposits*	0.33%	0.27%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	266.89	202.66	528	792
Percentage of Total Insured Deposits*	0.30%	0.27%	0.60%	0.90%

* Based on TID as at 31 December 2015

FINANCIAL OVERVIEW

Time-to-Fund for DIFs

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

After taking into consideration the operating environment and impact to the banking industry, we determined the reasonable Time-to-Fund to achieve the lower range of the Target Fund of 0.6% of TID to be between 10 and 12 years (beginning from 2012).

In 2012, we obtained the Minister of Finance's approval to gradually increase the premium rates assessed on member banks beginning from assessment year 2013. The gradual upward revision of premium rates should enable PIDM to meet the Target Fund within the specified timeframe.

We will continue to monitor and report on the progress of our Target Fund annually. Based on the current level of accumulated surpluses and approved premium rates, we expect the lower range of the Target Fund to be achieved within the next six to eight years.

Target Fund for GIPF

The model used for deriving the Target Fund for GIPF is similar to the model used in the Target Fund framework for DIFs. The framework also uses the VaR model to estimate the total expected loss in the event of a general insurer member's failure.

Key Input Variables for the Statistical Model

The statistical model determines our expected loss using the following key input variables:

(a) **Probability of Default (PD)**

In determining PD, the model uses average failure rates as reported by ECAI in their annual default study. The average failure rates are then benchmarked against the most conservative risk rating between the general insurer members' supervisory risk rating and PIDM's internal ratings assessment.

(b) **Exposure at Default (EAD)**

The model applies several components of exposures as the proxy for the EAD, to reflect the total financial exposures to PIDM in the event of any general insurer member's failure. The EAD reflects a general insurer member's claims and premium liabilities exposures as adopted in the Risk-Based Capital Framework for Insurers, together with the operational risk exposures and potential costs involved in the event of liquidation of a general insurer member.

Claims liabilities

Given the common cause of a general insurer member's failure is often due to insufficient claims reserves, PIDM applied claims liabilities exposures as one of the main components of the EAD to address risks of under-estimation of the insurance liabilities due to adverse claims experiences.

Premium liabilities

Premium liabilities form part of the EAD component so as to estimate PIDM's exposure to potential premiums reimbursement upon the liquidation of any general insurer member.

Other components

PIDM also used the operational risk exposures and the potential liquidation cost as another proxy component of the EAD.

FINANCIAL OVERVIEW

(c) **Loss Given Default (LGD)**

The LGD considers the net losses to PIDM upon liquidation of a general insurer member after taking into account exposures on market and credit risk during recoveries of assets.

Target Fund Range for GIPF

The Target Fund framework for GIPF has adopted the Target Fund level between the ranges of 80% to 100% of the total net expected loss level. As at 31 December 2016, the GIPF's Target Fund range in RM million were as follows:

Table 6: Target Fund Range for GIPF as at 31 December 2016

General Insurance Protection Fund	Target Fund			
	2016 Actual RM Million	2015 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	1,183.01	1,110.12	336	420

The current balance for GIPF of RM1,183.01 million includes RM921.3 million that was transferred to PIDM in September 2011 from the IGSP which was previously administered by BNM. Since the commencement of the TIPS administration on 31 December 2010, PIDM has evolved from a flat rate levy to the DLS framework for the life and general insurance businesses in 2013 and has now completed the Target Fund framework for the general insurer members. The Target Fund, which is reviewed annually, is essentially the expected net loss to PIDM in the event of intervention and failure resolution activities, based on the current positions of the insurer members.

Based on the expected loss model, and taking into account the current composition of the assets with a high expected assets recoverability, the upper range of the Target Fund now stands at RM420 million. Based on the GIPF balance as at 31 December 2016, the current fund position has exceeded the upper range of the Target Fund. The management of the surplus Funds upon reaching Target Fund level is explained below.

Management of Funds upon Reaching Target Fund Level

When the Funds reach the upper range of their respective Target Funds, PIDM may consider a reduction in the premium or levy rates or to rebate the premiums or levies, based on among others, an assessment of the economic environment and industry conditions. In the management of the accumulation of the Funds, it is important for PIDM to ensure that the DPS framework for member banks or the DLS framework for the life and general insurance businesses continue to incentivise member institutions to improve their risk profiles and that the new entrants will pay first premiums or levies on the deposits or benefits that are protected by PIDM.

Given that the GIPF has currently surpassed its upper range of the Target Fund, the levy rates assessed on general insurer members was reduced beginning assessment year 2016. Refer Note 11(b)(i) to the financial statements for further details.

FINANCIAL OVERVIEW

Target Fund for LIPF

The development of the Target Fund framework for LIPF is governed by similar objectives, guiding principles and approaches to the established Target Fund frameworks for DIFs and GIPF. We continued to adopt the VaR method in estimating the total expected loss in the event of a life insurer member's failure and to derive the Target Fund level for LIPF.

Key Input Variables for the Statistical Model

The statistical model determines our expected loss using the following key input variables:

(a) **Probability of Default (PD)**

In determining PD, the model uses average failure rates as reported by ECAI in their annual default study. The average failure rates are then benchmarked against the most conservative risk rating between the life insurer members' supervisory risk rating or PIDM's internal ratings assessment.

(b) **Exposure At Default (EAD)**

The AVL of the life insurer members are considered as the proxy in determining the EAD used in the simulation, regardless of the insurance benefits protected by PIDM. The assumption is taken to address the risk of any under-estimation of the insurance liabilities and adverse claims experience, over and above the amount of reserves already provided. In addition, operational risk charges are also included to estimate the potential risk of losses arising from inadequate or failed internal processes, people or systems. Other contingency cost assumptions are also built in the EAD to signify the prudent assumption of estimating the worst case scenario in calculating the Target Fund level.

(c) **Loss Given Default (LGD)**

The LGD is defined as the percentage loss rate suffered by PIDM during any intervention or resolution action implemented after considering the potential recoveries of the failed life insurer member's assets.

Target Fund Range for LIPF

The Target Fund framework for LIPF has adopted the Target Fund level between the ranges of 0.4% to 0.6% of the total AVL of the life insurer members. Based on the total AVL as at 31 December 2015, the Target Fund range in RM million are as follows:

Table 7: Target Fund Range for LIPF as at 31 December 2016

Life Insurance Protection Fund	Target Fund		
	2016 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	237.0	472.6	708.8

FINANCIAL OVERVIEW

Time-to-Fund for LIPF

After taking into consideration the operating environment and impact to the insurance industry, we have determined the reasonable Time-to-Fund to achieve the lower range of the Target Fund of 0.4% of the total AVL to be between five and eight years (beginning from 2017). We will continue to monitor and report on the progress of our Target Fund level annually.

External Funding

We may raise external funds through either borrowings from the Government, capital markets or such other sources as deemed necessary and appropriate. The PIDM Act empowers the Minister of Finance to provide loans to PIDM to meet its obligations. Such borrowings would be based on such terms and conditions as the Minister of Finance will determine.

Funding from the capital markets, namely through the issuance of debt securities by PIDM, is also an option when the environment or market is conducive to do so. Following the signing of an agreement with Cagamas Berhad in 2015, PIDM and Cagamas Berhad have in this year finalised the detailed processes and template agreements that would apply if this funding arrangement were to be called upon. This now allows another option for PIDM to obtain short-term liquidity for the resolution of non-viable member institutions.

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



SUMMARY OF THE CORPORATE PLAN 2017 - 2019

PIDM has continued to build on a strong foundation of best governance and management practices, as we continue to maintain operational readiness. We are now focussed on ensuring that we continue to deliver value to our stakeholders over the long term.

Our Corporate Plan is developed based on an integrated approach, incorporating risk management processes that identify and manage the key risks that could prevent the Corporation from achieving its objectives.

HIGHLIGHTS OF OUR 2017 - 2019 PLAN

PIDM's strategic objectives are to ensure sustainability and continuing success over the long term. Given these objectives, the following strategic priorities will guide PIDM's activities for the planning period 2017 - 2019.

Strategic Priorities	Key Outcome	Key Focus
Effective Resolution Regime		
The establishment of an effective resolution regime for member institutions is to support the robustness of the nation's financial system and its accompanying economic growth.	Comprehensive and tested frameworks and PIDM requirements, to guide and facilitate the development of the resolution plans, and to assess the resolvability of member institutions.	<ul style="list-style-type: none"> Conduct pilot exercises to develop resolution plans for the identified member banks. Conduct industry consultation to obtain feedback in relation to resolution planning. Engage and work collaboratively with the industry, other financial safety net players and relevant stakeholders, both domestically and internationally, on resolution planning. Research and develop a Resolvability Rating Framework and Methodology to incorporate scores from the resolvability assessment into the Corporation's differential premium systems. Continue to strengthen operational readiness by developing and enhancing the necessary processes, systems and infrastructure in the areas of risk assessment and monitoring, intervention and failure resolution as well as funding.
Strategic Human Capital Management		
Effective strategic human capital strategies are the cornerstone to the long-term success and sustainability of PIDM.	A committed workforce that is continuously learning, highly competent, adaptable and engaged.	<ul style="list-style-type: none"> Implement the enhanced Competency Model. Continue to customise and provide structured learning and development programmes for employees. Implement the career management strategy to promote the acquisition of cross-organisational skills and knowledge. Continue to implement the employee engagement strategy. Implement the Learning Organisation Framework focussed on continuing to build the foundations for a learning organisation, through leadership and culture.

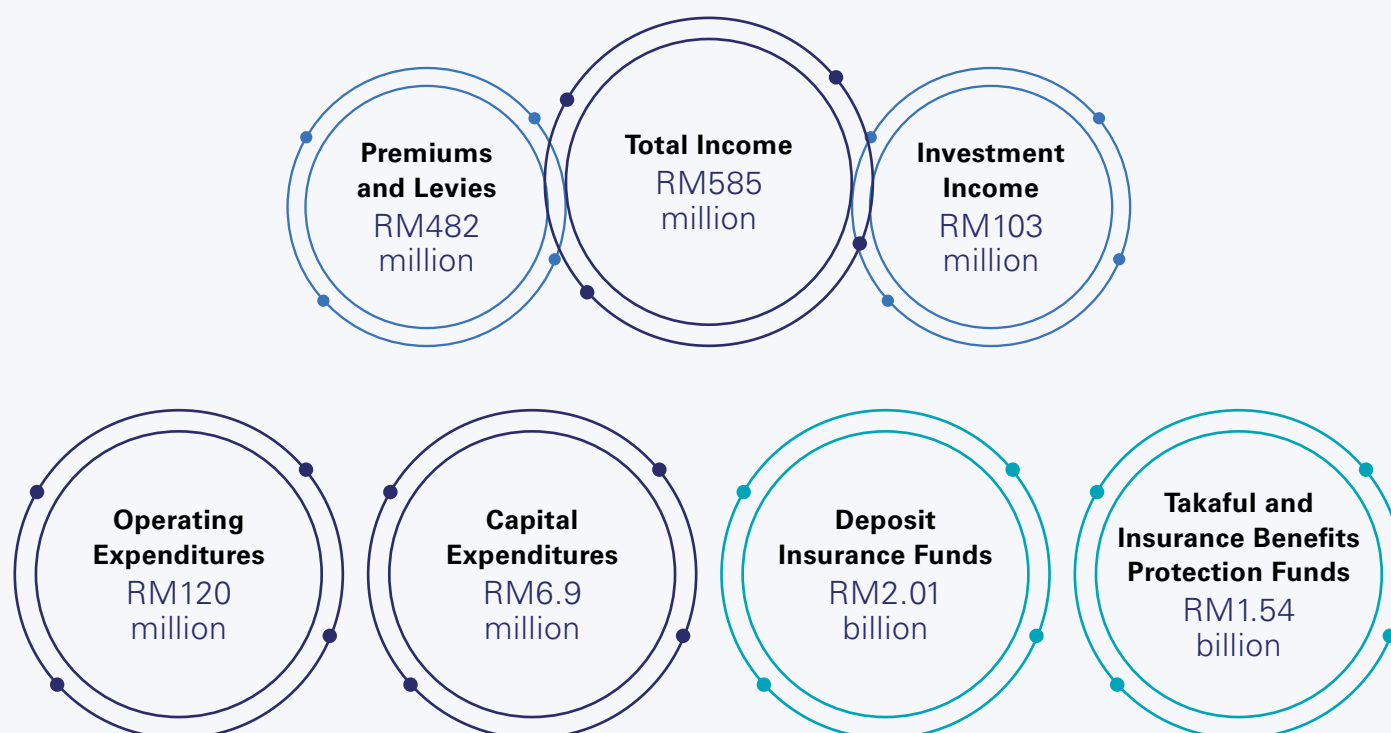
SUMMARY OF THE CORPORATE PLAN 2017 - 2019

Strategic Priorities	Key Outcome	Key Focus
Stakeholder Management and Corporate Governance		
Stakeholder management is essential for PIDM to execute its mandate and to be recognised as a credible financial consumer protection and resolution authority.	Better understanding and appreciation by the public and stakeholders about PIDM's role, DIS and TIPS, and to promote and contribute to financial system stability for public confidence.	<ul style="list-style-type: none"> Continue with public engagements to enhance awareness of PIDM, DIS and TIPS, and to reinforce confidence in PIDM. Promote good corporate governance in the public sector and demonstrate our leadership in this area. Continue to provide support and leverage on the networks of FIDE FORUM.

The corporate initiatives for the planning period and the respective targets are set out in our Corporate Scorecard 2017 - 2019, in the Appendix.

HIGHLIGHTS OF OUR 2017 FINANCIAL PLAN

The Financial Plan 2017 has been developed to support the achievement of our key initiatives as well as the management of our day-to-day operations.



SUMMARY OF THE CORPORATE PLAN 2017 - 2019

HIGHLIGHTS OF OUR 2018 - 2019 FINANCIAL PROJECTIONS

The financial projections for 2018 and 2019 have been primarily premised on our key corporate initiatives during the planning period, complemented by conservative forecasts and assumptions based on the Corporation's past trends in income and expenditures.

Key financial assumptions:

	2018	2019
Total Income	5% ▲	5% ▲
Premiums and Levies	2% ▲	2% ▲
Investment Income	16% ▲	15% ▲
Operating Expenditures	2% ▲	7% ▲

No member institution failure is assumed during the planning period

GOING FORWARD

PIDM continues to make advancements towards achieving its vision to be a best practice financial consumer protection and resolution authority. We believe that our key initiatives for each strategic priority will enhance our state of operational readiness and effectiveness and contribute towards the stability of the nation's financial system.

The full details of our Summary of the Corporate Plan 2017 - 2019 is available on our website at www.pidm.gov.my in the four main languages. A copy of our Corporate Plan is also disseminated to our key stakeholders each year and we report on our performance against the Corporate Plan in our Annual Report.



SECTION

5

FINANCIAL STATEMENTS

Directors' Report
Statement by Directors
Statutory Declaration
Auditor General's Certification
Statement of Financial Position
Statement of Profit or Loss and Other Comprehensive Income
Statement of Changes in Funds and Reserves
Statement of Cash Flows
Notes to the Financial Statements

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) for the financial year ended 31 December 2016.

PRINCIPAL ACTIVITIES

PIDM is a statutory body established to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). PIDM is governed by the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).

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

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

FINANCIAL RESULTS

	2016 RM'000	2015 RM'000
Net surplus for the financial year:		
Deposit Insurance Funds	356,797	325,280
Takaful and Insurance Benefits Protection Funds	136,789	101,310
Total net surplus	493,586	426,590

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the Statement of Changes in Funds and Reserves.

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

DIRECTORS' REPORT

FINANCIAL RESULTS (continued)

The balances of the Funds as at the end of the financial year were:

	2016 RM'000	2015 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	1,388,304	1,095,738
Islamic Deposit Insurance Fund	266,896	202,665
Total Deposit Insurance Funds	1,655,200	1,298,403
Takaful and Insurance Benefits Protection Funds:		
General Insurance Protection Fund	1,183,067	1,110,115
Life Insurance Protection Fund	236,969	188,607
General Takaful Protection Fund	17,758	12,095
Family Takaful Protection Fund	34,485	24,673
Total Takaful and Insurance Benefits Protection Funds	1,472,279	1,335,490

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2016 were:

- Tan Sri Datuk Dr. Abdul Samad Haji Alias (Chairman)
- Tan Sri Dato' Sri Dr. Mohd Irwan Serigar Abdullah
- Encik Mohamad Abdul Halim Ahmad
- Mr. Alex Foong Soo Hah
- Muhammad bin Ibrahim (appointed on 1 May 2016)
- Dato Dr. Nik Ramlah Nik Mahmood (appointed on 16 August 2016)
- Dato' Dr. Gan Wee Beng (appointed on 16 August 2016)
- Encik Johan Mahmood Merican (appointed on 3 January 2017)
- Ms. Gloria Goh Ewe Gim (appointed on 3 February 2017)
- Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (retired on 30 April 2016)
- Dato' Halipah Esa (retired on 15 August 2016)
- Mr. Lim Tian Huat (retired on 15 August 2016)
- Datuk Seri Dr. Rahamat Bivi Yusoff (retired on 2 January 2017)
- Mr. George Anthony David Dass (retired on 2 February 2017)

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

DIRECTORS' REPORT

DIRECTORS' BENEFITS

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

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

BAD AND DOUBTFUL DEBTS AND VALUATION METHODS

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS' REPORT

CONTINGENT LIABILITIES

Exposure to Losses

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

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that its concerns about the business and affairs of member institutions are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure.

PIDM reinforces financial discipline through its Differential Premium Systems for member banks and the Differential Levy Systems for insurer members, which provide strong incentives for member banks and insurer members to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. The Differential Premium Systems for member banks and the Differential Levy Systems for insurer members have been implemented since 2008 and 2013, respectively. The Differential Levy Systems for takaful operators was implemented during the year to replace the flat-rate system.

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

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Funds through the accumulation of annual net surpluses arising from its operations.

Accumulated surpluses are held in each Fund to cover losses when respective obligations arise. Accumulated surpluses in one Fund cannot be used to cover obligations of another Fund. As discussed in Note 10 to the financial statements, PIDM has established the Target Fund framework for DIFs in 2011 and Target Fund framework for the General Insurance Protection Fund (GIPF) in 2015. During the year, PIDM implemented the Target Fund framework for the Life Insurance Protection Fund (LIPF). PIDM will be developing a Target Fund framework for the Takaful Protection Funds within TIPFs during PIDM's corporate planning period for 2017 to 2019.

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

Other Contingent Liabilities

Based on the representation made by Management, the Directors are of the opinion that other than the exposure to losses discussed above, there does not exist:

- (i) any contingent liability which has arisen since the end of the financial year; and
- (ii) any contingent or other liability that has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which will or may affect the ability of PIDM to meet their obligations when they fall due.

DIRECTORS' REPORT

INVESTMENT IN SUBSIDIARIES

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

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

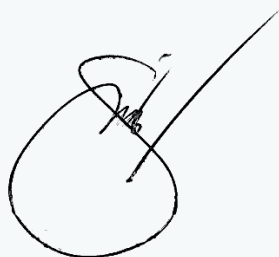
The Directors, in providing the opinion on the financial statements, relied on written representations by Management of their compliance with internal processes and their system of internal controls as well as the internal and external audit functions designed to ensure that:

- (i) the financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS) and comply with the International Financial Reporting Standards (IFRS), so as to give a true and fair view of the financial position of PIDM as at 31 December 2016, the results of its operations and its cash flows for the year ended on that date; and
- (ii) the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements and are in compliance with the PIDM Act.

AUDITORS

In accordance with the PIDM Act, the accounts of PIDM are audited by the Auditor General of Malaysia.

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



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



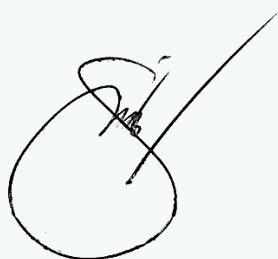
Encik Mohamad Abdul Halim Ahmad
Chairman of the Audit Committee

Kuala Lumpur
21 February 2017

STATEMENT BY DIRECTORS

We, Tan Sri Datuk Dr. Abdul Samad bin Haji Alias and Encik Mohamad Abdul Halim Ahmad, being two of the Directors of Perbadanan Insurans Deposit Malaysia (PIDM), do hereby state that, in the opinion of the Directors, the financial statements have been prepared and presented in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act) and applicable Malaysian Financial Reporting Standards and comply with the International Financial Reporting Standards, so as to give a true and fair view of the state of affairs of PIDM as at 31 December 2016, the results of its operations and its cash flows for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, as set out in the PIDM Act.

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



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



Encik Mohamad Abdul Halim Ahmad
Chairman of the Audit Committee

Kuala Lumpur
21 February 2017

STATUTORY DECLARATION

By Management in Relation to their Responsibility for Financial Reporting

The preparation of the financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) and the information relating to the financial statements are the responsibility of Management. The financial statements have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act) and applicable Malaysian Financial Reporting Standards and comply with the International Financial Reporting Standards, so as to give a true and fair view of the financial position of PIDM as at 31 December 2016, the results of its operations and its cash flows for the year ended on that date. The Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, and is in compliance with the PIDM Act.

In discharging its responsibility for the integrity and fairness of the financial statements, Management maintains financial and management control systems and practices. Compliance with control systems and practices are validated by an independent internal audit function designed to provide reasonable assurance that transactions are duly authorised, assets are safeguarded and proper records are maintained in accordance with the PIDM Act as well as the Statutory Bodies (Accounts and Annual Reports) Act 1980.

These financial statements have been duly audited by the Auditor General of Malaysia and the results of the audit have been duly noted by Management. In carrying out the audit, the auditors have access to all documents and records of PIDM. The auditors also have free access to the Audit Committee of the Board, which oversees Management's responsibilities for maintaining adequate control systems and the quality of financial reporting and recommends the financial statements to the Board of Directors.

The financial statements have been considered and approved by the Board of Directors and a resolution was approved on 21 February 2017.

This document may be signed in any number of counterparts, each of which is an original and all of which taken together form one single document.

We, Jean Pierre Sabourin and Noorida binti Baharuddin, being the two officers primarily responsible for the financial management of PIDM, do solemnly and sincerely declare that the financial statements, to the best of our knowledge and belief, are correct.



Jean Pierre Sabourin
Chief Executive Officer

STATE OF FLORIDA
COUNTY OF SUMTER

Sworn to and subscribed before me this 21st day of February, 2017, by
Jean Pierre Sabourin.



Notary Public, State of Florida

LIANNE OWENS
(Print or Type Notary Name)

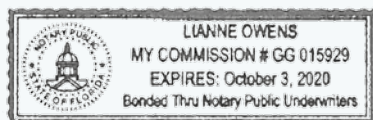
The said Jean Pierre Sabourin:

- ☐ is personally known to me; or
☒ has provided US passport as identification.

My commission expires: 10/3/2020

Serial No. GG 015929

(Notarial Seal)



I, Noorida binti Baharuddin make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on this 21 day of February 2017.



Noorida binti Baharuddin
Chief Financial Officer and General Manager,
Finance and Administration Division

Before Me,
Commissioner for Oaths



Level 16, Menara Tokio Marine Life,
189, Jalan Tun Razak, 50400 Kuala Lumpur.



REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
PERBADANAN INSURANS DEPOSIT MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2016

Report on the Financial Statements

The financial statements of Perbadanan Insurans Deposit Malaysia have been audited by my representative, which comprise the Statement of Financial Position as at 31 December 2016 and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Funds and Reserves and Statement of Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory information.

The Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with approved financial reporting standards in Malaysia and Malaysia Deposit Insurance Corporation Act 2011 (Act 720). The Directors are also responsible for such internal control as the management determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit. The audit has been carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing in Malaysia. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial statements that give a true and fair view in order to design audit procedures that are

appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence that I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements give a true and fair view of the financial position of Perbadanan Insurans Deposit Malaysia as at 31 December 2016 and of its financial performance as well as cash flows for the year ended in accordance with approved financial reporting standards in Malaysia.

(TAN SRI DR. MADINAH BINTI MOHAMAD)
AUDITOR GENERAL
MALAYSIA



PUTRAJAYA
31 MARCH 2017

STATEMENT OF FINANCIAL POSITION

As at 31 December

	Note	2016 RM'000	2015 RM'000
ASSETS			
Cash and cash equivalents	4a	20,755	24,831
Investments			
<i>Held-to-maturity investments</i>	5	3,052,014	2,573,862
Other assets	6	31,716	26,930
Investment in subsidiaries	7	—*	—*
Property and equipment	8	37,420	21,881
Total Assets		3,141,905	2,647,504
LIABILITIES			
Payables	9	14,426	13,611
Total Liabilities		14,426	13,611
FUNDS AND RESERVES			
Deposit Insurance Funds			
<i>Accumulated surpluses</i>	10a	1,655,200	1,298,403
Takaful and Insurance Benefits Protection Funds			
<i>Accumulated surpluses</i>	10b	1,472,279	1,335,490
Total Funds and Reserves		3,127,479	2,633,893
Total Liabilities, Funds and Reserves		3,141,905	2,647,504

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

The accompanying notes form an integral part of the financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December

	Note	2016 RM'000	2015 RM'000
Premium and levy revenues	11	468,245	442,006
Investment income from cash and investment securities	12	89,191	78,478
Miscellaneous income	13	-	777
Total income		557,436	521,261
Employee benefits	14	56,460	51,561
Public relations and advertising		10,853	12,734
Depreciation of property and equipment	8	3,622	7,143
Operating leases		6,048	5,896
Other expenses	15	21,899	17,337
Total expenses		98,882	94,671
Operational net surplus		458,554	426,590
Exceptional item:			
Moneys received from Insurance Guarantee Scheme Funds	23	35,032	-
Net surplus for the year representing total comprehensive income for the year		493,586	426,590

Note: PIDM is exempted from income tax.

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN FUNDS AND RESERVES

For the Year Ended 31 December

DEPOSIT INSURANCE FUNDS

	Note	Conventional Deposit Insurance Fund RM'000	Islamic Deposit Insurance Fund RM'000	Total Funds and Reserves RM'000
Accumulated Surpluses				
As at 1 January 2015	10a	831,270	141,853	973,123
Total comprehensive income for the year		264,468	60,812	325,280
As at 31 December 2015	10a	1,095,738	202,665	1,298,403
As at 1 January 2016	10a	1,095,738	202,665	1,298,403
Total comprehensive income for the year		292,566	64,231	356,797
As at 31 December 2016	10a	1,388,304	266,896	1,655,200

TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS

	Note	General Insurance Protection Fund RM'000	Life Insurance Protection Fund RM'000	General Takaful Protection Fund RM'000	Family Takaful Protection Fund RM'000	Total Funds and Reserves RM'000
Accumulated Surpluses						
As at 1 January 2015	10b	1,065,215	141,432	9,042	18,491	1,234,180
Total comprehensive income for the year		44,900	47,175	3,053	6,182	101,310
As at 31 December 2015	10b	1,110,115	188,607	12,095	24,673	1,335,490
As at 1 January 2016	10b	1,110,115	188,607	12,095	24,673	1,335,490
Total comprehensive income for the year		72,952	48,362	5,663	9,812	136,789
As at 31 December 2016	10b	1,183,067	236,969	17,758	34,485	1,472,279

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

For the Year Ended 31 December

	Note	2016 RM'000	2015 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums and levies received from member institutions		468,245	442,006
Payments in the course of operations to suppliers and employees		(96,236)	(87,875)
Receipts of investment income		116,981	102,271
Receipts of miscellaneous income		-	795
Net cash flows generated from operating activities		488,990	457,197
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities		1,846,606	2,927,355
Purchase of investment securities		(2,356,555)	(3,368,294)
Receipts from Insurance Guarantee Scheme Funds		35,032	-
Proceeds from sale of property and equipment		-	11
Purchase of property and equipment		(18,149)	(6,728)
Net cash flows used in investing activities		(493,066)	(447,656)
Net (decrease) / increase in cash and cash equivalents		(4,076)	9,541
Cash and cash equivalents at beginning of year		24,831	15,290
Cash and cash equivalents at end of year	4a	20,755	24,831

Note 1: The Statement of Cash Flows shows how cash and cash equivalents have changed over the reporting period at PIDM. In accordance with MFRS 107, cash flows are divided into cash flows from operating and investing activities. The cash and cash equivalents shown in the Statement of Cash Flows correspond to the Statement of Financial Position item cash and cash equivalents. The amount of liquid assets available to PIDM is represented by adding investments. Refer to Note 21(c) for details of PIDM's management of liquidity risk.

Note 2: Statement of Cash Flows prepared using the indirect method is presented in Note 4(b) to the financial statements.

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

1. PRINCIPAL ACTIVITIES

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). PIDM is governed by the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).

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

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

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

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

The financial statements have been approved by the Board of Directors through a resolution made on 21 February 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

The financial statements have been prepared on the historical cost basis.

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

PIDM presents its Statement of Financial Position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of PIDM.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on demand with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value. This includes short-term investments with maturities of less than 90 days from the date of acquisition. The Statement of Cash Flows is prepared using the direct method. A Statement of Cash Flows prepared using the indirect method is also presented in Note 4(b) to the financial statements.

(b) Financial instruments

(i) Initial recognition and measurement

Financial instruments are financial assets or financial liabilities recognised in the Statement of Financial Position when PIDM becomes a party to the contractual provisions of the instruments on the trade date. (This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place).

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

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

(ii) Financial instrument categories and subsequent measurement

1. *Financial assets*

• Held-to-maturity investments

Investments classified as held-to-maturity comprise primarily marketable Malaysian Government Securities and Bank Negara Malaysia investment securities. PIDM invests in short-term and medium-term Ringgit Malaysia denominated securities that are intended to be held-to-maturity and are not traded. These securities with fixed or determinable payments and fixed maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the date of purchase to the maturity date, less any impairment losses recognised. Interest or returns earned whilst holding these investments including amortisation of premiums and accretion of discounts, which are calculated using the effective interest or yield method, and impairment losses, are recognised in the Statement of Profit or Loss.

If PIDM were to sell or reclassify a more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, PIDM would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement (continued)

1. Financial assets (continued)

• Loans and receivables

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

2. Financial liabilities

• Payables

PIDM measures all financial liabilities at cost, which is the fair value of the consideration to be paid in the future for goods and services rendered.

(iii) Fair value of financial instruments

PIDM provides fair value information on its investments for disclosure purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by PIDM.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

PIDM uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Fair value of financial instruments (continued)

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, PIDM determines whether transfers have occurred between the Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, PIDM has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the Levels of the fair value hierarchy as explained above.

(iv) Derecognition

1. Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired.
- PIDM has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:
 - o PIDM has transferred substantially all the risks and rewards of the asset; or
 - o PIDM has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When PIDM has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of PIDM's continuing involvement in the asset. In that case, PIDM also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that PIDM has retained.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in the Statement of Profit or Loss.

2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(c) Investment in subsidiaries

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

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

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

(d) Property and equipment, and depreciation

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

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

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

Building on freehold land	50 years
Furniture and fittings	20.00%
Motor vehicles	20.00%
Office refurbishments	20.00%
Office equipment and computer systems	33.33%

Freehold land has an unlimited useful life and therefore is not depreciated. PIDM capitalises its land and the amount of land capitalised at initial recognition is the purchase price along with any further costs incurred in bringing the land to its present condition.

Property and equipment under construction are not depreciated until the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(d) Property and equipment, and depreciation (continued)

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

(e) Impairment

1. Financial assets

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

- **Held-to-maturity investments**

To determine whether there is objective evidence that an impairment loss on held-to-maturity investments has been incurred, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the issuers and obligors as well as any default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the investment's original effective interest rate. The carrying value of the held-to-maturity investment is reduced and the amount of the impairment loss is recognised in the Statement of Profit or Loss.

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

- **Loans and receivables**

To determine whether there is objective evidence that an impairment loss on loans and receivables has been incurred, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the debtors, any default or significant delay in payments or when there is an objective evidence that PIDM is unable to collect all outstanding loans or receivables pursuant to the credit terms.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of impairment loss is recognised in the Statement of Profit or Loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(e) Impairment (continued)

2. *Non-financial assets*

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

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

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

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

(f) Recognition of income and expenses

All income and expenses pertaining to DIS and TIPS are recognised on an accrual basis. The PIDM Act empowers PIDM to credit all direct operating income to, and charge all expenses against the relevant Fund or Funds. Expenses that cannot be charged directly to the relevant Fund or Funds will be allocated based on the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011.

1. **Income**

Premium and levy revenues are recognised in a financial year in respect of the premium and levy assessed during that particular financial period.

Investment income including income from placements in short-term money market deposits is recognised on a time proportion basis that reflects the effective yield on the asset.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(f) Recognition of income and expenses (continued)

2. Expenses

The expenses that cannot be charged directly to a specific Fund or Funds are categorised into either the following two categories:

- (i) *Expenses that can be attributed to either DIS or TIPS but are common or indirect expenses for the respective systems.* The allocation of this category of expenses are based on the proportion of premiums and levies collected for the respective systems in the preceding year. For the 2016 financial year, the expenses were allocated to the respective systems based on the proportion of premiums and levies collected for the respective systems during the financial year ended 31 December 2015. The allocation rates used during the year are as follows:

Year	DIS		TIPS			
	Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2016	81.24%	18.76%	15.53%	70.25%	4.70%	9.52%
	100%		100%			
2015	83.13%	16.87%	14.74%	70.10%	4.96%	10.20%
	100%		100%			

- (ii) *Expenses which are common or indirect costs of administering both DIS and TIPS.* Expenses that cannot be specifically attributed to either DIS or TIPS, are allocated based on the proportion of premiums and levies collected for the respective Funds in DIS and TIPS in the preceding year. For the 2016 financial year, these expenses were allocated to the respective Funds based on the proportion of premiums and levies collected for each of the Funds during the financial year ended 31 December 2015. The apportionment basis used is as follows:

Year	Total	DIS		TIPS			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2016	100%	66.02%	15.25%	2.91%	13.16%	0.88%	1.78%
2015	100%	64.08%	13.00%	3.38%	16.06%	1.14%	2.34%

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(g) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses, social security contributions and other benefits such as medical coverage benefits and allowances are recognised as an expense in the year in which the associated services are rendered by employees of PIDM. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Post-employment benefits

1. Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which PIDM pays fixed contributions into a separate entity or fund. PIDM will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current or preceding financial years. Such contributions are recognised as an expense in the Statement of Profit or Loss as incurred. As required by law, PIDM makes contributions to the statutory national pension scheme, Kumpulan Wang Simpanan Pekerja, as well as Pertubuhan Keselamatan Sosial.

2. Defined benefit plan

PIDM operates an unfunded defined benefit plan referred to as Long Term Retirement Plan (LTRP) which was implemented effective 1 January 2016. The LTRP provides benefits to employees in the form of a guaranteed level of a one lump sum retirement payment based on the employee's final drawn salary. The LTRP payment depends on employee's length of service and their salary in the final year leading up to retirement.

The LTRP liability recognised in the Statement of Financial Position is the present value of the LTRP obligation at the end of the reporting period, together with adjustments for actuarial gains / losses and any unrecognised past service cost.

The LTRP obligation, calculated using the projected unit credit method, is determined by a qualified actuary. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, turnover rate, mortality rate and disability rate. All assumptions are reviewed at each reporting date.

PIDM determines the interest expense on the LTRP liability for the period by applying the discount rate used to measure the LTRP obligation at the beginning of the annual period to the then LTRP liability. Interest expense and other expenses relating to the LTRP plan are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(h) Currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

Exchange differences arising from the settlement of monetary items, and on the translation of monetary items, are included in the Statement of Profit or Loss for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in the Statement of Profit or Loss for the period except for the differences arising from the translation of non-monetary items in respect of which gains and losses are recognised directly in the Funds and Reserves. Exchange differences arising from such non-monetary items are also recognised directly in the Funds and Reserves.

2.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

PIDM has early adopted the following accounting standards and amendments of the MFRS in its prior years' financial statements:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2016:

- Amendments to MFRS 7 *Financial Instruments: Disclosures (Annual Improvements to MFRSs 2012-2014 Cycle)*
- Amendments to MFRS 10 *Consolidated Financial Statements – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 12 *Investment Entities – Applying the Consolidation Exception*
- Amendments to MFRS 101 *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116 *Property, Plant & Equipment – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 119 *Employee Benefits (Annual Improvements to MFRSs 2012-2014 Cycle)*
- Amendments to MFRS 127 *Separate Financial Statements – Equity Method in Separate Financial Statements*

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies (continued)

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2018:

- MFRS 15 *Revenue from Contracts with Customers*

PIDM has also early adopted the following accounting standards and amendments of the MFRS issued by the Malaysian Accounting Standards Board (MASB) in its prior years' financial statements but the application of the accounting standards, amendments and interpretations of the MFRS has been deferred:

MFRS, Interpretations and Amendments with deferred effective date:

- Amendments to MFRS 10 *Consolidated Financial Statements – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The adoption of the above amendments and improvements to MFRS did not have any material effect on the financial performance or position of PIDM. These changes also do not result in significant changes in the accounting policies of PIDM.

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods and have not been adopted by PIDM in these financial statements:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2018:

- MFRS 9 *Financial Instruments (IFRS 9 issued by IASB in July 2014)*

In November 2014, the MASB issued the final version of MFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces MFRS 139 *Financial Instruments: Recognition and Measurement* and all previous versions of MFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. MFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

PIDM is in the process of assessing the financial effects of this new accounting standard.

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2019:

- MFRS 16 *Leases*

MFRS 16 replaces existing leases guidance in MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Leases – Incentives*, and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

PIDM is in the process of assessing the financial effects of this new accounting standard.

The following are accounting standards, amendments and interpretations to the MFRS Framework that have been issued by MASB but are not applicable to PIDM's operations:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies (continued)

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2016:

- Amendments to MFRS 5 *Non-current Assets Held for Sale and Discontinued Operations (Annual Improvements 2012 - 2014 Cycle)*
- Amendments to MFRS 11 *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations*
- MFRS 14 *Regulatory Deferral Accounts*
- MFRS 128 *Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception*
- Amendments to MFRS 134 *Interim Financial Reporting (Annual Improvements to MFRSs 2012 - 2014 Cycle)*
- Amendments to MFRS 138 *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to MFRS 116 *Property, Plant and Equipment* and MFRS 141 *Agriculture: Bearer Plants*

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2017:

- Amendments to MFRS 112 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to MFRS 107 *Statement of Cash Flows: Disclosure Initiative*
- Amendments to MFRS 12 *Disclosure of Interest in Other Entities (Annual Improvements 2014 - 2016 Cycle)*

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2018:

- Amendments to MFRS 107 *Statement of Cash Flows: Disclosure Initiative*
- Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014 - 2016 Cycle)*
- Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements 2014 - 2016 Cycle)*
- Amendments to MFRS 140 *Investment Property: Transfers of Investment Property*
- Amendments to MFRS 4 *Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of PIDM's financial statements does not generally require Management to make judgements, estimates and assumptions that affect the reported amounts except for the areas discussed below and the disclosure of contingent liabilities at the reporting date. Where judgements are required, uncertainty about the assumptions and estimates used could result in outcomes that would require a material adjustment to the carrying amount of the affected asset or liability in the future.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Judgements made in applying accounting policies

In the process of applying PIDM's accounting policies, Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Non-consolidation of investments in subsidiaries

In accordance with MFRS 10 *Consolidated Financial Statements*, consolidation of subsidiaries by a parent is required when the parent has 'control' over its subsidiaries. For control to be established, the investor must have the following:

- (i) power over the investee;
- (ii) exposure, or rights, to variable returns from its involvement with the investee; and
- (iii) the ability to use its power over the investee to affect the amount of investor's return.

PIDM is the resolution authority for all member institutions with wide intervention and failure resolution (IFR) powers. The subsidiaries were incorporated to act as vehicles for PIDM to carry out any IFR activities rather than for investment purposes. Any returns from the subsidiaries are meant for the benefit of the respective Funds, which are to be used for future IFR activities. PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Funds. Although PIDM has rights to use monies in the Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the PIDM Act.

Given the above considerations, the criteria for having 'control' as defined in MFRS 10 are not met, and hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries is included in Note 7 to the financial statements.

(b) Impairment of held-to-maturity investments as well as loans and receivables

PIDM assesses at each reporting date whether there is any objective evidence that held-to-maturity investments, loans or receivables are impaired as a result of one or more events that occurred and that loss event has an impact on the estimated future cash flows of the held-to-maturity investments, loans or receivables. To determine whether there is objective evidence of impairment, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the issuers, obligors or debtors as well as any default or significant delay in payments.

(c) Operating lease commitments

PIDM has entered into non-cancellable lease contracts for the use of office space and various office equipment. PIDM has determined, based on an evaluation of the terms and conditions of the arrangements, that the lease terms do not constitute a major part of the economic life of the assets and there is no purchase option clause included in the contract. As such, there is no transfer of significant risks and rewards of ownership of these assets to PIDM. Hence, these contracts are accounted for as operating lease.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of held-to-maturity investments as well as loans and receivables

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for held-to-maturity investments, loans or receivables with similar credit risk characteristics.

Defined benefit plan – LTRP

The LTRP obligation, calculated using the projected unit credit method, is determined by a qualified actuary. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, turnover rate, mortality rate and disability rate. All assumptions are reviewed at each reporting date.

4. CASH AND CASH EQUIVALENTS

a. Balances as at the end of the financial year

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits with Bank Negara Malaysia	-	-	-
Cash on hand and at bank	20,755	15,525	5,230
	20,755	15,525	5,230
Short-term investments:			
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Malaysia Bills and Negotiable Notes	-	-	-
	-	-	-
Add: Accretion of discounts net of amortisation of premiums	-	-	-
	-	-	-
Total cash and cash equivalents	20,755	15,525	5,230
Fair value of short-term investments held as at 31 December 2016 are as follows:			
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Malaysia Bills and Negotiable Notes	-	-	-
Total fair value of short-term investments	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

4. CASH AND CASH EQUIVALENTS (continued)

a. Balances as at the end of the financial year (continued)

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits with Bank Negara Malaysia	312	98	214
Cash on hand and at bank	14,521	12,099	2,422
	14,833	12,197	2,636
Short-term investments:			
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Malaysia Bills and Negotiable Notes	9,997	3,499	6,498
	9,997	3,499	6,498
Add: Accretion of discounts net of amortisation of premiums	1	-	1
	9,998	3,499	6,499
Total cash and cash equivalents	24,831	15,696	9,135

Fair value of short-term investments held as at 31 December 2015 are as follows:

Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Malaysia Bills and Negotiable Notes	10,000	3,500	6,500
Total fair value of short-term investments	10,000	3,500	6,500

Cash on hand and at bank include short-term money market placements of RM5 million (2015: RM10 million) and short-term fixed deposit placements of RM10 million (2015: RM Nil).

Short-term investments that have a term to maturity of less than 90 days from acquisition date are categorised as cash equivalents. These short-term investments are intended to be held to their maturities and therefore, stated at cost adjusted for accretion of discounts and amortisation of premiums.

The fair values of these short-term investments were based on indicative market prices.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	493,586	356,797	136,789
<i>Adjustments for:</i>			
Depreciation of property and equipment	3,622	2,595	1,027
Investment income from cash and investment securities	(89,191)	(46,099)	(43,092)
Miscellaneous income	-	-	-
Operating profit before changes in working capital	408,017	313,293	94,724
Change in payables	815	1,137	(322)
Change in other assets	(781)	(249)	(532)
Cash generated from operations	408,051	314,181	93,870
Net accretion / amortisation for investment securities	(4,247)	9,608	(13,855)
Change in investment income receivables	(4,005)	(1,385)	(2,620)
Investment income from cash and investment securities	89,191	46,099	43,092
Net cash flows generated from operating activities	488,990	368,503	120,487
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	1,846,606	910,128	936,478
Purchase of investment securities	(2,356,555)	(1,264,613)	(1,091,942)
Receipts from Insurance Guarantee Scheme Funds	35,032	-	35,032
Proceeds from sale of property and equipment	-	-	-
Purchase of property and equipment	(18,149)	(14,189)	(3,960)
Net cash flows used in investing activities	(493,066)	(368,674)	(124,392)
Net decrease in cash and cash equivalents	(4,076)	(171)	(3,905)
Cash and cash equivalents at beginning of year	24,831	15,696	9,135
Cash and cash equivalents at end of year	20,755	15,525	5,230

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method) (continued)

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	426,590	325,280	101,310
<i>Adjustments for:</i>			
Depreciation of property and equipment	7,143	6,193	950
Investment income from cash and investment securities	(78,478)	(36,655)	(41,823)
Miscellaneous income	(777)	(774)	(3)
Operating profit before changes in working capital	354,478	294,044	60,434
Change in payables	2,243	1,822	421
Change in other assets	555	113	442
Cash generated from operations	357,276	295,979	61,297
Net accretion / amortisation for investment securities	40,445	18,893	21,552
Change in investment income receivables	(19,002)	(10,310)	(8,692)
Investment income from cash and investment securities	78,478	36,655	41,823
Net cash flows generated from operating activities	457,197	341,217	115,980
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	2,927,355	1,320,139	1,607,216
Purchase of investment securities	(3,368,294)	(1,652,693)	(1,715,601)
Receipts from Insurance Guarantee Scheme Funds	-	-	-
Proceeds from sale of property and equipment	11	8	3
Purchase of property and equipment	(6,728)	(5,079)	(1,649)
Net cash flows used in investing activities	(447,656)	(337,625)	(110,031)
Net increase in cash and cash equivalents	9,541	3,592	5,949
Cash and cash equivalents at beginning of year	15,290	12,104	3,186
Cash and cash equivalents at end of year	24,831	15,696	9,135

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

5. INVESTMENTS

Held-to-maturity investments

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	2,565,078	1,218,616	1,346,462
Bank Negara Malaysia Bills and Negotiable Notes	242,770	242,770	-
Private Debt Securities	250,631	144,958	105,673
	3,058,479	1,606,344	1,452,135
Add: Accretion of discounts net of amortisation of premiums	(6,465)	468	(6,933)
Total held-to-maturity investments	3,052,014	1,606,812	1,445,202
Fair value of investments held as at 31 December 2016 are as follows:			
Malaysian Government Securities and Investment Issues	2,542,240	1,209,575	1,332,665
Bank Negara Malaysia Bills and Negotiable Notes	246,383	246,383	-
Private Debt Securities	250,161	145,109	105,052
Total fair value of investments	3,038,784	1,601,067	1,437,717

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	2,399,162	1,193,446	1,205,716
Bank Negara Malaysia Bills and Negotiable Notes	36,839	30,738	6,101
Private Debt Securities	135,262	37,728	97,534
	2,571,263	1,261,912	1,309,351
Add: Accretion of discounts net of amortisation of premiums	2,599	1,405	1,194
Total held-to-maturity investments	2,573,862	1,263,317	1,310,545
Fair value of investments held as at 31 December 2015 are as follows:			
Malaysian Government Securities and Investment Issues	2,404,983	1,199,168	1,205,815
Bank Negara Malaysia Bills and Negotiable Notes	37,118	30,980	6,138
Private Debt Securities	134,674	37,755	96,919
Total fair value of investments	2,576,775	1,267,903	1,308,872

Investments are denominated in Ringgit Malaysia.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

5. INVESTMENTS (continued)

The fair values of investments in both DIFs as well as TIPFs as disclosed above are indicative of their market values as at the end of the financial year and are determined by reference to indicative market prices obtained from a bond pricing agency.

The fair value of Malaysian Government Securities and Investment Issues as well as PDS are lower than their carrying amount due to the sensitivity of the price of these securities arising from the interest rate movements and is not due to credit deterioration of the securities held. As these investments are held to maturity, the risk exposure arising from interest rate movements does not affect the financial statements. Refer to Note 21 on the disclosure of PIDM's financial risk management policy relating to its investments.

6. OTHER ASSETS

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits and prepayments	3,678	3,238	440
Investment income receivables	26,432	11,696	14,736
Other receivables	1,180	430	750
Other assets	213	154	59
Amounts due from subsidiaries	213	116	97
Total other assets	31,716	15,634	16,082

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits and prepayments	3,719	3,259	460
Investment income receivables	22,427	10,311	12,116
Other receivables	398	183	215
Other assets	213	154	59
Amounts due from subsidiaries	173	93	80
Total other assets	26,930	14,000	12,930

Included in other receivables are inter-fund balances of RM1.2 million (2015: RM0.3 million) for day-to-day operational activities.

Amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

7. INVESTMENT IN SUBSIDIARIES

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	-*	-	-
Total investment in subsidiaries	-*	-	-

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	-*	-	-
Total investment in subsidiaries	-*	-	-

* Total paid-up capital of RM10 (RM2 for each of the five subsidiaries) is significantly below the rounding threshold.

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Incorporation Date	Effective ownership interest	Status
The Federal Asset Management Agency of Malaysia Berhad**	Malaysia	Asset management company	8 June 2012	100%	Dormant
The Federal Commercial Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The Federal Islamic Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The National PIDM Insurance Corporation of Malaysia Berhad**	Malaysia	Bridge institution	20 June 2012	100%	Dormant
The Federal Takaful Corporation of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant

** Audited by an external audit firm, Messrs Khairuddin Hasyudeen & Razi.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

7. INVESTMENT IN SUBSIDIARIES (continued)

The names of all Directors for all the subsidiaries in office during the financial year ended 31 December 2016 were:

- Ms Lim Yam Poh, Executive General Manager and General Counsel, PIDM
- Encik Rafiz Azuan Abdullah, Executive General Manager, PIDM

The subsidiaries were incorporated as part of PIDM's efforts to ensure operational readiness to carry out any intervention or failure resolution (IFR) activities. In accordance with section 10 of the PIDM Act, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The five subsidiaries, being one asset management company (AMC) and four bridge institutions (BIs), have been incorporated under the Companies Act 2016 as public companies limited by shares. The subsidiaries are incorporated in advance in case of any failure of a member institution and hence, will remain dormant until activated to carry out any necessary IFR activities.

The specific objective and purpose of these subsidiaries are as follows:

Name of subsidiary	Objects / Purpose
The Federal Asset Management Agency of Malaysia Berhad	The AMC was established to carry on the business of an asset management company and has the authority to acquire, assume control, manage, dispose off, sell, deal with, transact and operate as a going concern or otherwise, the assets, liabilities, business, undertakings and affairs of a member institution as defined in the PIDM Act, whether by way of an arrangement, agreement, instrument or otherwise in accordance with the PIDM Act and any other applicable laws.
Bridge institutions (BIs)	
A BI is a resolution tool under the PIDM Act. This would enable PIDM to transfer the business, assets and liabilities of a troubled or failed member institution to a BI where there is no immediate purchaser or where the resolution action involves a complex member institution. The BI is intended to be a temporary special purpose vehicle that would preserve the business franchise value of the troubled or failed member institution. The BI is to be operated on a conservative basis, and subsequently sold to a private sector purchaser. On activation and designation of a BI under the PIDM Act with the approval of the Minister of Finance, the BI will operate as a fully licensed financial institution.	
The Federal Commercial Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed bank to carry on and transact all commercial banking business as defined in the Financial Services Act 2013.
The Federal Islamic Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed Islamic bank to carry on and transact all Islamic banking business as defined in the Islamic Financial Services Act 2013.
The National PIDM Insurance Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed insurance company to carry on or transact all insurance, assurance, guarantee and indemnity businesses as defined in the Financial Services Act 2013.
The Federal Takaful Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed takaful operator to carry on or transact every kind of takaful and re-takaful businesses under the Islamic Financial Services Act 2013.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

7. INVESTMENT IN SUBSIDIARIES (continued)

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

In addition, PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries. Although PIDM has rights to use the Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the PIDM Act. Given these considerations, the criteria for having 'control' as defined in MFRS 10 are not met, hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries (in absolute RM) is set out below.

	2016				
	The Federal Asset Management Agency of Malaysia Berhad RM	The Federal Commercial Bank of Malaysia Berhad RM	The Federal Islamic Bank of Malaysia Berhad RM	The National PIDM Insurance Corporation of Malaysia Berhad RM	The Federal Takaful Corporation of Malaysia Berhad RM
Revenue	-	-	-	-	-
Total expenses	7,673	7,673	7,673	7,673	7,673
Total assets	300	300	300	300	300
Total liabilities	42,903	42,605	42,605	42,633	42,605
Capital	2	2	2	2	2

	2015				
	The Federal Asset Management Agency of Malaysia Berhad RM	The Federal Commercial Bank of Malaysia Berhad RM	The Federal Islamic Bank of Malaysia Berhad RM	The National PIDM Insurance Corporation of Malaysia Berhad RM	The Federal Takaful Corporation of Malaysia Berhad RM
Revenue	-	-	-	-	-
Total expenses	9,839	9,839	9,839	9,838	9,839
Total assets	-	-	-	-	-
Total liabilities	34,930	34,632	34,632	34,660	34,632
Capital	2	2	2	2	2

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT

	2016							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
Cost								
Balance as at 1 January 2016	4,718	-	29,070	3,099	686	9,031	11,590	58,194
Additions	-	-	1,280	-	300	247	17,334	19,161
Reclassifications / Adjustments	-	17,168	5,311	960	-	1,189	(24,628)	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	4,718	17,168	35,661	4,059	986	10,467	4,296	77,355
Accumulated depreciation								
Balance as at 1 January 2016	-	-	25,116	3,016	326	7,855	-	36,313
Charge for the year	-	-	2,860	73	115	574	-	3,622
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	-	-	27,976	3,089	441	8,429	-	39,935
Net carrying amount as at 31 December 2016	4,718	17,168	7,685	970	545	2,038	4,296	37,420

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT (continued)

	2015							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
Cost								
Balance as at 1 January 2015	4,718	-	27,340	3,055	418	8,390	4,601	48,522
Additions	-	-	392	44	440	20	8,948	9,844
Reclassifications / Adjustments	-	-	1,338	-	-	621	(1,959)	-
Disposals	-	-	-	-	(172)	-	-	(172)
Balance as at 31 December 2015	4,718	-	29,070	3,099	686	9,031	11,590	58,194
Accumulated depreciation								
Balance as at 1 January 2015	-	-	19,823	2,781	416	6,322	-	29,342
Charge for the year	-	-	5,293	235	82	1,533	-	7,143
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(172)	-	-	(172)
Balance as at 31 December 2015	-	-	25,116	3,016	326	7,855	-	36,313
Net carrying amount as at 31 December 2015	4,718	-	3,954	83	360	1,176	11,590	21,881

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT (continued)

Assets under construction amounting to RM4,296,194 (2015: RM11,590,240) consist of:

	2016 RM	2015 RM
* Assets under construction consist of:		
Development of Disaster Recovery Centre (DRC)	-	8,958,297
Submission Tracking and Rating System (STARS)	-	701,660
2-Factors Authentication project	-	296,397
Risk Assessment System (RAS) version 2	1,309,431	278,999
Office refurbishments	36,570	247,434
Claims Management System (CMS)	346,620	173,310
Investment System	-	146,225
Budgeting System	-	128,663
Premium Reimbursement Information Management System (PRIMS)	373,014	124,338
Enhancement for Financial Management System	386,370	-
Request Management System and Payout Management System	462,091	-
Travel Requisition System	261,661	-
Technology Assurance for RAS 2	244,844	-
Enhancement to Depositor Support Management System (DSMS) and Depositor Liability Information Management System (DLIMS) Lite	390,239	-
Other Information Technology (IT) systems	485,354	534,917
	4,296,194	11,590,240

Included in Building is the construction cost for the DRC building which was completed in October 2016. The DRC building constructed on the freehold land is measured at cost at the reporting date. The DRC building was completed on 14 October 2016 followed by the issuance of the Certificate of Practical Completion on 8 December 2016. Depreciation of the DRC building is computed on a straight-line basis over its estimated useful life upon receipt of both the Certificate of Practical Completion and the Certificate of Completion and Compliance.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT (continued)

Subsequent to initial recognition, the freehold land is stated at cost. As at 31 December 2016, the fair value of the freehold land is RM8,200,000. The first professional valuation of the freehold land was carried out during the year by a registered independent valuer. The fair value of the freehold land was determined using both cost approach and comparison approach method concurrently. This means that the valuation performed by the valuer is based on active market prices, significantly adjusted for marketability restrictions and other relevant conditions applicable to the freehold land. The fair value of the freehold land is based on the valuation performed by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

Significant unobservable valuation input:

Range

Price per square metre

RM120 – RM125

Significant increases / (decreases) in estimated price per square metre in isolation would result in a significantly higher / (lower) fair value.

Reconciliation of fair value – Level 3 fair value

	2016 RM'000	2015 RM'000
Cost as at 1 January	4,718	4,718
Cost as at 31 December	4,718	4,718
Fair value as at 31 December	8,200	-

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

	2016							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost								
Balance as at 1 January 2016	3,155	-	26,463	3,067	583	8,125	8,553	49,946
Additions	-	-	1,041	-	244	200	14,086	15,571
Reclassifications / Adjustments	-	13,953	4,163	779	-	954	(19,849)	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	3,155	13,953	31,667	3,846	827	9,279	2,790	65,517
Accumulated depreciation								
Balance as at 1 January 2016	-	-	23,559	3,007	306	7,321	-	34,193
Charge for the year	-	-	2,070	57	89	379	-	2,595
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	-	-	25,629	3,064	395	7,700	-	36,788
Net carrying amount as at 31 December 2016	3,155	13,953	6,038	782	432	1,579	2,790	28,729

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds (continued)

	2015							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost								
Balance as at 1 January 2015	3,155	-	25,045	3,033	416	7,631	3,234	42,514
Additions	-	-	302	34	339	15	6,914	7,604
Reclassifications / Adjustments	-	-	1,116	-	-	479	(1,595)	-
Disposals	-	-	-	-	(172)	-	-	(172)
Balance as at 31 December 2015	3,155	-	26,463	3,067	583	8,125	8,553	49,946
Accumulated depreciation								
Balance as at 1 January 2015	-	-	19,022	2,778	416	5,956	-	28,172
Charge for the year	-	-	4,537	229	62	1,365	-	6,193
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	(172)	-	-	(172)
Balance as at 31 December 2015	-	-	23,559	3,007	306	7,321	-	34,193
Net carrying amount as at 31 December 2015	3,155	-	2,904	60	277	804	8,553	15,753

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds

	2016							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost								
Balance as at 1 January 2016	1,563	-	2,607	32	103	906	3,037	8,248
Additions	-	-	239	-	56	47	3,248	3,590
Reclassifications / Adjustments	-	3,215	1,148	181	-	235	(4,779)	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	1,563	3,215	3,994	213	159	1,188	1,506	11,838
Accumulated depreciation								
Balance as at 1 January 2016	-	-	1,557	9	20	534	-	2,120
Charge for the year	-	-	790	16	26	195	-	1,027
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	-	-	2,347	25	46	729	-	3,147
Net carrying amount as at 31 December 2016	1,563	3,215	1,647	188	113	459	1,506	8,691

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

	2015							
	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction RM'000	Total RM'000
Cost								
Balance as at 1 January 2015	1,563	-	2,295	22	2	759	1,367	6,008
Additions	-	-	90	10	101	5	2,034	2,240
Reclassifications / Adjustments	-	-	222	-	-	142	(364)	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2015	1,563	-	2,607	32	103	906	3,037	8,248
Accumulated depreciation								
Balance as at 1 January 2015	-	-	801	3	-	366	-	1,170
Charge for the year	-	-	756	6	20	168	-	950
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Balance as at 31 December 2015	-	-	1,557	9	20	534	-	2,120
Net carrying amount as at 31 December 2015	1,563	-	1,050	23	83	372	3,037	6,128

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

9. PAYABLES

	Note	2016		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Other payables		1,152	729	423
Accruals		11,037	8,991	2,046
Sundry creditors		134	109	25
Provision for unutilised leave	i	1,851	1,466	385
Provision for Long Term Retirement Plan Liability	ii	252	205	47
Total payables		14,426	11,500	2,926

	Note	2015		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Other payables		3,243	2,411	832
Accruals		8,743	6,728	2,015
Sundry creditors		122	94	28
Provision for unutilised leave	i	1,503	1,130	373
Provision for Long Term Retirement Plan Liability	ii	-	-	-
Total payables		13,611	10,363	3,248

Included in other payables are inter-fund balances of RM1.2 million (2015: RM0.3 million) for day-to-day operational activities. Other payables include amount due to related parties as disclosed in Note 19.

i. Provision for unutilised leave

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January	1,503	1,130	373
Addition for the year	430	403	27
Payment	(82)	(67)	(15)
Balance as at 31 December	1,851	1,466	385

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

9. PAYABLES (continued)

i. Provision for unutilised leave (continued)

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January	1,212	872	340
Addition for the year	306	270	36
Payment	(15)	(12)	(3)
Balance as at 31 December	1,503	1,130	373

Provision for unutilised leave relates to the amount payable to employees on the annual leave carried forward from the preceding year that are not utilised before the current year's entitlement, calculated based on the employee's basic salary that was earned at the time the leave was accrued.

ii. Provision for Long Term Retirement Plan Benefit

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Long Term Retirement Plan Liability	252	205	47
Total provision for Long Term Retirement Plan	252	205	47

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Long Term Retirement Plan Liability	-	-	-
Total provision for Long Term Retirement Plan	-	-	-

PIDM operates an unfunded defined benefit plan referred to as Long Term Retirement Plan (LTRP) which was implemented effective 1 January 2016. The LTRP provides benefits to employees in the form of a guaranteed level of a one lump sum retirement payment based on the employee's final drawn salary. The LTRP payment depends on employee's length of service and their salary in the final year leading up to retirement. As at reporting date, the balance of the provision for LTRP represents accrued but not vested benefits.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

9. PAYABLES (continued)

ii. Provision for Long Term Retirement Plan Benefit (continued)

The following table shows a reconciliation from the opening balance to the closing balance for LTRP liability and its components:

	Total		DIFs		TIPFs	
	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Balance as at 1 January	-	-	-	-	-	-
Included in profit or loss						
Current service cost	249	-	202	-	47	-
Past service cost	3	-	3	-	.*	-
Interest cost	-	-	-	-	-	-
Balance as at 31 December	252	-	205	-	47	-

* Total current service cost for TIPFs is significantly below the rounding threshold.

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) include the discount rate, future salary growth, turnover rate, mortality rate and disability rate. The mortality rate is based on the published Malaysian Ordinary Life Table 1999 – 2003 that is used in the insurance industry. The disability rate used is 10% of the mortality rate.

10. FUNDS AND RESERVES

a. Deposit Insurance Funds

Accumulated surpluses

	2016		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	1,298,403	1,095,738	202,665
Net surplus	356,797	292,566	64,231
Balance as at 31 December	1,655,200	1,388,304	266,896

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

10. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

	2015		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	973,123	831,270	141,853
Net surplus	325,280	264,468	60,812
Balance as at 31 December	1,298,403	1,095,738	202,665

The DIFs are the accumulated reserves (ex-ante funds) to cover the net expected losses arising from providing deposit insurance protection to depositors. In accordance with the PIDM Act, PIDM maintains separate DIFs for both Conventional and Islamic DIS. DIFs are accumulated from annual net surpluses, which are the premium revenue and investment income earned net of total expenses incurred based on the proportion of premiums collected for a particular year.

In 2011, PIDM had established a framework to determine the levels of DIFs that PIDM aims to build as reserves over the long-run to meet its objectives and fulfil its mandate. This level (known as the Target Fund) represents the level of funds that would be sufficient to cover the net expected losses from IFR activities. The Target Fund is usually described as a percentage of Total Insured Deposits (TID), and for PIDM, is specified as a range of target levels (lower and upper ranges).

The Target Fund range is between 0.6% and 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2015, the range in RM absolute terms is between RM2.5 billion and RM3.8 billion for the Conventional DIF and between RM528 million and RM792 million for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

The current balance of DIFs as at 31 December 2016 as a percentage of TID compared to the Target Fund range are described in the following table:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

10. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

Deposit Insurance Funds	Target Fund			
	2016 Actual RM Million / %	2015 Actual RM Million / %	Lower Range RM Million / %	Upper Range RM Million / %
Conventional Deposit Insurance Fund				
Balance	1,388.30	1,095.74	2,522	3,784
Percentage of Total Insured Deposits	0.33%	0.27%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	266.89	202.66	528	792
Percentage of Total Insured Deposits	0.30%	0.27%	0.60%	0.90%

In order to achieve the Target Fund levels at the range of 0.6% to 0.9% of TID within a reasonable time frame, the premium rates to be assessed on member banks are described in Note 11(a).

Based on the current level of accumulated surpluses and approved premium rates, the lower range of the Target Fund is expected to be achieved within the next 6 to 8 years.

b. Takaful and Insurance Benefits Protection Funds

Accumulated surpluses

	2016				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Balance as at 1 January	1,335,490	1,110,115	188,607	12,095	24,673
Net surplus	136,789	72,952	48,362	5,663	9,812
Balance as at 31 December	1,472,279	1,183,067	236,969	17,758	34,485

	2015				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Balance as at 1 January	1,234,180	1,065,215	141,432	9,042	18,491
Net surplus	101,310	44,900	47,175	3,053	6,182
Balance as at 31 December	1,335,490	1,110,115	188,607	12,095	24,673

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

10. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

The TIPFs are the accumulated reserves (ex-ante funds) to cover the net expected losses arising from guaranteeing protected benefits to insurance and takaful policy owners. In accordance with the PIDM Act, PIDM maintains four separate Funds for each business segment within TIPS. TIPFs are accumulated from annual net surpluses, which are the levy revenue and investment income earned net of total expenses incurred based on the proportion of levies collected for a particular year.

The Target Fund framework for General Insurance Protection Fund (GIPF) has adopted the Target Fund levels at the range of 80% to 100% of the maximum expected loss level. Based on the exposures as at 31 December 2016, the Target Fund range in RM million are as follows:

General Insurance Protection Fund	Target Fund			
	2016 Actual RM Million	2015 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	1,183.01	1,110.12	336	420

Based on the above GIPF balance as at 31 December 2016, the current fund position has exceeded the upper range of the Target Fund. In this regard, PIDM has established the Fund Administration Framework, which incorporates the revision of levy rates and / or rebate of levy. In assessment year 2016, PIDM has revised the levy rates to be assessed on general insurer members for the assessment year 2016 onwards. Refer to Note 11(b)(ii).

During the year, PIDM implemented the Target Fund framework for the Life Insurance Protection Fund (LIPF), which adopted the Target Fund levels at the range of 0.4% to 0.6% of the total Actuarial Valuation Liabilities (AVL) of the life insurer members. Based on the total AVL as at 31 December 2015, the Target Fund range in RM million are as follows:

Life Insurance Protection Fund	Target Fund		
	2016 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	237.0	472.6	708.8

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the insurance industry, the lower range of the Target Fund of 0.4% of total AVL is expected to be achieved within the next 5 to 8 years.

PIDM will be developing a Target Fund framework for the Takaful Protection Funds within TIPFs during the planning period 2017 to 2019.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

11. PREMIUM AND LEVY REVENUES

a. Premium revenues from member banks

	2016		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Annual premiums	388,457	316,123	72,334
Total premium revenues from member banks	388,457	316,123	72,334

	2015		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Annual premiums	359,232	291,825	67,407
Total premium revenues from member banks	359,232	291,825	67,407

Premium rates applicable on the member banks are in accordance with the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2012 (Premium Order – Member Banks 2012), which took effect from assessment year 2013.

i. Rates for annual premium under the Differential Premium Systems

Premium Category [Column (1)]	Premium Rate		Minimum Annual Premium Amount (RM) [Column (4)]
	Assessment Year 2015 Onwards [Column (2)]	Assessment Year 2016 [Column (3)]	
1	0.06%	0.06%	100,000
2	0.12%	0.12%	200,000
3	0.24%	0.24%	400,000
4	0.48%	0.48%	800,000

Where the premium category in which a member bank is classified for an assessment year is as specified in column (1), the rates for the annual premium payable by such member bank will be the corresponding premium rate as specified in columns (2) and (3), subject to minimum annual premiums as specified in column (4). The current premium rate remains unchanged from the previous assessment year.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

11. PREMIUM AND LEVY REVENUES (continued)

a. Premium revenues from member banks (continued)

i. Rates for annual premium under the Differential Premium Systems (continued)

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

ii. Rates for first premium

In respect of a new member bank [as defined in Regulation 2 of the Malaysia Deposit Insurance Corporation (Differential Premium System in respect of Deposit-Taking Members) Regulations 2011] holding Islamic insured deposits or conventional insured deposits, the rate for the first premium for such new member bank will be the same as the premium rate for premium category 1, subject to a minimum first premium of RM250,000.

b. Levy revenues from insurer members

	2016				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Annual levies	79,788	5,434	57,163	6,231	10,960
Total levy revenues from insurer members	79,788	5,434	57,163	6,231	10,960

	2015				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Annual levies	82,774	12,851	58,152	3,891	7,880
Total levy revenues from insurer members	82,774	12,851	58,152	3,891	7,880

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

11. PREMIUM AND LEVY REVENUES (continued)

b. Levy revenues from insurer members (continued)

i. Levy rates under the Differential Levy Systems for insurer members

All insurer members are assessed based on the Malaysia Deposit Insurance Corporation (Differential Levy Systems in respect of Insurer Members) Regulations 2016 (DPS Regulation – Insurer Members 2016), which took effect from the assessment year 2016. The levy rates applicable to an insurer member is determined in accordance with the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in Respect of Insurer Members) Order 2016 (Premium¹ Order – Insurer Members 2016) based on the levy category for which that insurer member is classified. The new Premium Order resulted in change in levy rates for Takaful operators. The rates assessed on the insurer members, as specified in the Premium Order – Insurer Members 2016, are as follows:

Levy Category	2016			
	Insurance		Takaful	
	General	Life	General	Family
1	0.025%	0.025%	0.1%	0.025%
2	0.05%	0.05%	0.2%	0.05%
3	0.1%	0.1%	0.4%	0.1%
4	0.2%	0.2%	0.8%	0.2%

The levy rates for 2015 based on Premium Order – Insurer Members 2012, were as follows:

Levy Category	2015	
	General	Life
1	0.05%	0.025%
2	0.1%	0.05%
3	0.2%	0.1%
4	0.4%	0.2%

	2015	
	General Takaful	Family Takaful
Levy Rate	Flat rate of 0.25% of the total net levies received	Flat rate of 0.06% of actuarial valuation of family takaful liabilities

¹ In the recent amendments to the PIDM Act, the word “levies” is used to replace the word “premiums” when referring to “premiums” imposed by PIDM on insurer members. This is intended to differentiate it from (i) “premium” or “premiums” collected from member banks and (ii) premiums collected by insurer members from their policy owners or takaful certificate owners.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

11. PREMIUM AND LEVY REVENUES (continued)

b. Levy revenues from insurer members (continued)

ii. Minimum annual levy under the Differential Levy Systems for insurer members

The annual levies payable for 2016 were subject to minimum levies based on their levy category as follows:

Levy Category	2016			
	Minimum Annual Levy Amount (RM)			
	Insurance		Takaful	
	General	Life	General	Family
1	25,000	75,000		
2		150,000		
3		300,000		
4		600,000		

In respect of a new insurer member [as defined in Premium Order – Insurer Members 2016], the rate for the first levy for such new insurer member will be the same as the levy rate for levy category 1.

The annual levies payable for 2015 were subject to minimum levies based on their levy category as follows:

Levy Category	2015	
	Minimum Annual Levy Amount (RM)	
	Insurance	
	General	Life
1	75,000	75,000
2	150,000	150,000
3	300,000	300,000
4	600,000	600,000

2015	
Minimum Annual Levy Amount (RM)	
Takaful	
General	Family
150,000	150,000

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

12. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES

a. Investment income according to investment securities

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	74,699	36,371	38,328
Bank Negara Malaysia Bills and Negotiable Notes	4,543	4,420	123
Private Debt Securities	9,426	4,987	4,439
Placements in Short-term Money Market Deposits	523	321	202
Total investment income from cash and investment securities	89,191	46,099	43,092

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	55,305	26,480	28,825
Bank Negara Malaysia Bills and Negotiable Notes	19,647	9,732	9,915
Private Debt Securities	3,301	280	3,021
Placements in Short-term Money Market Deposits	225	163	62
Total investment income from cash and investment securities	78,478	36,655	41,823

b. Investment income according to nature of income

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon and profit rate from investment securities	94,848	45,919	48,929
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(6,180)	(141)	(6,039)
Returns from placements in Short-term Money Market Deposits	523	321	202
Total investment income from cash and investment securities	89,191	46,099	43,092

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

12. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES (continued)

b. Investment income according to nature of income (continued)

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon and profit rate from investment securities	42,677	19,323	23,354
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	35,576	17,169	18,407
Returns from placements in Short-term Money Market Deposits	225	163	62
Total investment income from cash and investment securities	78,478	36,655	41,823

c. Weighted Average Effective Yield Rates (WAEYR)

The WAEYR for investment securities that were effective during the financial year are as follows:

Year	Type of Portfolio	DIS		TIPS			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2016	Cash equivalents and investments	3.15%	2.80%	3.10%	2.76%	2.94%	3.01%
	Placements in Short-term Money Market and Fixed Deposits	2.98%	3.04%	3.04%	3.04%	3.03%	3.03%
	Overall	3.06%		3.03%			
2015	Cash equivalents and investments	3.19%	3.13%	3.21%	3.09%	3.02%	3.08%
	Placements in Short-term Money Market and Fixed Deposits	2.45%	2.60%	2.81%	2.86%	2.55%	2.53%
	Overall	3.12%		3.18%			

The WAEYR presented above are based on the weighted average yield for each portfolio for the whole of the financial year 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

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13. MISCELLANEOUS INCOME

	2016 RM'000	2015 RM'000
International Association of Deposit Insurers (IADI) Annual Conference 2015*:		
- Annual conference contribution received from IADI	-	108
- Fees collected from participants of IADI Annual Conference 2015	-	658
Total income from hosting IADI Annual Conference 2015	-	766
Gain on sale of property and equipment	-	11
Total miscellaneous income	-	777

* The event is an annual conference organised by IADI and hosted by one of its members in its jurisdiction. PIDM was given the honour to host the Annual Conference in 2015 in Kuala Lumpur. The corresponding expenses incurred in organising this event is disclosed in Note 15.

14. EMPLOYEE BENEFITS

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Wages and salaries	45,498	34,193	11,305
Contributions to defined contribution plan	6,660	4,984	1,676
Provision for unutilised leave	430	403	27
Provision for Long Term Retirement Plan Liability	252	205	47
Other benefits	3,620	2,759	861
Total employee benefits	56,460	42,544	13,916

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Wages and salaries	42,141	30,402	11,739
Contributions to defined contribution plan	5,962	4,290	1,672
Provision for unutilised leave	306	270	36
Provision for Long Term Retirement Plan Liability	-	-	-
Other benefits	3,152	2,307	845
Total employee benefits	51,561	37,269	14,292

The number of employees at the end of the financial year was 157 (2015: 148).

NOTES TO THE FINANCIAL STATEMENTS

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15. OTHER EXPENSES

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	139	113	26
Directors' fees and remuneration*	712	579	133
Hosting of international event	101	82	19
Parking space rental	621	505	116
Printing and stationery	1,284	1,049	235
Professional and consultancy fees	9,428	8,679	749
Scholarship programme	699	568	131
Subscriptions and memberships	757	623	134
Telecommunication and computer systems	3,967	3,231	736
Training and development	1,964	1,638	326
Travelling	405	342	63
Utilities, office maintenance and general insurance	1,193	968	225
Miscellaneous	629	534	95
Total other expenses	21,899	18,911	2,988

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

15. OTHER EXPENSES (continued)

	2015		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	122	94	28
Directors' fees and remuneration*	637	491	146
Hosting of international event**	1,879	1,639	240
Parking space rental	418	322	96
Printing and stationery	1,369	1,055	314
Professional and consultancy fees	3,796	2,909	887
Scholarship programme	646	499	147
Subscriptions and memberships	669	516	153
Telecommunication and computer systems	3,079	2,281	798
Training and development	2,650	2,059	591
Travelling	600	546	54
Utilities, office maintenance and general insurance	1,167	898	269
Miscellaneous	305	241	64
Total other expenses	17,337	13,550	3,787

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

** Included in the hosting of international events are expenses incurred in organising the IADI International Conference 2015 amounted to RM1.5 million. The annual conference contribution received from IADI and fees collected from participants for this event are disclosed in Note 13.

16. TAXATION

PIDM is exempted from income tax.

17. OPERATING LEASES

PIDM has an existing non-cancellable tenancy contract for the use of office space at Levels 11, 12, 13, 15 and 16, Axiata Tower, Kuala Lumpur Sentral. During the year, PIDM has entered into a non-cancellable tenancy contract for the use of office space at Level 11B. The provisions of this tenancy contract are similar except that the duration has been synchronised with the prevailing tenancy contracts of existing Levels. The tenancy is for 3 years (First Term) beginning 1 January 2015 at a fixed rental rate with the option to renew for another 3 years (Second Term) at prevailing market rental rate, subject to maximum increase of 10%. Thereafter, PIDM has the option to renew for another 3 years (Third Term). There is no purchase option clause included in the contract. There are also no restrictions placed upon PIDM by entering into this tenancy contract.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

17. OPERATING LEASES (continued)

PIDM has entered into a non-cancellable tenancy contract for the use of space for PIDM's interim Disaster Recovery Site. The tenancy is for two years (First Term) beginning 1 April 2011 at a fixed rental rate. Thereafter, PIDM has the option to renew for another two years (Second Term) plus a further two years (Third Term), both at a rate to be agreed upon between PIDM and the landlord. There is no purchase option clause included in the contract. With the completion of PIDM's permanent DRC in October 2016, the tenancy contract will not be renewed and will end by January 2017.

PIDM has also entered into leases for various office equipment under non-cancellable operating lease contracts. These leases have lease terms of up to five years and include either a provision for an automatic renewal if PIDM does not serve termination notice three months before expiration of the primary terms or exclude a provision for an automatic renewal. For both type of lease terms, there are no purchase options or escalation clauses included in the lease contracts.

Future aggregate minimum lease payments under the non-cancellable operating leases contracted as at the Statement of Financial Position date but not recognised as liabilities are as follows:

	2016 RM'000	2015 RM'000
Future minimum lease payments:		
Within 1 year	6,204	6,181
More than 1 year but less than 5 years	766	6,691*
Total operating lease commitments	6,970	12,872

* The balance for operating lease for more than 1 year but less than 5 years has been restated from the previously disclosed balance of RM12.168 million to RM6.691 million. Notwithstanding this, the Operational Net Surplus for the current and prior years have not been affected.

18. CAPITAL COMMITMENTS

	Note	2016 RM'000	2015 RM'000
Approved and contracted for:			
Building		-	10,770
Office equipment and computer systems	a	7,584	11,274
Office refurbishment		-	7
Total capital commitments		7,584	22,051

a. The Capital commitment balance for office equipment and computer systems mainly includes development of core IT systems, enhancement of IT infrastructures, security facilities and systems.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

19. RELATED PARTY DISCLOSURES

a. Transactions with related parties

- i. PIDM is a statutory body governed by the PIDM Act. As such, PIDM is related by way of common interest with all Government Departments, agencies and other statutory bodies. During the financial year, PIDM has transacted with some of these related parties for various provision of services. All the transactions were transacted at commercial arm's length basis. The following table discloses the significant related party transactions:

	Note	Expenses		Payables	
		2016 RM'000	2015 RM'000	2016 RM'000	2015 RM'000
Bank Negara Malaysia	a	715	442	253	205
Kumpulan Wang Simpanan Pekerja	b	6,516	5,873	-	9
Pertubuhan Keselamatan Sosial	b	144	89	-	-

- a. Transaction mainly relate to rental of space for the Disaster Recovery Site.
- b. PIDM makes contributions to the statutory national pension scheme, the Kumpulan Wang Simpanan Pekerja and the Pertubuhan Keselamatan Sosial as disclosed in Note 14.
- ii. During the financial year, PIDM has entered into a contract with Messrs. Christopher and Lee Ong ("the Firm") to engage one of its partners who is a known Information and Communications Technology lawyer in Malaysia.
- a. One of the Directors of PIDM is a contracted consultant of the Firm. The Director was not involved in the selection process, nor did the Director participate in or deliberate on the decision by Management to contract the Firm. The Director also did not obtain any gain or benefits from the contract.
- b. The spouse of one of the Corporate Officers ("the Officer") of PIDM is a partner of the Firm. The Officer was not involved in the selection process, nor did the Officer participate in or deliberate on the decision by Management to contract the Firm. The Officer also did not obtain any gain or benefits from the contract.

The fee charged by the Firm is comparable to market prices and as at 31 December 2016, the amount due to the Firm is RM111,656.

- iii. During the financial year, PIDM purchased Private Debt Securities (PDS) papers issued by Cagamas Berhad in compliance with PIDM's Investment Policy. One of the Directors of PIDM is a Director of Cagamas Berhad. The Director was not involved nor did the Directors participate in or deliberate on the decision by Management to invest in PDS issued by Cagamas Berhad. The investments were carried out at arm's length and transacted at market prices. The principal value of the investments as at 31 December 2016 is RM130 million.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

19. RELATED PARTY DISCLOSURES (continued)

b. Remuneration of key management personnel

	2016 RM'000	2015 RM'000
Short-term benefits	13,269	12,583
Post-employment benefits:		
Contributions to defined contribution plan	1,470	1,338
Total remuneration of key management personnel	14,739	13,921

The remuneration of key management personnel includes the remuneration of the Chief Executive Officer and all members of the Executive Management Committee, being those persons having the authority and responsibility for planning, directing and controlling the activities of PIDM.

The amount above does not include Directors whose remuneration is disclosed separately in Note 15. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 14.

20. SEGMENT INFORMATION

The PIDM Act provides separate coverage for each of the following Funds:

- i. Conventional Deposit Insurance Fund;
- ii. Islamic Deposit Insurance Fund;
- iii. General Insurance Protection Fund;
- iv. Life Insurance Protection Fund;
- v. General Takaful Protection Fund; and
- vi. Family Takaful Protection Fund.

Hence, PIDM has reportable segments based on the above Funds' categories. No operating segments have been aggregated to form the above reportable operating segments.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

20. SEGMENT INFORMATION (continued)

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
ASSETS								
Cash and cash equivalents	4a	20,755	14,066	1,459	1,133	2,346	747	1,004
Investments								
Held-to-maturity investments	5	3,052,014	1,346,749	260,063	1,168,748	227,204	16,604	32,646
Other assets	6	31,716	13,128	2,506	12,244	3,514	104	220
Investment in subsidiaries	7	.*	.*	.*	.*	.*	.*	.*
Property, plant and equipment	8	37,420	23,503	5,226	1,384	5,910	461	936
Total Assets		3,141,905	1,397,446	269,254	1,183,509	238,974	17,916	34,806
LIABILITIES								
Payables	9	14,426	9,142	2,358	442	2,005	158	321
Total Liabilities		14,426	9,142	2,358	442	2,005	158	321
FUNDS AND RESERVES								
Accumulated surpluses	10	3,127,479	1,388,304	266,896	1,183,067	236,969	17,758	34,485
Total Funds and Reserves		3,127,479	1,388,304	266,896	1,183,067	236,969	17,758	34,485
Total Liabilities, Funds and Reserves		3,141,905	1,397,446	269,254	1,183,509	238,974	17,916	34,806

* The amount is significantly below the rounding threshold.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
ASSETS								
Cash and cash equivalents	4a	24,831	11,220	4,476	541	1,003	3,650	3,941
Investments								
Held-to-maturity investments	5	2,573,862	1,068,492	194,825	1,098,363	183,575	8,224	20,383
Other assets	6	26,930	11,487	2,513	10,606	2,068	110	146
Investment in subsidiaries	7	—*	—*	—*	—*	—*	—*	—*
Property and equipment	8	21,881	13,181	2,572	1,061	4,211	283	573
Total Assets		2,647,504	1,104,380	204,386	1,110,571	190,857	12,267	25,043
LIABILITIES								
Payables	9	13,611	8,642	1,721	456	2,250	172	370
Total Liabilities		13,611	8,642	1,721	456	2,250	172	370
FUNDS AND RESERVES								
Accumulated surpluses	10	2,633,893	1,095,738	202,665	1,110,115	188,607	12,095	24,673
Total Funds and Reserves		2,633,893	1,095,738	202,665	1,110,115	188,607	12,095	24,673
Total Liabilities, Funds and Reserves		2,647,504	1,104,380	204,386	1,110,571	190,857	12,267	25,043

* The amount is significantly below the rounding threshold.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Premium and levy revenues	11	468,245	316,123	72,334	5,434	57,163	6,231	10,960
Investment income from cash and investment securities	12	89,191	39,561	6,538	35,803	5,987	429	873
Miscellaneous income	13	-	-	-	-	-	-	-
Total income		557,436	355,684	78,872	41,237	63,150	6,660	11,833
Employee benefits	14	56,460	34,546	7,998	2,162	9,777	654	1,323
Public relations and advertising		10,853	7,138	1,654	321	1,452	95	193
Depreciation of property and equipment	8	3,622	2,170	425	204	689	44	90
Operating leases		6,048	3,994	923	176	794	53	108
Other expenses	15	21,899	15,270	3,641	454	2,076	151	307
Total expenses		98,882	63,118	14,641	3,317	14,788	997	2,021
Operational net surplus		458,554	292,566	64,231	37,920	48,362	5,663	9,812
Exceptional item:								
Moneys received from Insurance Guarantee Scheme Funds	23	35,032	-	-	35,032	-	-	-
Net surplus for the year representing total comprehensive income for the year		493,586	292,566	64,231	72,952	48,362	5,663	9,812

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Premium and levy revenues	11	442,006	291,825	67,407	12,851	58,152	3,891	7,880
Investment income from cash and investment securities	12	78,478	31,163	5,492	35,569	5,262	317	675
Miscellaneous income	13	777	643	131	1	2	-	-
Total income		521,261	323,631	73,030	48,421	63,416	4,208	8,555
Employee benefits	14	51,561	30,979	6,290	2,113	10,014	708	1,457
Public relations and advertising		12,734	8,149	1,675	429	2,040	144	297
Depreciation of property and equipment	8	7,143	5,238	955	210	621	39	80
Operating leases		5,896	3,778	767	199	948	67	137
Other expenses	15	17,337	11,019	2,531	570	2,618	197	402
Total expenses		94,671	59,163	12,218	3,521	16,241	1,155	2,373
Operational net surplus		426,590	264,468	60,812	44,900	47,175	3,053	6,182
Exceptional item:								
Moneys received from Insurance Guarantee Scheme Funds		-	-	-	-	-	-	-
Net surplus for the year representing total comprehensive income for the year		426,590	264,468	60,812	44,900	47,175	3,053	6,182

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums and levies received from member institutions		468,245	316,123	72,334	5,434	57,163	6,231	10,960
Payments in the course of operations to suppliers and employees		(96,236)	(61,545)	(14,111)	(3,142)	(14,414)	(995)	(2,029)
Receipts of investment income		116,981	45,356	10,346	49,686	10,008	499	1,086
Receipts of miscellaneous income		-	-	-	-	-	-	-
Net cash flows generated from operating activities		488,990	299,934	68,569	51,978	52,757	5,735	10,017
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		1,846,606	595,160	314,968	682,612	221,364	12,051	20,451
Purchase of investment securities		(2,356,555)	(880,553)	(384,060)	(768,479)	(269,965)	(20,494)	(33,004)
Receipts from Insurance Guarantee Scheme Funds		35,032	-	-	35,032	-	-	-
Proceeds from sale of property and equipment		-	-	-	-	-	-	-
Purchase of property and equipment		(18,149)	(11,695)	(2,494)	(551)	(2,813)	(195)	(401)
Net cash flows used in investing activities		(493,066)	(297,088)	(71,586)	(51,386)	(51,414)	(8,638)	(12,954)
Net (decrease) / increase in cash and cash equivalents		(4,076)	2,846	(3,017)	592	1,343	(2,903)	(2,937)
Cash and cash equivalents at beginning of year		24,831	11,220	4,476	541	1,003	3,650	3,941
Cash and cash equivalents at end of year	4a	20,755	14,066	1,459	1,133	2,346	747	1,004

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums and levies received from member institutions		442,006	291,825	67,407	12,851	58,152	3,891	7,880
Payments in the course of operations to suppliers and employees		(87,875)	(54,971)	(10,836)	(3,147)	(15,552)	(1,102)	(2,267)
Receipts of investment income		102,271	39,710	7,287	48,415	5,819	433	607
Receipts of miscellaneous income		795	661	134	-	-	-	-
Net cash flows generated from operating activities		457,197	277,225	63,992	58,119	48,419	3,222	6,220
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		2,927,355	1,060,872	259,267	1,294,209	238,269	30,014	44,724
Purchase of investment securities		(3,368,294)	(1,334,098)	(318,595)	(1,353,109)	(285,102)	(29,953)	(47,437)
Receipts from Insurance Guarantee Scheme Funds		-	-	-	-	-	-	-
Proceeds from sale of property and equipment		11	7	1	1	2	-	-
Purchase of property and equipment		(6,728)	(4,241)	(838)	(223)	(1,175)	(83)	(168)
Net cash flows used in investing activities		(447,656)	(277,460)	(60,165)	(59,122)	(48,006)	(22)	(2,881)
Net increase / (decrease) in cash and cash equivalents		9,541	(235)	3,827	(1,003)	413	3,200	3,339
Cash and cash equivalents at beginning of year		15,290	11,455	649	1,544	590	450	602
Cash and cash equivalents at end of year	4a	24,831	11,220	4,476	541	1,003	3,650	3,941

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS

PIDM's financial risk management policy seeks to ensure that adequate financial resources are available for PIDM's activities whilst managing PIDM's currency, interest rate and rate of return, liquidity, market and credit risks. PIDM operates within guidelines that are approved by the Board of Directors and PIDM's Investment Policy is to only invest in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia securities or securities of high investment grade issued by Government-related entities, which are government guaranteed or with a minimum rating of AAA, of varying maturities. In relation to the day to day operational cash management, PIDM may place excess funds in money market or overnight placements with its banker(s). No investments are made with member banks since PIDM is the insurer of deposits.

Part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia, that was transferred to PIDM in 2011 comprises investment securities that are not in line with PIDM's approved Investment Policy. In 2011, a specific approval from the Board of Directors has been obtained in order to exempt these investment securities from complying with the Investment Policy. The investment securities that are not in compliance with the Investment Policy consist of Government securities with long-term tenures and PDS.

a. Foreign currency risk

PIDM is currently not exposed to any currency risk as all transactions were transacted in Ringgit Malaysia denominated currency.

b. Interest rate risk and rate of return risk

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

The financial assets are primarily made up of investment assets held in Malaysian Government Securities and Investment Issues as well as Bank Negara Malaysia Bills and Negotiable Notes. The interest rate risk in this respect arises from fluctuations in market interest rate that may affect the market values and reinvestment decisions of these financial assets. The rate of return risk is the potential impact of market factors affecting the return on assets which, may consequently affect the market values and reinvestment decisions of these financial assets. To mitigate these risks, PIDM currently only invests in short-term and medium-term securities that minimises the impact of any fluctuations in market interest rate or rate of return on the market value of these securities.

PIDM currently does not carry any liabilities that are exposed to interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS (continued)

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

The following tables set out the carrying amounts, the Weighted Average Effective Yield Rates (WAEYR) as at the Statement of Financial Position date and the remaining maturities of PIDM's financial instruments that are exposed to interest rate risk and rate of return risk.

Conventional Deposit Insurance Fund	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.10	14,066	-	-	-	-	14,066
Investments	5	3.14	121,151	650,746	574,852	-	-	1,346,749

31 December 2015

Fixed rate

Cash and cash equivalents	4a	2.76	11,220	-	-	-	-	11,220
Investments	5	3.24	118,479	480,163	469,850	-	-	1,068,492

Islamic Deposit Insurance Fund

31 December 2016

Fixed rate

Cash and cash equivalents	4a	3.25	1,459	-	-	-	-	1,459
Investments	5	2.80	17,299	137,640	105,124	-	-	260,063

31 December 2015

Fixed rate

Cash and cash equivalents	4a	2.19	4,476	-	-	-	-	4,476
Investments	5	3.12	136,932	57,893	-	-	-	194,825

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS (continued)

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

General Insurance Protection Fund	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	1,133	-	-	-	-	1,133
Investments	5	3.07	92,084	260,609	796,366	19,689	-	1,168,748

31 December 2015

Fixed rate

Cash and cash equivalents	4a	-	541	-	-	-	-	541
Investments	5	3.26	193,762	485,597	363,660	40,013	15,331	1,098,363

Life Insurance Protection Fund

31 December 2016

Fixed rate

Cash and cash equivalents	4a	3.25	2,346	-	-	-	-	2,346
Investments	5	2.64	13,468	139,171	74,565	-	-	227,204

31 December 2015

Fixed rate

Cash and cash equivalents	4a	-	1,003	-	-	-	-	1,003
Investments	5	3.01	71,949	111,626	-	-	-	183,575

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS (continued)

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

General Takaful Protection Fund	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	37 - 60 months RM'000	61 - 120 months RM'000	Total RM'000
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	747	-	-	-	-	747
Investments	5	3.07	5,068	5,853	5,683	-	-	16,604
31 December 2015								
Fixed rate								
Cash and cash equivalents	4a	2.19	3,650	-	-	-	-	3,650
Investments	5	3.03	3,441	4,783	-	-	-	8,224
Family Takaful Protection Fund								
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	1,004	-	-	-	-	1,004
Investments	5	3.12	7,103	19,859	5,684	-	-	32,646
31 December 2015								
Fixed rate								
Cash and cash equivalents	4a	2.19	3,941	-	-	-	-	3,941
Investments	5	3.18	12,387	-	7,996	-	-	20,383

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS (continued)

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

Based on PIDM's investment portfolio as at 31 December 2016, the following table shows how net surplus would have been affected by a 50 basis points increase or decrease in WAEYR.

	Net Surplus						
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
50 basis points increase							
- 31 December 2016	14,524	6,282	1,166	5,774	1,084	73	145
- 31 December 2015	12,324	4,891	878	5,541	851	53	110
50 basis points decrease							
- 31 December 2016	(14,524)	(6,282)	(1,166)	(5,774)	(1,084)	(73)	(145)
- 31 December 2015	(12,324)	(4,891)	(878)	(5,541)	(851)	(53)	(110)

c. Liquidity risk

PIDM's liquidity risk relates to the capability of PIDM to meet its obligations as they become due, without incurring unacceptable losses. This may be caused by the inability to liquidate assets as they become due or to obtain funding to meet its liquidity needs. A significant amount of funds available for investment were invested in short-term securities. PIDM continuously endeavours to manage the maturity profiles of these securities in order to ensure that sufficient funds are available at all times to meet the day-to-day working capital requirements or to bring any financial risk exposures within the approved exposure limits. The values of these investments by the maturity profiles are represented in Note 21(c). The following table sets PIDM's short-term assets and liabilities maturity profile.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS (continued)

c. Liquidity risk (continued)

2016							
	Note	Less Than 30 Days RM'000	31 - 60 Days RM'000	60 - 90 Days RM'000	More Than 90 Days But Less Than 36 Months RM'000	More Than 36 Months* RM'000	Total RM'000
Cash and cash equivalents	4a	20,755	-	-	-	-	20,755
Investments	5	-	116,612	139,561	2,776,152	19,689	3,052,014
Payables	9	(12,178)	(11)	-	(2,237)	-	(14,426)
Net short-term assets		8,577	116,601	139,561	2,773,915	19,689	3,058,343

2015							
	Note	Less Than 30 Days RM'000	31 - 60 Days RM'000	60 - 90 Days RM'000	More Than 90 Days But Less Than 36 Months RM'000	More Than 36 Months* RM'000	Total RM'000
Cash and cash equivalents	4a	14,833	9,998	-	-	-	24,831
Investments	5	-	386,744	39,784	2,091,990	55,344	2,573,862
Payables	9	-	(12,108)	-	(1,503)	-	(13,611)
Net short-term assets		14,833	384,634	39,784	2,090,487	55,344	2,585,082

* Investment securities with investment tenure exceeding 36 months represent investment securities from the former IGSF portfolio.

PIDM also has a funding framework to deal with funding requirements relating to IFR activities. The main objective of the framework is to ensure that PIDM has adequate financial resources required for the proper operations of a robust and sound DIS as well as TIPS. The funding framework takes into consideration PIDM's role in the financial safety net and its legislative powers relating to sources of funding as well as clear objectives for its internal and external sources of funding.

- Internal funding** is developed through the accumulation of net surpluses after expenses. The annual net surplus is credited into the respective Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.
- External funding** may be raised through either borrowings from the Government, from capital markets or other sources as deemed necessary and appropriate. The PIDM Act empowers PIDM to borrow or raise funds to meet its obligations. PIDM may borrow from the Government with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS (continued)

d. Market risk

PIDM's market risk relates to the risk of loss resulting from adverse changes in the value of its asset holdings arising from movements in market rates or prices. Market risk in PIDM includes investment-related risks. The market risk exposure of PIDM may vary during normal operations or as a result of IFR activities. Under normal operations, PIDM invests in short-term and medium-term securities which are intended to be held-to-maturity. As such, PIDM's current exposure to market risk in the context of these investments is minimal.

e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investment Issues, Bank Negara Malaysia Bills and Negotiable Notes, which are generally considered as low risk assets. PIDM does not expect the counterparties to default and as such, considers the credit risk on these investment assets to be minimal.

Besides the Government investment securities and Bank Negara Malaysia notes, PIDM holds investments in PDS issued by Government-linked Companies, which were part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia. The investments were transferred to PIDM in 2011 and comprised investment securities issued by Government-linked Companies, which continue to maintain AAA or non-rated rating during the financial year.

During the year, PIDM invested in PDS of AAA rating issued by Cagamas Berhad. The following table provides the summary of new investments in PDS as at 31 December 2016. PIDM continuously monitors the credit standing of the issuers of the PDS for any potential downgrade in the credit ratings.

	Former IGSF		New Investments
Investment in PDS - Principal value (RM'000)	25,000	20,000	130,000
PDS rating	AAA	Non-rated	AAA

f. Fair values

Generally, the carrying values of financial assets and liabilities of DIFs and TIPFs approximate their fair values, except for the investments in PDS whereby the fair value is disclosed in Note 5 and are considered as Level 2 fair value.

PIDM has an appropriate framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

The fair value of a financial instrument is the amount at which the instrument can be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The valuations of financial instruments are determined by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

21. FINANCIAL INSTRUMENTS (continued)

f. Fair values (continued)

In addition, PIDM continuously enhances its design and validation methodologies and processes used to produce valuations. The valuation models are validated both internally and externally, with periodic reviews to ensure that the model remains suitable for its intended use.

Determination of fair value

i. Level 1: Quoted prices

This refers to financial instruments that are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices that represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include actively traded government securities.

ii. Level 2: Valuation techniques using observable inputs

This refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., derived from prices). Examples of Level 2 financial instruments include corporate and other government bonds.

iii. Level 3: Valuation techniques using significant unobservable inputs

This refers to financial instruments where the fair value is measured using significant unobservable market inputs. The valuation technique is consistent with Level 2. The chosen valuation technique incorporates PIDM's own assumptions and data. Examples of Level 3 instruments include corporate bonds in illiquid markets.

22. CONTINGENT LIABILITIES

Exposure to losses

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

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that its concerns about the business and affairs of member institutions are addressed promptly. However, PIDM necessarily relies on the supervisory authority to take prompt corrective action to mitigate the possibility of a member institution failure.

PIDM reinforces financial discipline through its DPS and DLS, which provides strong incentives for member banks and conventional insurer members to adopt sound and rigorous risk management practices including the maintenance of strong capital positions. The DPS for member banks and the DLS for conventional insurer members have been implemented since 2008 and 2013, respectively. The DLS for takaful operators was implemented during the year to replace the flat-rate system.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

22. CONTINGENT LIABILITIES (continued)

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

While provisions are not recorded unless a specific event occurs, PIDM continues to build reserves in its Funds through the accumulation of annual net surpluses arising from its operations.

Accumulated surpluses are held in each Fund to cover losses when respective obligations arise. Accumulated surpluses in one Fund cannot be used to cover obligations of another Fund. As discussed in Note 10 to the financial statements, PIDM has established the Target Fund framework for DIFs in 2011 and Target Fund framework for the GIPF in 2015. During the year, PIDM implemented the Target Fund framework for the LIPF. PIDM will be developing a Target Fund framework for the Takaful Protection Funds within TIPFs over PIDM's corporate planning period for 2017 to 2019.

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

23. EXCEPTIONAL ITEM

Pursuant to Section 212 of the PIDM Act, as approved by the Minister of Finance, all assets in the Insurance Guarantee Scheme Funds (IGSF) which were previously administered by Bank Negara Malaysia, had been transferred to PIDM on 30 September 2011.

In accordance with the agreement between the Director General of Insurance (DGI) and the liquidators entered into in 1994, the liquidators have, during the reporting period, declared the third and final dividend of 12% and have transferred to PIDM for nil consideration and credited the moneys into the GIPF which is currently administered by PIDM.



SECTION

6

OVERVIEW OF MEMBERSHIP

OVERVIEW OF MEMBERSHIP

As at end of December 2016, PIDM had 86 member institutions comprising 43 member banks¹ and 43 insurer members.

As expected, the operating environment was challenging in 2016, reflected by slower loan growth and overall lower net insurance premium growth. While sentiments remained subdued, member institutions performed well during the year, demonstrating strong fundamentals. Their capital position remained solid with strong buffers. There were pressures on the overall performance, but member institutions continued to show good profit levels.

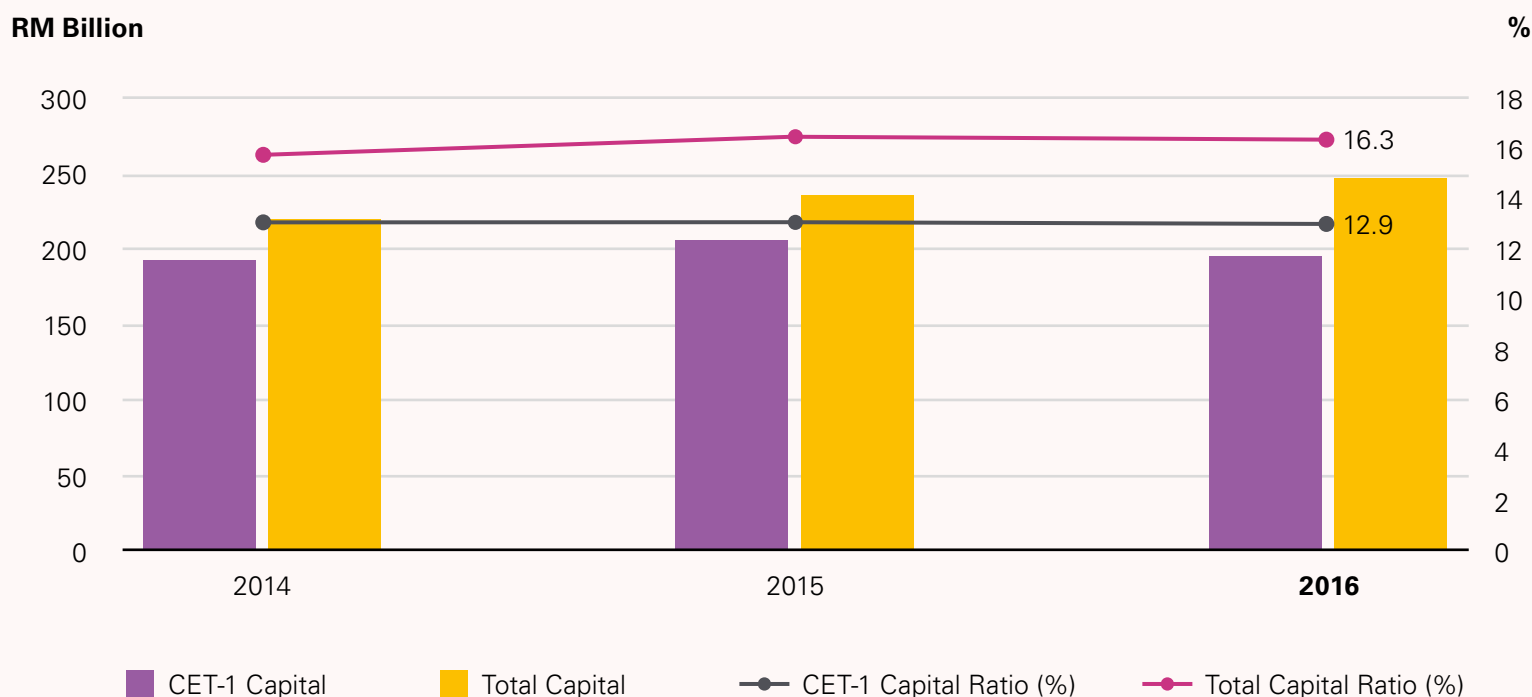
The overall asset quality of member banks remained sound. Among insurer members, claims experience improved. Going forward, member institutions are ready to face the continued uncertainty in the operating environment.

MEMBER BANKS

Robust Capital Position

Member banks maintained strong capital levels, largely supported by high-quality capital. As at end of 2016, the common equity tier-1 (CET-1) capital ratio and total capital ratio (TCR) stood at 12.9% and 16.3% respectively (2015: 13.0% and 16.4%). The capital buffer, to absorb losses before TCR breaches the minimum requirement of 8.625% (including capital conservation buffer), remained robust at RM116.9 billion.

Chart 1: Capital Indicators



¹ China Construction Bank (Malaysia) Berhad commenced operations effective 27 January 2017, thereby bringing the total number of member banks to 44

OVERVIEW OF MEMBERSHIP

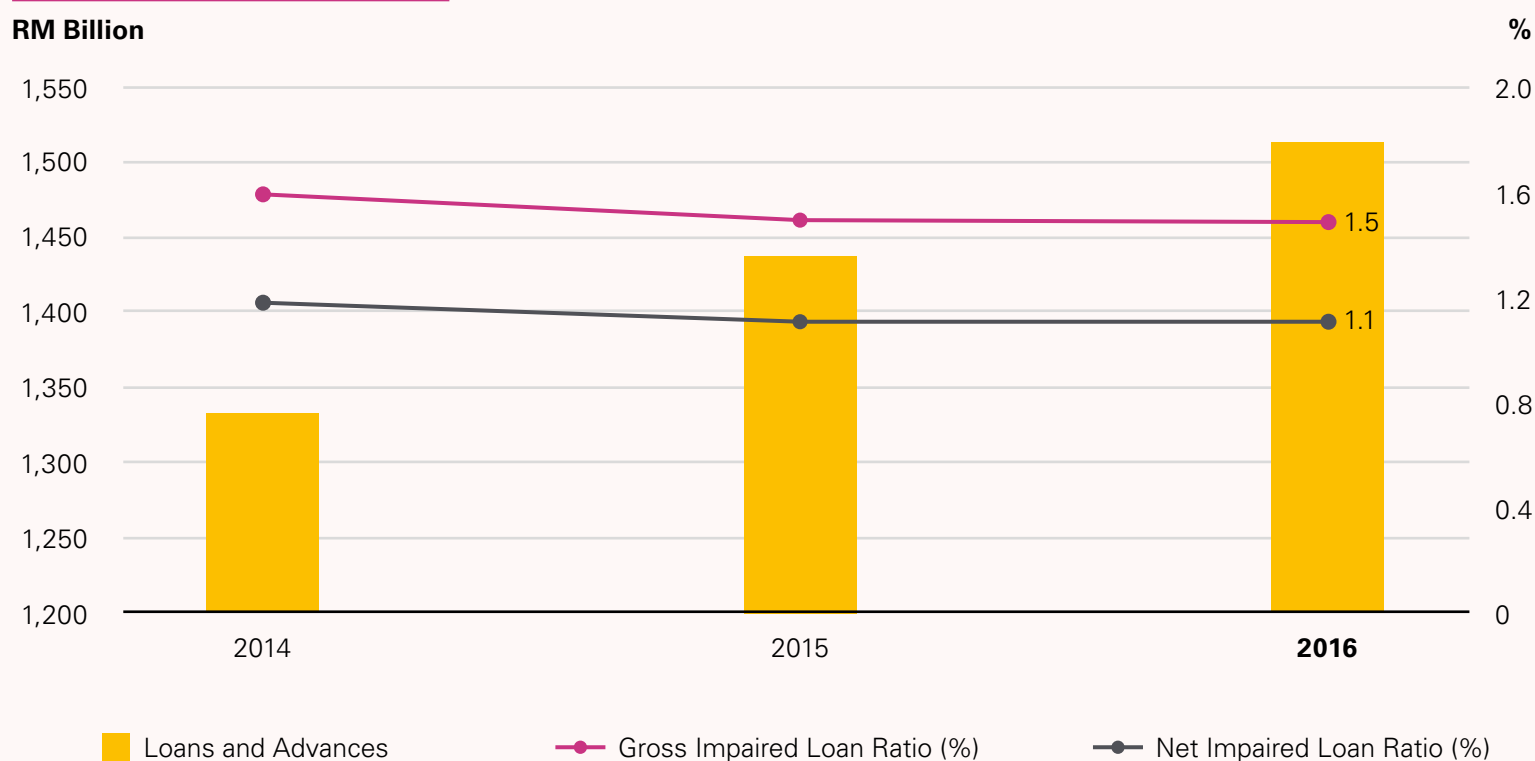
Sound Asset Quality Amid Tapered Loan Growth

Industry loan growth slowed to 5.3% year-on-year as at end of 2016 (2015: 8.0%) to RM1.51 trillion (2015: RM1.43 trillion), as member banks became more cautious in growing their lending portfolio. Both household and business loans saw softer growth in 2016. Household loans for the purchase of residential properties, the largest contributor to overall loan growth, expanded at a slower pace of 9.3% year-on-year (2015: 11.5%).

Meanwhile, business loans extended to the finance, insurance, real estate and business activities sector, grew by 10.8% year-on-year (2015: 10.6%).

Given the various challenges in the operating environment, impairment pressure has surfaced in a small number of lending segments. This notwithstanding, default rates for all lending segments have stayed at healthy levels. Overall asset quality remained sound, and the industry's gross and net impairment ratios stood firm at 1.5% and 1.1% respectively (2015: 1.5% and 1.1%). The loan loss reserves coverage ratio (including regulatory reserves) stood at a comfortable level of 112.2% as at end of 2016 (2015: 112.0%).

Chart 2: Asset Quality Indicators

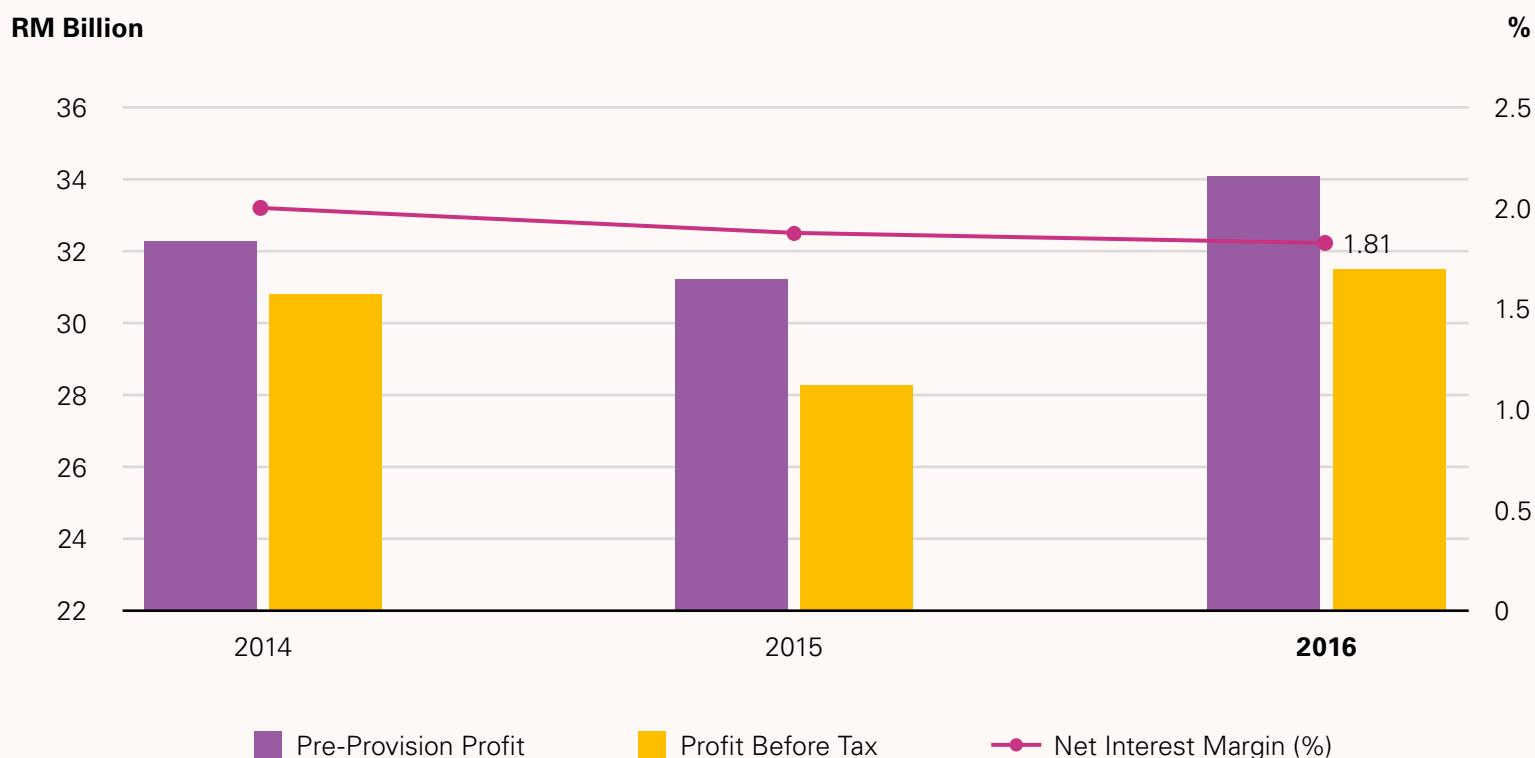


OVERVIEW OF MEMBERSHIP

Earnings to Remain Challenging

Earnings performance has thus far been encouraging. Member banks reported a higher profit before tax of RM31.5 billion in 2016 (2015: RM28.3 billion), representing an annual increase of 11.3% (2015: -8.1%). The efficiency ratio (cost-to-income) improved to 44.8% (2015: 47.7%) following a range of cost rationalisation measures undertaken in 2015 to enhance efficiency and competitiveness. Margins remained compressed on the back of competitive pressures, while credit cost (loan loss provisions-to-gross loans) remained manageable at 0.20% (2015: 0.21%). Nonetheless, the current level of profitability growth has been driven largely by the less sustainable components of treasury and dividend income. This, together with persistent margin compression and a potential rise in credit cost, will pose earnings challenges for member banks going forward.

Chart 3: Profitability Indicators



OVERVIEW OF MEMBERSHIP

Stable Funding and Comfortable Liquidity Position

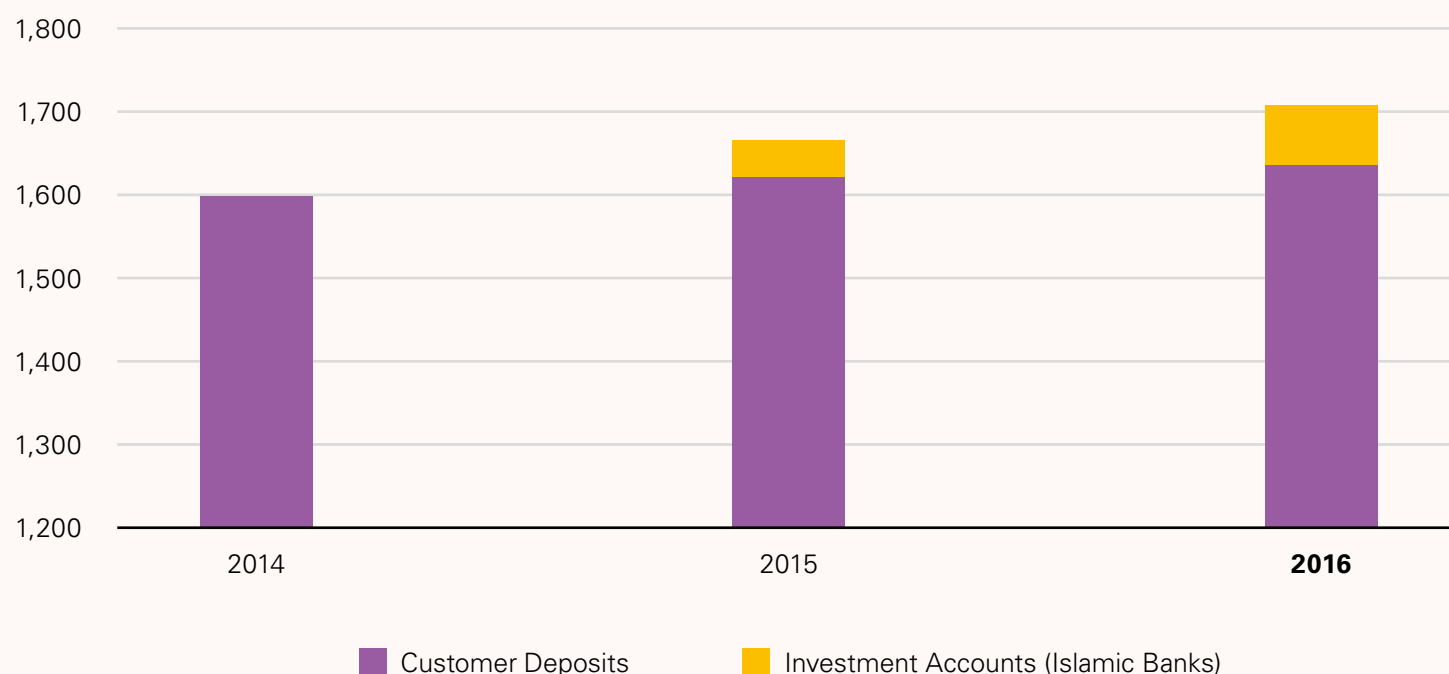
Member banks' liquidity remained ample to support financial intermediation activities. As at end of 2016, the aggregate Liquidity Coverage Ratio (LCR) stood at 125.0%, indicating sufficient buffers to meet liquidity needs within a 30-day period. With a majority of the member banks surpassing the 100%² level, member banks are well placed to fully comply with an LCR of 100% by January 2019.

The funding position of member banks continued to be underpinned by a stable funding base, predominantly in the form of customer deposits, which stood at 77.6% of total liabilities as at end of 2016. This was complemented by longer-tenured debt papers as well as Islamic investment accounts.

In terms of growth, customer deposits expanded by 1.9% year-on-year as at end of 2016 (2015: 1.3%). With the inclusion of Islamic investment accounts to customer deposits, funding through these two components grew by 3.4% year-on-year (2015: 4.2%).

Chart 4: Funding Indicators

RM Billion



² For 2017, the minimum LCR requirement is 80%, and this will be gradually phased-in to the full compliance of 100% in January 2019

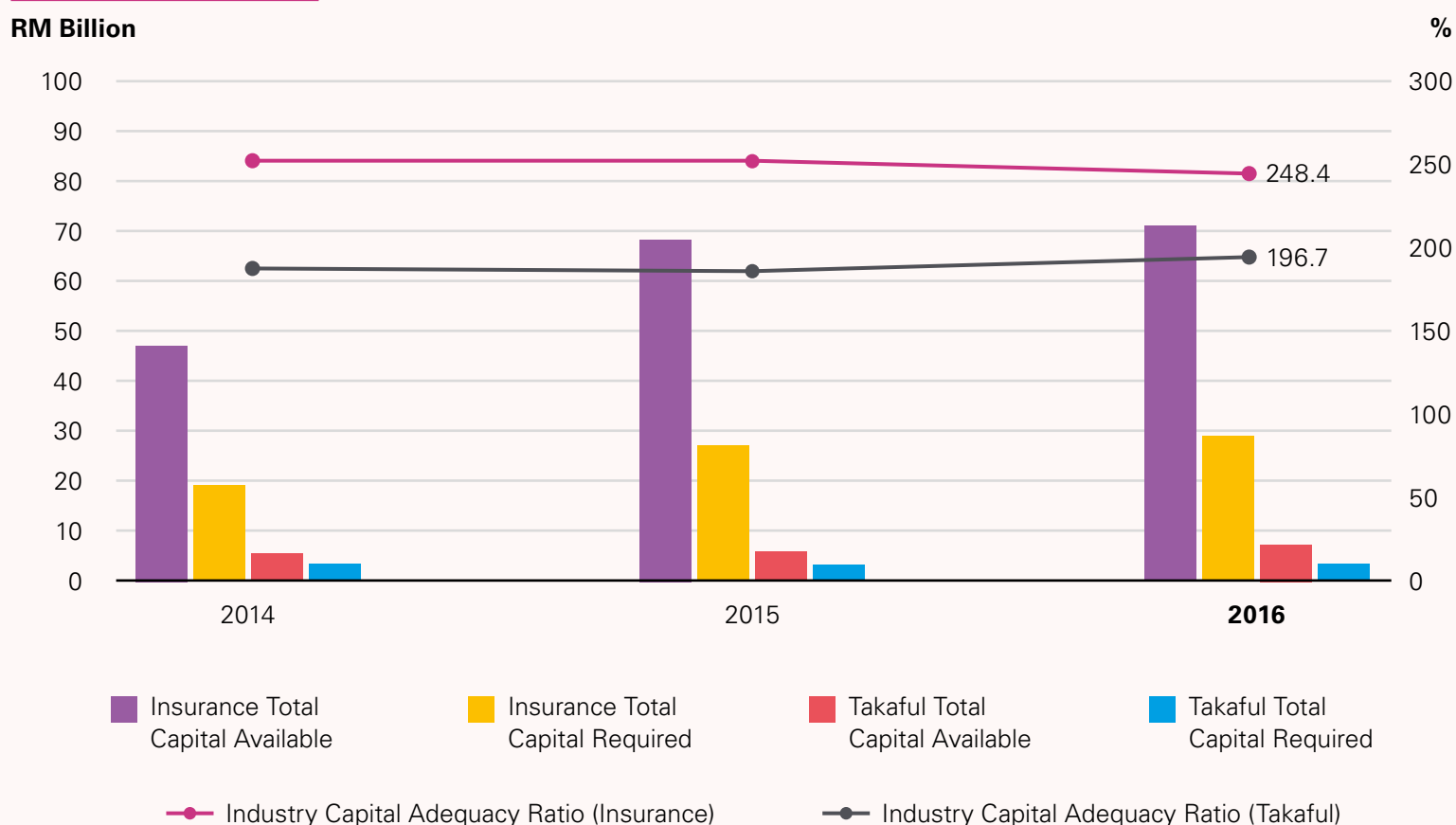
OVERVIEW OF MEMBERSHIP

INSURER MEMBERS

Solid Capital Position

Insurer members have maintained strong capital positions and are operating well above Bank Negara Malaysia (BNM)'s supervisory target capital level of 130%. The capital adequacy ratio (CAR) for the life and general insurance businesses stood at 248.4% (2015: 252.1%) while takaful operators' CAR was at 196.7% (2015: 181.9%). At this level of CAR, the available capital is sufficient to withstand any unexpected losses.

Chart 5: Capital Position



OVERVIEW OF MEMBERSHIP

Sustained Business Growth

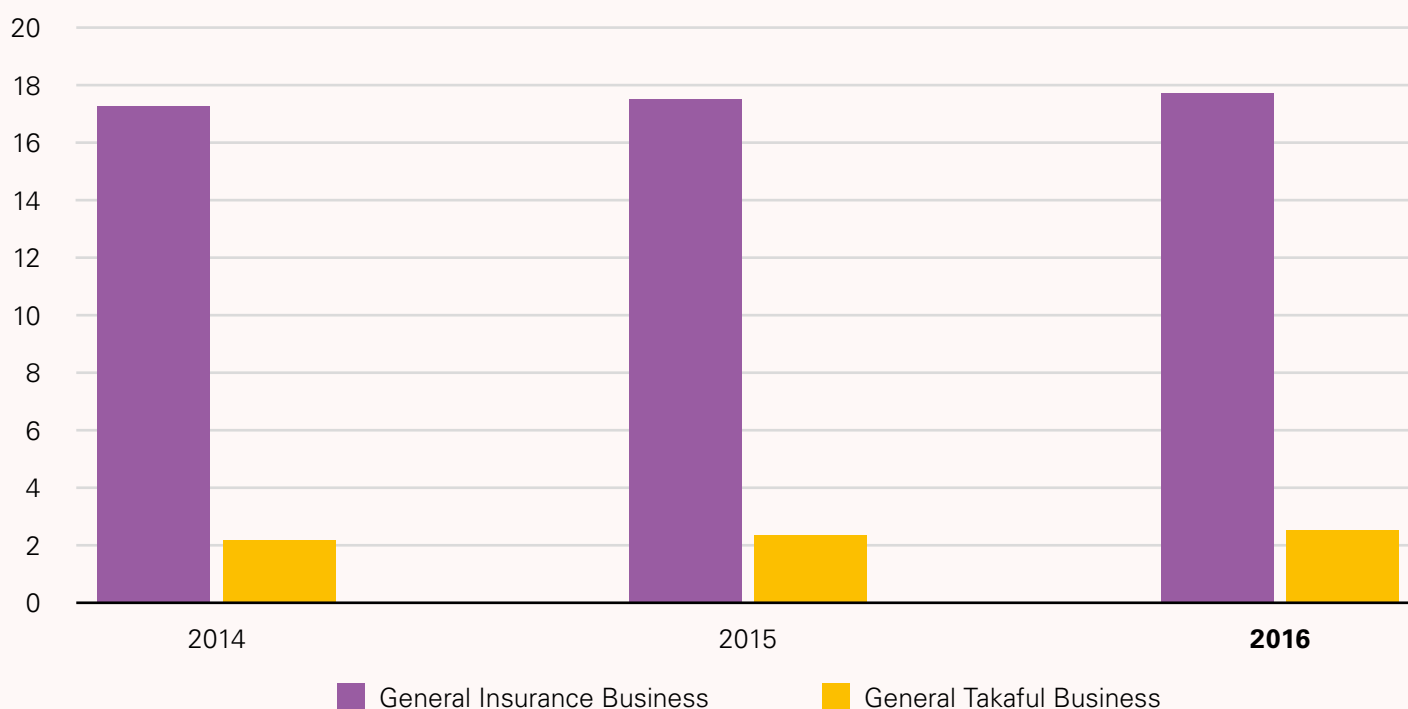
The growth in both general insurance and general takaful businesses has been steady with a total gross premium and contribution of RM20.2 billion for 2016 (2015: RM19.9 billion). The growth in the fire insurance business continued to outpace the motor insurance business, which has moderated due to subdued automotive sales. The general insurer members' gross premium growth rate slowed to 0.8% in 2016 (2015: 1.7%) while general takaful insurer members' gross contribution growth rate grew by 4.7% in 2016 (2015: 6.0%).

Improvement in claims experience contributed to a better underwriting profit for both the general insurance and general takaful businesses in 2016. The general insurance business recorded an underwriting margin of 12.0% (2015: 11.5%) and the general takaful business underwriting margin increased to 14.6% from 11.7% in 2015.

The liberalisation of the motor and fire tariff has an upside potential on the underwriting profit moving forward. Under the liberalisation environment, insurer members will be able to match the risks and claims experience in determining the appropriate pricing for both motor insurance and fire insurance products.

Chart 6: Gross Premiums / Gross Contributions

RM Billion



OVERVIEW OF MEMBERSHIP

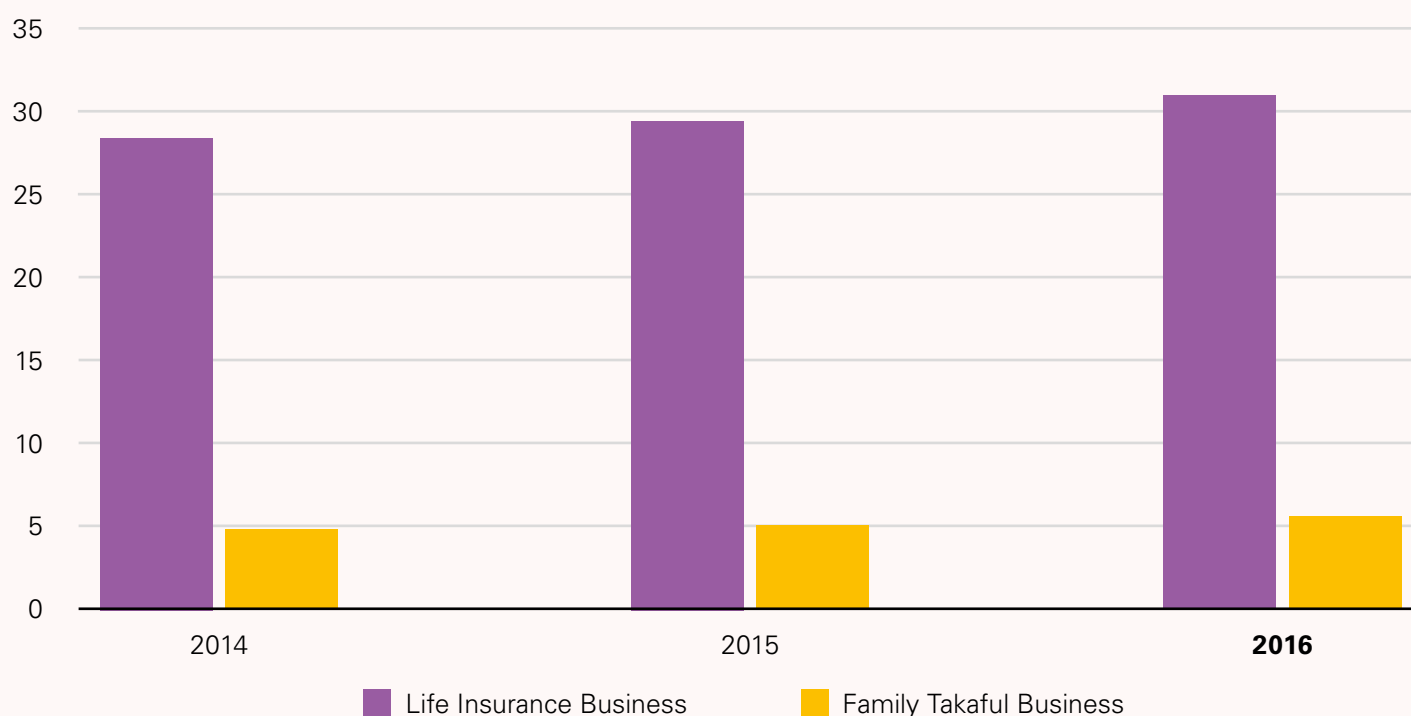
Meanwhile, the life insurance business registered higher net premium growth of 5.1% in 2016 (2015: 4.1%) and family takaful net contribution rose by 12.5% (2015: 6.6%) despite the less favourable operating environment and cautious consumer sentiment. Life insurance new business growth was mainly attributed to the traditional life insurance business while family takaful new business growth was supported by investment-linked business. However, the mortgage reducing term assurance business trended downward for both the life insurance and family takaful businesses in tandem with member banks' softer loan growth.

Heightened volatilities in the financial market for a large part of 2016 has affected the earnings of the life and family takaful insurer members. Given the volatile bond yields, generating good investment returns has been challenging for insurer members.

On a positive note, the ongoing implementation of BNM's Life Insurance and Family Takaful Framework (Framework) will benefit insurer members in the long term, as enhanced consumer awareness on insurance and takaful coverage will promote business growth. The Framework will also instil professionalism in the conduct of agents and encourage the development of other distribution channels. The successful execution of the Framework will reduce insurer members' operating costs, leading to more sustainable and profitable life insurance and family takaful businesses going forward.

Chart 7: Net Premiums / Net Contributions

RM Billion



OVERVIEW OF MEMBERSHIP

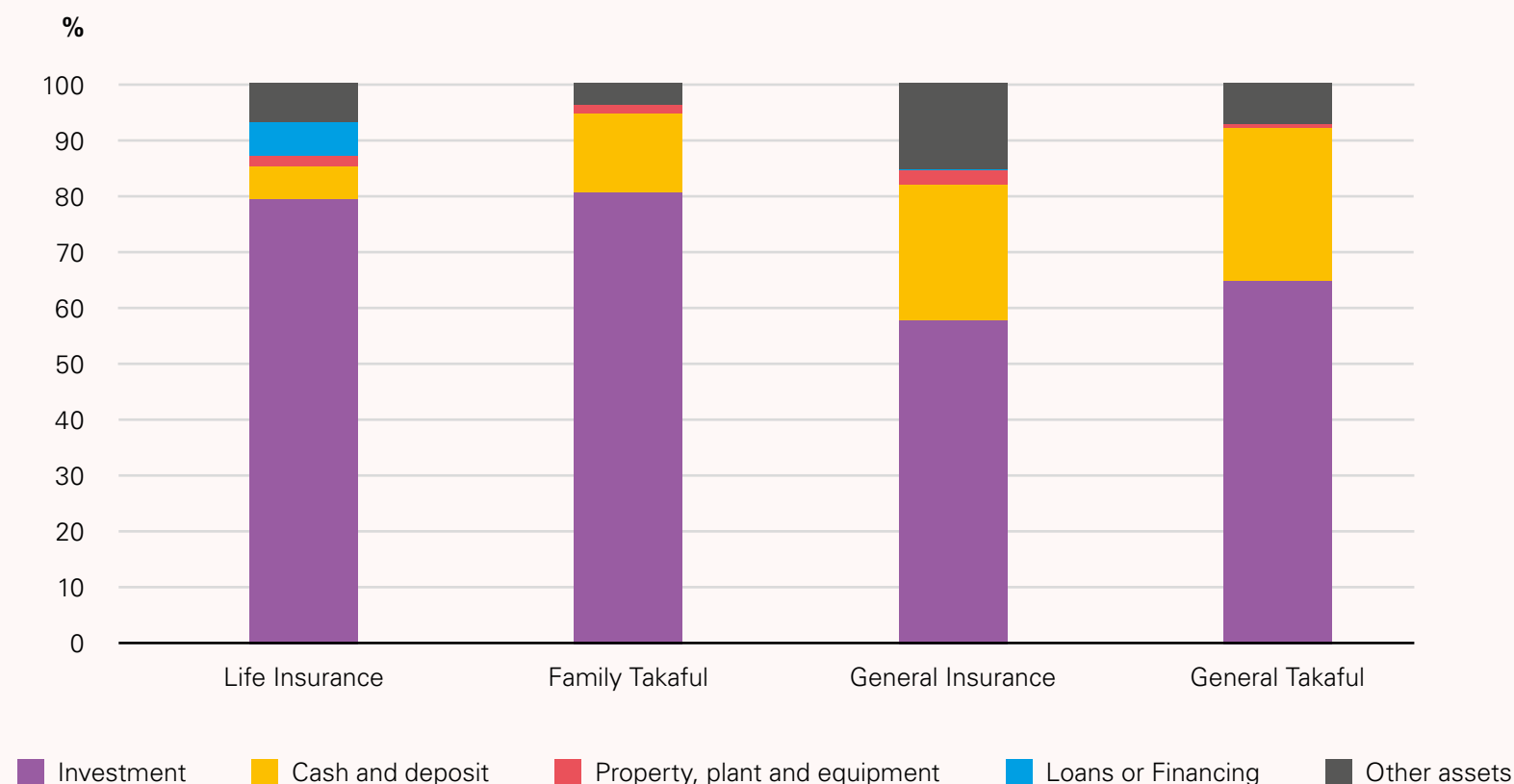
Conservative Investment Strategy

Insurer members maintained a conservative investment portfolio, holding more than sufficient liquid assets to meet their liabilities.

As part of their conservative investment portfolio, the general insurance and general takaful businesses invested in collective investment schemes, corporate debt securities and Malaysian Government Securities (MGS) or Government Investment Issues (GII). The general insurance business also maintained a sizeable proportion of its assets in cash at 24.2% of its total assets (2015: 23.0%) while the general takaful business increased its cash holding to 27.0% of its total assets as at end of 2016 (2015: 15.8%).

Similarly, the life insurance and family takaful businesses remained heavily invested in MGS, GII and corporate debt securities given the long-term nature of these businesses. As at end of 2016, investments constituted 79.6% of life insurer members' assets (2015: 79.5%) and 80.8% of family takaful insurer members' assets (2015: 79.7%).

Chart 8: Composition of Assets for Insurer Members



OUTLOOK AND CONCLUSION

2017 is expected to be challenging with more uncertainties on the geopolitical and global economic front. Specifically, these include the changing global macroeconomic conditions, heightened financial market volatility, and possible shifts in policy environments. The potential ramifications to the domestic economy, along with prolonged uncertainties affecting consumer and business sentiments, are likely to have some impact on member institutions. Nonetheless, PIDM believes that its member institutions are on solid footing to brace through this period, supported by robust risk management practices as well as sound capital and liquidity positions.



SECTION

7

FEATURE ARTICLES

Planning for Effective and Orderly Resolution
Striving for People Excellence

PLANNING FOR EFFECTIVE AND ORDERLY RESOLUTION

INTRODUCTION

The Economist, in its essay headed ‘The Slumps That Shaped Modern Finance’,¹ makes this insightful point: that modern finance as we know it today has really been shaped by the past experiences with financial crises and the policy responses that followed. In essence, big banks, the concepts of moral hazard, lender of last resort and deposit insurance – have all evolved from four significant financial crises.

Banks, such as those that have become today’s big banks, came about as a result of laws following a crisis that permitted big joint-stock banks in England (the 1825 financial crisis). Moral hazard as a concept was recognised as financial crises became global across Europe (1857). As a result of yet another crisis, the lender of last resort concept was conceived to provide emergency money to ease the strain of falling markets and depositor runs in the United States (1907). And deposit insurance came about in response to the wave of bank failures between 1929 and 1933, as the United States economy slumped and markets panicked in the United States and various parts of Europe.²

During the 2008 financial crisis, massive bail-outs of financial institutions and other monetary and fiscal policies were also used to attempt to prevent a fall-out in the world’s financial systems – and most, at the expense of the public. Policy responses to these crises have resulted in what is perceived to be increasing entrenchment of government intervention and bail-outs for the financial system at the cost of taxpayers, and insulation of investors from risk.

As history has indicated, the reforms that take place today will likely shape future responses to crises and their success. The decisions that policymakers make today, and the speed in which reforms will take place before the next financial crisis are therefore significant.

“The reforms that take place today will shape the future responses to crises and their success.”



¹ <http://www.economist.com/news/essays/21600451-finance-not-merely-prone-crises-it-shaped-them-five-historical-crises-show-how-aspects-today-s-fina>
² Ibid

PLANNING FOR EFFECTIVE AND ORDERLY RESOLUTION

INTERNATIONAL STANDARDS FOR EFFECTIVE RESOLUTION REGIMES FOR FINANCIAL INSTITUTIONS

In 2011, following the experiences of the 2008 financial crisis, the Financial Stability Board (FSB) issued a seminal publication entitled the 'Key Attributes of Effective Resolution Regimes for Financial Institutions' (Key Attributes).³ The Key Attributes set out the core elements for an effective resolution regime in dealing with failing financial institutions, so as to "... make feasible the resolution of financial institutions without severe systemic disruption and without exposing taxpayers to loss, while protecting vital economic functions through mechanisms which make it possible for shareholders and unsecured and uninsured creditors to absorb losses in a manner that respects the hierarchy of claims in liquidation". At the Cannes Summit in November 2011, the G-20 Leaders endorsed the Key Attributes as the international standard for resolution regimes.

A core element in the Key Attributes is the need for countries to ensure the development of an effective recovery and resolution planning (RRP) regime, to ensure long-term economic stability, and to reduce the costs to the public of future financial crises.

"Financial crises are profoundly debilitating to the economic well-being of the nation."⁴

THE RECOVERY AND RESOLUTION PLANNING FRAMEWORK FOR MALAYSIA

In line with international standards, PIDM, together with Bank Negara Malaysia (BNM), have committed to develop and implement a comprehensive RRP Framework. This Framework contemplates the development and implementation of a policy guidance for RRP for financial institutions in Malaysia, to ensure preparedness for recovery or orderly resolution of a failing financial institution.

The key objectives of the RRP Framework are to:

- (a) enable orderly resolution of financial institutions without severe systemic disruption, and in a manner that minimises risk of loss to public funds; and
- (b) preserve continuity of systemically important functions to support the financial intermediation process, orderly market conditions and maintain public confidence in the financial system.

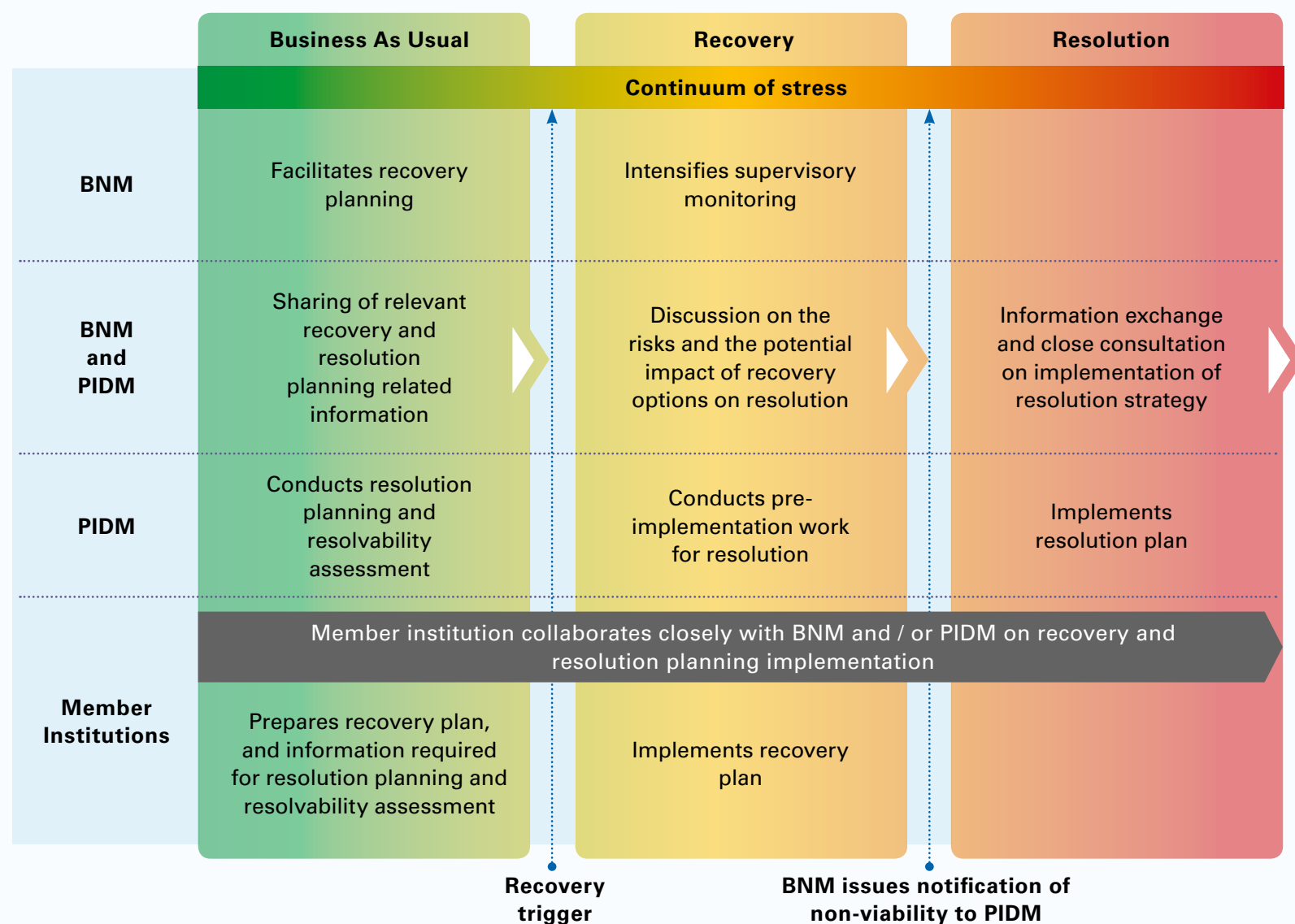
The respective roles and responsibilities of PIDM and BNM for recovery and resolution are shown in Diagram 1, along with a member institution's 'viability spectrum'. This also depicts the interlinkages between recovery planning (led by BNM) and resolution planning (led by PIDM) for its member institutions.

³ http://www.financialstabilityboard.org/2014/10/r_141015/ (updated 2014)

⁴ http://www.wilsonelser.com/news_and_insights/client_alerts/1576-despite_the_best_of_intentions_paving_the_way_for

PLANNING FOR EFFECTIVE AND ORDERLY RESOLUTION

Diagram 1: Interlinkages between Recovery Planning and Resolution Planning



The following discussion elaborates on the strategic outcomes PIDM expects from this resolution planning exercise, the approach we will adopt in implementing resolution planning for member institutions, and our expectations from member institutions in this context.

PLANNING FOR EFFECTIVE AND ORDERLY RESOLUTION

PLANNING FOR RESOLUTION IN MALAYSIA

“The time to repair the roof is when the sun is shining.”

[State of the Union Address January 11, 1962] – John F. Kennedy

Strategic Outcomes

PIDM has always focussed its resources on ensuring operational readiness during good times. Readiness means that we must be ready to deal with troubled member institutions as early as possible and at all times, in a manner that minimises costs to the financial system.

Enhancing resolution readiness of each and every member institution is therefore a key strategic priority for PIDM in the coming years. Planning ensures resolution actions can be smoothly executed and enables member institutions, irrespective of their size and systemic importance, to fail in an orderly manner, be resolved⁵ and to be allowed to exit from the financial system, without causing severe systemic disruption.

PIDM envisages four key strategic outcomes from the resolution planning process:

Diagram 2: Strategic Outcomes of Resolution Planning

Vision

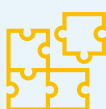
An effective resolution regime in Malaysia that enables orderly resolution of PIDM member institutions, without severe systemic disruption and in a manner that minimises costs to the financial system, in line with our mandate.

Strategic Outcomes



Feasible and credible resolution plans for member institutions

To develop a customised resolution strategy for each member institution, and improve the predictability of actions and outcomes



All member institutions are resolvable

To assess member institutions resolvability and address specific impediments to resolvability for each member institution



Embed culture of ‘resolvability’

To differentiate member institutions according to their resolvability and provide proper incentives through premium and levy assessment frameworks



Strengthen cross-border cooperation

To achieve cooperative solution with foreign authorities in resolving a cross-border member institution group to preserve Malaysian interests

⁵ This would include having in place efficient mechanisms to ensure that eligible deposits are protected and can be promptly reimbursed; and eligible insurance or takaful benefits are protected and claims can be paid within a specified time frame if continuity of cover for takaful certificate and policy owners is not appropriate

PLANNING FOR EFFECTIVE AND ORDERLY RESOLUTION

1. Feasible and credible resolution plans for member institutions

Each member institution will have a customised resolution plan or 'living will' detailing feasible and credible resolution strategies and actions that PIDM may implement to resolve the member institution.

Resolution planning provides a structured approach that will enable PIDM to obtain comprehensive understanding of the member institutions and prepare for resolution of the member institutions. Developing a resolution plan during business as usual (BAU) times will allow PIDM to access detailed information on the member institutions, including legal and financial structures, business model, critical functions, internal and external interdependencies, as well as critical systems and infrastructures, and perform comprehensive analyses to achieve a feasible and credible resolution outcome. Clarity around the powers and resolution options available to PIDM will facilitate measured responses by PIDM in times of crisis and improve the predictability of actions and outcomes. It is expected that preparedness during BAU times will lead to higher likelihood of successful execution of resolution actions.

2. All member institutions are resolvable

Resolution planning is also to ensure that all member institutions, regardless of size and systemic importance, will be resolvable. Each member institution is expected to work towards improving or enhancing its resolvability, which may include making the necessary changes to its business, financial and operating models, to reduce its complexity and cost of resolution, and enhance the probability of achieving an orderly or 'successful' failure.

3. Embed a culture of 'resolvability'

As resolution planning is an ongoing process, regulatory incentives to continually support this outcome will be provided for member institutions to improve their resolvability. PIDM intends to include measures of resolvability into PIDM's premium and levy assessment frameworks that would differentiate member institutions according to their resolvability rating. Member institutions will be appropriately incentivised to undertake measures to reduce their risks to orderly resolution, and member institutions with lower resolvability risk will be assessed accordingly for premium or levy rates.

4. Strengthen cross-border cooperation

Due to the presence of foreign financial institutions in Malaysia and the expansion of Malaysian financial institutions, both regionally and internationally, it is important to have in place an internationally coordinated resolution planning to manage the varied expectations and interests among the different jurisdictions. Resolution planning will enable PIDM to identify and engage with the relevant foreign authorities on the extent of international cooperation, information sharing and coordination that will be required to effectively resolve a cross-border member institution group in times of crisis, and to safeguard Malaysian interests.

PIDM's Approach to Resolution Planning

In 2016, PIDM has developed a Resolution Planning Framework to outline the high-level strategies that we plan to adopt to ensure the development of a detailed resolution plan for each member institution. PIDM has also developed a draft Resolvability Assessment Framework to outline the methodology for PIDM to identify impediments that could undermine the effective execution of the resolution plans so that those impediments to resolvability can be addressed and remediated.

PIDM is guided by the following approaches to undertake resolution planning in Malaysia:

1. In line with international best practices, tailored to the Malaysian context

PIDM has benchmarked its resolution planning approach against international standards and tailored it to reflect the specific circumstances in Malaysia. Further, PIDM has taken into consideration the unique features of conventional banks, Islamic banks, insurance companies and takaful operators. It can be expected that the approach and compliance requirements are likely to evolve over time, as there are ongoing policy developments in the approach to resolution planning internationally.⁶ PIDM will monitor such developments and update the approach and compliance requirements accordingly.

⁶ For example, FSB continues to evolve its RRP guidance as part of the work to implement the Key Attributes

PLANNING FOR EFFECTIVE AND ORDERLY RESOLUTION

2. Coordination and cooperation with BNM

PIDM and BNM are committed to implementing RRP in Malaysia. PIDM and BNM have established a strong culture of collaboration since PIDM's establishment in 2005 and this has continued for the development of RRP. The roles and responsibilities of PIDM and BNM will be clearly defined and updated in the Strategic Alliance Agreement. PIDM will cooperate and liaise with BNM on an ongoing basis to achieve the strategic outcomes for resolution planning. PIDM is currently working together with BNM on the base information necessary for both recovery planning and resolution planning as well as on the approach to industry engagement.

3. Collaboration and consultation with member institutions

Resolution planning will be an interactive and iterative process so that we can effectively achieve the planned strategic outcomes. Member institutions have in-depth knowledge of their operations and play a critical role in the resolution planning process. Thus, PIDM plans to work closely with member institutions, and hold regular engagements with them, so that a feasible and credible resolution plan can be finalised and impediments to resolvability can be addressed. Member institutions will be given the opportunity to provide feedback in relation to the resolution planning requirements. The requirements that are incorporated in the draft Resolution Planning Guidelines and information package will also be tested with specific institutions to ensure its suitability to the Malaysian context and be refined before it is rolled out to all member institutions.

4. Phased and sequenced implementation

PIDM plans to roll out resolution planning by sector, starting with member banks to be followed by insurer members. We are also cognisant of the potentially significant amount of data collection and detailed analyses required from member institutions for the preparation of a resolution plan. In view of this, we will adopt a measured approach in our information requests so as to enhance the usefulness and quality of the information submitted.

5. Proportionate

PIDM will take into consideration the unique characteristics of each member institution and the resolution planning requirements will be proportionate to the size, complexity, and systemic importance of each member institution.

Going forward, we will continue with the workstreams that we have started in 2016 and will undertake the following initiatives in 2017 - 2019, as outlined in Diagram 3.

Diagram 3: Key Initiatives for Resolution Planning



PLANNING FOR EFFECTIVE AND ORDERLY RESOLUTION

Expectations from Member Institutions

PIDM is committed to working closely and collaboratively with the industry, and member institutions are expected to demonstrate similar commitment and dedication, both in letter and spirit, for the successful implementation of the resolution planning initiative that will enhance financial system stability in Malaysia.

Member institutions are expected to take a proactive approach in resolution planning and be engaged at all levels. We expect that the board and senior management of member institutions will fully support and be committed to making their resolution plans feasible and credible. We look forward to the member institutions dedicating appropriate and sufficient resources to resolution planning, as this could be an extensive and complex undertaking involving information gathering and remediation of impediments to reach the ultimate objective of resolvability.

We envisage that the involvement of member institutions throughout the resolution planning process will also enable member institutions to yield important insights on their operations and complexities, which will enhance their operational excellence.

CONCLUSION

The financial system plays a vital role in supporting sustainable economic growth and meeting the financial needs of Malaysians. The financial system is intended to facilitate funding, liquidity and price discovery, provide effective risk management, as well as payment services. In other words, it facilitates economic activity.

The financial system achieves this most effectively when it operates in an efficient and resilient manner. Having in place ready and robust resolution plans is critical so that the impact of any member institution failure will not also affect the rest of the financial system, as we have seen elsewhere, and consequently affect the economy at large.

In line with our statutory objects and as a resolution authority, PIDM must perform our role so that any resolution that takes place can be effected in a manner that minimises costs to the financial system as a whole while protecting the interests of the public. This obliges us as the resolution authority to ensure that our regime incorporates all of the necessary infrastructure, tools, arrangements and plans to support and enhance our nation's financial system stability, as the operating environment changes and risks continue to evolve.

Our strategic partners, including our member institutions, play a significant role in the successful implementation of resolution planning in Malaysia. As the member institutions' success ultimately depends on the efficiency and resilience of the financial system, which in turn operates on trust and confidence of the public in the system, they too need to play their part in engendering this confidence and trust.

STRIVING FOR PEOPLE EXCELLENCE

INTRODUCTION

What makes a regulator excellent? A recent study⁷ distills the various descriptions of regulatory excellence into the following three core attributes of excellence, as follows:

- “(a) Utmost Integrity. This is about much more than just a lack of corruption; it is also about the regulator’s commitment to serving the public interest, to respecting the law, and to working with duly elected representatives.
- (b) Empathic Engagement. This is about transparency and public engagement, but also about how respectfully the regulator and its personnel treat regulated entities, ..., and all other concerned individuals.
- (c) Stellar Competence. This is about the actual delivery of outcomes that maximize public value and the capacities built and actions taken to achieve a high level of performance.”

The study goes into detail about what each of these attributes entails. But, in the end, the report surmises the following – regulatory excellence is really all about people excellence.

“Regulatory excellence is about people excellence.”



⁷ ‘Listening, Learning, Leading: A Framework for Regulatory Excellence’; Cary Coglianese;
<https://www.law.upenn.edu/live/files/4946-pprfinalconvenersreport.pdf>

STRIVING FOR PEOPLE EXCELLENCE

WHO WE ARE AND WHAT WE STAND FOR

Sound Governance

The Corporation has built a solid foundation and is operationally sound. The Corporation's foundation is built on strong governance and management. In particular, the Corporation has established the following:

- (a) best practice governance arrangements including internal controls and risk management, and a clear accountability and reporting regime focussing on key stakeholders, and a culture of excellence and integrity; and
- (b) robust infrastructure and systems, with board and operational policies and processes to support the achievement of our statutory objects.

As the Corporation's vision is to be a best practice financial consumer protection and resolution authority, it adopts and advocates best practices in all key aspects of its work.

Commitment to Public Service

The Corporation's organisation structure and human capital model reflect the need to support its statutory objects. Over the years, the Corporation's organisation structure has changed since its establishment in 2005 to cater for its expanded mandate in respect of the Takaful and Insurance Benefits Protection System (TIPS) as well as for succession planning purposes. As at 31 December 2016, it has a workforce of 157 employees, who are actively trained and developed in order to meet the current and future needs of the Corporation. PIDM impresses upon the need to ensure that its workforce remains engaged, developed and competent and a Strategic Human Capital Plan has been developed with the objective of ensuring there is support, from the people perspective, for the long-term aspirations of the Corporation.

From the perspective of what would constitute regulatory excellence,⁸ we believe that the Corporation has achieved this and the following are some perspectives that indicate the regulatory standards we have always committed to achieve:

- (a) **Traits.** The Corporation has always worked on integrity and commitment to excellence as a value, and fostered a culture that strives for excellence.
- (b) **Actions.** The Corporation has always consulted before issuing laws and regulations and gathered feedback from our key stakeholders. In carrying out our functions and objects, we also employ the appropriate tools, as well as best practices in prioritising risks and solving problems. Our active participation in the International Association of Deposit Insurers has been of considerable benefit, enabling us to learn from others.
- (c) **Outcomes.** Regulatory excellence in terms of outcomes is framed in terms of the value that we add to the public (public value). In our context, this relates to our contribution to financial system stability. Some key outcomes would be substantive, such as the Corporation's early and successful interventions in member institutions that would avoid the impact of failure on depositors as well as takaful certificate and policy owners.⁹ Others are process-oriented¹⁰ (e.g. building trust, strengthening legitimacy, etc.). We have a corporate plan that we report against in order to show our progress.

⁸ For attributes and performance for regulatory excellence, see 'Listening, Learning, Leading: A Framework for Regulatory Excellence'; Cary Coglianese; <https://www.law.upenn.edu/live/files/4946-pprfinalconvenersreport.pdf>

⁹ In our context, the quality outcome is protection for financial consumers and stability of the financial system

¹⁰ Process quality might also relate to business improvement methods such as automation or inter-agency collaboration, to minimise regulatory burdens for member institutions

STRIVING FOR PEOPLE EXCELLENCE

For the future, the Board expects continued regulatory excellence from its employees, in terms of culture, performance levels and commitment to adding public value.

In particular, aside from human capital and stakeholder engagement, a strategic priority for the Corporation over the long term involves implementing resolution planning for all relevant financial institutions and working to ensure Malaysia has an effective resolution regime.¹¹ The key challenges that must be overcome to achieve successful outcomes in this respect are:

- (a) managing relevant internal and external stakeholders;
- (b) building capacities and competencies within the Corporation in the areas of resolution planning (including dealing with any need for change management);¹²
- (c) adaptability in the face of new challenges, uncertainties and complexities; and
- (d) continuing to operate not only locally, but also internationally.

At the same time – something we emphatically do not forget – the Corporation must continue to monitor and assess its risks, remaining at all times operationally ready. This is clearly necessary to ensure that the Corporation is effective in meeting a key aspect of its statutory objects.

Borrowing from the words of Professor Malcolm Sparrow of Harvard University, an effective regulator has “... a clear focus on purpose, an agility of response, a reputation for trustworthiness, the curious mind of a scientist, an attitude of humility, a commitment to unbiased decision-making, and a proactive approach to managing risks ...”.¹³ This means having the people with the ability and who espouse these attributes.

An effective regulator has “... a clear focus on purpose, an agility of response, a reputation for trustworthiness, the curious mind of a scientist, an attitude of humility, a commitment to unbiased decision-making, and a proactive approach to managing risks ...”.

Malcolm Sparrow

¹¹ Refer to the article on ‘Planning for Effective and Orderly Resolution’

¹² Long-term change effort focussing on improving interpersonal relationships of employees

¹³ ‘The Art of Harm Reduction’, Malcolm Sparrow, Kennedy School of Government, Harvard University

STRIVING FOR PEOPLE EXCELLENCE

OUR HUMAN CAPITAL MODEL AND KEY CHALLENGES



Aside from governance, the Corporation has always given particular attention to human capital, recognising that, at the core, our team is what will define the Corporation and its success.

Since establishment, the Corporation has developed and implemented human capital policies and strategies to attract, develop, engage and retain our key talents. Key elements of the human capital strategies are nothing new – they encapsulate a competency model, recruitment, learning and development, leadership development, compensation and benefits, career management, succession planning, employee engagement, wellness, safety and health.

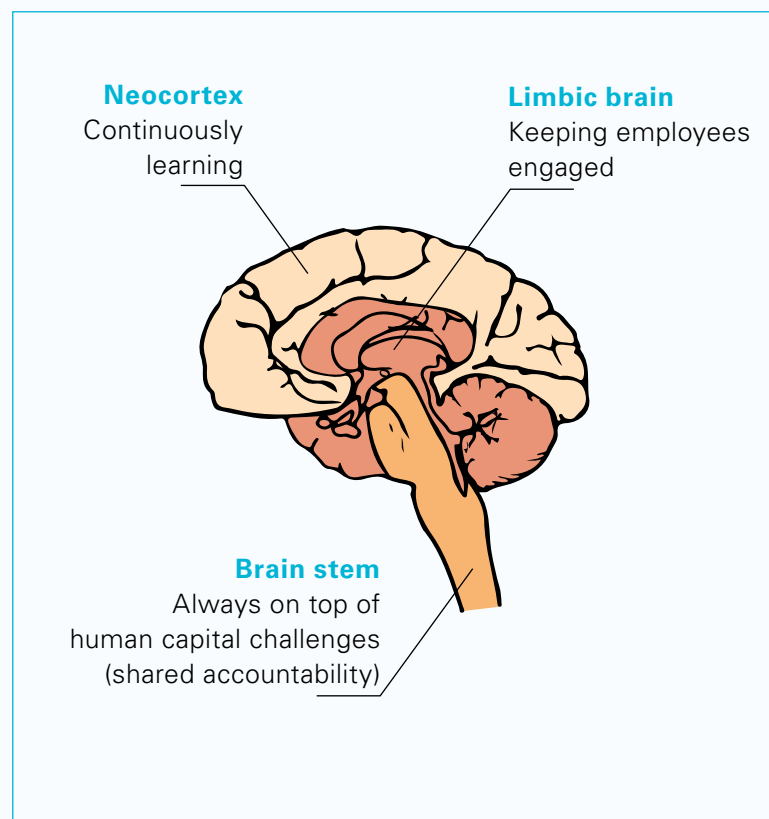
A key difference in our establishment is that we rely on a core team of professionals, who are experts in their respective areas. These may be supplemented by external resources as and when needed. With our governance foundations having been built, a key challenge in the Corporation, is to be able to retain the people that we have invested in developing over the years, with a view to continuing to sustain the culture, competencies and commitment to regulatory excellence we discussed earlier.

OUR HUMAN CAPITAL PLAN FOR THE LONG TERM

In 2015, the Corporation developed a long-term Strategic Human Capital Plan, which is linked to the overall goals of the Corporation. One of the key objectives of this plan was to assess what changes, if any, to the Corporation's approach to human capital management was needed given the anticipated changes in the environment and the long-term aspirations of the Corporation. It was also to carve a clear path for human capital plans over the long term.

STRIVING FOR PEOPLE EXCELLENCE

The review assessed external changes, such as the workforce landscape in Malaysia, the Corporation's long-term aspirations, as well as any need for enhancement to our current human capital model and approach. Following the review, no fundamental change was thought necessary to our human capital model and approach, nor in the culture of the Corporation. However, it was decided that particular focus or themes would guide human capital strategies and activities going forward, as discussed below.



The three areas of focus are metaphorically depicted in the diagram and are as follows:

- (a) **Continuously learning.** The neocortex is where higher order thinking takes place. Thus, employees should operate in an environment where they are continually learning and constantly seeking improvement. Only by learning can an organisation remain adaptable and rise up to challenges in new or different circumstances.
- (b) **Keeping employees engaged.** The limbic brain, where emotions take place, is the allegory for employee engagement. Employees, in the right environment including the leadership that provides a sense of purpose, will perform as a team and seek to perform at their best.
- (c) **Always on top of human capital challenges.** The brain stem is the part of the brain that is 'always on'. Failure to always keep on top of the people challenge will be one of the biggest threats to the success and sustainability of the Corporation. The continued management of employees and resources – not just by the Human Capital Division – but by senior management and supervisors, is expected to be a shared accountability for all at PIDM.

Continuous Learning and Adaptability

The nature of our industry requires our employees to have specialised expertise in their respective fields as well as sound understanding of deposit insurance, financial consumer protection, regulatory best practices, as well as awareness of their operating environment.

The foundation for the competencies that we need is our Competency Model. This sets out the types of behaviour and competencies expected of our employees. This has been established since 2008 and is being reviewed and enhanced so that the competencies may be properly integrated into all of our key human capital processes, and take into account our long-term aspirations.

STRIVING FOR PEOPLE EXCELLENCE

The following is the thrust of our current learning and development strategies:

- (a) **Competence.** The workforce must be kept fully competent for the mission critical functions they must fulfil. Thus, in the coming years, we will optimise our current workforce and hire external talents to support our strategic priorities, in particular for the resolution planning exercise. While continuing to strengthen our core expertise, we are also focussing on building new capabilities for resolution planning as well as resolvability assessment. Recruitment and development efforts will be focussed on ensuring we have the appropriate mix of industry experts for resolution planning as well as risk assessment capabilities for resolvability assessment. Resolution planning is, in some aspects, a greenfield project for Malaysia. Already, we have plans in place for change management (commencing with the establishment of the Resolution Planning Unit), and a training framework and timetable for other employees who will be engaged in resolution planning and resolvability assessment, aligned with key milestones for the project.
- (b) **Adaptability.** We expect our employees to apply higher-order thinking to a variety of circumstances, not limited to greenfield projects such as resolution planning. As such, continuous learning and adaptability is key. Developing, learning and capturing knowledge for continued organisational growth has been and will continue to be part of our explicit commitment to learning and development.¹⁴
- (c) **Continually improving as a Corporation.** In 2016, we established a Learning Organisation Framework. This encapsulates how we will integrate learning into our everyday processes and practices, and continue work with our leaders to inculcate a 'continuously learning' and therefore an 'always improving' mindset. This we consider important to sustain the type of culture and regulatory excellence we desire for the long term. A comprehensive knowledge management framework is also being planned that will facilitate more effective acquisition, retention and transfer of organisational knowledge and experience.

Employee Engagement

In a relatively flat and lean organisation filled with mostly professionals, there is a need to address the very real challenge of retaining the types of talents that we desire while fulfilling individual career aspirations. In the first place, we have always committed to providing a conducive work environment, in order to help employees remain self-motivated and eager to perform. However this needs to be complemented by other forms of engagement, and our key strategies include the following:

- (a) **Leadership development and tone.** Leadership development remains high on the agenda, not least to ensure that the rest of the Corporation continues to understand its vision and purpose and remains engaged. Leadership development continues in the form of establishing performance expectations and carrying out performance management, 360-degree assessment and feedback, executive coaching, training and experiential programmes in areas of priority for the Corporation. As part of our efforts to retain key talents, succession plans for key positions have been established.
- (b) **Career and performance management.** As for employees, to enhance opportunities for career progression at more senior levels, we have embarked on a career profiling exercise which has resulted in the development of a career management strategy. Coupled with regular reviews of our compensation and benefits strategies and performance management efforts, our career management strategy provides a framework to support the career development, progression and retention of key talents within the Corporation. Among the key initiatives implemented to support the overall career management strategy is the review of functional competencies, individual development plans for all employees and customised learning programmes for targeted employees.

¹⁴ These include, but are not limited to external training programmes, in-house customised training programmes, knowledge transfer and sharing of best practices, both locally and internationally, project management, professional membership, educational assistance, on-the-job training, job rotation and job sharing

STRIVING FOR PEOPLE EXCELLENCE

We also continually evaluate our human capital programmes and strategies to ensure that they offer a comprehensive employee value proposition and that all our employees are fully engaged and aligned with our vision and mission. We will continue to administer the Employee Voice Survey biennially to gauge employee engagement levels and develop action plans in response as needed.

Shared Accountability for Human Capital

Under the Strategic Human Capital Plan, PIDM will strengthen its human capital framework and employ an integrated approach to align its human capital strategies with its vision, mission and goals.

A few objectives are to be achieved with this approach:

- (a) **Shared accountability for human capital.** Shared accountability with heads of division for human capital management has been incorporated as part of the key performance indicators and leadership competencies for senior management. The Human Capital Division plays the strategic partner role through various engagement initiatives with leaders to discuss human capital matters and adopt the best human capital approaches for the Corporation as a whole. Working together with the Human Capital Division will also ensure greater alignment and consistent application of human capital policies and practices across the Corporation.
- (b) **Alignment with the Corporation's vision, mission and goals.** Interdivisional discussions and decision-making is a key component of the Corporation's human capital strategy in ensuring functional alignment of its mission critical work. Senior management work with the Human Capital Division to discuss the needs of the divisions as well as provide input from supervisors and employees on human capital matters.

CONCLUSION

Our mission statement, as our statement of conviction, not only refers to our desire to make a difference to our community, but also to our employees. This is because we believe that, without making a difference to our employees, we cannot make a difference to our community.

Underlying our Strategic Human Capital Plan is our intention to inspire a culture that is committed to good governance and to public service; an environment conducive to a team of employees who will continually learn, adapt and improve; so that they are always able to perform at the highest levels of competence to achieve outcomes we aspire in line with our mandate. In this, constant and clear communication is key. If we succeed in these endeavours, we believe that we can be assured of regulatory excellence for the long term.

**"You don't have to fear your own company being perceived as human. You want it.
People don't trust companies; they trust people."**

Stan Slap



SECTION

8

COMMUNICATIONS INITIATIVES

COMMUNICATIONS INITIATIVES

Financial consumer confidence and trust in the financial system is imperative in promoting and contributing to the stability of the financial system. The Corporation places much emphasis on our communications efforts to foster better understanding and appreciation among the public and key stakeholders about our role as a financial consumer protection and resolution authority.

2016 INITIATIVES AND PROGRAMMES

Throughout 2016, PIDM's communications initiatives were focussed on elevating public awareness about the Corporation, the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS) to empower consumers, so that they are able to make responsible and informed financial decisions.

These efforts were undertaken through the implementation of the Corporation's Integrated Communications Plan (ICP) which employed various programmes and platforms to reach out to the numerous stakeholders.

Advertising and Publicity

Advertising continued to be the anchor initiative, as an important channel for mass dissemination of information. The Corporation's 2016 advertising campaign was built upon the initial success of the Lat campaign developed in the previous year, combining the cartoonist's signature illustrations and simple messaging to capture the attention of our target audiences. The advertising bursts throughout the year utilised the Lat materials produced in 2015, as well as some new creative materials produced in 2016 for print and radio channels.

A new set of print advertisements was created in the form of panel comic strips that were produced based on the storyline of the Lat television commercials (TVCs) on DIS and TIPS. Additionally, digital advertisements were featured on relevant platforms to reach out to digital-savvy consumers, while new radio advertisements on DIS and TIPS were developed in four languages, namely, English, Bahasa Malaysia (BM), Chinese and Tamil. These materials complemented the Lat TVCs, evoking further recall and alignment of the key messages.

The PIDM jingle was revamped with a more upbeat and lively melody and aired across all BM radio stations. Based on research findings, the previous jingle had high recall value and to leverage on this, we engaged the same local artiste – Jay Jay who sang the previous jingle, for the production of the new recording. PIDM also embarked on cinema advertising for the very first time through MBO cinemas at 25 locations for a period of 20 weeks.



Apart from the 'Above the Line' materials, PIDM's publication materials such as the PIDM membership decal and the DIS and TIPS brochures were produced with the Lat theme. The simplified content and new design with Lat's cartoons is intended to enhance visibility and capture the interest of financial consumers as they learn about DIS and TIPS protection.

PIDM's communications initiatives and efforts have been recognised and together with its advertising agency – FCB Kuala Lumpur, PIDM won two awards at the Marketing Excellence Awards 2016 – a Silver for Excellence in Government

COMMUNICATIONS INITIATIVES

Sector Marketing and a Bronze for Excellence in Marketing Communications / Public Relations categories. PIDM was also a finalist in the Excellence in TV / Video Marketing category. The Marketing Excellence Awards is organised by the *Advertising + Marketing Malaysia* magazine, to recognise the best campaigns, initiatives and programmes from across Malaysia's marketing and communications industry.



Financial Awareness and Literacy

PIDM's education programme has always been centred on efforts to promote and enhance financial awareness and literacy among the younger generation. Through on-ground activities, briefings, competitions and roadshows, PIDM has successfully engaged more than 2,000 national secondary schools and 150 higher learning institutions in Malaysia since the inception of the programme in 2010.

During the year, PIDM collaborated with the Malaysian Financial Planning Council (MFPC) in the organisation of the Financial Planning Tournament for public and private universities held from 7 to 9 October. With participation from some 20 universities, the tournament integrated important aspects of financial education, encouraging greater financial savviness among students.

The Corporation also concluded three online campaigns for its education programme, PIDM Project MoneySmart, which were the photography and drawing competition, song and video production competition and a MoneySmart trivia.

With the conclusion of these initiatives, PIDM embarked on a review of its past efforts and explored various possibilities for its education initiatives. This exercise has helped PIDM to chart the direction for its future initiatives in line with the

Corporation's continued commitment towards enhancing financial awareness among the younger generation and empowering them with better financial acumen.

Stakeholder Engagement

Throughout 2016, a total of 77 briefing sessions were conducted nationwide, reaching out to more than 7,000 bank employees, takaful and insurance agents, professionals in the private and public sectors, community groups, including retirees and students.

35 of these briefing sessions were conducted for employees of member banks and insurer members. The remaining sessions were for other stakeholders in collaboration with the Corporation's strategic partners, Malaysian Insurance Institute (MII), IBFIM, Asian Institute of Chartered Bankers (AICB), Federation of Malaysian Consumers Associations (FOMCA), MFPC, Money Compass and Sabah Government Pensioners' Association.

The Corporation continued to organise its annual meeting with liaison officers of member institutions to share updates on new initiatives, and regulatory and compliance-related matters. A total of 132 participants participated in the meeting which was held on 30 March.

In addition, PIDM also organised briefings and consultations with representatives from member institutions in relation to proposed new developments, including Guidelines on Differential Levy Systems Framework for Takaful Operators, enhancements to the Guidelines on Differential Levy Systems Framework for Insurance Companies, the revised Guidelines on Deposit Information Systems and Submission as well as Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation to external auditors of insurer members.



COMMUNICATIONS INITIATIVES

Community Relations

Corporate Outreach

The Corporation's public awareness initiatives also include a Corporate Outreach whereby each year, PIDM's Board Members and Management team will select a state in Malaysia and organise programmes to engage with the public and key stakeholders in that state.

The 2016 Corporate Outreach was successfully carried out from 13 to 14 May in Negeri Sembilan and adopted a slightly different approach from the previous years. The event began with a briefing session in Seremban on 13 May that reached out to 370 civil servants of the State Government of Negeri Sembilan.

The next day, a carnival was held at Dataran Teluk Kemang, Port Dickson. The primary objective of this event was to directly engage with the public at the grassroots level and educate them about the role and functions of PIDM in a fun and interactive setting. The carnival themed '*Santai Bersama Komuniti – PIDM Dikenali*' attracted almost 600 beachgoers and local residents for a fun and educational day by the beach. PIDM's senior management also had the opportunity to interact with the community and encourage visitors and residents to participate in the carnival activities.



Exhibitions and roadshows

PIDM participated in 19 exhibitions in 2016, including the Asian Institute of Finance International Symposium 2016, Association of Financial Advisers' 5th Annual Conference, *Festival Pertubuhan Kebangsaan* organised by Registrar of Societies, InvestSmart Fest 2016 organised by Securities Commission Malaysia, *Konvensyen Ejen Insurans Hayat Bumiputera 2016* organised by MII, Malaysian Consumer Day (*Hari Pengguna Malaysia*) organised by FOMCA, Malaysian Insurance Summit 2016, MFPC Financial Planning Tournament and National Entrepreneurs Convention organised by Money Compass.

The Corporation also took part in an international exhibition held in conjunction with the 2016 International Association of Deposit Insurers (IADI) Asia-Pacific Regional Committee (APRC) 14th Annual Meeting and International Conference in Iloilo City, Philippines.

A list of PIDM's participation in exhibitions and roadshows is available in Section 9.

Media Relations

The media is an important channel to reach out to the masses in building and enhancing awareness of PIDM as an integral part of the Malaysian financial safety net. They play an important and influential role in the dissemination of information. Throughout the year, the Corporation engaged with the media through various activities including media releases, interviews and article contributions. Six media releases were issued, which received coverage in the various media.

Regular networking sessions with editors and journalists were held in 2016 as part of the Corporation's ongoing efforts to enhance its relations with members of the media. The annual media *Buka Puasa* event was held on 20 June and was attended by senior editors and journalists.

Additionally, the Communications and Public Affairs team visited the Malaysian National News Agency (BERNAMA) office on 4 April. The purpose of the visit was to familiarise the team with the workings of a news agency, enhance relationships with the editors and journalists in BERNAMA, and clarify any questions they have in relation to the roles and functions of PIDM.

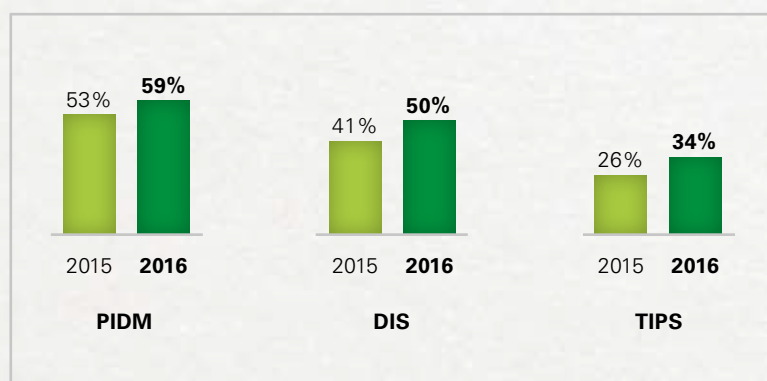
COMMUNICATIONS INITIATIVES



Nationwide Survey

On an annual basis, the Corporation carries out a nationwide quantitative consumer survey through an independent research agency to gauge the levels of public awareness about PIDM, DIS and TIPS. The research also measures the effectiveness of the Corporation's communications strategies and initiatives. This enables PIDM to continuously review and enhance its communications approaches and initiatives.

Based on the results of the survey conducted in 2016, there has been an overall increase in awareness levels as compared to 2015 as shown below:



The increase in awareness levels is attributed to, among others, the effectiveness of the Lat advertising creatives and the media mix strategy of traditional and digital media channels, which have gained much traction and contributed towards expanded reach and enhanced engagement among financial consumers.

In addition, member institutions' compliance with the Deposit Insurance Information Regulations which require member banks to provide depositors with accurate, relevant and timely information on deposit insurance protection and the scope of coverage for their deposit products, further aided public awareness on DIS protection.

Awareness on TIPS has improved significantly among those surveyed. They understood that the system is established by the Government and that the benefits are protected under the law. However, there is still room for TIPS awareness level to grow especially among takaful certificate and insurance policy owners, who need to understand the relevance and importance of TIPS.

MOVING FORWARD

2016 marked the final year of the implementation of the Corporation's ICP 2012 - 2016. The ICP was designed to drive PIDM's communications initiatives to enhance awareness and understanding of PIDM, DIS and TIPS, and instil greater trust in PIDM's role as an integral member of Malaysia's financial safety net which is ready to deliver its mandate.

The achievements gained during the implementation of the ICP 2012 - 2016 had bolstered public understanding and awareness of PIDM, DIS and TIPS. In developing the next ICP, PIDM will continue to leverage on the strong presence that has been built over the years in its continued efforts to fulfil the Corporation's mandate of promoting and contributing to the stability of the nation's financial system.

The Corporation will also be embarking on a consumer behavioural study to better understand the link between public awareness levels and the likely behaviours of our target audiences in situations of uncertainty. The results from the study will be used to guide us in further enhancing our communications initiatives.



SECTION

9

EVENT HIGHLIGHTS

EVENT HIGHLIGHTS



JAN

17 JAN

SHAH ALAM, SELANGOR

Briefing on PIDM Financial Consumer Protection to Persatuan Kebajikan Namakkal Malaysia members

19-20 JAN

MUMBAI, INDIA

Presentation on PIDM's Approach to Resolving Member Institutions in Malaysia at The Centre for Advanced Financial Research and Learning (CAFRAL) International Program

20 JAN

PIDM, KUALA LUMPUR

Study visit from Universiti Teknologi MARA Negeri Sembilan

24 JAN

DUBAI, UNITED ARAB EMIRATES

Participated in the International Association of Restructuring, Insolvency and Bankruptcy Professionals (INSOL International) Annual Regional Conference

29 JAN

PIDM, KUALA LUMPUR

Study visit from Universiti Teknologi MARA Segamat, Johor

FEB

15 FEB

PIDM, KUALA LUMPUR

Study visit from Universiti Teknologi MARA Arau, Perlis

17-19 FEB

KYOTO, JAPAN

Delivered the keynote speech entitled The Global Financial Crisis - Issues and Challenges for Deposit Insurers at the 9th Deposit Insurance Corporation of Japan (DICJ) Roundtable

23 FEB

PUTRAJAYA

Briefing on PIDM Financial Consumer Protection to Ministry of Finance employees

24 FEB

GENTING HIGHLANDS, PAHANG

Briefing on PIDM Financial Consumer Protection to Suruhanjaya Koperasi Malaysia members

24-26 FEB

VIENTIANE, LAOS

Presentation on PIDM's Payout System and the Approach to do Payout at the Lao People's Democratic Republic's Depositor Protection Fund Technical Assistance Programme by World Bank

EVENT HIGHLIGHTS



MAR

5 MAR PUTRAJAYA

Mini team building for PIDM employees

6 MAR GEORGE TOWN, PULAU PINANG

Briefing on PIDM Financial Consumer Protection at the Financial Planning Fair organised by Fin Freedom Sdn. Bhd.

7-9 MAR BASEL, SWITZERLAND

Participated in the 47th International Association of Deposit Insurers (IADI) Executive Council Meeting, Regional and Standing Committee Meetings

15 MAR PIDM, KUALA LUMPUR

Industry briefing to takaful operators on Differential Levy Systems Framework for Takaful Operators

16 MAR PIDM, KUALA LUMPUR

Industry briefing to life insurer members on the enhanced Guidelines on the Differential Levy Systems Framework for Insurance Companies

21 MAR PIDM, KUALA LUMPUR

Industry briefing to composite and general insurer members on the enhanced Guidelines on the Differential Levy Systems Framework for Insurance Companies

21 MAR KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to AXA Affin General Insurance Berhad agents

23 MAR PIDM, KUALA LUMPUR

Briefing on Guidelines on Validation Programmes: Differential Levy Systems and Levies Calculation to insurer members' external auditors

23 MAR KUALA LUMPUR

Exhibition at the 3rd Malaysian Financial Planning Council (MFPC) International Conference on Islamic Wealth Management and Financial Planning

23 MAR KUALA LUMPUR

Briefing on the revised Guidelines on Deposit Information Systems and Submission (DISS) for Deposit-Taking Members

30 MAR SINGAPORE

Study visit to Singapore Deposit Insurance Corporation (SDIC) on Payout Payment System for Life and General Insurance

30 MAR KUALA LUMPUR

Annual Meeting with Liaison Officers of Member Institutions

EVENT HIGHLIGHTS



APR

18 APR

PIDM, KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to Tradewinds Malaysia Berhad employees

18-19 APR

TAIPEI, TAIWAN

Presentation on How Do Insurance Guarantee Schemes and Deposit Insurance Schemes Collaborate to Protect Consumers? at the International Forum of Insurance Guarantee Schemes (IFIGS) 2016 Asian Meeting

19 APR

HONG KONG

Participated in the HSBC Asia Core College of Supervisors and Crisis Management Group Meeting

19 APR

KUALA LUMPUR

Participated in the Financial Sector Regulators' Internal Auditor Networking Session with Bank Negara Malaysia (BNM) and Bursa Malaysia Berhad hosted by Securities Commission Malaysia (SC)

20 APR

PIDM, KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to QBE Insurance (Malaysia) Berhad agents

21 APR

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to Institut Tadbiran Awam Negara (INTAN) employees

27 APR

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to AXA Affin Life Insurance Berhad agents

EVENT HIGHLIGHTS



MAY

12 MAY

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to Syarikat Takaful Malaysia Berhad agents

13 MAY

SEREMBAN, NEGERI SEMBILAN

Briefing on PIDM Financial Consumer Protection to civil servants of the State Government of Negeri Sembilan in conjunction with PIDM Corporate Outreach 2016

14 MAY

PORT DICKSON, NEGERI SEMBILAN

PIDM Carnival '*Santai Bersama Komuniti - PIDM Dikenali*' at Teluk Kemang in conjunction with PIDM Corporate Outreach 2016

23-26 MAY

PARIS, FRANCE

Participated in the 48th IADI Executive Council Meeting, Regional and Standing Committee Meetings

24 MAY

IPOH, PERAK

Briefing on PIDM Financial Consumer Protection to Politeknik Ungku Omar students

Briefing on PIDM Financial Consumer Protection to Takaful Ikhlas Berhad agents

26 MAY

TANGKAK, JOHOR

Briefing on PIDM Financial Consumer Protection to Kolej Matrikulasi Johor students

26 MAY

ALOR SETAR, KEDAH

Briefing on PIDM Financial Consumer Protection to Zurich Insurance Malaysia Berhad agents

27 MAY

KUALA LUMPUR

Presentation on Implementation of Effective Resolution Regimes at the 10th Meeting of the Financial Stability Board (FSB) Regional Consultative Group for Asia

EVENT HIGHLIGHTS



JUN

2 JUN

KEMAMAN, TERENGGANU

Briefing on PIDM Financial Consumer Protection to members of Persatuan Keluarga Polis (PERKEP) Kemaman and Ibu Pejabat Polis Daerah Kemaman employees

11 JUN

KOTA KINABALU, SABAH

Briefing on PIDM Financial Consumer Protection at the Borneo Investment Strategic Outlook Forum 2016

15-17 JUN

ILOILO, PHILIPPINES

Exhibition at the 14th IADI Asia-Pacific Regional Committee (APRC) and International Conference

Presentation on Developing Communication Content and Choosing Effective Channels at the 14th IADI-APRC International Conference

20 JUN

KUALA LUMPUR

Buka Puasa with members of the media

21 JUN

KUCHING, SARAWAK

Briefing on PIDM Financial Consumer Protection to insurance agents in collaboration with Persatuan Insurans Sarawak Training Centre

24 JUN

KUALA LUMPUR

Buka Puasa for PIDM employees and families

25 JUN

IPOH, PERAK

Briefing on PIDM Financial Consumer Protection at the National Entrepreneurs Convention 2016

27-29 JUN

PIDM, KUALA LUMPUR

Study visit by National Bank of Cambodia

EVENT HIGHLIGHTS



JUL

5 JUL FRANKFURT, GERMANY

Participated in the European Recovery and Resolution Summit

12 JUL MELAKA

Briefing on PIDM Financial Consumer Protection to insurance agents

15 JUL BEHRANG, PERAK

Briefing on PIDM Financial Consumer Protection to Politeknik Sultan Azlan Shah students organised by Federation of Malaysian Consumers Association (FOMCA)

15 JUL KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to Great Eastern Life Assurance (Malaysia) Berhad agents

23 JUL JOHOR BAHRU, JOHOR

Briefing on PIDM Financial Consumer Protection at the National Entrepreneurs Convention 2016

23 JUL KUALA LUMPUR

Exhibition at the *Konvensyen Ejen Insurans Hayat Bumiputera 2016*

28 JUL PIDM, KUALA LUMPUR

Briefing on PIDM's role in Financial Consumer Protection to delegates from the State Bank of Pakistan

EVENT HIGHLIGHTS



AUG

3 AUG

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to INTAN employees

10 AUG

PETALING JAYA, SELANGOR

Briefing on PIDM Financial Consumer Protection to MCIS Insurance Berhad agents

12 AUG

KOTA KINABALU, SABAH

Briefing on PIDM Financial Consumer Protection to Malayan Banking Berhad employees

13 AUG

KUALA LUMPUR

Exhibition at the Malaysia Million Dollar Round Table (MDRT) Day 2016

17 AUG

KUALA SUNGAI BARU, MELAKA

Briefing on PIDM Financial Consumer Protection to Kolej Universiti Islam Melaka students organised by FOMCA

17 AUG

BUKIT PALAH, MELAKA

Briefing on PIDM Financial Consumer Protection to Majlis Agama Islam Melaka employees

20 AUG

KUALA LUMPUR

PIDM Undergraduate Scholarship Award 2016

20 AUG

PRAI, PULAU PINANG

Briefing on PIDM Financial Consumer Protection at the National Entrepreneurs Convention 2016

21-25 AUG

KATHMANDU, NEPAL

Presentation on The Intervention and Failure Resolution Framework in Malaysia at the 30th South East Asia, New Zealand, Australia (SEANZA) Central Banking Course 2016

22 AUG - 8 SEP

KUALA LUMPUR

BNM-PIDM Annual Games

23 AUG

PIDM, KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to Universiti Tunku Abdul Rahman (UTAR) Perak Campus' students

27 AUG

KUCHING, SARAWAK

Briefing on PIDM Financial Consumer Protection at the National Entrepreneurs Convention 2016

27 AUG

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to Bangkok Bank Berhad employees

EVENT HIGHLIGHTS



SEPT

6 SEPT**PIDM, KUALA LUMPUR**

Briefing on PIDM Financial Consumer Protection to Politeknik Nilai students

6-7 SEPT**SEOUL, KOREA**

Participated in the 21st Asia-Pacific Economic Cooperation-Financial Regulators Training Initiative (APEC-FRTI) Advisory Group Meeting and Financial Regulators Conference

7 SEPT**ARAU, PERLIS**

Briefing on PIDM Financial Consumer Protection to Politeknik Tuanku Syed Sirajuddin students organised by FOMCA

8 SEPT**PULAU PINANG**

Briefing on PIDM Financial Consumer Protection to insurance agents

20 SEPT**SABAK BERNAM, SELANGOR**

Briefing on PIDM Financial Consumer Protection to Kolej Komuniti Sabak Bernam students organised by FOMCA

21 SEPT**SEREMBAN, NEGERI SEMBILAN**

Briefing on PIDM Financial Consumer Protection to Institut Pendidikan Guru Kampus Raja Melewar students organised by FOMCA

22 SEPT**PIDM, KUALA LUMPUR**

Briefing on PIDM Financial Consumer Protection to Politeknik Kota Bharu students

22 SEPT**BASEL, SWITZERLAND**

Participated in the 49th IADI Executive Council Meeting

EVENT HIGHLIGHTS



SEPT

22 SEPT JAKARTA, INDONESIA

Participated in the 11th Indonesia Deposit Insurance Corporation (IDIC) Seminar entitled Challenges to Global Economy in conjunction with IDIC's Anniversary

23 SEPT NILAI, NEGERI SEMBILAN

Briefing on PIDM Financial Consumer Protection to Universiti Sains Islam Malaysia students organised by FOMCA

23 SEPT PORT DICKSON, NEGERI SEMBILAN

Briefing on PIDM Financial Consumer Protection to Politeknik Port Dickson students organised by FOMCA

23-25 SEPT KUALA LUMPUR

Exhibition at InvestSmart Fest 2016

27 SEPT KUALA LUMPUR

Exhibition at the Association of Financial Advisers (AFA) 5th Annual Conference

Briefing on PIDM Financial Consumer Protection to Syarikat Takaful Malaysia Berhad agents

27 SEPT KAJANG, SELANGOR

Briefing on PIDM Financial Consumer Protection to Employees Provident Fund (EPF) employees

EVENT HIGHLIGHTS



OCT

7 OCT

PIDM, KUALA LUMPUR

Hosted the Financial Sector Regulators' Internal Auditor Networking Session with BNM, SC and Bursa Malaysia Berhad

7-9 OCT

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to the public and exhibition at the 3rd MFPC Financial Planning Tournament

8 OCT

SERDANG, SELANGOR

Briefing on PIDM Financial Consumer Protection to the public and exhibition at the *Hari Pengguna Malaysia 2016* Prize Giving Ceremony

8 OCT

AYER KEROH, MELAKA

Briefing on PIDM Financial Consumer Protection to the public and exhibition at the *Festival Pertubuhan Kebangsaan 2016* by Jabatan Pendaftaran Pertubuhan Malaysia (JPPM)

8 OCT

CYBERJAYA, SELANGOR

Participated in *Larian Kewangan* in conjunction with *Hari Sukan Negara 2016*

18-19 OCT

KUALA LUMPUR

Exhibition at the Malaysian Insurance Summit 2016

19 OCT

PIDM, KUALA LUMPUR

Exhibition at the Global Banking Conference (GBC) Discourse Series – 3 Lines of Defence by the Asian Institute of Chartered Bankers (AICB)

EVENT HIGHLIGHTS



OCT

20 OCT

SHAH ALAM, SELANGOR

PIDM Disaster Recovery Centre Site Visit

23-28 OCT

SEOUL, KOREA

Participated in the 50th IADI Executive Council Meeting, Regional and Standing Committee Meetings and 15th IADI Annual General Meeting and Conference

Moderated a session on What is an Appropriate Funding Framework to Address a Crisis? at the 15th IADI Annual General Meeting and Conference

24 OCT

BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection to Public Bank Berhad employees

25 OCT

SEOUL, KOREA

Renewal of Memorandum of Understanding (MOU) between PIDM and Korea Deposit Insurance Corporation

25 OCT

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to Takaful Ikhlas Berhad agents

27 OCT

KOTA KINABALU, SABAH

Briefing on PIDM Financial Consumer Protection to Persatuan Pesara Kerajaan Sabah (PESARA) leaders

EVENT HIGHLIGHTS



NOV

3-4 NOV

PIDM, KUALA LUMPUR

Study visit by China Insurance Security Fund Co., Ltd.

8 NOV

BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection to Public Bank Berhad employees

8 NOV

BEIJING, CHINA

Presentation on Resolving Systemically Important Banks (SIBs): A Game Changer to the Framework for Resolution of Banks in Malaysia at the Financial Stability Institute (FSI)-Executives Meeting of East Asia and Pacific Central Banks (EMEAP) Regional Seminar

8 NOV

SHANGHAI, CHINA

Participated in the Financial Stability Seminar and 5th International Public Asset Management Company Forum (IPAF) Training

9 NOV

BANDAR PERDA, PULAU PINANG

Briefing on PIDM Financial Consumer Protection to Syarikat Takaful Malaysia Berhad agents

10 NOV

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to MSIG Insurance (Malaysia) Bhd. agents

11 NOV

PIDM, KUALA LUMPUR

Study visit by Kazakhstan Deposit Insurance Fund

14 NOV

KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection to KDU College students

19-23 NOV

LANGKAWI, KEDAH

Participated in *Pesta Sukan Kementerian Kewangan ke-42, 2016*

EVENT HIGHLIGHTS



NOV

21 NOV HANOI, VIETNAM

Participated in the Forum for Asian Insolvency Reform (FAIR)

22 NOV KLUANG, JOHOR

Briefing on PIDM Financial Consumer Protection at the *Jelajah Kewangan Islam 2016* organised by IBFIM

22 NOV PIDM, KUALA LUMPUR AND WASHINGTON DC, UNITED STATES

MOU signing between PIDM and the Federal Deposit Insurance Corporation of the United States

22-25 NOV TAIPEI, TAIWAN

Presentation on PIDM's Payout Simulation at the Central Deposit Insurance Corporation's International Training Seminar

23 NOV KENINGAU, SABAH

Briefing on PIDM Financial Consumer Protection to PESARA members

30 NOV PIDM, KUALA LUMPUR

Study visit by Ministry of Finance, Republic of Indonesia

EVENT HIGHLIGHTS



DEC

3 DEC

KUALA LUMPUR

PIDM Annual Dinner 2016

6 DEC

ALOR SETAR, KEDAH

Briefing on PIDM Financial Consumer Protection to MPI Generali Insurans Berhad agents

8 DEC

BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection to EPF employees

8 DEC

KOTA TINGGI, JOHOR

Briefing on PIDM Financial Consumer Protection at the *Jelajah Kewangan Islam 2016* organised by IBFIM

21 DEC

JOHOR BAHRU, JOHOR

Briefing on PIDM Financial Consumer Protection at the *Jelajah Kewangan Islam 2016* organised by IBFIM

21 DEC

BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection to EPF employees



APPENDIX

Charter of Governance Committee
Charter of Remuneration Committee
Charter of Audit Committee
Charter of Succession Planning Committee
Corporate Scorecard 2017 - 2019
List of Member Institutions
Glossary of Terms
Contact Details

CHARTER OF GOVERNANCE COMMITTEE

1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has considered it necessary to establish a Governance Committee.

2.0 OBJECTIVE

The Governance Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to direct the implementation of, and compliance with, sound corporate governance principles in the Corporation. In this regard, the principal objectives of the Committee are to assist with Board oversight of: maintaining effective corporate governance principles and practices; evaluating and assessing the functioning of the Board, Board Committees and Management; nominating individuals qualified to become Directors consistent with criteria approved by the Corporation; and succession planning.

3.0 OPERATING PRINCIPLES

3.1 Functions and Composition

- (a) The Committee shall comprise at least three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 Chair

The Committee shall be chaired by the Chairman of the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

3.3 Quorum

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

3.4 Voting

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

3.5 Procedure and Conduct

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

3.6 Secretary and Minutes

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

3.7 Frequency of Meetings

The Committee will meet at the discretion of its Chair, but not less frequently than twice each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

3.8 Notice of Meetings

The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

3.9 Meeting Agenda

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

3.10 Supplemental Attendees

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

CHARTER OF GOVERNANCE COMMITTEE

3.11 **Term of Appointment / Rotation / Re-appointment of Committee Members**

Membership of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire membership of the Committee is not changed at any one time. The advice of the Chair on a Committee member's performance shall be considered where an extension of that member's tenure or re-appointment is being considered.

3.12 **Reporting**

The Committee will, where appropriate, provide a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

3.13 **Review of Charter**

The Committee shall review and assess the adequacy of this Charter biennially. If the Committee recommends any amendments, the Committee shall submit a revised Charter to the Board for its approval.

3.14 **Self-assessment**

An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

3.15 **Disclosure**

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

3.16 **Independent Counsel or Other Advisors**

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

3.17 **Conflict of Interest**

In the event that the matter being considered is the re-appointment of the Chairman or the re-appointment of a non-ex officio Director of the Board who is a member of the Committee, the Chairman or the non-ex officio Director (as the case may be) shall not participate in the meeting whilst

the Committee discusses, deliberates or decides on the matter. During such time, the Chairman or the non-ex officio Director (as the case may be) will absent himself or herself from the meeting.

4.0 **PRINCIPAL DUTIES AND RESPONSIBILITIES**

4.1 **Corporate Governance Oversight**

- (a) The Committee shall review periodically the Corporation's approach to governance issues and shall make recommendations to the Board respecting revisions to the Corporation's governance policies, including codes of business conduct and conflict of interest for Directors and employees. The Committee shall make recommendations to the Board on policies with regard to director tenure, retirement and succession.
- (b) The Committee shall ensure the ongoing administration of the policies and procedures that enable a Board Committee or member of the Board to engage separate independent counsel or other advisors in appropriate circumstances and at the Corporation's expense.
- (c) On a periodic basis, the Committee shall review the Corporation's mandate as set out in the Malaysia Deposit Insurance Corporation Act and make any recommendation it sees fit to the Board.
- (d) The Committee shall keep up to date on corporate governance developments so as to ensure the Corporation's governance practices are in line with best practices.
- (e) The Committee shall undertake such other governance initiatives as may be necessary or desirable to ensure that the appropriate processes, structures and information necessary for effective direction and oversight are in place to contribute to the sound governance and management of the Corporation.

CHARTER OF GOVERNANCE COMMITTEE

4.2 Evaluation of Board Operations and Board Committees

- (a) In consultation with the Chief Executive Officer (CEO), the Committee shall assess the needs of the Board in terms of the frequency and location of Board and Board Committee meetings, meeting agendas, documents and information, and the conduct of meetings, and make recommendations to the Board as required.
- (b) The Committee shall periodically review, for Board approval, the mandates and responsibilities of the Board, the Chairman of the Board, the CEO, a member of the Board and the Board Committees.
- (c) The Committee shall annually implement, and regularly review, the process to assist the Board in determining whether the Board is satisfied with the manner, frequency and timeliness with which significant issues are brought to its attention, as well as the appropriateness of that information.
- (d) The Committee shall annually implement, and regularly review, the method for regularly evaluating and assessing the effectiveness of the Board and of individual members of the Board and Board Committees and recommend any appropriate action plans to address any significant findings.
- (e) The Committee shall, after the affected Board Committees have conducted their review of their respective Charters, review each of the Board Committee Charters together and recommend proposed amendments (if any) to the Board Committee Charters to the Board.
- (f) The Committee shall review and recommend to the Board the types and structures of Board Committees to be created by the Board.

4.3 Board Nominations

- (a) The Committee shall periodically review both a Board profile and a Board Member profile of qualifications and skills and characteristics for individual Directors, taking into consideration

the current strengths, skills and experience on the Board, the terms and retirement dates of each Director, and the strategic direction of the Corporation.

- (b) The Committee shall identify a list of potential Board nominees who possess the skills, experience, knowledge and characteristics which fit the profiles and update such list on a regular basis.
- (c) When a vacancy or vacancies on the Board occurs or are anticipated, the Committee shall prepare and recommend to the Board a list of potential nominees.
- (d) The Committee shall develop and implement a strategy to communicate the profiles and potential candidate or candidates to the Minister of Finance.
- (e) The Committee shall review periodically the compensation programme of members of the Board and make recommendations to the Board.
- (f) The Committee shall make recommendations regarding the orientation programme, training and ongoing development of members of the Board.

4.4 Succession Planning

The Committee shall review Management's succession plans for the corporate officers and make recommendations in respect of the same, to the Board for approval.

4.5 Leadership Needs

The Committee shall keep under review the leadership needs of the Corporation, both executive and non-executive, with a view to ensuring the continued ability of the Corporation to efficiently and effectively meet its mandate.

4.6 Reporting and Disclosure

The Committee shall recommend to the Board the content of such governance reports as may be required or considered advisable for public disclosure.

CHARTER OF REMUNERATION COMMITTEE

1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish a Remuneration Committee.

2.0 OBJECTIVE

The Remuneration Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible to ensure that the Corporation has fair and equitable human resource policies that profile for the hiring and retention of people with the appropriate expertise and qualifications. In this regard, the principal objectives of the Committee are to assist with Board oversight of human resources and compensation matters and management succession plans generally.

3.0 OPERATING PRINCIPLES

3.1 Functions and Composition

- (a) The Committee shall comprise at least three members of the Board, as named by the Board.
- (b) Members of the Committee shall each be independent of Management.
- (c) The Committee shall carry out such functions as are assigned or delegated to it by the Board and any incidental activities consistent with this Charter as the Committee or the Board deems necessary or appropriate.

3.2 Chair

The Committee shall be chaired by one of its members, as named by the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

3.3 Quorum

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

3.4 Voting

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

3.5 Procedure and Conduct

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

3.6 Secretary and Minutes

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

3.7 Frequency of Meetings

The Committee will meet at the discretion of its Chair, but not less frequently than twice each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

3.8 Notice of Meetings

The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

3.9 Meeting Agenda

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

3.10 Supplemental Attendees

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

CHARTER OF REMUNERATION COMMITTEE

3.11 **Term of Appointment / Rotation / Re-appointment of Committee Members**

Members of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time. The Chair shall provide advice to the Chairman of the Board on a Committee member's performance where an extension of that member's tenure or re-appointment is being considered.

3.12 **Reporting**

The Committee will, where appropriate, provide a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

3.13 **Review of Charter**

The Committee shall review and assess the adequacy of this Charter biennially. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

3.14 **Self-assessment**

An evaluation of the Committee shall be conducted regularly, during which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

3.15 **Disclosure**

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

3.16 **Independent Counsel or Other Advisors**

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

4.0 **PRINCIPAL DUTIES AND RESPONSIBILITIES**

4.1 **Policies and Strategies**

- (a) The Committee shall review key human resource policies and strategies and propose such changes as seem desirable.
- (b) The Committee shall review the Corporation's compensation philosophy and its related policies, and make recommendations, if any, to the Board for approval.
- (c) The Committee shall ensure that the Corporation develops on an ongoing basis, adequate, appropriate and effective policies, strategies, controls, processes and procedures within the Corporation to maintain an organisational climate that fosters ethical employee business conduct and behaviour, employee commitment to the operations of the Corporation and a high degree of employee satisfaction and shall review policies and codes in respect of the same and make recommendations, if any, to the Board for approval.

4.2 **Compliance and Reports**

The Committee shall review reports with respect to:

- (a) compliance with legal requirements and major corporate policies pertaining to human resource matters on an annual basis; and
- (b) compliance with policies on employee business conduct and ethical behaviour on an annual basis or immediately where circumstances dictate. When required, the Committee shall request of Management that it provides a report to the Audit Committee in the event a breach occurs or a concern is raised that is of a nature that warrants such a report.

CHARTER OF REMUNERATION COMMITTEE

4.3 **Matters Referred by Chief Executive Officer (CEO)**

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

4.4 **Reports to Board**

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

4.5 **Bonus Policy, Bonus Range and Awards**

The Committee will review and make recommendations to the Board with regard to the annual bonus range and the individual employee bonus awards as recommended by the CEO. The Committee shall also conduct a review of the Corporation's policy on bonus awards, and make recommendations to the Board as required.

4.6 **Complaints**

Save and except as expressly provided in any other Board Charter or policy, the Committee shall serve as the initial point of contact at the Board level for any complaints concerning the CEO that may reach the Board, on the understanding that the normal resolution mechanisms must be followed and complaints would only be brought forward when every other appeal process had been exhausted.

CHARTER OF AUDIT COMMITTEE

1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish an Audit Committee.

2.0 OBJECTIVE

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

3.0 OPERATING PRINCIPLES

3.1 (a) **Functions and Composition**

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

(b) **Competencies**

All Committee members appointed to the Committee shall either:

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

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

The Chair and the Vice-Chair (if appointed) shall have financial expertise. 'Financial expertise' means a person who has professional qualifications as an accountant and who has had extensive experience in auditing.

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

3.2 **Chair**

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

3.3 **Vice-Chair**

The Vice-Chair may, if the Board considers appropriate, for the purposes of succession planning be appointed from among the non-ex officio Directors, as named by the Board. In the absence of the Chair, if there is a Vice-Chair, the Vice-Chair shall preside at the meeting of the Committee, and while so presiding, shall have all the powers of the Chair. If the Chair or the Vice-Chair is absent or there is no Vice-Chair, a chair shall be appointed by the members present, who shall preside at the said meeting, or until the arrival of the Chair or the Vice-Chair, as the case may be. The Vice-Chair (if appointed) is the Chair's deputy, and shall perform on his behalf such duties as may be delegated by the Chair.

3.4 **Quorum**

The presence of two members constitutes a quorum for a meeting of the Committee. A quorum shall only be constituted where the Chair or Vice-Chair is present at the meeting.

CHARTER OF AUDIT COMMITTEE

3.5 **Voting**

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

3.6 **Procedure and Conduct**

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

3.7 **Secretary and Minutes**

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

3.8 **Frequency and Calling of Meetings**

The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than four times each year. The Chair shall call a meeting if asked to do so by the Chairman of the Board, and decide if a meeting is required if requested by another member of the Committee.

3.9 **Notice of Meetings**

The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

3.10 **Auditor General (AG)**

The Auditor General, as referred to in the Audit Act 1957 (Revised 1972) (Act 62), is:

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

3.11 **Private Meetings**

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

3.12 **Meeting Agenda**

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

3.13 **Supplemental Attendees**

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

3.14 **Term of Appointment / Rotation / Re-appointment of Committee Members**

Members of the Committee shall be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time. The Chair shall provide advice to the Chairman of the Board on a Committee member's performance where an extension of that member's tenure or re-appointment is being considered.

3.15 **Reporting**

The Committee will, where appropriate, provide a written or a verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

3.16 **Review of Charter**

The Committee shall review and assess the adequacy of this Charter biennially. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

CHARTER OF AUDIT COMMITTEE

3.17 **Self-assessment**

An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

3.18 **Disclosure**

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

3.19 **Independent Counsel or Other Advisors**

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

Management's Discussion and Analysis (MD&A) prior to approval by the Board, and reviewing, as appropriate, releases to the public of significant non-public financial information. Such review shall include, where appropriate but at least annually, discussion with Management, the internal audit function, and the AG, of significant issues regarding accounting principles, the Corporation's accounting policies, and significant management estimates and judgements, including the quality and acceptability of Generally Accepted Accounting Principles (GAAP).

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

4.0 **PRINCIPAL DUTIES AND RESPONSIBILITIES**

4.1 **Advice and Recommendations to Board**

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

4.2 **Investigation**

In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, AG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it.

4.3 **Financial Reporting**

The Committee shall assist the Board in discharging its oversight role of reliable, accurate and clear financial reporting, including by reviewing the Corporation's annual financial statements and

4.4 **Financial Reporting Processes, Accounting Policies and Internal Control Structure**

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

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

CHARTER OF AUDIT COMMITTEE

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

- (a) reviewing and advising the Board with respect to the Corporation's annual financial statements and relevant information presented with the financial statements;
- (b) reviewing and advising the Board with respect to the annual report including statements in relation to internal control and risk management;
- (c) reviewing and advising the Board with respect to the AG's annual audit report;
- (d) reviewing major changes to the Corporation's auditing and accounting principles and practices as suggested by the AG, the internal audit function or Management;
- (e) ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance on the adequacy and effectiveness of the Corporation's internal control systems; and reviewing the related reporting by Management and the internal audit function on such internal controls;
- (f) reviewing the integrity of the Corporation's financial reporting processes and the internal control structure;
- (g) reviewing the process relating to and the certifications of the Chief Executive Officer (CEO) and the Chief Financial Officer on the integrity of the Corporation's financial statements;
- (h) reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit coverage and overall effort; satisfying itself that the AG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the AG's work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;
- (i) reviewing and monitoring the implementation of recommendations made through the annual audit by the AG and any management letter provided by the AG and Management's responses to such reports and any such letter;
- (j) establishing systems of reporting to the Committee by each of Management, the AG and the internal audit function regarding any significant judgements made in Management's preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information; and
- (k) through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:
 - (i) the assets of the Corporation are safeguarded and controlled;

CHARTER OF AUDIT COMMITTEE

- (ii) the transactions of the Corporation are in accordance with the requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), other legislative requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister's Department (if applicable); and
- (iii) the financial, human and physical resources of the Corporation are managed economically and efficiently and the operations of the Corporation are carried out effectively.

4.5 Strategic and Financial Management Oversight

- (a) Corporate Plan and Operating Capital Budgets – review and recommend to the Board with respect to the Corporation's Corporate Plan and monitor and advise the Board with respect to Management's performance against the said Corporate Plan.
- (b) Financing – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of any external financing to be incurred or assumed by the Corporation, through the Corporation's debt or otherwise.
- (c) Investments – review and advise the Board with respect to the policies and procedures of the Corporation relating to and the terms and conditions of the investment of the Corporation's cash assets in short-term and long-term securities.
- (d) Chairman's and Officers' Expenses – receive reports from Management, and review reports thereon from the internal audit function and / or AG on their review of the expense accounts of the Chairman of the Board and Officers of the Corporation.

4.6 The Internal Audit Function

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

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

The Audit Committee is responsible for the oversight of the work of the internal audit function and for the compensation and oversight of the Chief Internal Auditor (CIA). The Chair of the Committee shall be consulted before the appointment or termination of the CIA and shall conduct entry and exit interviews with the same. The appointment of the CIA must be approved by the Board.

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

- (a) reviewing the internal audit function's mandate on an annual basis;
- (b) assessing the internal audit function's capabilities;
- (c) reviewing the internal audit function's independence and reporting relationships;
- (d) reviewing the internal audit function's audit plans, budgets, quality and quantity of staff and other resources it needs to do its job well;

CHARTER OF AUDIT COMMITTEE

- (e) reviewing the internal audit function's performance including performance against its audit plans and budgets;
- (f) reviewing the internal audit function's reports;
- (g) monitoring the implementation of the internal audit function's reports and recommendations;
- (h) ensuring coordination of the internal audit function with annual AG audits and special examinations; and
- (i) reviewing the overall operations of the internal audit function having regard to its mandate and taking into account current internal audit standards.

4.7 Risk Management

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

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

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

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

The Committee shall:

- (a) ensure that sound policies, guidelines and practices are implemented for the management of key corporate risks;
- (b) receive sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed;
- (c) review with Management and advise the Board on the Corporation's policies and guidelines implemented to manage the Corporation's risk exposures, and review such policies and guidelines periodically as approved by the Board to ensure that they remain appropriate and prudent;
- (d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies and guidelines for significant risks are being adhered to;
- (e) report to the Board on: the significant risk profile; the mitigation plans and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;

CHARTER OF AUDIT COMMITTEE

- (f) periodically consider the respective roles of the AG and internal audit function concerning risk management at the Corporation and annually evaluate the AG's and internal audit function's respective performance in relation to such roles;
- (g) request reports from the internal audit function validating Management's risk assessments; and
- (h) review with Management and advise the Board on whether a sound and effective approach has been followed in establishing the Corporation's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.

4.8 Ethical and Legal Compliance

The Committee shall:

- (a) review with the Corporation's counsel any legal matter that could have a significant impact on the Corporation's financial statements;
- (b) ensure oversight for ethics and integrity and preservation of the Corporation's reputation by receiving from Management, reports on compliance with the Corporation's policies or codes of business conduct and ethical behaviour and any other matter of conduct or behaviour that may give rise to a liability to the Corporation; and by reviewing any report that is received from the internal audit function, the AG and / or other Committee Chairs on their review of compliance with same;
- (c) ensure there is a system for monitoring the Corporation's compliance with laws and regulations, and obtain reports, on an annual basis, that the Corporation is in conformity with applicable legal requirements;
- (d) review the results of Management's investigation of, and actions taken in connection with, any internal control or accounting matters that may be questionable;
- (e) establish and review from time to time the process for (i) the receipt, retention and treatment of complaints or concerns regarding accounting, internal controls or auditing matters; (ii) the confidential and anonymous submission, in accordance with established corporate policies, by the Corporation's employees of concerns regarding questionable accounting or auditing matters; and (iii) the receipt, retention and treatment of complaints regarding the CEO and senior officers of the Corporation. Establish and review from time to time a process for the evaluation, investigation and resolution of concerns relating to accounting, internal controls or auditing matters that may be questionable; and
- (f) investigate any allegations that any officer or Director of the Corporation, or any other person acting under the direction of such a person, took any action to influence, coerce, manipulate or mislead any person engaged in the performance of an audit of the financial statements of the Corporation for the purpose of rendering such financial statements materially misleading and, if such allegations prove to be correct, take or recommend to the Board appropriate disciplinary action.

CHARTER OF SUCCESSION PLANNING COMMITTEE

1.0 MANDATE

Pursuant to section 7 of the Malaysia Deposit Insurance Corporation Act, the Corporation may establish any committee as it considers necessary or expedient for the performance of its functions. The Board has deemed it necessary to establish a Succession Planning Committee.

2.0 OBJECTIVE

The Succession Planning Committee (Committee) of the Board of Directors (the Board) of the Malaysia Deposit Insurance Corporation (Corporation) is responsible for advising and making recommendations to the Board on Chief Executive Officer (CEO) Succession Planning. In particular, the Committee is:

- (a) to review the current Board-approved long-term CEO succession plan to ensure the identification of a suitable candidate for CEO on retirement of an incumbent CEO;
- (b) to review the current short-term plan for any unplanned vacancy in the position of the CEO; and
- (c) to identify a suitable candidate for the office of the CEO of PIDM to take office when the term of the incumbent CEO expires.

CEO succession planning is a key responsibility of the Board, including overseeing the programme structure, setting selection criteria, evaluating candidates, and making the final choice of a CEO. The Committee will assist the Board by providing focus and due diligence on Succession Planning and the detailed practical work. The Committee will coordinate with other Committees and Management to ensure effective implementation of the plans.

3.0 COORDINATION WITH OTHER COMMITTEES

3.1 Under the Governance Committee Charter, the Governance Committee is to review Management's succession plans for the corporate officers and

make recommendations in respect of the same to the Board for approval¹ and keep under review the leadership needs of the Corporation, both executive and non-executive, with a view to ensure the continued ability of the Corporation to efficiently and effectively meet its mandate. The Remuneration Committee assists the Board with oversight of succession management policies generally.²

3.2 Under the Audit Committee Charter, the Audit Committee shall ensure that sound policies, guidelines and practices are implemented for the management of key corporate risks; that it receives sufficient information to understand the nature and magnitude of significant risks to which the Corporation is exposed; that it reviews with Management and advises the Board on the Corporation's policies and guidelines implemented to manage the Corporation's risk exposures, and reviews such policies and guidelines at least once a year to ensure that they remain appropriate and prudent.³

3.3 Subject to paragraph 3.4 below, to ensure that the respective Committees can continue to perform their functions, the Committee shall provide reports to the Board as a whole on the outcome of its work in such a manner that:

- (a) the Governance and Remuneration Committees will have sufficient information to perform their oversight roles in relation to succession planning including talent development; and
- (b) the Audit Committee will have sufficient information to perform its oversight role with respect to risk matters related to succession planning including talent development.

3.4 As and when required, the Committee will coordinate its work with that of the respective Committees by communicating key issues or proposed plans through the Chairpersons of the respective Committees as needed or through meetings.

¹ Paragraph 4.4 of the Governance Committee Charter

² Paragraph 2 of the Remuneration Committee Charter

³ Paragraph 4.7 of the Audit Committee Charter

CHARTER OF SUCCESSION PLANNING COMMITTEE

- 3.5 The Governance Committee's responsibilities under paragraph 4.4 of the Governance Committee Charter will be deemed to be fulfilled.

4.0 OPERATING PRINCIPLES

4.1 (a) **Functions and Composition**

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

(b) **Competencies**

At least one of the Committee members appointed to the Committee must have the relevant experience or expertise on CEO Succession Planning.

4.2 **Chair**

The Committee shall be chaired by the Chairman of the Board. In the absence of the Chairman of the Committee for any meeting or part of the meeting, the remaining members present shall elect one of the members present to chair the meeting.

4.3 **Quorum**

The presence of two members constitutes a quorum for a meeting of the Committee and at least one of the two members shall be the Chair.

4.4 **Voting**

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

4.5 **Procedure and Conduct**

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

4.6 **Secretary and Minutes**

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

4.7 **Frequency and Calling of Meetings**

The Committee will meet at the discretion of the Chair of the Committee, but not less frequently than two times in a year. The Chair of the Committee shall decide if a meeting is required if requested to do so by another member of the Committee.

4.8 **Notice of Meetings**

The proper notice period for calling a meeting of the Committee shall be a minimum of 14 days or such shorter notice as agreed by the Committee.

4.9 **Private Meetings**

The Committee may meet privately as a committee.

4.10 **Meeting Agenda**

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

4.11 **Supplemental Attendees**

Any person who may possess information that would be useful to the Committee in carrying out its duties may be invited by the Chair to attend any meeting of the Committee. In addition, other individuals such as the other Directors, the CEO and the Head of the Human Capital (HC) Division may be invited to attend all or part of any meeting as and when appropriate and necessary.

4.12 **Term of Appointment / Rotation of Committee Members**

Unless otherwise decided by the Board, members of the Committee will not be changed.

4.13 **Reporting**

The Committee will, where appropriate, provide a written or a verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

CHARTER OF SUCCESSION PLANNING COMMITTEE

4.14 Meetings with other Committees

The Committee may, as appropriate, request for meetings with other relevant Board Committees to clarify the coordination of work in this area or to discuss any issues or plans before bringing forward recommendations to the Board. Save for paragraph 4.3, these operating principles will apply. The presence of the Chairman of the Board and at least one other member of each Committee will constitute a quorum.

4.15 Review of Charter

The Committee shall review and assess the adequacy of this Charter biennially. Any proposed amendments to the Charter will be considered by the Governance Committee for recommendation to the Board.

4.16 Self-assessment

An evaluation of the Committee shall be conducted at the end of its term, which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

4.17 Disclosure

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

4.18 Access to Information

The Committee shall have direct access to, and complete and open communication with Management, and may obtain advice and assistance from internal human capital experts or other advisors.

4.19 Independent Counsel or Other Advisors

The Committee has the authority to engage outside advisors, including but not limited to counsel, and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board policy.⁴ For the purposes of carrying out its role and responsibilities under this Charter, the prior approval of the Board for the appointment of outside advisors shall be deemed to have been obtained.

5.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

5.1 Advice and Recommendations to Board

In discharging its duties and responsibilities, the Committee relies on the expertise of Management including the Head of HC Division. The Committee shall review the long-term Board-approved CEO Succession Plan and recommend, if needed, changes to the same to the Board for review and approval.

5.2 CEO Succession Plan

In particular, the Committee shall make recommendations to the Board regarding the CEO Succession Plan and its work in relation to the following:

- (a) in collaboration with the CEO, develop a well-defined candidate profile and qualifications (including experience, competencies and personal characteristics) for the CEO successor, so that the leadership needs of the Corporation can be met. This should take into account the vision of the organisation, its long-term strategy, and any developments in the sector;
- (b) in collaboration with the CEO, identify and evaluate internal candidates against the candidate profile, including the state of readiness to assume a larger role;
- (c) agree with the CEO and / or the Head of HC Division on development opportunities to be provided to identified candidates to overcome deficiencies in experience and / or education, as well as opportunities to increase exposure to the Board in business and social settings;
- (d) identify and evaluate potential external candidates identified and benchmark against internal candidates; and
- (e) identify and recommend to the Board a permanent CEO replacement.

⁴ Paragraph 2.2 of the Policy and Procedures for Engagement of Separate Independent Legal and Other Counsel provides that "Committees, other than the Audit Committee, or any individual Director shall obtain the prior approval of the Chairperson of the Board of Directors or the Board to engage independent counsel or other advisors to fulfil its or his or her responsibilities"

CHARTER OF SUCCESSION PLANNING COMMITTEE

5.3 Emergency Plan

In view of the existence of a Board-approved emergency succession plan (Emergency Plan), the Committee shall also make recommendations to the Board regarding its work in relation to the following:

- (a) its review of the existing Emergency Plan; and
- (b) carrying out the detailed process for implementing the Emergency Plan if needed.

5.4 The Emergency Plan is a plan for an unplanned vacancy, so that the Board can either decide on a successor, or, if there is no obvious choice, designate an interim CEO, and if needed, implement a temporary reassignment of duties among Management. The plan would include, among others, communications plans, and document and confirm the authorities so that there is clarity about the reassignment of duties and who has the authority to oversee the implementation of the tasks assigned. If the Board plans to embark on an exercise to source external candidates, the plan should address how to manage the communications with the incumbent, so that his or her talents can be retained within the Corporation.



5.5 Unless the Board otherwise decides, the Committee will perform the functions of the Governance Committee (instead of the Governance Committee) that are contemplated under the CEO Succession Plan and the Emergency Plan. This will include working with the CEO, any executive search firm, and the Head of HC Division to identify or interview any candidates and on internal and external communications regarding the CEO Succession Plan, and the Emergency Plan, or its execution.

5.6 Other Duties and Responsibilities of the Committee

The Committee shall:

- (a) if an external candidate is selected and appointed, recommend how to ensure that a Board Committee can assist the Board in monitoring and assessing the CEO's performance on an ongoing basis, how to determine the CEO's fit with the culture, future needs of the Corporation, as well as his or her understanding of the Corporation's business and affairs;
- (b) consider how the Board would communicate with the Minister of Finance to secure the approval for the appointment of any replacement for the CEO; and
- (c) make recommendations on the role of the outgoing CEO, for a transitional period, if thought appropriate.

CORPORATE SCORECARD 2017 - 2019

Corporate Objectives		Corporate Initiatives	Targets			
			2017	2018	2019	
<div></div> <div>Stakeholders</div>	A	Educated and informed stakeholders	1. Public awareness index:			
			a. General awareness of PIDM	63%	65%	67%
			b. General awareness of Deposit Insurance System (DIS)	53%	57%	60%
			c. General awareness of Takaful and Insurance Benefits Protection System (TIPS)	38%	41%	45%
			2. Integrated Communications Plan	Complete	Complete	Complete
	B	Effective partnerships	3. PIDM’s relationship with:			
			a. Bank Negara Malaysia (BNM)	Strong	Strong	Strong
			b. Member institutions and their industry associations	Satisfactory	Satisfactory	Satisfactory
			c. Ministries and other Government regulatory agencies	Strong	Strong	Strong
			d. Key suppliers and strategic partners	Strong	Strong	Strong
			e. Deposit insurers and insurance guarantee schemes	Strong	Strong	Strong
			f. Other key stakeholders	Satisfactory	Satisfactory	Satisfactory
	4. Other international fora	Active participation	Active participation	Active participation		
<div></div> <div>Governance and Internal Processes</div>	C	Well-governed and well-managed organisation	5a. Best practices of governance adopted and maintained	Compliance	Compliance	Compliance
			5b. Laws and significant corporate policies and practices kept current and relevant and complied with	Full compliance and updated	Full compliance and updated	Full compliance and updated
			5c. Quality of management support to the Board	High satisfaction	High satisfaction	High satisfaction
			6a. PIDM Act	Review	Review	Review
			i. Resolution Planning-related drafting	Research and develop	Develop	Complete
	D	Robust risk assessment, monitoring, intervention and resolution capabilities	7a. Evaluation Model for DIS and TIPS	Complete	Simulate and review	Simulate and review
			7b. Strategic Plan for Resolvability	Develop	Develop	Implement
			7c. Resolution planning for financial institutions:			
			i. Resolution Planning Framework and Guidelines	Review	Review	Consult
			ii. Resolvability Assessment Framework	Review	Review and enhance	Review and enhance
			iii. Resolvability Rating Framework and Methodology for differential premium systems	Research	Research	Develop

CORPORATE SCORECARD 2017 - 2019

Corporate Objectives		Corporate Initiatives	Targets			
			2017	2018	2019	
 Governance and Internal Processes	D	Robust risk assessment, monitoring, intervention and resolution capabilities	7d. Claims management system, policies and procedures for insurer members:			
			i. Premium Reimbursement Information Management System	Implement	Maintain	Maintain
			ii. Claims Management System	Implement	Maintain	Maintain
			iii. Policy Holders Support Management System	Develop	Complete	Maintain
			iv. Payment Management System	Develop	Complete	Maintain
			7e. Regulations:			
			i. TIPS Information Regulations	Review	Implement	Monitor
			ii. Terms and Conditions of Membership Regulations – DIS and TIPS	Implement	Monitor	Monitor
			7f. Member institutions’ compliance programme with PIDM legislation for insurer members	Develop	Develop	Implement
			8. FIDE FORUM, the Financial Institutions Directors’ Education Programme alumni	Active support and participation	Active support and participation	Active support and participation
	E	Sound business and financial practices	9. Reporting through:			
			a. Annual Report	Complete	Complete	Complete
			b. Corporate Plan	Complete	Complete	Complete
			10. Financial performance against approved budgets	±10% variance	±10% variance	±10% variance
			11. Internal Control and Risk Management Compliance	Strong	Strong	Strong
			12. Management Audit	Implement	Implement	Implement
			13a(i). Funding and Liquidity Adequacy Framework – Alternative funding arrangements	Develop	Implement	-
			13a(ii). Target Fund for TIPS – Takaful Funds	Develop	Implement	Review
			13b. Annual Information Technology Strategic Plan	Complete	Complete	Complete
13c. Disaster Recovery Centre (DRC) and infrastructure			Test	Test	Test	
13d. Corporate Information Security Management			Maintain	Maintain	Maintain	
 Learning and Growth	F	Competent and knowledgeable workforce	14. Strategic Human Capital Management	Implement	Implement	Implement
	G	Conducive corporate environment	15. Sustainable Engagement Index (survey conducted once every two years to gauge level of employee engagement)	80%	-	80%

LIST OF MEMBER INSTITUTIONS

As at 31 December 2016, PIDM's member institutions are as follows:

COMMERCIAL BANKS

1. Affin Bank Berhad
2. Alliance Bank Malaysia Berhad
3. AmBank (M) Berhad
4. Bangkok Bank Berhad
5. Bank of America Malaysia Berhad
6. Bank of China (Malaysia) Berhad
7. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad *
8. BNP Paribas Malaysia Berhad *
9. CIMB Bank Berhad
10. Citibank Berhad *
11. Deutsche Bank (Malaysia) Berhad *
12. Hong Leong Bank Berhad
13. HSBC Bank Malaysia Berhad
14. India International Bank (Malaysia) Bhd
15. Industrial and Commercial Bank of China (Malaysia) Berhad
16. J.P. Morgan Chase Bank Berhad
17. Malayan Banking Berhad
18. Mizuho Bank (Malaysia) Berhad
19. National Bank of Abu Dhabi Malaysia Berhad
20. OCBC Bank (Malaysia) Berhad
21. Public Bank Berhad
22. RHB Bank Berhad
23. Standard Chartered Bank Malaysia Berhad
24. Sumitomo Mitsui Banking Corporation Malaysia Berhad
25. The Bank of Nova Scotia Berhad
26. The Royal Bank of Scotland Berhad
27. United Overseas Bank (Malaysia) Bhd *

ISLAMIC BANKS

1. Affin Islamic Bank Berhad
2. Alliance Islamic Bank Berhad
3. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
4. AmBank Islamic Berhad
5. Asian Finance Bank Berhad
6. Bank Islam Malaysia Berhad
7. Bank Muamalat Malaysia Berhad
8. CIMB Islamic Bank Berhad
9. Hong Leong Islamic Bank Berhad
10. HSBC Amanah Malaysia Berhad
11. Kuwait Finance House (Malaysia) Berhad
12. Maybank Islamic Berhad
13. OCBC Al-Amin Bank Berhad
14. Public Islamic Bank Berhad
15. RHB Islamic Bank Berhad
16. Standard Chartered Saadiq Berhad

INSURANCE COMPANIES

1. AIA Bhd.
2. AIG Malaysia Insurance Berhad
3. Allianz General Insurance Company (Malaysia) Berhad
4. Allianz Life Insurance Malaysia Berhad
5. AmGeneral Insurance Berhad
6. AmMetLife Insurance Berhad
7. AXA Affin General Insurance Berhad
8. AXA Affin Life Insurance Berhad
9. Berjaya Sampo Insurance Berhad
10. Chubb Insurance Malaysia Berhad (formerly known as ACE Jerneh Insurance Berhad)
11. Etiqa Insurance Berhad
12. Gibraltar BSN Life Berhad
13. Great Eastern Life Assurance (Malaysia) Berhad

14. Hong Leong Assurance Berhad
15. Liberty Insurance Berhad
16. Lonpac Insurance Bhd
17. Manulife Insurance Berhad
18. MCIS Insurance Berhad
19. MPI Generali Insurans Berhad
20. MSIG Insurance (Malaysia) Bhd.
21. Overseas Assurance Corporation (Malaysia) Berhad
22. Pacific & Orient Insurance Co. Berhad
23. Progressive Insurance Bhd
24. Prudential Assurance Malaysia Berhad
25. QBE Insurance (Malaysia) Berhad
26. RHB Insurance Berhad
27. The Pacific Insurance Berhad
28. Sun Life Malaysia Assurance Berhad
29. Tokio Marine Insurans (Malaysia) Berhad
30. Tokio Marine Life Insurance Malaysia Bhd.
31. Tune Insurance Malaysia Berhad
32. Zurich Insurance Malaysia Berhad

TAKAFUL OPERATORS

1. AIA Public Takaful Bhd.
2. AmMetLife Takaful Berhad
3. Etiqa Takaful Berhad
4. Great Eastern Takaful Berhad
5. Hong Leong MSIG Takaful Berhad
6. HSBC Amanah Takaful (Malaysia) Berhad
7. Prudential BSN Takaful Berhad
8. Sun Life Malaysia Takaful Berhad
9. Syarikat Takaful Malaysia Berhad
10. Takaful Ikhlas Berhad
11. Zurich Takaful Malaysia Berhad (formerly known as MAA Takaful Berhad)

* denotes that this bank provides Islamic banking services under the Skim Perbankan Islam (SPI). SPI is defined by Bank Negara Malaysia as the Islamic banking scheme provided by licensed institutions to conduct banking business based on Islamic principles

Note: China Construction Bank (Malaysia) Berhad commenced operations on 27 January 2017

GLOSSARY OF TERMS

Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio is the ratio of an insurer member's regulatory capital position relative to its risk exposures i.e., capital required. Bank Negara Malaysia (BNM) has set a Supervisory Target Capital Level at 130% CAR for insurer members, below which supervisory actions of increasing intensity will be taken to resolve the financial position of insurer members.

Capital Conservation Buffer (CCB)

Capital Conservation Buffer is an additional capital buffer requirement in the form of CET-1 Capital for a member bank above the minimum regulatory capital adequacy levels. As set-out in BNM's Capital Adequacy Framework, banks are required to hold and maintain CCB on phased-in basis beginning 1 January 2016. The regulatory capital buffer requirement for CCB from 1 January 2019 onwards is 2.5% of risk-weighted assets.

Certificate owner

The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Common Equity Tier-1 (CET-1) Capital Ratio

The Common Equity Tier-1 Capital Ratio is computed as a percentage of a member bank's CET-1 capital to its risk-weighted assets in accordance to BNM's Capital Adequacy Framework. CET-1 capital is the highest quality of capital for a member bank, whereas risk-weighted assets are calculated based on the aggregation of the bank's assets weighted by factors relating to its riskiness. The minimum regulatory requirement for CET-1 Capital Ratio is 4.5%.

Conventional Deposit Insurance Fund

All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the direct cost of operating the conventional Deposit Insurance System (DIS).

Deposit Liability Information Management System (DLIMS)

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

Differential Levy Systems (DLS)

A differential premium system where insurer members are charged levies at differential rates, based on their risk profiles.

Differential Levy Systems for Takaful Operators (DLST)

A differential premium system where takaful operators are charged levies at differential rates, based on their risk profiles.

Differential Premium Systems (DPS)

A system where member banks are charged premiums at differential rates, based on their risk profiles.

Early Warning System (EWS)

The Early Warning System is a tool used to monitor the first signs of emerging risks facing member institutions in order to facilitate an early trigger of prompt corrective measures. The system utilises statistical models to detect, measure and flag out existing or potential vulnerabilities facing member institutions. It also serves as a surveillance system that complements the existing risk assessment framework.

Enterprise Risk Management (ERM)

The framework applied on an organisation-wide basis to ensure and demonstrate that an entity's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

Family Takaful Protection Fund

All premiums received by PIDM from insurer members conducting family takaful business and returns made minus the direct costs of operating the Takaful and Insurance Benefits Protection System (TIPS).

Financial safety net

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

Foreign currency

Any currency other than Ringgit Malaysia, the Malaysian currency.

General Insurance Protection Fund

All premiums received by PIDM from insurer members conducting general insurance business and interest earned minus the direct costs of operating TIPS.

General Takaful Protection Fund

All premiums received by PIDM from insurer members conducting general takaful business and returns made minus the direct costs of operating TIPS.

Impairment

A loan / financing asset is considered impaired if there is objective evidence of impairment as a result of: (i) a loss event that occurred after the initial recognition of the asset; (ii) the loss event had an impact on its estimated future cash flows; and that (iii) a reliable estimate of the loss amount can be made.

Insurance benefits

The aggregate of insurance benefits for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Insurance Protection Funds

Insurance Protection Funds refer to General Insurance Protection Fund and Life Insurance Protection Fund.

GLOSSARY OF TERMS

Insurer members

All insurance companies (including locally incorporated subsidiaries of foreign insurance companies operating in Malaysia) licensed under the Financial Services Act 2013 to conduct life or general insurance business in Malaysia, as well as takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family or general takaful business in Malaysia. Membership is compulsory under the Malaysia Deposit Insurance Corporation Act (PIDM Act) 2011. A full list of these insurer members is available on page 259.

Intervention and failure resolution

Intervention refers to actions taken on a member institution by PIDM in order to address certain concerns with the member institution. These actions are usually taken prior to any failure resolution option being taken against the member institution.

Failure resolution refers to actions in dealing with a failed member institution that has been determined by BNM as non-viable.

Islamic Deposit Insurance Fund

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

Islamic Protection Funds

Islamic Protection Funds refer to Islamic Deposit Insurance Fund; General Takaful Protection Fund; and Family Takaful Protection Fund.

Lender of last resort

A lender of last resort is a lender, typically a central bank, which provides financial institutions with funds when they cannot borrow from the market. The availability of such lending is intended to prevent systemic problems due to liquidity shortage in individual institutions.

Life Insurance Protection Fund

All premiums received by PIDM from insurer members conducting life insurance business and interest earned minus the direct costs of operating TIPS.

Member banks

All commercial banks (including locally incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Financial Services Act 2013 and all Islamic banks licensed under the Islamic Financial Services Act 2013. Membership is compulsory under the PIDM Act. A full list of these member banks is available on page 259.

Member institutions

Members of PIDM comprising member banks and insurer members.

Moral hazard

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

Payment management

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

Payout

A process undertaken by PIDM to reimburse insured deposits to eligible depositors, or protected benefits to eligible takaful beneficiaries or insured persons of a non-viable member institution in accordance with sections 56 and 57, and sections 80 and 81 of the PIDM Act.

Policy owner

The person who has the legal title to an insurance policy and includes the assignee, the personal representative of a deceased policy owner and the annuitant.

Product Registry System

An internal PIDM system to rate the insurability status of deposit products based on the deposit product information submitted by the member banks to PIDM.

Shariah principles

The law of Islam, based upon the Quran, Sunnah (sayings and deeds of the Prophet Muhammad s.a.w.), Ijma' (consensus among Islamic scholars) and Qiyas (analogy).

Standard File Format (SFF)

A text file of relevant deposit information that is prepared by member banks in accordance with the format set out in the Guidelines on Deposit Information Systems and Submission issued by the Corporation. The SFF has dual purposes namely, to assist the Corporation to validate member banks' annual computation of total insured deposits as well as to facilitate the Corporation in undertaking its mandate of reimbursing insured depositors.

Takaful benefits

The aggregate of takaful benefits for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Takaful Protection Funds

Takaful Protection Funds refer to General Takaful Protection Fund; and Family Takaful Protection Fund.

Target fund

A target fund, in general, is the level of accumulated fund required to adequately cover expected losses arising from intervention and failure resolution activities.

Total Capital Ratio (TCR)

The Total Capital Ratio is computed as a percentage of a member bank's total capital to its risk-weighted assets in accordance to BNM's Capital Adequacy Framework. Total capital comprised CET-1 Capital, Additional Tier-1 Capital and Tier-2 Capital, whereas the risk-weighted assets are calculated based on the aggregation of the bank's assets weighted by factors relating to its riskiness. The minimum regulatory requirement for TCR is 8%.

Total Insured Deposits

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

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