Risks and Material Matters

As part of PIDM's robust corporate planning process, we assess our operating environment, the key stakeholders that we need to manage, the principal risks affecting us, as well as the strategies to address them. Our risk philosophy is fundamentally focused on anticipating and being prepared to minimise risks that threaten the protection of financial consumers in Malaysia and the stability of the financial system.

PIDM also considers the resources or capital required, which consist of our human capital, social and relationship capital, financial capital, intellectual capital and manufactured capital.[1] Following these assessments, PIDM then articulates the material matters that require our attention.

For PIDM, material matters are issues that can or may have the potential to substantially affect the achievement of the Corporation's mandate and statutory objects. These include issues that can affect our strategies, business model or our resources or our capital, over the short, medium, or long term. Material matters are also matters that arise from our assessment of key risks affecting PIDM and which are discussed at Board level.

Managing Risk in 2025: Building Resilience Through Readiness, Agility and Digital Transformation

In 2025, we strengthened our resolution resilience by advancing our readiness efforts, ensuring that PIDM and key stakeholders are well positioned to collaborate and respond effectively to resolve troubled member institutions. Building resilience in intervention and resolution requires more than internal capacity, it calls for a shared understanding and readiness across the financial safety net, industry players, stakeholders and the public. This holistic approach ensures that we can withstand shocks and respond decisively and collectively when challenges arise.

To attain these strategic objectives, we have continued to future-proof our operations by accelerating the next phase of our digital transformation journey. This includes enhancing data management and analytics capabilities to improve agility and decision-making under stress scenarios. Our digital transformation plan remains a cornerstone of our operational resiliency and will continue to be a key focus area in the coming years.

A summary of our principal risks for the year 2025 is set out in the table below.

Principal risks	Context
Developing Resilience to Carry Out our Mandate – Insurance Risk	Risk of PIDM not being adequately prepared to carry out an Intervention and Failure Resolution (IFR) in a timely and effective manner, including having the necessary resources, capabilities, and arrangements in place. In an increasingly dynamic environment, resilience is critical. PIDM must be able to respond rapidly, maintain continuity and recover effectively to carry out our mandate, while minimising the impact of a member institution failure on financial system stability and consumer protection. This remains essential to sustaining confidence in PIDM's ability to execute our mandate under stress conditions.
Enhanced Cybersecurity Threats – Operational Risk	Cyber threats are evolving beyond traditional boundaries, becoming increasingly sophisticated, stealthy and adaptive. Attackers are leveraging on advanced technologies such as artificial intelligence (AI) and machine learning to amplify the scale and precision of their attacks, making prevention alone insufficient. A shift from a purely defensive posture to a proactive-driven strategy is therefore critical – one that prioritises timely detection, effective response and accelerated recovery. Building cyber resilience ensures that, even when disruptions occur, critical operations can continue and recovery is swift, minimising impact and safeguarding stakeholder trust.
Mitigating Disruption and Enabling Agility Through Resilience – Operational Risk	There is an increasing risk of operational disruption as PIDM advances our digital transformation and progresses towards full cloud adoption. Greater reliance on third-party vendors and complex technology ecosystems heightens exposure to service outages, integration challenges and security vulnerabilities. These risks could impact the achievement of desired quality, performance and security standards across PIDM's information systems and processes. Operational resilience has become critical, not only to prevent disruptions, but also to ensure the ability to effectively continue operations by responding and recovering swiftly, as well as safeguard essential services at all times.

[1] *Section 2C of the revised International Integrated Reporting <IR> Framework (January 2021) defines "capitals" as resources or "stock of values" that increase, decrease or transform through the activities and outputs of an organisation. For example, an organisation's financial capital is increased when it makes profit or surpluses, and the quality of its human capital is improved when employees become better trained.*

Principal risks	Context
Driving Talent Agility and Modernising our Human Capital – People Risk	Risk of employees not adapting to an increasingly digital, data-driven, and agile work environment and developing a sustainable mindset to embrace the successful adoption of new systems and tools introduced through our digital transformation initiative. This includes the challenge of ensuring long-term sustainability of our workforce through talent attraction and retention in an increasingly competitive talent market.
Damage to Credibility and Reputation – Reputation Risk	Risk of significant reputational damage arising from inadequate crisis management capabilities during major incidents, such as cyberattacks, operational disruptions or a service delivery failure during an intervention or resolution of a member institution. Failure to respond swiftly and transparently in a crisis could erode stakeholder trust and confidence and compromise an organisation's long-term credibility. As expectations for resilience and accountability grow, the ability to manage crises effectively through proactive planning, clear communication, and coordinated response is critical to safeguarding our reputation and sustaining stakeholder confidence.

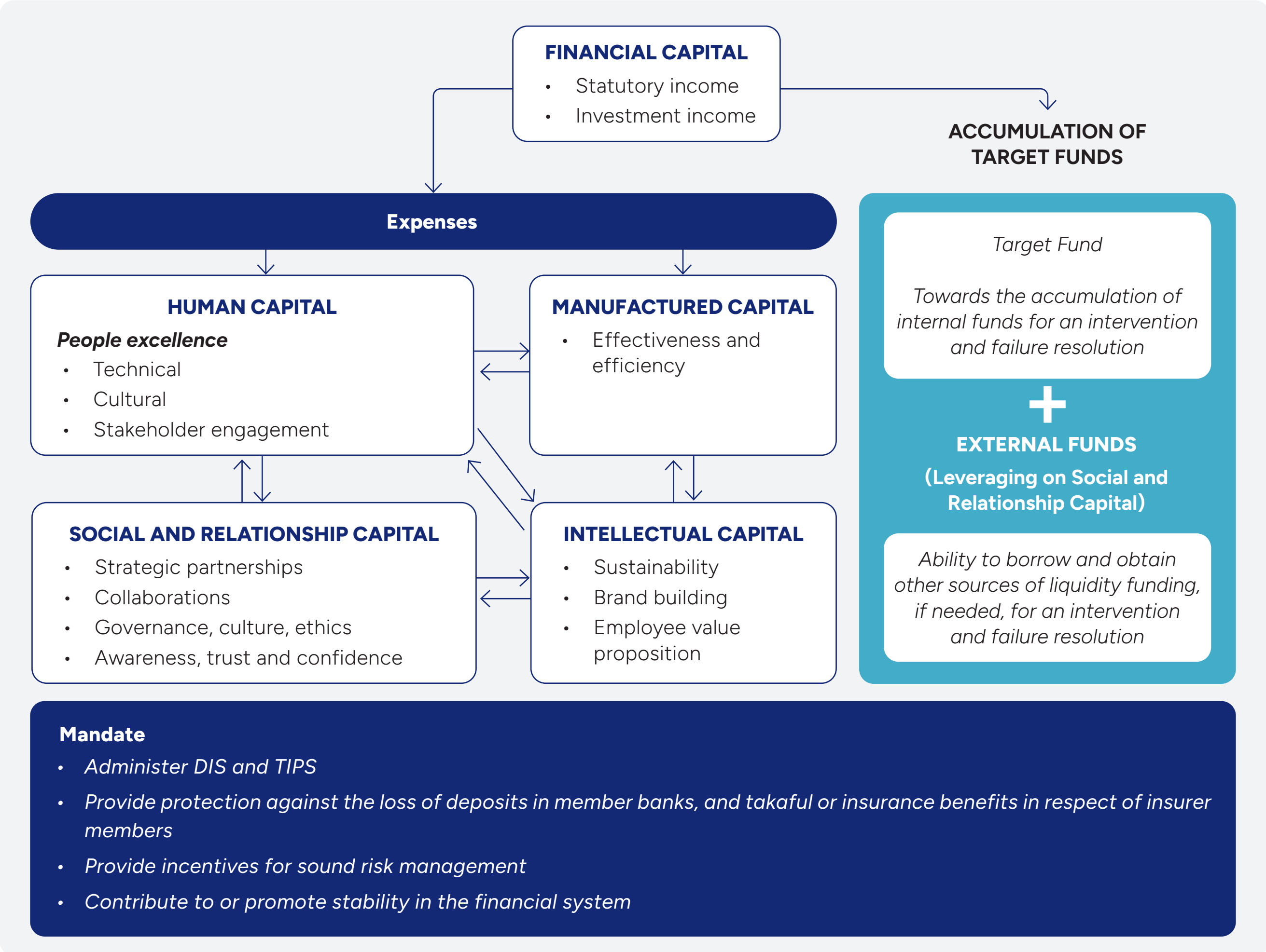
Determining Materiality

Material matters are considered from the perspectives of significant value drivers, stakeholder interests, external and internal factors, current performance, our principal risks and our capital. We then assess how all these factors impact our ability to create value, i.e. whether they increase or transform the various resources or capitals of PIDM which are used to carry out our role and fulfill our mandate.

Our Capital and How they are Interlinked and Translated to Achieve our Mandate

Human capital	• Competencies, capabilities and experience of employees • Capacity and bench strength of human resources, internally or externally sourced • Managing the sustainability of PIDM's workforce for the medium to long-term
Social and relationship capital	• Strong relationship within PIDM and with our external key stakeholders • Reputation and image
Financial capital	• Statutory income from premiums and levies collected from member institutions, and investment income generated from the Protection Funds • Accessing liquidity funding through both internal and external means to facilitate in carrying out our statutory functions
Intellectual capital	• Knowledge and expertise in DIS and TIPS • Knowledge and expertise in intervention and resolution of financial institutions • Knowledge of corporate governance practices in the public sector • Knowledge acquired and captured through knowledge management programmes and activities • Knowledge acquired by PIDM's employees in the course of our day-to-day business and operations
Manufactured capital	• Information technology systems and infrastructure for our day-to-day operations and for intervention and resolution • Cybersecurity, business continuity and disaster recovery systems and infrastructure

How Financial Capital Impacts the Other Capitals for Creation of Value for PIDM



Human Capital

A significant portion of PIDM's operational costs relates to human capital. Our 'value' or business model relies heavily on intangible assets (intellectual, and social and relationship capitals). Hence, PIDM's value hinges on our people. Only with the right people are we able to harness the intangible asset value of knowledge and build the social and relationship capital needed to successfully carry out our mandate.

Intellectual Capital

Knowledge – which involves experience, research and learning – is a main capital for PIDM. For knowledge to be a valuable asset, PIDM continues to build on our intellectual capital through research, knowledge sharing, talent development and stakeholder collaboration.

Social and Relationship Capital

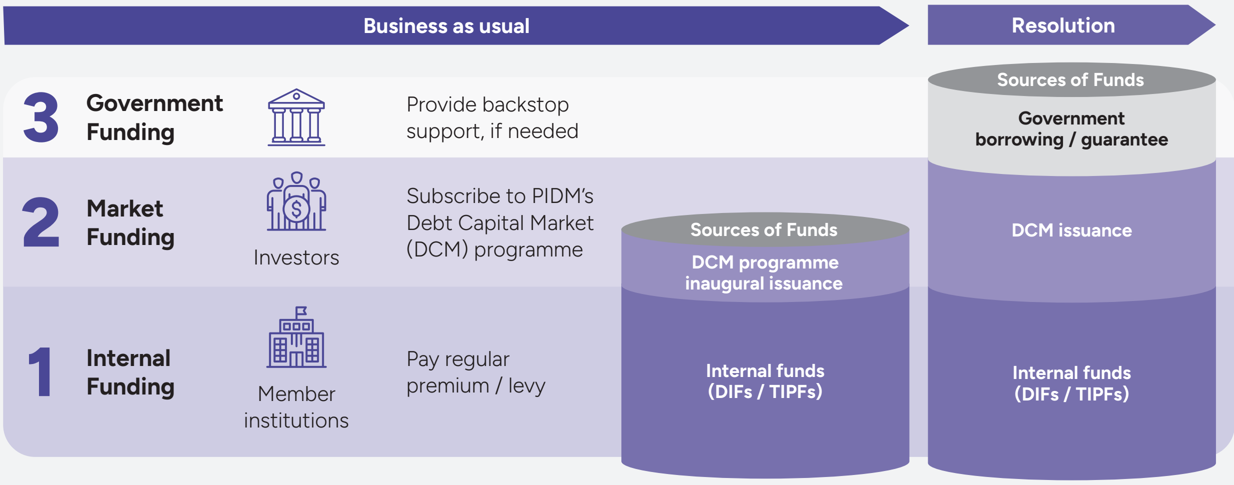
As part of the financial safety net, to successfully manage our financial resources and liquidity needs during an intervention and failure resolution, PIDM also needs to build relevant relationships. Social and relationship capital (reputation and image) is also important if the public is to have trust and confidence in PIDM, and if PIDM is to be able to contribute effectively to the stability of the financial system. Much of this relies on – not only the competence of our people – but our governance structure, internal ethics and behaviour, and the appropriate public communication and relations.

Manufactured Capital

Manufactured capital, such as our information technology (IT) infrastructure, is important for effectiveness and efficiency. We have also developed a data governance and management framework to enhance data capabilities and foster operational excellence.

Financial Capital

PIDM's primary source of capital is our internal funds, which mainly consists of the premiums and levies collected ex-ante annually from our member institutions and accumulated as reserves in the Protection Funds. Additionally, PIDM may raise funds externally for liquidity funding, which includes funds sourced from the capital market and the Government, if the need arises. PIDM's funding framework is aimed at easing the burden on the Government and minimising the use of taxpayers' monies to resolve troubled or failed member institutions. The framework is illustrated in the diagram below.



DIFs: Deposit Insurance Funds; TIPFs: Takaful and Insurance Benefits Protection Funds; DIFs and TIPFs are collectively known as Protection Funds

Diagram: PIDM's Sources of Financial Capital

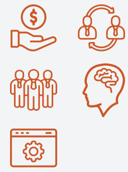
PIDM's internal funding is sourced from the premiums or levies imposed on member institutions, as well as the investment income generated from the funds net of operating expenses. The premium and levy rates are determined by the Minister of Finance on PIDM's recommendations. PIDM also has the power to assess and collect higher premiums or levies with the approval of the Minister of Finance to cover any losses arising from any resolution activities.

The pre-emptive building of the funds collected from the industry (or referred to as "ex-ante funding") is a key feature of a deposit insurance system and is in accordance with Principle 9 of the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems – Sources and Uses of Funds. The same ex-ante funding feature is also used for the takaful and insurance benefits protection system. It is not economical nor is it intended for PIDM to cover fully the exposures through an ex-ante collection from the industry. Instead, PIDM sets a target reserve that is adequate to cover net losses, supported by external liquidity funding sources. This target reserve level is referred to as the "Target Fund". For PIDM, the Target Fund aims to accumulate funds to cover the net expected losses arising from any intervention or failure resolution activity.

If the relevant Protection Fund is insufficient to meet our liquidity obligations, PIDM, as a statutory body, has the authority to raise funds as we deem fit, including issuing public debt securities in the capital market (market funding). Under the PIDM Act, PIDM also has the power to borrow from the Government to meet our obligations and such borrowings would be based on terms and conditions as the Minister of Finance will determine (Government funding).

Material Matters / Key Result Areas

PIDM's Corporate Plan 2023 – 2025, themed "Realising Readiness", reflects our strategic intent to intensify our focus on resolution readiness. In alignment with the Corporate Plan, PIDM sets out our material matters, which has been articulated into nine Key Result Areas (KRAs) and organised under three strategic pillars.

Strategic Pillars	Material Matters	Key Result Areas	Capital Affected / Principal Risks
Realising PIDM's Readiness for Resolution and Crisis Management	**Readiness for resolution and crisis management** Ensuring effective execution of intervention or resolution actions by: (a) continuously enhancing PIDM's internal readiness in relation to intervention and resolution (b) executing resolution plans effectively and ensuring robust crisis coordination actions among the financial safety net (FSN) players and service providers; (c) ensuring member institutions are clear about PIDM's regulatory expectations to support the implementation of PIDM's resolution strategies; and (d) ensuring robust liquidity management plan that covers management of liquidity crisis before, during and after a Non-Viability Trigger (NVT) event.	**KRA 1:** (PIDM-Ready) – Enabling robust intervention and effective intervention and resolution actions by PIDM **KRA 2:** (Industry-Ready) – Strengthening the resolvability of member institutions and enhancing readiness of service providers **KRA 3:** (FSN-Ready) – Developing effective crisis management arrangement with and among FSN players	**Capital affected**  **Principal risks** • Insurance risk • People risk • Reputation risk • Operational risk
Enhancing Confidence in PIDM's Protection Systems and Resolution Mandate	**Awareness, trust and confidence, and crisis communication** Ensuring the confidence of depositors and other financial consumers through comprehensive communication of PIDM's mandate, our role, as well as administering an effective protection system. Having comprehensive plans to communicate effectively before and during crisis situations to avert or mitigate panic behaviours.	**KRA 4:** (Public and Media-Ready) – Maintaining strong awareness, understanding and advocacy of PIDM among the public and media **KRA 5:** Enhancing the effectiveness and relevance of PIDM's protection coverage and role as financial consumer protection authority	**Capital affected**  **Principal risks** • Reputation risk • Insurance risk

Strategic Pillars	Material Matters	Key Result Areas	Capital Affected / Principal Risks
Enabling PIDM's Readiness through Organisational Effectiveness, Digital Transformation and Strong Governance	**Leadership, employee engagement and development** Enabling PIDM's readiness to deliver our mandate effectively through: (a) effective employee engagement; (b) continuous upskilling for current and future needs; (c) cultivating a digital- and sustainability-focused culture; and (d) succession planning and the sustainability of our workforce for the medium to long term.	**KRA 6:** Ensuring strong talent and capabilities and strengthening PIDM's culture	**Capital affected** **Principal risks** • People risk • Operational risk
	Resilience of operations Addressing challenges brought by digital advances: (a) leveraging the exponential increase in computing power to enhance the efficiency and effectiveness of PIDM's operations; (b) transition from cyber security to cyber resilience; and (c) enhancing collaboration and integration of processes, systems and people.	**KRA 7:** Modernising PIDM's information technology infrastructure, processes and security to augment future readiness to deliver our mandate **KRA 8:** Leveraging applications and data analytics to improve PIDM's resolution readiness	**Capital affected** **Principal risks** • Operational risk • Reputation risk • People risk • Strategic risk
	Corporate Governance Commitment to transparency, accountability, integrity and sustainability, and ensuring effective strategic management and sound management practices.	**KRA 9:** Applying ESG as the North Star in PIDM's operations	**Capital affected** **Principal risks** • Operational risk • Reputation risk