

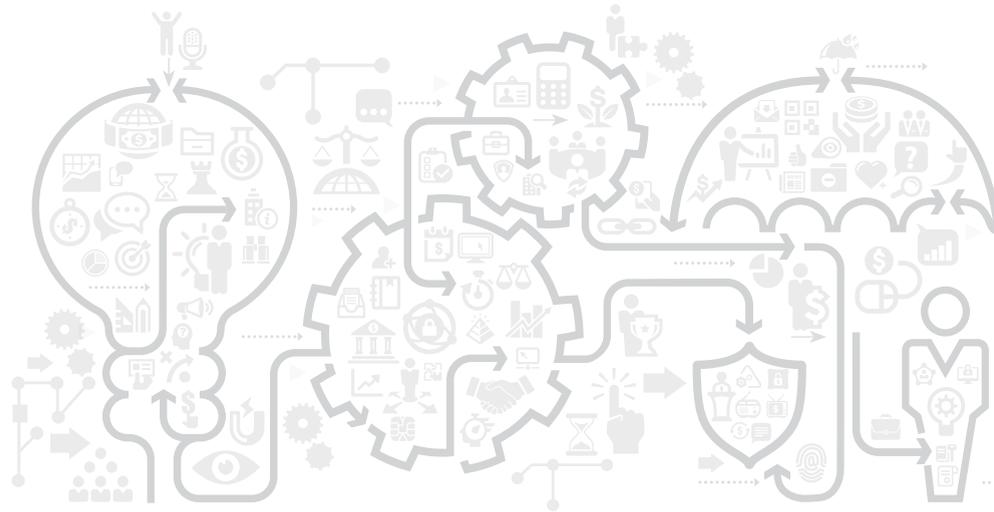


Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

ANNUAL REPORT 2015



WORKING IN
UNISON



Working In Unison

PIDM celebrated 10 years of success in 2015, a significant milestone in our journey towards becoming a best practice financial consumer protection and resolution authority.

In the last decade, we have worked hard on cementing our foundations as a well governed and well managed organisation. Part of this effort means, among others, that we must remain in a constant state of readiness to protect depositors and takaful certificate and insurance policy owners against the failure of any member institution.

Working In Unison – our cover design encapsulates the essence of how PIDM serves the community and financial system, with the view to protect the interests of its key stakeholders, the public, at all times. It depicts the varied components of work that we must do and how we work together as a team to ensure that PIDM's engine works smoothly and that it can fulfil its mandate and aspirations in the best possible manner.

“Individual commitment to a group effort – that is what makes a team work, a company work, a society work, a civilization work.”

Vince Lombardi

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OUR VISION

To be a best practice financial consumer protection and resolution authority



OUR MISSION

To execute our mandate efficiently and 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



Section 1

Introduction

Corporate Profile

The Year at a Glance

Five-Year Highlights of Our Accomplishments

Financial Summary: Five-Year Performance

Going Forward

Message from the Chairman

Board of Directors: Members and Profiles

Message from the Chief Executive Officer

Organisation Chart

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.

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 as 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.

PIDM administers the Deposit Insurance System and the Takaful and Insurance Benefits Protection System.

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 and / or general insurance business in Malaysia; and
- takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family and / or general takaful business in Malaysia.

43 MEMBER BANKS

27 Commercial Banks

16 Islamic Banks

43 INSURER MEMBERS

32 Insurance Companies

11 Takaful Operators

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; and
- Family Solidarity 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. A Strategic Alliance Agreement between the parties underpins the relationship and enables timely exchange of information on member institutions as well as collaboration in risk assessment and monitoring, and intervention and failure resolution activities.

PIDM provides incentives for member institutions to implement sound risk management practices.

PIDM complements the existing regulatory and supervisory framework by providing incentives for member institutions to implement sound risk management practices. The Corporation is the resolution authority in Malaysia for member banks and insurer members and has at its disposal a range of legislative powers to intervene early in distressed member institutions to mitigate the effect 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.

Timely and clear communications to ensure public confidence in DIS and TIPS are key to PIDM's efforts in promoting and contributing to the stability of the financial system. The Corporation carries out a multi-year public awareness programme as well as education initiatives through various channels to enhance the level of awareness and understanding about the benefits, coverage and limitations of PIDM's financial consumer protection systems.

THE YEAR AT A GLANCE

2015 marked PIDM's 10th year of operation. In 2015, the Corporation successfully fulfilled its key initiatives as set out in its Corporate Plan 2015 - 2017. A list of selected initiatives is as follows:



STAKEHOLDERS

EDUCATION PROGRAMME

PIDM has been recognised as a "Partner in Co-curriculum" by the Ministry of Education.

PUBLIC AWARENESS

Partnered with the famous cartoonist, Lat, on a new advertising campaign focussed on a wider public audience.

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.

Conducted a total of 85 briefing sessions for various stakeholders including member institutions, Government agencies, institutions of higher learning and the general public.

KNOWLEDGE SHARING AND EXCHANGE

Organised and hosted international conferences and seminars for our key stakeholders including inviting industry associations, member banks and insurer members to participate as speakers and panellists for the following events:

International Conference on Insurance Guarantee Schemes with the theme "Recovery and Resolution of Insurance Companies". A dinner talk was also held as part of our engagement activities with the insurer members.

5th Seminar on Islamic Deposit Insurance with the theme "Essential Elements for Effective Islamic Deposit Insurance Systems: Shariah Governance, Sources and Management of Funds".

14th International Association of Deposit Insurers (IADI) Annual General Meeting and Conference with the theme "Crisis Preparedness – Institutional Arrangements and Coordination, Crisis Communication and Contingency Planning".

THE YEAR AT A GLANCE



GOVERNANCE AND INTERNAL PROCESSES

<p>BOARD EDUCATION</p> <p>Conducted six Board education sessions.</p>	<p>GUIDELINES</p> <p>Issued guidelines on:</p> <ul style="list-style-type: none"> - Differential Premium Systems for Deposit Insurance System. - Validation Programme: Differential Premium Systems and Total Insured Deposits. - Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Premiums for Takaful and Insurance Businesses. 	<p>FUNDING</p> <p>Developed an option for alternative liquidity funding arrangements.</p> <hr/> <p>Completed the Target Fund for General Insurance Protection Fund and commenced development of the Target Fund for Life Insurance Protection Fund.</p>
<p>PIDM ACT</p> <p>The legislative amendments to the PIDM Act were enacted by Parliament in December 2015.</p>	<p>INFORMATION REGULATIONS</p> <p>Consulted with the industry and completed a public consultation on Information Regulations for DIS and TIPS.</p>	<p>INFORMATION SECURITY MANAGEMENT</p> <p>Updated the procedures for the Information Security Management System (ISMS) to prepare the Corporation to be ISO 27001:2013 certification ready.</p>
<p>CORPORATE SOCIAL RESPONSIBILITY</p> <p>Continued to demonstrate commitment towards our CSR Programme.</p>	<p>SIMULATION EXERCISE</p> <p>Conducted an Intervention and Failure Resolution (IFR) workshop on liquidation base-case followed by a simulation exercise for a bank failure.</p>	<p>DIFFERENTIAL LEVY SYSTEMS FOR TAKAFUL</p> <p>The Regulations and Order for the Differential Levy Systems for takaful operators were gazetted on 4 March 2016.</p>

THE YEAR AT A GLANCE



LEARNING AND GROWTH

TALENT MANAGEMENT

Completed a career profiling exercise for employees.

ENGAGEMENT INDEX

Employee Voice Survey – achieved a sustainable engagement index of 88%.

EMPLOYEE ENGAGEMENT

Continued to reinforce our corporate values and enhance employee engagement through various activities.



2011

STAKEHOLDERS

- Implemented the enhanced PIDM Project MoneySmart education programme, which included TIPS-related information.
- Implemented the Provision of Information on Deposit Insurance Regulations 2011.
- Executed a Memorandum of Understanding (MOU) with the Central Deposit Insurance Corporation, Taiwan.
- Hosted the international seminar on auditing the risk assessment function.

GOVERNANCE

- Conducted four Board education sessions.
- Completed the Enterprise Risk Management (ERM) Board Risk Policies on Reputation Risk, Assessment and Monitoring Risk, Strategic and Governance Risk, Operational Risk and IFR Risk.

INTERNAL PROCESSES

- Issued guidelines to insurer members and enhanced guidelines applicable to member banks.
- Developed the comprehensive Risk Assessment Methodology and Framework as well as the Supervisor Validation for the Returns on Calculation of Premiums for TIPS.
- Conducted two mini simulations and one two-and-a-half-day simulation exercise.
- Completed the integration between the Payout system modules, and the development of the audit programme for Deposit Liability Information Management System.
- Developed the Authority Matrix.
- Completed the development of the interim Disaster Recovery Site (DRS) and tested the Business Continuity Plan (BCP).

LEARNING AND GROWTH

- Conducted training sessions on IFR for all employees.
- Developed the Knowledge Management framework in support of continuous knowledge sharing among the employees.
- Conducted the Employee Voice Survey and achieved a 90% Employee Engagement Index.

EXTERNAL RECOGNITION

- Recipient of the "2011 Deposit Insurance Organisation of the Year" award, presented by IADI.
- Recipient of the National Annual Corporate Report Awards (NACRA) 2011 "Best Annual Report of Non-Listed Organisations" award for our 2010 Annual Report.
- Recipient of the Quality Assurance Review certification by the Institute of Internal Auditors Malaysia.

2012

STAKEHOLDERS

- Implemented the first year of the Integrated Communications Plan (ICP) 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 TIPS.
- Implemented the MDIC (Return or Interest on an Index-linked Deposit held by a Deposit-Taking Member) Rules 2012.
- Incorporated five subsidiaries, namely, four bridge institutions and one asset management company, for the purpose of IFR.
- Conducted the first simulation exercise on failure of an insurance company.
- Completed the trial run on the validation of Standard File Format for member banks.
- Completed the research on claims management system and infrastructure.
- Triggered the BCP and mobilised resources to the interim 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 failure of an insurance company.
- Developed the Knowledge Management Policy and Practices.

EXTERNAL RECOGNITION

- Recipient of the NACRA 2012 "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 its 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 MOUs with the Philippine Deposit Insurance Corporation and the Korea Deposit Insurance Corporation.
- 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 Board Committee for Chief Executive Officer (CEO) succession planning.

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 failure of an insurer member.
- 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 "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, and received recognition as a "Partner in Co-curriculum" by the Ministry of Education.
- 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 (FIDE) programme and its alumni, FIDE FORUM.
- Forwarded proposed legislative amendments to the PIDM Act to the Attorney General Chambers.

INTERNAL PROCESSES

- Implemented the Rating Prediction Model of the Early Warning System for member banks.
- Issued the Guidelines on Total Insured Deposits (TID) 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 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.

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.
- Recognised as a "Partner in Co-curriculum" by the Ministry of Education.
- 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 the FIDE alumni association, FIDE FORUM.

INTERNAL PROCESSES

- Issued the Guidelines on Differential Premium Systems for DIS; Guidelines on Validation Programme: Differential Premium Systems and Total Insured Deposits; and Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Premiums for Takaful and Insurance Businesses.
- Developed the Regulations and Order for the DLS for takaful operators which were gazetted on 4 March 2016.
- 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 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 a career profiling exercise for employees.
- Achieved a Sustainable Engagement Index of 88%.

FINANCIAL SUMMARY

Five-Year Performance

PREMIUM REVENUES (Amount denoted in RM Million)



INVESTMENT INCOME (Amount denoted in RM Million)



TOTAL INCOME (Amount denoted in RM Million)



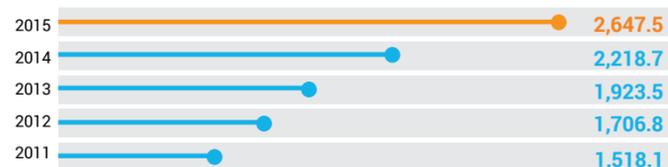
TOTAL EXPENSES (Amount denoted in RM Million)



OPERATIONAL NET SURPLUS (Amount denoted in RM Million)



TOTAL ASSETS (Amount denoted in RM Million)



DEPOSIT INSURANCE FUNDS (Amount denoted in RM Million)

Conventional Banks



Islamic Banks



TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS (Amount denoted in RM Million)

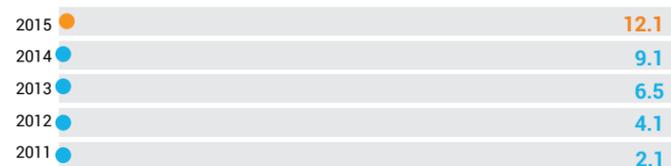
General Insurance



Life Insurance



General Takaful



Family Solidarity Takaful



SELECTED ITEMS FROM THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER

	2015	2014	2013	2012	2011
	RM Million				
Premium Revenues	442.0	311.0	245.1	214.3	201.2
Deposit Insurance Funds	359.2	239.7	180.3	126.5	120.5
Takaful and Insurance Benefits Protection Funds	82.8	71.3	64.8	87.8	80.7
Investment Income	78.5	63.7	56.1	48.7	21.8
Deposit Insurance Funds	36.7	26.2	20.5	16.5	12.9
Takaful and Insurance Benefits Protection Funds	41.8	37.5	35.6	32.2	8.9
Miscellaneous Income	0.8	-	-	-	-
Realised (losses) / gains from divestment of investment securities	-	-	(0.6)	-	3.7
Deposit Insurance Funds	-	-	-	-	-
Takaful and Insurance Benefits Protection Funds	-	-	(0.6)	-	3.7
Total Income	521.3	374.7	300.6	263.0	226.7
Total Expenses	94.7	83.9	82.1	75.3	69.6
Operational Net Surplus	426.6	290.8	218.5	187.7	157.1
Moneys and investments received from Insurance Guarantee Scheme Funds	-	-	-	-	922.4
Net Surplus for the Year	426.6	290.8	218.5	187.7	1,079.5
Net gains / (losses) on available-for-sale investments	-	-	0.2	0.4	(0.6)
Net Surplus for the Year Representing Total Comprehensive Income for the Year	426.6	290.8	218.7	188.1	1,078.9

SELECTED ITEMS FROM THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	2015	2014	2013	2012	2011
Total Assets	2,647.5	2,218.7	1,923.5	1,706.8	1,518.1
Total Liabilities	13.6	11.4	7.0	9.0	8.4
Funds and Reserves	2,633.9	2,207.3	1,916.5	1,697.8	1,509.7
Deposit Insurance Funds	1,298.4	973.1	768.3	617.1	518.5
Conventional Deposit Insurance Fund	1,095.7	831.3	660.9	533.8	450.0
Islamic Deposit Insurance Fund	202.7	141.8	107.4	83.3	68.5
Takaful and Insurance Benefits Protection Funds	1,335.5	1,234.2	1,148.2	1,080.7	991.2
General Insurance Protection Fund	1,110.1	1,065.2	1,024.5	994.0	948.0
Life Insurance Protection Fund	188.6	141.4	104.1	74.2	36.7
General Takaful Protection Fund	12.1	9.1	6.5	4.1	2.1
Family Solidarity Takaful Protection Fund	24.7	18.5	13.1	8.4	4.4
Total Liabilities, Funds and Reserves	2,647.5	2,218.7	1,923.5	1,706.8	1,518.1

GOING FORWARD



Going forward, PIDM will continue to carry out initiatives that will support our long-term strategic direction. This includes:

- (a) implementing our long-term Strategic Human Capital Plan that addresses the critical resources and core competencies that will help us reach our goals;
- (b) developing and implementing an Effective Resolution Regime Plan; and
- (c) continuing to enhance stakeholder engagement and promoting best practices in corporate governance.

PIDM's Summary of the Corporate Plan 2016 - 2018 sets out the strategic priorities that drive the key activities of the Corporation for the planning period. This three-year rolling plan is updated annually and includes the initiatives and respective performance targets to ensure effective and efficient fulfilment of PIDM's mandate and vision. The Plan also sets out the estimated resources required in carrying out its activities in its financial plan.

A copy of our Plan is disseminated to our key stakeholders each year and we report our performance against it in our Annual Report. Our Plan is available in four languages through our website at www.pidm.gov.my.

MESSAGE FROM THE CHAIRMAN

Tan Sri Datuk Dr. Abdul Samad Haji Alias



As a regulatory authority with a statutory mandate, we have set our sights on achieving the highest of standards – standards that some might even argue are unnecessary. Yet it is by setting high standards for PIDM, at all levels of the organisation – that we ensure the discipline to deliver the quality outcomes that the public rightly expects from a statutory body.

CONTINUED CONFIDENCE AND TRUST

2015 was our 10th year in operation. In our 10 years of existence, our practice has been to set clear and stretched goals, at all times instilling a collective ethos that we wish to be the hallmark of our organisation – that is, integrity. As Aristotle said, “We are what we repeatedly do”. Integrity is then not what we do, but a habit.

Our integrity also means, to us, that all our endeavours are channelled at achieving excellence as we work towards our outcomes. It also includes upholding good corporate governance at all times. 10 years from our inception, we continue to apply the principles of transparency, objectivity and integrity – the cornerstones of public confidence and trust. We continue to subscribe to the highest levels of governance and constantly review our governance practices against global best practices.

In 2015, we continued along this vein. As we transition into the next decade of our operations, the Board focussed its efforts on continuity at the Board level, adopting a policy of an “evergreen” Board. This means that at least one Director will retire from the Board each year, after having served two terms of three years each. This “evergreen” policy aims to rejuvenate the Board and ensure fresh perspectives, and will be implemented beginning 2016.

The Board also established a “Policy Against External Interference” in line with international recommendations. This sets out the policy and procedures relating to the Corporation’s operational independence and allows the Corporation to carry out its mandate with integrity and objectivity.

MESSAGE FROM THE CHAIRMAN

Tan Sri Datuk Dr. Abdul Samad Haji Alias

EFFECTIVE AND SUSTAINABLE PERFORMANCE

The Board also continues to ensure that we have an effective performance management system that facilitates and sustains the effective and efficient delivery of PIDM's mandate. Risk management and internal control continue to be integral parts of our performance management system and the achievement of significant outcomes. As you will see from our Statement on Risk Management and Internal Control on page 55, we have an ongoing process designed to identify and address significant risks that could affect the achievement of PIDM's outcomes.

The long-term nature and impact of PIDM's responsibilities, and the constant change and risks within our operating environment, mean that we must plan for sustainable and long-term outcomes. With this backdrop, in 2015, during the strategic planning session, the Board agreed on the key strategic priorities that will further PIDM's purpose over the long term, which is to make significant contributions as a financial consumer protection and resolution authority. It was decided that our strategic priorities would be the following:

- (a) A focus on our people. We must invest in our leadership and our people to ensure that they will collectively have the capacity, and desire, to achieve excellence and fulfil the Corporation's mandate in a continually changing environment and under conditions of uncertainty.
- (b) A continued focus on stakeholder engagement. In an environment of diminishing public trust, corporate governance remains a priority for PIDM as does our educational efforts among the public. We will also continue to engage member institutions with various activities, as we did in the past, to allow for greater understanding about what we do, and to obtain industry perspectives as we develop programmes and regulatory initiatives.
- (c) Finally, a focus on our role as a resolution authority.

One of our key statutory objects is to promote and contribute to the stability of the Malaysian financial system. A significant element of the financial safety net is prudential regulation and supervision, which promotes the safety and soundness of financial institutions. This lies in the excellent hands of our colleagues at Bank Negara Malaysia (BNM).

Yet our regulatory system is not designed to ensure that no financial institution will ever fail. Risks, as we know, come from a variety of sources. At best, risks of such failure can be mitigated. Thus, PIDM's role is to protect depositors, to resolve troubled member institutions, and to promote confidence in the stability of our financial system. Further, the Financial Sector Blueprint 2011 - 2020 contemplates that

PIDM could, by 2020, play an enhanced role as a resolution authority to address other distressed large, non-viable financial institutions that can affect financial system stability, not limited to our member institutions.

Thus, a strategic goal for PIDM is to ensure that financial institutions can be resolved in an orderly manner, without severe systemic disruption, without exposing taxpayers to loss and without eroding public confidence. The global crisis has revealed the multiple challenges of resolving large, complex financial institutions operating across borders. It also brought to light the dilemma for authorities when they lack the necessary powers and tools to respond to such failures. Faced with the need to stem the potentially disastrous consequences to the financial system posed by the disorderly winding-up of such institutions, authorities were forced to resort to government intervention and public monies.

Whilst the role of financial institutions as financial intermediaries is clearly important to the smooth functioning of the economy and intervention may be necessary in times of crisis, there must at the same time be an appropriate balance. How much of the public purse can be justifiably used to address the crisis as a result of the irresponsible behaviour of financiers, is a fundamental question around the world today. The categorical conclusion is that something needs to be done to prevent the costs of such behaviour from ultimately falling on the taxpayers.

As a resolution authority, we must be ready to respond to events that can have fundamental consequences to the financial system, economy, as well as taxpayers. Hence, we are committed to work towards ensuring that we have the necessary tools and processes to allow PIDM to intervene and manage a failure of such financial institutions in an orderly manner.

Our work on the development of the necessary frameworks, laws and collaborations is vital, if we are to effectively handle a large, non-viable financial institution resolution in the manner contemplated. In achieving our objectives, we will need to call upon financial institutions to work with us. They will be asked to provide us with information and analyses, so that we can better understand the institution's operations, risks, as well as identify the critical functions that they or their related entities perform within the financial system. As we develop our frameworks and guidelines for resolution plans, we will engage with our member institutions to ensure that our requirements are practicable and informed.

As for cross-border issues that might impede a smooth and orderly resolution, we will need to continue our cross-border ties with key regulators and formalise our relationships with foreign authorities. In line with building these networks, in 2015, we continued our international activities. We were privileged to host several

MESSAGE FROM THE CHAIRMAN

Tan Sri Datuk Dr. Abdul Samad Haji Alias

international conferences, with discussions focussing on Insurance Guarantee Schemes and Islamic Deposit Insurance. We also hosted the 14th International Association of Deposit Insurers Annual General Meeting and Conference, in Kuala Lumpur, the largest gathering of international deposit insurers, with over 380 participants from 64 jurisdictions. Regionally, during the Tripartite Meeting in Chiang Mai, Thailand, we had the opportunity to exchange ideas and experiences with our counterparts from Indonesia and Thailand on cross-border and other challenges related to resolution plans.

CONCLUSION

As I reminisce the events of the past 10 years, the many changes that have taken place since my appointment to the Board in 2005 come to mind.

I am pleased to see that our financial services environment has remained robust throughout this period, despite external pressures. I am also delighted that so much has been done with a view to raising the standards of our member institutions, in terms of leadership and talent development, corporate governance as well as ethical standards, in the form of initiatives such as the Asian Institute of Finance, the Financial Institution Directors' Education programme, FIDE FORUM and the Financial Services Professional Board, to name a few. These initiatives which originated from regulators like BNM, the Securities Commission and PIDM as well as dignitaries from the industry itself, bode well for the country's financial system stability.

From the perspective of the institutional framework that supports financial system stability, the timing for the establishment of PIDM – as recommended by the Core Principles for Effective Deposit Insurance Systems – was apt. Not being called upon to address any resolutions during these years has allowed us the time to establish a system that is recognised, by the International Monetary Fund / World Bank's Financial Sector Assessment Programme, to conform to international standards. We were also able to establish solid institutional foundations for operational readiness. Over the years, our role has also been significantly expanded, so that we have been stretched and challenged in many ways. Charged with the administration of the Government Deposit Guarantee in 2008 and with an expanded mandate to protect takaful certificate and insurance policy owners at the end of 2010, we have been kept busy with these responsibilities as well as ensuring our operational readiness.

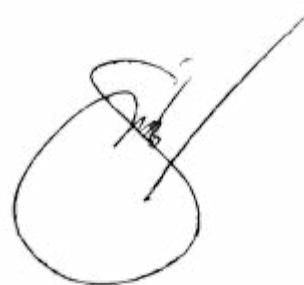
From the perspective of where PIDM as an organisation is today, we have our foundations, beliefs and values firmly anchored. We will continue to work on ensuring that our systems, tools and processes are in place, and carry out enhancements as needed to ensure high levels of operational readiness.

Looking forward to the future, a key insight during our strategic planning in 2015 is this – things are changing around us and will continue to change. Our operating environment will not always be predictable. The shape and form of the financial services industry will change. Planning is a must, but we must also have the ability to address change in our plans if conditions change. So we need to be able to think strategically and adapt. Our future success thus lies in the capability of our people, and their skills as well as the ability to adapt and address challenges under all conditions – also in their perseverance, willingness and ability to continually learn and work as a team.

Given this insight and with our strategy for human capital, I believe the PIDM team, which fully embraces constant improvement and change, will be well positioned to take on the challenges coming its way.

In closing, on behalf of the Board, I would like to thank the Executive Management team and our employees for their considerable efforts over the years. I know that with their collective commitment we will continue to earn our successes. As you will see from our article on Corporate Governance in Statutory Bodies on page 184, as an organisation, we remain committed to integrity, transparency and objectivity in our endeavour to make a difference as a statutory body and financial safety net player.

My sincere thanks also to our strategic partners, member institutions, fellow regulators and other stakeholders for all of your support and cooperation. I look forward to your continued and indispensable collaboration towards a common goal – the stability of the financial system.



TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

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.



**TAN SRI DATO' SRI DR.
ZETI AKHTAR AZIZ**
Ex Officio Director

Appointed: August 2005

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz is the Governor of Bank Negara Malaysia since May 2000. At the Central Bank, Dr. Zeti had a key role in successfully managing the repair and resolution of the financial system during the Asian Financial Crisis and the consequent strong recovery of the Malaysian economy. She also had an important role in the formulation and implementation of two consecutive 10-year plans for the development of the financial system which has resulted in wide-ranging financial reforms, and the successful enactment of 10 new major legislations for the financial sector.

In the Asian region, Dr. Zeti is actively involved in strengthening regional cooperation and financial integration. She chaired the Executives' Meeting of East Asia Pacific Central Banks Taskforce on "Regional Cooperation among Central Banks in Asia" that prepared the report for future Central Bank financial cooperation in the region. She is a founding member of the Bank for International Settlements (BIS) Asian Consultative Council and the first co-chair of the Financial Stability Board (FSB) Regional Consultative Group for Asia. Dr. Zeti also participates extensively in international forums. She was a member of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System in 2009, a high level task force established to examine reforms in the global financial system. Currently, Dr. Zeti is the chair of BIS Central Bank Governance Group, which she has been a member since 2001.

Dr. Zeti has also had extensive involvement in the global development of Islamic Finance. This included being a part of the group of Governors that established the Islamic Financial Services Board (IFSB) and International Islamic Liquidity Management (IILM). She headed a task force that prepared a report on "Islamic Finance: Global Financial Stability", which identified the building blocks that would further strengthen the institutional arrangements in the Islamic financial system. In Malaysia, the recent decade saw the transformation of the Islamic financial system including its expansion and internationalisation. Dr. Zeti also had a significant role in the development of talent in the Islamic financial services industry.

Dr. Zeti received her Bachelor of Economics from the University of Malaya and her PhD in Economics from the University of Pennsylvania, USA.

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 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 the Malaysian Airline System Berhad (MAS), 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, USA. 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 of the 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 the Western Michigan University, USA. She has also been conferred a PhD from the Australian National University.

BOARD OF DIRECTORS

Members and Profiles



DATO' HALIPAH ESA

Public Sector Director

Appointed: August 2010

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

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

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



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 or UiTM) as a lecturer in law. In June 1977, he went to London to pursue a Masters in Law and returned to legal practice in 1979.

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

BOARD OF DIRECTORS

Members and Profiles



MR. LIM TIAN HUAT

Private Sector Director

Appointed: August 2010

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

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

He is a Director of UEM Sunrise Berhad, Malaysia Building Society Berhad and PLUS Malaysia Berhad. He is also a Director of Bank of Yingkou, China and Anglo-Eastern Plantations PLC, which is listed on the London Stock Exchange.

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



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

BOARD OF DIRECTORS

Members and Profiles



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 on 31 January 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 11 March 1996 to 2 November 2005, he was the Managing Director of Landmarks Berhad. From 1994 to 2008, he sat on various boards including Rashid Hussain Berhad, Saujana Consolidated 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, University of London.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jean Pierre Sabourin



THE ACCURACY OF PREDICTIONS

On 11 February 2016, a team of scientists announced that they had heard and recorded the sound of two black holes that collided a billion years ago, confirming the existence of gravitational waves and the last of Albert Einstein's predictions in his general theory of relativity. This is a major and undeniably triumphant conclusion; arrived at through a century of innovation, testing, questioning, and the hard work of scientists.

To confirm with the same certitude the accuracy of the forecasts of experts about the outcome of the multitude of factors that interplay in a complex and changing global financial world is likely to be an impossibility. Yet with actively open minds, diligence and a measure of humility, researchers like Phillip E. Tetlock tells us that we ourselves can make reliable, effective and useful judgements about the future.

For PIDM, the essence of this learning is not to strive to achieve 100% accuracy about what is going to happen; or to give up trying to forecast anything at all. The nub of this wisdom is, whilst recognising the limitations to foresight, we can and should always strive to make better sense of the world around us.

Thus, we reinforce our commitment to stay on top of latest developments, continually challenge assumptions, and constantly refine our forecasting skills – so that we can make sounder decisions as well as ascertain our priorities in preparation for possible short, medium and long-term events that could affect the achievement of our statutory objectives.

KEY INITIATIVES IN 2015

In 2015, in our 10th year of operation, we continued implementing the key initiatives against the backdrop of our operating environment – always on alert; and always enhancing readiness both in terms of operations as well as people.

ALWAYS ON ALERT

As always, we continued to closely monitor the health of our member institutions and the economy, analysing key data and watching for significant patterns, with our risk managers leveraging on the efficiencies provided by our automated risk assessment systems.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jean Pierre Sabourin

Insofar as risk assessment for member institutions is concerned, we continued to enhance our risk assessment system for insurer members. We are working on the development of the Early Warning System for Takaful and Insurance Benefits Protection System. We have also embarked on research for a Failure Prediction Model, which will incorporate early triggers so that remedial steps can be taken to avert financial stress.

In line with our statutory objects to incentivise sound risk management within the financial system, we also completed the Differential Levy Systems Framework for Takaful Operators (DLST), which will replace the current flat-rate levy system. The DLST is part of our efforts to incentivise takaful operators to enhance their risk profiles; as well as to level the playing field between the takaful operators and conventional insurer members.¹

ENHANCING READINESS

The level of readiness we should be at depends on economic and other considerations that vary from minutes to months. Our readiness, as you would expect, relate not only to our people. Like the armed forces, we must – regardless of our operating environment – always be ready in case something happens. This means having – at a minimum – all critical elements in place to deal with all key risks. Some of these critical elements include the following:

- (a) **Engaging key players.** Ensuring that our collaborations with other safety net players and strategic partners are in place, so that we can gather intelligence and make quick decisions.
- (b) **Enhancing our arsenal of tools.** Ensuring that we have as wide an arsenal of “weapons” as possible. In other words, we must have the legislative authority to act promptly and without obstacles, so that we can act quickly and early to resolve the problem.
- (c) **Prompt response with liquidity funding.** If called upon, we must be able to fulfil our statutory obligations to depositors or policy owners, including making prompt payouts.

Over 40 years of experience in deposit insurance tells me this – delays in closing failing financial institutions will increase the ultimate cost of failure. Promptness is therefore key. In 2015:

- (a) First, to enhance the tools available to us, the PIDM Bill – incorporating yet another legislative tool to allow PIDM to take prompt action when an institution is non-viable – was passed in December 2015. At the time of writing, it awaits Royal Assent.
- (b) Second, we are continuing to build our reserve funds and liquidity arrangements. As to how much funds we aim to have in the reserve, we have developed targets.² These target funds would however only address net insurance losses, in relation to which our law allows us to recoup in recoveries or future levies. They will not necessarily address liquidity needs at the point of a failure. In order

to make sure we have adequate funds to respond quickly during an intervention or failure resolution, we have planned to establish a selection of liquidity arrangements as a contingency. In 2015, we concluded liquidity arrangements with Cagamas Berhad, as one of several alternative funding arrangements. Work on more liquidity arrangements is in progress.

- (c) Finally, to continue ensuring people readiness, we conducted yet another simulation test, to assess as well as hone the abilities of our team to respond effectively to a variety of intervention and resolution scenarios.

LOOKING FORWARD

FORWARD LOOKING WITH STRATEGIES

In the past, financial institutions have been widely regarded as playing a significant role in the efficient allocation of capital; bringing prosperity; stability and growth. Today, another reality prevails – that, during a crisis, Systemically Important Financial Institutions (SIFIs) can thrust entire economies at risk. Because of this potential impact, SIFIs are “too big to fail”; thus they benefit from implicit government guarantees as governments cannot afford to let them collapse. This gives rise to moral hazard and tends to distort competition. In particular, if key financial services are affected by the failure of the SIFI, there could also be severe repercussions on entire economies.

Since the 2008 global financial crisis, recovery and resolution planning has been high on the international agenda. The goal is to ensure that SIFIs can be stabilised, restructured or wound-up in an orderly manner at the earliest point of time, and without the costs of failure falling on taxpayers. Recovery and resolution plans aim to identify risks to the stability of the financial system due to SIFIs and to find viable ways to deal with the impact of a crisis. Where the SIFI resides in a “home jurisdiction” outside Malaysia with a subsidiary in Malaysia, this may also mean disruptions to national interests from the home jurisdiction’s plans. In these circumstances, our early involvement in discussions with cross-border authorities is important.

These initiatives involve complex issues and will entail considerable work on the part of the authorities as well as the institutions involved. As a resolution authority, we need to address these critical risks and resolution issues, in order to fulfil an explicit statutory object – that is, to promote and contribute to the stability of our financial system. We cannot choose to ignore this obligation. Thus, resolution planning continues to be an important key initiative in our Corporate Plan.

FORWARD LOOKING WITH PEOPLE

Our Employee Voice Survey this year showed a good result, with a sustainable engagement index of 88%. But we do not plan to take this condition for granted. We remain vigilant to risks in relation to human capital, as they are our key intangible assets.

¹ The Differential Levy Systems for conventional insurer members was implemented in April 2013

² We have in 2015 completed the Target Fund framework for the General Insurance Protection Fund, and we are now developing the frameworks to determine the targets for the Life Insurance Protection Fund and the Takaful Protection Funds

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Jean Pierre Sabourin

A significant risk for all organisations is succession. In this, I am pleased to report that leadership and succession development has long been part of our plans. We have implemented our contingency plans to develop and ensure sufficient “ready now” candidates for leadership; and we have also carried out an organisational restructuring in 2014. In 2015, we concentrated our efforts on continuous learning, to support a learning environment, and to address our need to be adaptable to change. There was also increased emphasis on leadership whereby the evaluation of Senior Management performance as leaders carried an increased weightage. This was all with a view to ensure PIDM has the appropriate bench strength to lead the organisation seamlessly and effectively into its next phase.

A strategic priority, as mentioned in the Chairman’s message, relates to our human capital. Ensuring that intangible assets such as human capital and information is properly aligned with PIDM’s long-term strategy will help determine, in the words of Kaplan and Norton, our “strategic readiness”. We carried out a self-assessment of the alignment of our human capital model, philosophy and key approaches with our long-term corporate strategy and validated the same. Yet, in anticipation of future needs, including changing demographics and our operating environment, we identified a need for a shift in emphasis or a change in how we would implement our key human capital goals. The strategic human capital goals that we have identified to take us forward in a changing operating environment include identifying and supporting more effective ways of learning and capturing organisational knowledge; effective engagement of employees for long-term sustainability; and shared accountability for human capital between leaders and the human capital function.

In 2016, we will continue encouraging new ways of thinking and doing things, focussing our efforts on the purpose and not just the process, as new ways of thinking and doing things spur progress. By making changes – for example, by assigning different people to lead new projects regardless of seniority – we accelerate learning, challenge them and develop their ability to adapt and to work effectively as a team.

CONCLUSION

To my team and valued colleagues, I thank you for your trust in my leadership, the teamwork you have shown over the past 10 years and for accepting the many challenges I have thrown your way with equanimity. I am gratified to work with you. I also thank the Board, our strategic partners and member institutions for their continued support and cooperation, which is essential to our common goal of financial stability.

Before I close, I reproduce a passage to help enlighten what forecasting is about in the context of PIDM. “... forecasting looks at how hidden currents in the present signal possible changes in direction for companies, societies, or the world at large. Thus, the primary goal of

forecasting is to identify the full range of possibilities, not a limited set of illusory certainties. Whether a specific forecast actually turns out to be accurate is only part of the picture – even a broken clock is right twice a day. Above all, the forecaster’s task is to map uncertainty, for in a world where *our actions in the present influence the future, uncertainty is opportunity*”.³ (emphasis added).

The points I wish to note are this:

- (a) Our policy decisions today do influence the future, and can do so in a fundamental manner. As an essay in the Economist points out: “...institutions that enhance people’s economic lives, such as central banks, deposit insurance and stock exchanges, are not the products of careful design in calm times, but are cobbled together at the bottom of financial cliffs. Often what starts out as a post-crisis sticking plaster becomes a permanent feature of the system. If history is any guide, decisions taken now will reverberate for decades”.⁴ The very same essay goes on to caution against the continued entrenchment of state support for finance during a crisis.
- (b) Secondly, uncertainty also presents us with an opportunity. Increasingly, policy makers are taking into account uncertainty – acknowledging that their knowledge in this intricate world may only be partial. The significance of an outlook like this is that it allows assumptions to be questioned, theories to be challenged and diverse perspectives to be properly considered.

In conclusion, in this sense, forecasting can help lead to the better identification and determination of developments that do really matter. We then have the opportunity to achieve more robust policy debate and regulatory solutions that can better influence the future.

After an eventful decade with this organisation, it is clear to me that as our environment changes and challenges abound, our collective journey at PIDM must necessarily involve continuous learning in our quest for constant improvement. And as to what ultimate purpose – I will say, in the words of no other than Albert Einstein himself – that our mission is to “... strive not to be a success but rather to be of value”.

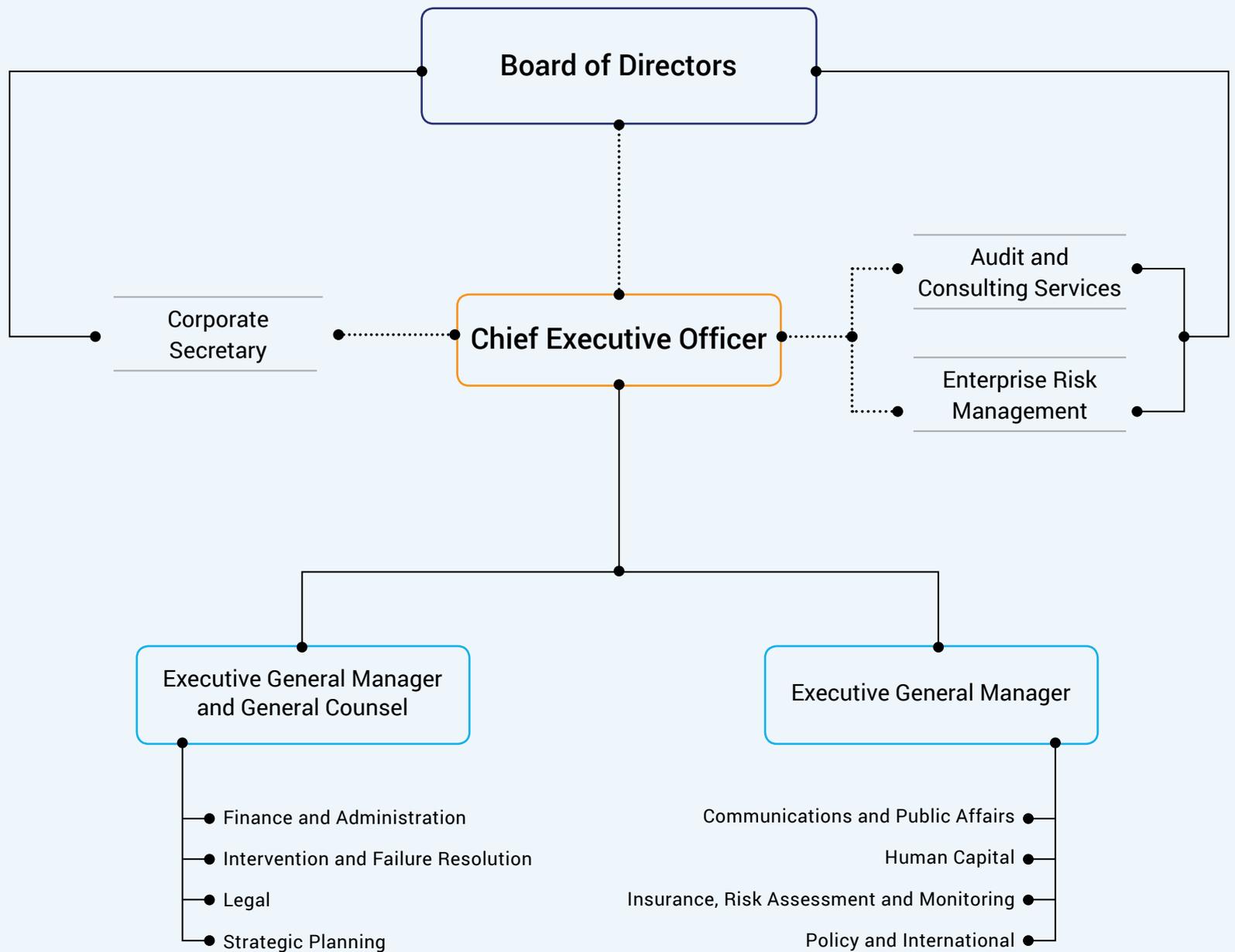


JEAN PIERRE SABOURIN

³ Paul Saffo, July - August 2007 issue of the Harvard Business Review

⁴ The Economist, an Essay – Financial Crisis – “The Slumps that Shaped Modern Finance”, 12 September 2013

ORGANISATION CHART



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 of Directors (Board). The Chief Executive Officer (CEO) 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 also responsible for supporting the Board in fulfilling its governance responsibilities. The EMC is intended to facilitate effective communications, teamwork, collaboration and adaptability to change throughout all areas of PIDM, as well as to serve as a conduit 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 10 years. Mr. Sabourin began his career at the Canada Deposit Insurance Corporation (CDIC) in 1976 and moved progressively to more senior positions until his appointment by the Government of Canada as President and CEO 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, Mr. Sabourin 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.

Mr. Sabourin'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 beginning from 1999 until 2001. Mr. Sabourin 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.

Mr. Sabourin 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
Appointed: June 2014

Lim Yam Poh has oversight over the Legal Division, Intervention and Failure Resolution Division, Finance and Administration Division and Strategic Planning Division. She joined the Corporation 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 till 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
Appointed: June 2014

Rafiz Azuan Abdullah has oversight over the Insurance, Risk Assessment and Monitoring Division, Policy and International Division, Communications and Public Affairs Division and Human Capital Division. He joined PIDM in 2007 and was previously in the Insurance, Risk Assessment and Monitoring Division whereby 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 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.

¹ Corporate officers appointed by the Board of Directors

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



AFFEIZ ABDUL RAZAK¹

Chief Risk Officer and General Manager, Enterprise Risk Management

Appointed: June 2014

Afeiz 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 PIDM'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 the United States, focussing on ERM, internal audit, grant audit, due diligence and corporate governance. Prior to joining PIDM in 2011, he was the General Manager, Internal Audit at Kumpulan Perangsang Selangor Berhad and the 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.

Afeiz is actively involved in the Governance, Risk and Compliance as well as the BCM fraternity and is a regular speaker at seminars and conferences, locally and abroad. He was elected and served as a member of the Board of Governors and as the Honorary Secretary of the Institute of Internal Auditors Malaysia. He was also a member of the Executive Committee of the Malaysian Association of Risk and Insurance Management.

He is a Certified Financial Services Auditor (CFSA) (USA), Certified Business Continuity Institute (CBCI) (UK) Professional, Chartered Member of the Institute of Internal Auditors Malaysia (CMIIA), Member of the Business Continuity Institute (BCI) (UK), Member of the Asian Institute of Chartered Bankers (AICB), as well as Associate Member of the Association of Certified Fraud Examiners (ACFE) (USA), and the Institute of Risk Management (IRM) (UK). He is also a member of KPMG Malaysia Alumni and is accredited by the Institute of Internal Auditors Inc. USA to perform Internal Quality Assessment or Validation for Internal Audit Functions.



LIM LEE NA¹

Corporate Secretary

Appointed: 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 by providing 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 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, Australia. She was called to the Malaysian Bar in 1991.

¹ Corporate officers appointed by the Board of Directors

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



NOORIDA BAHARUDDIN¹

Chief Financial Officer and General Manager, Finance and Administration

Appointed: 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 the Corporation in 2006 and prior to this appointment, she served as the Chief Internal Auditor.

She brings with her years of experience in external and internal auditing, risk management and policy development. These experiences were gained through her career with PricewaterhouseCoopers, Malaysian Airline 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 is also a regular speaker 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 Law 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, Chartered Member of the Institute of Internal Auditors Malaysia and has obtained a Certification in Risk Management Assurance from the Institute of Internal Auditors.



WAN AHMAD IKRAM WAN AHMAD LOTFI¹

Chief Internal Auditor and General Manager, Audit and Consulting Services

Appointed: 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. Prior to this appointment, he was the Chief Financial Officer (CFO) since he first joined the Corporation in 2006.

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 as its CFO.

He has gained extensive experience throughout his career 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.

¹ Corporate officers appointed by the Board of Directors

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



CHUA EE LEEN

General Manager, Strategic Planning

Appointed: 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 is involved in facilitating risk management matters at the operational level across PIDM and heads the committee that recommends, provides oversight and monitors the development and implementation of Information Technology strategies, plans and budgets. She headed the division as a Senior Manager prior to her current position.

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

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



HELENA PREMA JOHN

General Manager, Human Capital

Appointed: November 2015

Helena Prema John is responsible for the development of human capital strategies and plans to maximise both organisational and individual effectiveness, as well as 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 has more than 20 years of experience in human capital development in various multinational manufacturing companies, local conglomerates and the services industry. 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).

Helena holds a Bachelor in Economics (Honours) from the University of Malaya and Diploma in Management Programme (DIMP) from the Malaysian Institute of Management (MIM).

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



LEE YEE MING

General Manager, Policy and International

Appointed: January 2011

Lee Yee Ming is responsible for PIDM's key policy areas and international relations. Her main responsibilities are to proactively assess, develop and propose policies that concern the mandate and operations of PIDM and which help advance the views and interests of PIDM as well as leads the positioning of PIDM internationally. Yee Ming joined the Corporation in 2007 and prior to this appointment, she served as the Chief Risk Officer.

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

Yee Ming has over 10 years of consulting and banking experience in Enterprise Risk Management (ERM), Basel II, corporate governance and internal audit. She began her career in the United States with a financial institution in Illinois and subsequently joined Ernst & Young in the Kuala Lumpur, Malaysia and Taipei, Taiwan offices. She has advised organisations in Malaysia and internationally on the implementation of their respective ERM frameworks. She has also assisted banks in Taiwan in their Basel II system implementation and Basel II-related implementation projects. She holds an honours degree in Business Administration (summa cum laude) and a Master of Business Administration in Finance from Western Michigan University, USA. She is also a Certified Internal Auditor.



LIM KONG KUAN

General Manager, Intervention and Failure Resolution

Appointed: 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 represented the Corporation to speak on IFR-related subjects at various events, both locally and internationally. He is currently leading the Corporation's initiatives on developing a comprehensive recovery and resolution planning framework for Malaysia. 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 was a BNM scholar and obtained a Bachelor of Economics degree (Accounting) at the University of Sydney, Australia. He was also awarded an additional scholarship from BNM to complete his Masters of Science in Mathematical Trading and Finance from City University Business School, City University London, United Kingdom where he graduated with distinction.

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



LIM TAI CHING

General Manager, Legal

Appointed: 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 and continue to be effective to enable PIDM to effectively and efficiently 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 as well as environmental conservation and sustainability for the Corporation. 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 of Qualifying Board and a Master of Laws in International Legal Studies from Kyushu University, Japan. She was called to the Malaysian Bar in 2002.



MOHD IZAZEE ISMAIL

General Manager, Insurance, Risk Assessment and Monitoring

Appointed: 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 has 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 the conventional and Islamic securities instruments. He then joined Rating Agency Malaysia in 2001 as the Islamic finance specialist. He was also involved in structured finance, credit ratings of financial institutions as well as 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.

EXECUTIVE MANAGEMENT COMMITTEE

Members and Profiles



SYED MOHAMMED IDID DATO' SYED AHMED IDID

General Manager, Communications and Public Affairs

Appointed: 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 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;
- receive updates on the Board's major deliberations and decisions after each Board of Directors' meeting;
- facilitate effective communications, teamwork and collaboration throughout all divisions of PIDM; and
- serve as a conduit for information to all employees.

Chair

Executive General Manager and General Counsel

Members

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

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
General Managers (all divisions)
Deputy General Manager, Enterprise Risk Management Division
Any other officer or employee of PIDM, to be determined by the Chair

Secretary

Manager, Enterprise Risk Management Division

Observer

Chief Internal Auditor

STRATEGIC PLANNING AND ERM WORKING COMMITTEE

Established to:

- identify, assess, monitor, update, advise and support the ERM Committee in facilitating and coordinating ERM and related strategic planning activities across PIDM.

Chair

General Manager, Strategic Planning Division

Members

Chief Risk Officer
Deputy General Manager, Enterprise Risk Management Division
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, to be determined by the Chair

Secretary

Manager, Enterprise Risk Management Division

Observers

Representatives from the Audit and Consulting Services Division

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

OTHER MANAGEMENT COMMITTEES

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, 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 and budgets;
- review the status and progress of the IT Strategic Plan, IT projects, major procurements, budget utilisation, and deliberate on Corporate IT and information policies; and
- monitor, manage and address IT-related risks and opportunities.

Chair

General Manager, Strategic Planning 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
 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:

- assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to PIDM's compliance with laws, codes, 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

Members

Chief Financial Officer
 Chief Internal Auditor
 Chief Risk Officer
 General Manager, Legal Division
 General Manager, Strategic Planning Division
 Deputy General Manager, Human Capital 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 Department
 Manager, Enterprise Risk Management Division

Secretary

Legal Counsel

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.

OTHER MANAGEMENT COMMITTEES

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

Senior Manager, Facilities and Materials Management Department

Representatives of the following divisions in PIDM:

- Human Capital Division
- Insurance, Risk Assessment and Monitoring Division
- Legal Division

Any other officer or employee of PIDM, to be determined by the Chair

Secretary

Manager, Insurance, Risk Assessment and Monitoring Division

Observer

Representative from the 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 protection activities.

Chair

General Manager, Legal Division

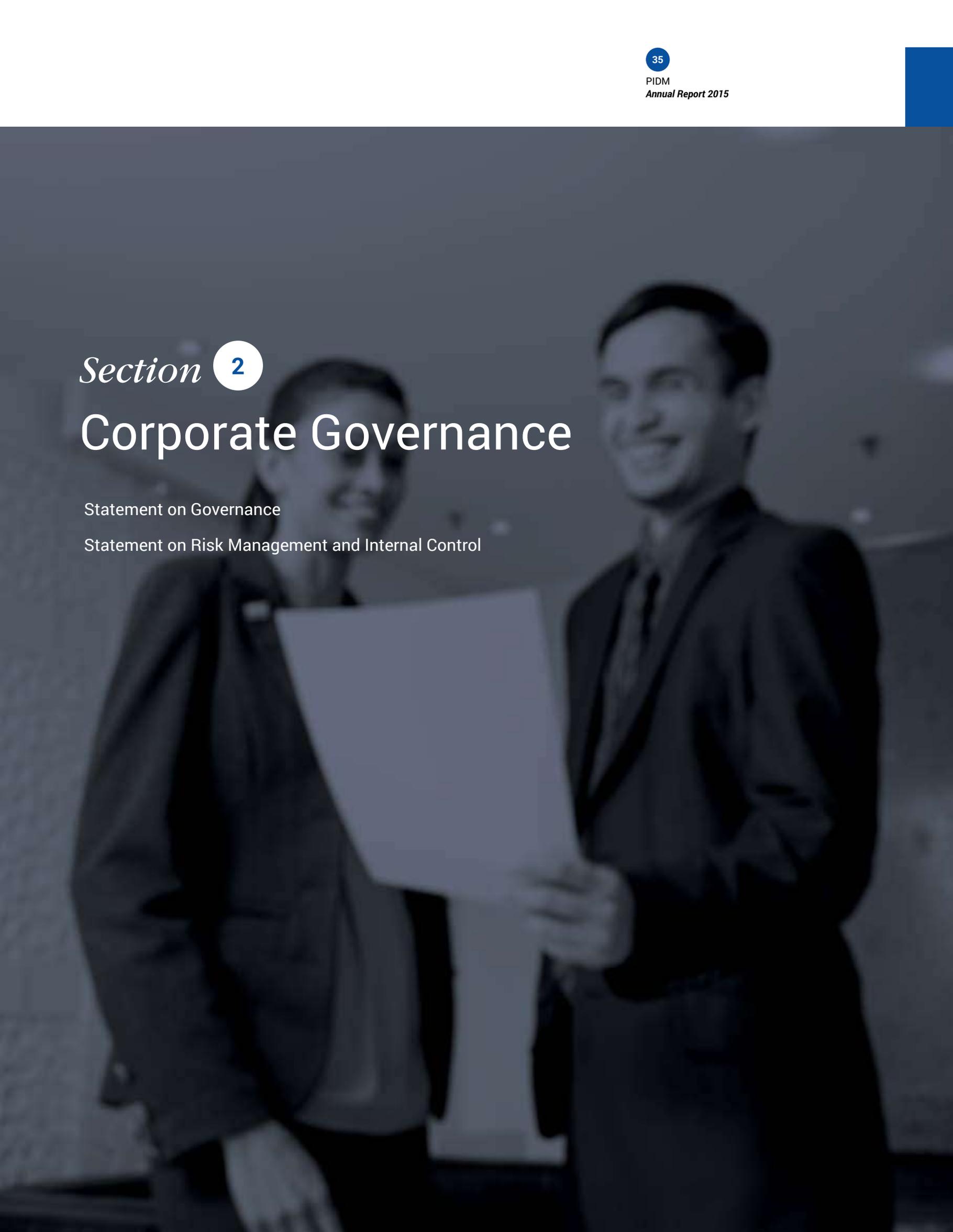
Members

Representatives of the following divisions in PIDM:

- CEO's Office
- Communications and Public Affairs Division
- Finance and Administration Division
- Human Capital Division
- Insurance, Risk Assessment and Monitoring Division
- Intervention and Failure Resolution Division
- Policy and International Division

Secretary

Manager, Strategic Planning Division



Section **2**

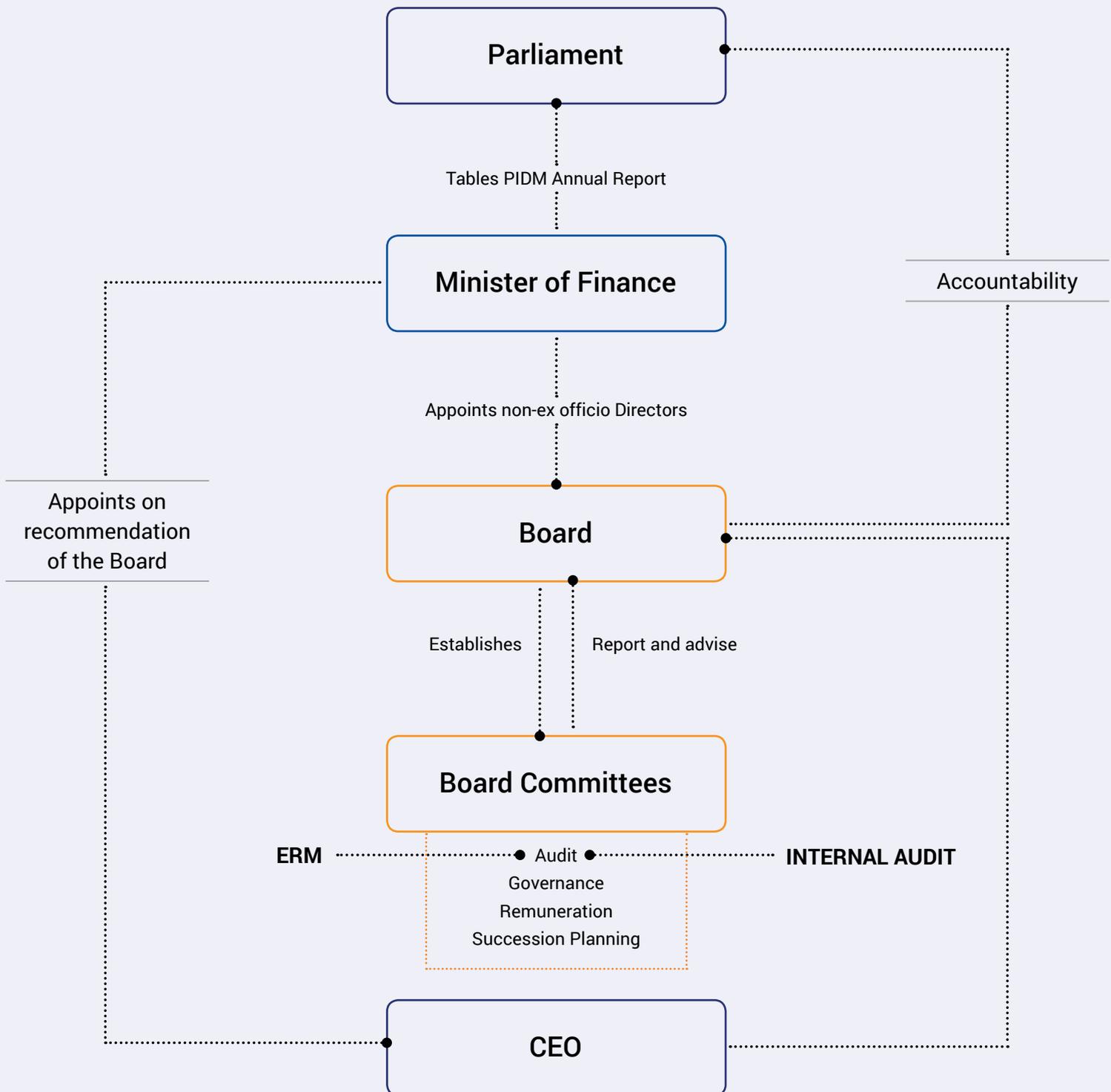
Corporate Governance

Statement on Governance

Statement on Risk Management and Internal Control

STATEMENT ON GOVERNANCE

OUR GOVERNANCE STRUCTURE



STATEMENT ON GOVERNANCE

BOARD GOVERNANCE POLICY

Recognising the importance of sound governance to the achievement of its mandate, the Corporation has put in place a Board Governance Policy, which sets out 15 standards to guide the Board's responsibilities, since 2006.

This is notwithstanding that the Corporation is not subject to any corporate governance codes.

The Board Governance Policy was developed based on the overarching governance principles of "Openness (Transparency), Integrity (including Objectivity) and Accountability".¹

The Board is pleased to report full compliance with the Board Governance Policy in 2015. A detailed compliance statement is found in the "Board Governance Policy – Compliance Statement" on page 47.

The Board adopts leading practices on governance and continually benchmarks its governance policies and procedures against international and local best practices to ensure that its approach to governance remains current and relevant.

Other key documents relating to the Corporation's governance structure are:

- (a) Board Committee Charters;
- (b) Position descriptions for the Chairperson, Chief Executive Officer (CEO) and Members of the Board of Directors;
- (c) Compliance Programme; and
- (d) Codes and policies relating to ethical behaviour set out in the "Ethical and Legal Compliance" on page 44.

Some of these documents are available on the Corporation's website, www.pidm.gov.my, under "Governance".

In addition, the Board-approved Authority Matrix sets out matters that are reserved for the Board and specific authorities that are delegated to Management.

SHARIAH GOVERNANCE

PIDM also complies with Shariah requirements in relation to the Islamic Deposit Insurance System (DIS) and the Takaful Benefits Protection System (TBPS).

The Corporation seeks advice and endorsements from the Shariah Advisory Council of Bank Negara Malaysia (BNM) on Shariah issues relating to the operations of these two protection systems, as described further in the "Islamic Deposit Insurance System and Takaful Benefits Protection System" on page 46.

BOARD OF DIRECTORS

COMPOSITION, APPOINTMENT AND REMUNERATION

PIDM's Board comprises nine Directors, from the private and public sectors. Two Directors are ex officio Members of the Board, namely, the Governor of BNM and the Secretary General of Treasury, Ministry of Finance.

The seven non-ex officio Directors are appointed by the Minister of Finance based on their expertise and experience. Two of the non-ex officio Directors are from the public sector or have public sector experience and the remaining five are from the private sector. Under the PIDM Act, the Chairman must have relevant private sector experience.

Board independence² is maintained as its Members are non-executive and the CEO, who is responsible for the day-to-day administration of the business and affairs of the Corporation, is not a Member of the Board.

In 2015, there were no changes in the Board Members and the Directors collectively received a total of RM637,000 as remuneration for Board and Board Committees' work.

BOARD RESPONSIBILITIES

The Board's roles and responsibilities are set out in the PIDM Act, the Board Governance Policy and the position descriptions of its Members. Under the PIDM Act, the Board is responsible for the conduct of the Corporation's business and affairs and Directors are required to, at all times, act honestly and in the best interest of the Corporation, and to use reasonable diligence in the discharge of their duties.

The Board's role is focussed on its oversight responsibilities, acting independently and assessing Management's performance against the approved Key Performance Indicators (KPIs).

¹ Core principles recommended by the Cadbury Committee in the Cadbury Report (1992) as adapted for the public sector, "Governance in Public Sector: A Governing Body's Perspective" by the International Federation of Accountants (August 2001), and as explained further in the "International Framework on Good Governance in the Public Sector" jointly developed by the International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy (July 2014)

² Standard 1, Board Governance Policy

STATEMENT ON GOVERNANCE

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

The number of Board and Board Committee meetings, namely, the Audit Committee (AC), Remuneration Committee (RC), Governance Committee (GC) and Succession Planning Committee (SPC) held in 2015, and the attendance of the Members at such meetings are stated below:

Directors	Board	AC	RC	GC	SPC
Tan Sri Datuk Dr. Abdul Samad Haji Alias (<i>Chairman</i>)	4/4			3/3	2/2
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz (<i>ex officio</i>)	4/4				
Tan Sri Dr. Mohd Irwan Serigar Abdullah (<i>ex officio</i>)	1/4				
Datuk Seri Dr. Rahamat Bivi Yusoff	1/4			1/3	
Dato' Halipah Esa	4/4		2/2		
Mr. George Anthony David Dass	4/4	5/5		3/3	
Mr. Lim Tian Huat	4/4	5/5			1/2
Mr. Alex Foong Soo Hah	4/4	4/5	2/2		2/2
Encik Mohamad Abdul Halim Ahmad	2/4	5/5	2/2		

KEY HIGHLIGHTS OF THE BOARD'S WORK IN 2015

Key Areas	Board Governance Policy	Details
Board Effectiveness		
Board evaluation	Standard 2	In line with best practices, the Board continues to conduct an annual evaluation of its effectiveness. Led by the Chairman, the Board completed the 2015 internal Board evaluation. The overall effectiveness of the Board, its Committees, and Management's support to the Board in providing information, was rated "Highly Satisfactory".
Board education	Standard 2	The annual Board Education Programme was approved by the Board. Board Members participated in education sessions related to new developments affecting the Corporation's business and affairs as well as current issues that the Board should be aware of. Details of the Board education sessions are stated in the "Board Governance Policy – Compliance Statement" on page 47.
Board objective	Standard 2	The Board adopts the practice of setting annual objectives to enable it to focus on key areas for improvement for each year and considers the action plans to support the achievement of these objectives. The Board objectives set in 2015 was to follow up on and implement the action plans based on the recommendations from the 2013 external Board evaluation. These action plans have since been implemented.
Board composition and succession	Standard 4	The Board adopted the concept of an "evergreen" Board in 2015. Under this approach, one non-ex officio Director will retire from the Board each year after having served two terms of three years each. This will ensure rejuvenation of the Board and that fresh perspectives are brought to the Board. The Board profiles (collective and individual) were reviewed and amendments were approved by the Board. A skills gap analysis was carried out. The results showed that there was an appropriate mix of skills and experience as well as diversity on the Board, to meet the needs of the Corporation.

STATEMENT ON GOVERNANCE

Key Areas	Board Governance Policy	Details
Governance Responsibilities		
Governance approach	Standards 2 and 15	<p>The Board, through the GC, continues to ensure that its governance arrangements and approach are up to date and relevant.</p> <p>In its review in 2015, the Board approved certain amendments to enhance the explanations given in respect of the principles of “Openness, Integrity and Accountability” as stated in the Board Governance Policy.³ The Board found that the overall Board Governance Policy was current and relevant to the needs and circumstances of PIDM.</p> <p>Additionally, the Board, through the GC, also reviewed its governance arrangements against the corporate governance practices of other regulatory bodies and found the Corporation's practices to be in line with their practices.</p>
Standards of Behaviour and Ethics		
Development of new policy and review of codes of conduct and ethics	Standard 9	<p>The Codes of Business Conduct and Ethics for Directors and employees were reviewed.</p> <p>The Board approved the Policy Against External Interference.</p>
Strategic Management Process		
Strategic items	Standard 13	<p>The Board focussed on the following key strategic items:</p> <ul style="list-style-type: none"> (a) development of the Target Fund framework for the Life Insurance Protection Fund; (b) development of alternative liquidity funding mechanisms and arrangements; (c) continuation of the implementation of the CEO succession plan; and (d) development of the Chairman succession plan. <p>Item (b) has been completed and items (a), (c) and (d) are progressing as scheduled.</p>
Strategic direction	Standard 13	<p>The Board considered and approved the strategic direction of the Corporation and its objectives, goals and key activities for the planning period 2016 - 2018. The Board thereafter approved the Corporate Plan for 2016 - 2018.</p> <p>In determining the Corporation's strategic direction, the Board considered the opportunities for PIDM i.e., its anticipated role as a national resolution authority under the Financial Sector Blueprint 2011 - 2020, supported by its mandate to promote and contribute to the stability of the financial system. The Board also examined the possible risks that PIDM may face and the steps it should take to mitigate such risks.</p> <p>Having considered such opportunities and risks, the Board approved PIDM's long-term strategic direction to implement resolution plans as part of an effective resolution regime. This is in line with the Corporation's aspiration to be recognised as a best practice financial consumer protection and resolution authority.</p>

³ The enhancement was made pursuant to the “International Framework on Good Governance in the Public Sector”, jointly developed by the International Federation of Accountants and the Chartered Institute of Public Finance and Accountancy (July 2014)

STATEMENT ON GOVERNANCE

BOARD COMMITTEES

The Board has established four Board Committees, namely, the AC, RC, GC and SPC.

All the Committees adopt the practice of tracking their progress against their respective key responsibilities in their Charters and consider action plans going forward. At the end of the year, each Committee reviews their work over the entire year.

In addition, Board Members who sit on a Committee are required to assess the effectiveness of the Committee. Their responses are then discussed at the Board meeting.

In 2015, all the Committees fulfilled their responsibilities against their Charters.

The following pages set out the summary of activities of each Committee in 2015.

AUDIT COMMITTEE

Members ⁴	<ul style="list-style-type: none"> • Mr. Lim Tian Huat (<i>Chair</i>) • Encik Mohamad Abdul Halim Ahmad (<i>Vice-Chair</i>) • Mr. George Anthony David Dass • Mr. Alex Foong Soo Hah
Principal responsibilities	<p>To assist the Board with oversight of:</p> <ul style="list-style-type: none"> • the integrity of PIDM's financial statements, financial reporting processes and the systems of internal control; • the performance of PIDM's internal audit function; • the identification and management of PIDM's significant risks; and • PIDM's compliance with ethics-related policies, and legal and regulatory requirements.
Charter	The AC Charter is set out in the Appendix on page 215.

Key Activities

Internal audit

The AC considered six internal audit reports issued by the Audit and Consulting Services (ACS) Division.

These included:

- (a) the annual review of PIDM's internal control;
- (b) the limited review of the stakeholder engagement (international) function within the Policy and International Division;
- (c) the scoping review and audit of the process for the management of PIDM's agreements or contracts within the Legal Division;
- (d) the limited review of the process for the development and management of operational policies and procedures, as well as the process for the monitoring of compliance with Treasury requirements, within the Organisation and Methods Department;
- (e) the limited review of the performance management process, employee engagement and disciplinary management; and
- (f) the interim and final audit on PIDM's financial statements and disclosures for the financial year ended 31 December 2015.

⁴ Effective from 2016, the AC Members are Encik Mohamad Abdul Halim Ahmad (*Chair*), Mr. George Anthony David Dass and Mr. Alex Foong Soo Hah

STATEMENT ON GOVERNANCE

The ACS Division was of the opinion that the internal controls embedded within all the processes reviewed or audited were adequate and met the internal control objectives set for these processes. Notwithstanding this, any recommendations arising from these assurance activities were reported to the AC, and Management's response and action plans were considered. In addition, from the annual review of PIDM's internal controls against its framework, the ACS Division was of the view that overall, PIDM continues to have in place a sound system of internal control for its business and operations through, amongst others, the adoption of good practices in corporate governance and shared corporate values.

As part of its Audit Plan for 2015 - 2017, the ACS Division also conducted an audit on the process for monitoring of member institutions' compliance with PIDM's regulations and guidelines, a mid-way project completion audit of the Disaster Recovery Centre, as well as an event audit on the 14th International Association of Deposit Insurers (IADI) Annual General Meeting and Conference hosted by PIDM in Kuala Lumpur. These will be reported to the AC in 2016.

The AC reviewed the ACS Division's Plan for 2016 - 2018 and considered the budget and resource needs of the Division. The AC also monitored the internal audit function's performance against its assurance plan⁵ on a semi-annual basis and ensured the independence of the internal audit function. The AC also reviewed semi-annually, the progress and status of action plans by Management in addressing internal audit findings from previous internal audits.

Direct reports

The Chief Internal Auditor (CIA) and the Chief Risk Officer (CRO) report directly to the Board through the AC. In 2015, the AC continued to review reports on the performance of their respective functions. The AC assessed the CIA's and the CRO's performances for 2015 in consultation with the CEO.

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. As stated in the PIDM Act, PIDM's Annual Report (including its financial statements and the external auditor's report) 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, the review of the integrity of the financial reporting process and internal control reports as well as management representations;
- (b) obtained a written certification from the CIA addressing PIDM's system of internal controls; and
- (c) recommended the adoption of the principles proposed by Management, which included making the appropriate disclosures on contingent liabilities when there is no loss event.

Strategic and financial management oversight

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 2015 - 2017, and considered and recommended the Corporate Plan 2016 - 2018, including the operating budget, financial projections and capital budget, to the Board for approval.

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 51-53, relating to risks and internal control. In carrying out its duties, the AC has unrestricted and direct access to the CRO, who regularly reports to the AC and the Board on the corporate risks and activities of the Enterprise Risk Management (ERM) Division.

Ethical and legal compliance

The AC reviewed the report on compliance with the applicable laws and regulations as well as key codes and policies. The AC also noted the report on PIDM's compliance programme activities in 2015.

⁵ Previously known as the audit plan

STATEMENT ON GOVERNANCE

Matters of concern

The AC has unfettered access to the external auditor and Management, as well as to external independent counsel pursuant to the Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors. In 2015, the AC held three *in camera* sessions with different members of Management, the CRO and the CIA, 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.

GOVERNANCE COMMITTEE

Members ⁶	<ul style="list-style-type: none"> • Tan Sri Datuk Dr. Abdul Samad Haji Alias (<i>Chair</i>) • Datuk Seri Dr. Rahamat Bivi Yusoff • Mr. George Anthony David Dass
Principal responsibilities	<ul style="list-style-type: none"> • 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.
Charter	The GC Charter is set out in the Appendix on page 210.

Key Activities

Board education

The GC developed the annual Board Education Programme for Directors' continuing training and education about the operations of PIDM and its governance responsibilities.

Governance

The GC continued to monitor developments in corporate governance and best practices in Malaysia and other jurisdictions. The GC reviewed PIDM's approach to governance as well as the Board Governance Policy and the Codes of Business Conduct and Ethics for Directors and employees.

Board effectiveness

The GC monitored the implementation of the action plans based on the recommendations from the 2013 external evaluation of the Board.

Board objectives and schedule planner

The GC considered the Board objectives and the proposed schedule for Board and Board Committee meetings for 2016.

Board composition and succession

The GC recommended the adoption of the "evergreen" Board concept. The GC also reviewed the Board profiles, undertook a skills gap analysis and reviewed the composition of Board Committees for 2016.

⁶ Effective from 2016, the GC Members are Tan Sri Datuk Dr. Abdul Samad Haji Alias (*Chair*), Mr. George Anthony David Dass and Dato' Halipah Esa

STATEMENT ON GOVERNANCE

REMUNERATION COMMITTEE

Members ⁷	<ul style="list-style-type: none"> • Mr. Alex Foong Soo Hah (<i>Chair</i>) • Dato' Halipah Esa • Encik Mohamad Abdul Halim Ahmad
Principal responsibilities	To review and make recommendations to the Board on a range of human resource issues, such as compensation, compliance with human resource-related legal requirements, personnel policies, training and complaints.
Charter	The RC Charter is set out in the Appendix on page 213.

Key Activities

Human Capital strategy

The RC continued to monitor the implementation of the Human Capital (HC) strategy for PIDM.

Compliance

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

Compensation

The RC reviewed and recommended to the Board for approval, the employees' bonus awards for 2015 and salary increments for 2016.

Employee satisfaction

The RC reviewed the outcome of the 2015 Employee Voice Survey and noted the action plans to address areas that could be improved.

Other matters

The RC reviewed reports on the activities of the HC Division.

SUCCESSION PLANNING COMMITTEE

Members ⁸	<ul style="list-style-type: none"> • Tan Sri Datuk Dr. Abdul Samad Haji Alias (<i>Chair</i>) • Mr. Lim Tian Huat • Mr. Alex Foong Soo Hah
Principal responsibilities	To advise and make recommendations to the Board on CEO succession planning, in particular, to review the long-term plan for CEO succession and the short-term plan in case of an unplanned vacancy.
Charter	The SPC Charter is set out in the Appendix on page 220.

Key Activities

CEO succession planning

The SPC reviewed the results of the assessment of the internal candidates for the CEO succession plan and their respective development plans.

⁷ Effective from 2016, the RC Members are Mr. Lim Tian Huat (*Chair*), Encik Mohamad Abdul Halim Ahmad and Datuk Seri Dr. Rahamat Bivi Yusoff

⁸ There are no changes to the SPC Members in 2016

STATEMENT ON GOVERNANCE

ETHICAL AND LEGAL COMPLIANCE

The Board has established standards of conduct 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
- Policy and Procedures on Public Disclosure of Information
- Policy on Workplace Harassment
- Policy Against External Interference

The Corporation has also put in place controls and processes, including a Board-approved compliance programme which established the Corporate Compliance Committee in 2009, to ensure compliance with such standards as well as laws and contractual obligations applicable to the Corporation. These controls and processes comprise the following:

▶ REVIEW

Annual review of applicable laws.

▶ MONITOR

Ongoing monitoring of the development or announcement of any new laws.

▶ CERTIFY

Annual certification of compliance with:

- applicable laws, internal codes and policies, and contractual obligations, from all Heads of Division;
- laws relating to the Corporation as an employer, from the HC Division; and
- the Code of Business Conduct and Ethics, and the Conflict of Interest Code, by Directors and employees.

▶ TRAIN

Ongoing training for employees on the Code of Business Conduct and Ethics and the Conflict of Interest Code, including a mandatory annual compliance test.

▶ REPORT

Annual report to:

- the RC, on the Corporation's compliance with legal requirements and major policies pertaining to human resource matters, as well as policies on employee business conduct and ethical behaviour; and
- the AC, on the Corporation's compliance with ethics-related policies and legal and regulatory requirements.

▶ ASSURE

The Corporate Secretary provides an assurance on compliance through a formal letter of representation each year.

No incidents of non-compliance were noted in 2015.

STATEMENT ON GOVERNANCE

ACCESSIBILITY AND RELIABILITY OF INFORMATION

Directors have access to the Corporation's records and information as well as to Management. They receive regular detailed reports on the financial and operational aspects of the Corporation's business and affairs and may request further explanation of those reports at any time. They also receive regular updates on information affecting PIDM's operating environment, and key developments on the DIS and the Takaful and Insurance Benefits Protection System (TIPS).

To ensure that the Board can rely on the information provided by Management, the Board receives comprehensive representation letters from Management as well as an annual validation from the CIA, addressing the accuracy and reliability of such information.

Board papers are comprehensive, detailing the purpose of the report and issues to be considered, complete with quality assessment, analyses and sound recommendations. The Board can question Management and conduct detailed enquiries about any matter relating to the Corporation.

In addition, the Board may ask the CRO, who reports directly to the Board through the AC, to confirm whether he has different views and opinions on significant matters brought forward to the Board, as well as question the CRO on the key risks relative to the issue and his views on the reliability of the information provided. The CRO is expected to attend all scheduled Board meetings.

Based on the internal Board evaluation in 2015, the Board was satisfied with its ability to obtain reliable, relevant and timely information from Management.

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.

In terms of awareness, our communications initiatives include the dissemination of PIDM-related materials to members of the public including our Corporate Plans, Annual Reports and information brochures in Bahasa Malaysia, English, Chinese and Tamil. Our information brochures are also available in the Kadazandusun and Iban languages. More information about our communications initiatives is found in Section 7.

In respect of transparency and accountability, information about PIDM's work and its performance has been disclosed in its Annual Reports since its inception. PIDM's Annual Reports have been recognised and 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 published on our website. Our website is available in Bahasa Malaysia, English, Chinese and Tamil.

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 on page 5. We account and report on these DIS and TIPS Funds separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2015 and the accompanying Statement by Directors are found on page 111.

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

STATEMENT ON GOVERNANCE

RISK MANAGEMENT AND INTERNAL CONTROL

The Statement on Risk Management and Internal Control is found on page 55 of this Annual Report.

AUDIT

Pursuant to the PIDM Act, the accounts of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. From an operational standpoint, we maintain a collaborative working relationship with our external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC reports and documentation prior to the AC meetings. They attended two of the five AC meetings held in 2015. NAD's annual fees and the report of the Auditor General can be found on pages 153 and 113 respectively of this Annual Report.

ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

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

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

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

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. The organisation chart is found on page 23.

Management provides comprehensive representation letters to the Board and the NAD as part of the year-end audit. The CEO and the Chief Financial Officer (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 112 of this Annual Report.

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 specifically set out in the Board Governance Policy.

STATEMENT ON GOVERNANCE

BOARD GOVERNANCE POLICY – COMPLIANCE STATEMENT

There was full compliance with the Board Governance Policy in 2015. The details are set out below.

Standard 1: Independence of the Board

Board Members will exercise independent judgement.

The PIDM Act separates the roles of the Chairman and the CEO to ensure independence, and the CEO is not a Member of the Board.

All Directors are non-executive and must use their independent judgement to act in the best interest of the Corporation, as required under the PIDM Act.

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.

Governance responsibilities

The Board, through the GC, ensures that its governance arrangements and approach are up to date and relevant.

Process for evaluating its effectiveness

The Board reviews the Board Governance Policy and governance approach regularly to ensure their relevance.

Annually, the Board evaluates its effectiveness as well as that of the Board Committees and Management's support to the Board in providing information. In 2015, the Board conducted an internal evaluation as stated in the "Key Highlights of the Board's Work in 2015" on page 38.

Orientation

There is a Board-approved orientation programme for new Board Members. The Board-approved orientation programme is to bring new Directors quickly up to speed so that they are able to contribute to the work of the Board.

Ongoing training

At the beginning of each year, the Board will approve the Board Education Programme for the year.

The Board Education Programme for 2015 was successfully carried out and included the following topics:

- (a) Differential Levy Systems for Takaful Operators;
- (b) Early Warning System;
- (c) Malaysian Economic Conditions;
- (d) Resolution of General Insurance Companies – A Malaysian Perspective;
- (e) Framework for Evaluation Model;
- (f) Resolution of Troubled Financial Institutions in the United Kingdom; and
- (g) Liquidation Base-Case Model Workshop.

STATEMENT ON GOVERNANCE

In 2015, the Directors also attended:

- (a) the International Conference for Insurance Guarantee Schemes (IGS), the 5th Seminar on Islamic Deposit Insurance and the 14th IADI Annual General Meeting and Conference, hosted by the Corporation in Kuala Lumpur, Malaysia;
- (b) the 6th Tripartite Meeting, an annual meeting between PIDM, the Indonesia Deposit Insurance Corporation (IDIC) and the Deposit Protection Agency (DPA), Thailand for the purpose of exchanging information, knowledge and experiences in deposit insurance as well as to build relationships, held in Chiang Mai, Thailand and hosted by DPA, Thailand;
- (c) the International Association of Restructuring, Insolvency & Bankruptcy Professionals (INSOL International) Annual Regional Conference in San Francisco, California, USA;
- (d) the 7th BankTech Asia 2015 – Series 3: Payment & Transaction Management Conference in Kuala Lumpur, Malaysia; and
- (e) the following events organised by FIDE FORUM:
 - (i) the 1st Distinguished Board Leadership Series – “Financial Services in Turbulent Times” by Tan Sri Lin See-Yan;
 - (ii) the 2nd Distinguished Board Leadership Series – “Board’s Strategic Leadership: Innovation and Growth in Uncertain Times” by Mr. Ram Charan;
 - (iii) the 5th Distinguished Board Leadership Series – “Beyond Compliance to Growth – Board’s Strategy in Cultivating Real Growth within a Conducive Governance Environment” by Ms. Sheila C. Blair; and
 - (iv) the 6th Distinguished Board Leadership Series – “Digital Transformation and its Impact on Financial Services: Roles of Board in Maximising Potentials and Managing Risks” by Mr. Joydeep Sengupta.

From time to time, Management also provided the Board with written updates on developments relevant to the Corporation. The Board was also kept informed of changes or anticipated changes in legislation impacting the Corporation.

Standard 3: Roles and responsibilities of Committees

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

The responsibilities, authority and accountability requirements of the Board Committees are detailed in their respective charters, and reports on their work are made to the Board at each meeting. Each Committee regularly assesses whether it has fulfilled its key responsibilities.

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 profiles

The Board profiles (collective and individual) developed since 2006 are reviewed regularly, taking into consideration the current needs, the stage of development and aspirations of the Corporation. These profiles 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. In 2015, the Board profiles were reviewed and amendments were approved by the Board.

Skills gap analysis

The Board regularly carries out 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 skills, knowledge and experience needed on the Board that are not currently available. A skills gap analysis was carried out in 2015 as stated in the “Key Highlights of the Board’s Work in 2015” on page 38.

STATEMENT ON GOVERNANCE

Implementation of Board succession plan

In 2007, the Board established a Board succession plan comprising a Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors, to ensure that the terms for appointment of Directors are staggered such that not all Directors will retire at the same time while ensuring that new skills and fresh perspectives may be introduced on the Board. This plan was communicated to and noted by the Minister of Finance as part of the process for the appointment of Directors.

In line with this plan, the Board adopted the concept of an “evergreen” Board in 2015 as stated in the “Key Highlights of the Board’s Work in 2015” on page 38.

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

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 have been 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.

Position description for the CEO

The position description for the CEO has been developed since the establishment of PIDM and is reviewed periodically to keep it current and relevant.

Corporate objectives

The KPIs for the CEO are determined annually based on the approved corporate objectives. The CEO’s performance against the KPIs was tracked and assessed by the Board in 2015.

Accountability relationship for the CEO to the Board

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.

There is also an Authority Matrix that clearly sets out the levels of approvals and the delegation of authorities.

Standard 6: Appointment of senior corporate officers

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

Senior corporate officers are appointed by the Board and their terms of service and compensation are determined by the Board.

STATEMENT ON GOVERNANCE

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 CFO;
- (d) the CRO;
- (e) the CIA; and
- (f) the Corporate Secretary.

Standard 7: Compensation of officers

The Board will satisfy itself, on a regular basis, that the compensation of PIDM's officers and employees is consistent with the sustainable achievement of the Corporation's objects, the prudent management of its affairs and the risks to which it is exposed, and adherence to its policies and procedures.

The Board will review the compensation programme for all Directors, and make recommendations to the Minister of Finance in that regard.

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

The Board benchmarks the compensation of PIDM's officers and employees against the general market compensation levels to ensure PIDM remains competitive. This is to ensure retention of key skills and experience.

As stated in the PIDM Act, the Minister of Finance determines the Board's remuneration, on recommendation of the Board. Each Board Member is paid an annual fee, and allowances are also paid for attendance of meetings and work of the Corporation. The Minister of Finance had approved the Board Members' current remuneration in 2011. No review of the Board's remuneration was conducted in 2015.

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 SPC, continues to monitor the implementation of the CEO succession plan. An executive search firm was appointed in 2014 to provide advisory and consulting services to the SPC and the Board in respect of the CEO succession plan project. Work is progressing as scheduled.

The GC continues to assist the Board with the oversight of 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 Board has established standards of behaviour and ethics expected of Directors and employees. A list of the codes and policies on ethical behaviour and the processes and controls in place to ensure compliance with such codes and policies, as well as laws, regulations and contractual obligations applicable to the Corporation, can be found in the "Ethical and Legal Compliance" on page 44.

STATEMENT ON GOVERNANCE

A review of the Code of Business Conduct and Ethics for Directors and employees was conducted in 2015, and amendments were approved by the Board.

Under the Policy for Disclosure of Information Concerning Improper Conduct, there is a mechanism in place to allow employees and other stakeholders to make reports of any improper conduct to the authorised officer.

The Corporate Secretary has reported on compliance with applicable laws and standards to the Board, through the RC and the AC.

The annual mandatory compliance test in 2015 focussed on conduct and behaviour, conflict of interest and the classification of information of the Corporation. A compliance quiz was also held in 2015 focussing on risk management, business continuity management, procurement, contracting, outsourcing and tender procedures, information classification, email and internet usage, and public disclosure of information.

There is a Board-approved Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors, which allows the Board and Board Committees to appoint independent advisors to assist them to fulfil their responsibilities.

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

Standard 10: Significant risks to the Corporation

The Board will:

- (i) obtain an understanding of the principal risks of the Corporation's business;
- (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 ERM Division) should regularly attend all scheduled Board meetings.

Understanding of the principal risks

The Board-approved ERM Policy states and affirms PIDM's commitment to sound ERM practices and enhances our ability to deliver PIDM's mandate and objectives by ensuring that any risks that may impede the achievement of our mandate and objectives are identified and dealt with.

In line with its commitment to the ERM Policy, the Board:

- (a) monitors compliance with the ERM programme to ensure consistent application of risk management practices in identifying, assessing, evaluating, monitoring and reporting risks throughout PIDM;
- (b) monitors Management's undertaking of a complete cycle of the ERM process and receives regular risk reports that identify controls and risk 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.

The CRO reports to the Board through the AC to ensure independence from Management.

For details, see the Statement on Risk Management and Internal Control on page 55.

Implementation and review of risk management systems

In 2015, the Board reviewed and approved the 2015 ERM Corporate-wide Board Risk Report.

Reasonable assurance that risks affecting the Corporation are effectively managed

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

STATEMENT ON GOVERNANCE

The Board also receives and reviews regular reports from the ACS Division on compliance with internal controls and certain key areas of audit. The CIA also validates ERM reports, through audits on compliance with internal controls. This enables the Board to have reasonable assurance that risk management policies are being adhered to.

Annually, the CRO provides a formal representation letter to the AC and the Board. Accordingly, the Board has a degree of assurance that ERM systems are in place and are being adhered to.

CRO attendance at all scheduled Board meetings

The CRO attends all scheduled Board meetings.

Standard 11: Control environment and internal audit

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

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 system of internal controls and risk management and obtains assurance from Management, the CRO and the CIA respectively. For details, see the Statement on Risk Management and Internal Control on page 55.

Allocate resources for, and establish 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 put in place a process to approve a rolling three-year assurance plan each year. In 2015, the Board approved the Assurance Plan for 2016 - 2018. Performance in accordance with the Assurance Plan is reported and reviewed on a semi-annual basis.

Monitoring of, and compliance with internal controls

The Corporation's Internal Control Framework was completed in February 2007 and is reviewed periodically.

In 2015, the Board considered the internal audit's report on its assessment of Management's compliance with internal controls based on the agreed criteria. The CIA provides reasonable assurance on the compliance with internal controls and the integrity of the internal control system through the filing of a formal letter of representation to the CEO, the AC and the Board.

STATEMENT ON GOVERNANCE

Standard 12: In control

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

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

In line with the criteria set out in the Internal Control Framework, the Board has 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. For details, see the Statement on Risk Management and Internal Control on page 55.

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.

Assess the Corporation’s objects

The Board periodically assesses the Corporation’s objects to ensure their continued relevance. In December 2015, amendments to the PIDM Act that were reviewed and approved by the Board were enacted by Parliament. Under the amendments, the Corporation’s resolution powers will be expanded to include share transfer powers and certain provisions in the PIDM Act will be aligned with the Financial Services Act 2013 and the Islamic Financial Services Act 2013.

Strategic planning process

A strategic planning process has been adopted by PIDM since its inception.

Approve the operating objectives and strategies

Each year, the Board meets to consider the strategic direction of the Corporation. For details on the Board’s strategic direction meeting in 2015, refer to the “Key Highlights of the Board’s Work in 2015” on page 38.

Regularly evaluate the Corporation’s performance

Regular reports on progress against the Corporate Plan are provided to the Board. These reports are considered in detail by the AC and are circulated to all Board Members.

Reasonable assurance that the Corporation has an effective strategic management process

The strategic management process is a Board-approved process and is used annually to develop the Board-approved Corporate Plan.

STATEMENT ON 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.

There is a Board-approved Communications Policy and the Board continues to ensure that there is engagement with its stakeholders through various means.

The Board, on the recommendation of the GC, approves the Corporation's long-term public awareness strategies and reviews the public awareness activities plan for the next fiscal year. The Board, with the support of the GC, also oversees the implementation of the Corporation's five-year Integrated Communications Plan, an extensive engagement plan with various stakeholders, in particular the public and member institutions.

Each year, PIDM's Corporate Plan and Annual Report are distributed to its key stakeholders. In 2015, the Annual Report was publicly released on 28 May.

Board Members also participated in the Corporate Outreach programme held in Ipoh from 25 to 26 May 2015, and engaged with Government officials and other business community leaders. The Corporate Outreach is an annual event organised by the Corporation in a state outside Kuala Lumpur, Malaysia.

In 2015, the Corporation also hosted the International Conference on IGS, the 5th Seminar on Islamic Deposit Insurance as well as the 14th IADI Annual General Meeting and Conference, in Kuala Lumpur, Malaysia. The Corporation also participated in the 6th Tripartite Meeting in Chiang Mai, Thailand, hosted by the DPA, Thailand, and in the 12th Islamic Financial Services Board (IFSB) Summit in Kuala Lumpur, Malaysia. These events provided a platform for the Corporation to engage with other regulators and statutory bodies as well as member institutions.

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 as well as the Corporation's mandate, and provide guidance on matters of governance specific to statutory bodies and recognised best practices.

The Board reviews the Board Governance Policy annually. For details on the review in 2015, refer to the "Key Highlights of the Board's Work in 2015" on page 38.

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.

INTRODUCTION

This Statement has been prepared in accordance with the Statement on Risk Management and Internal Control – Guidelines for Directors of Listed Issuers (Guidelines) issued on 31 December 2012. These Guidelines provide guidance for companies complying with paragraph 15.26(b) of the Listing Requirements of Bursa Malaysia and Principle 6 of the Malaysian Code on Corporate Governance 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 Governance on page 36 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.

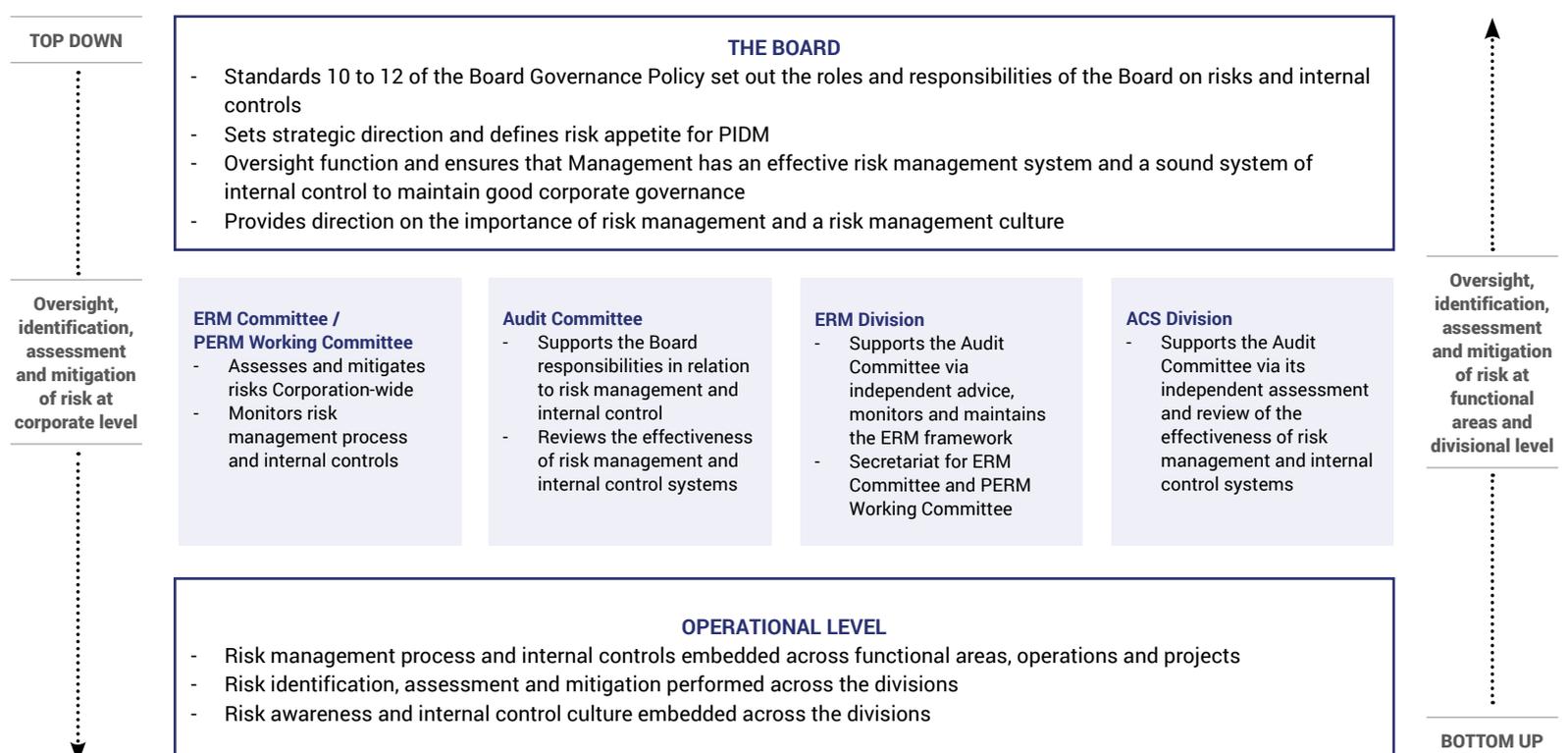
PIDM recognises that a sound system of risk management and internal control is an integral part of good corporate governance and is critical to the achievement of its mandate and objectives. The Board and Management ensure that PIDM's ERM Framework is embedded into the culture, processes and structures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

ELEMENTS FOR SOUND SYSTEMS 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



STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

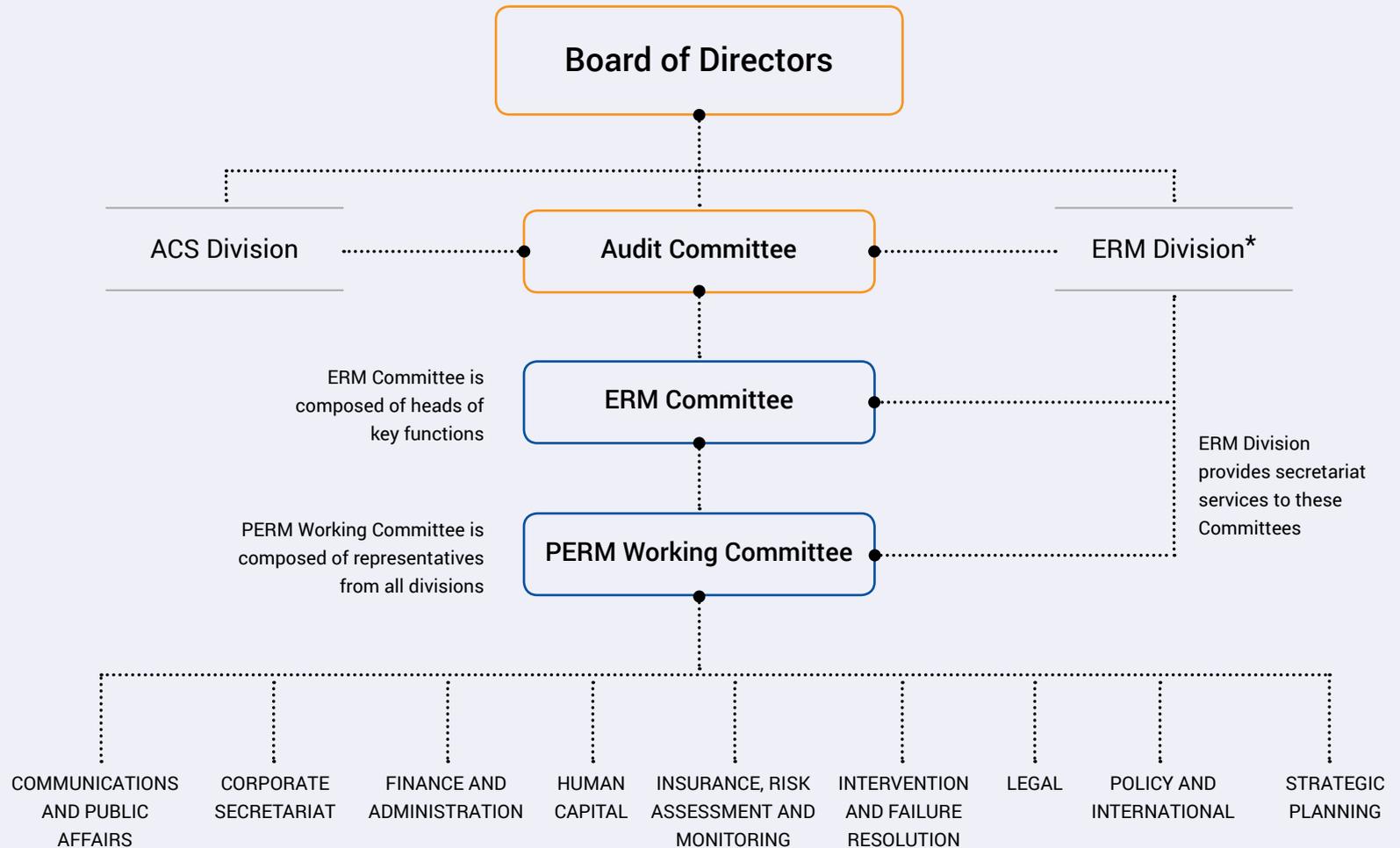
RISK MANAGEMENT

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. 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



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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

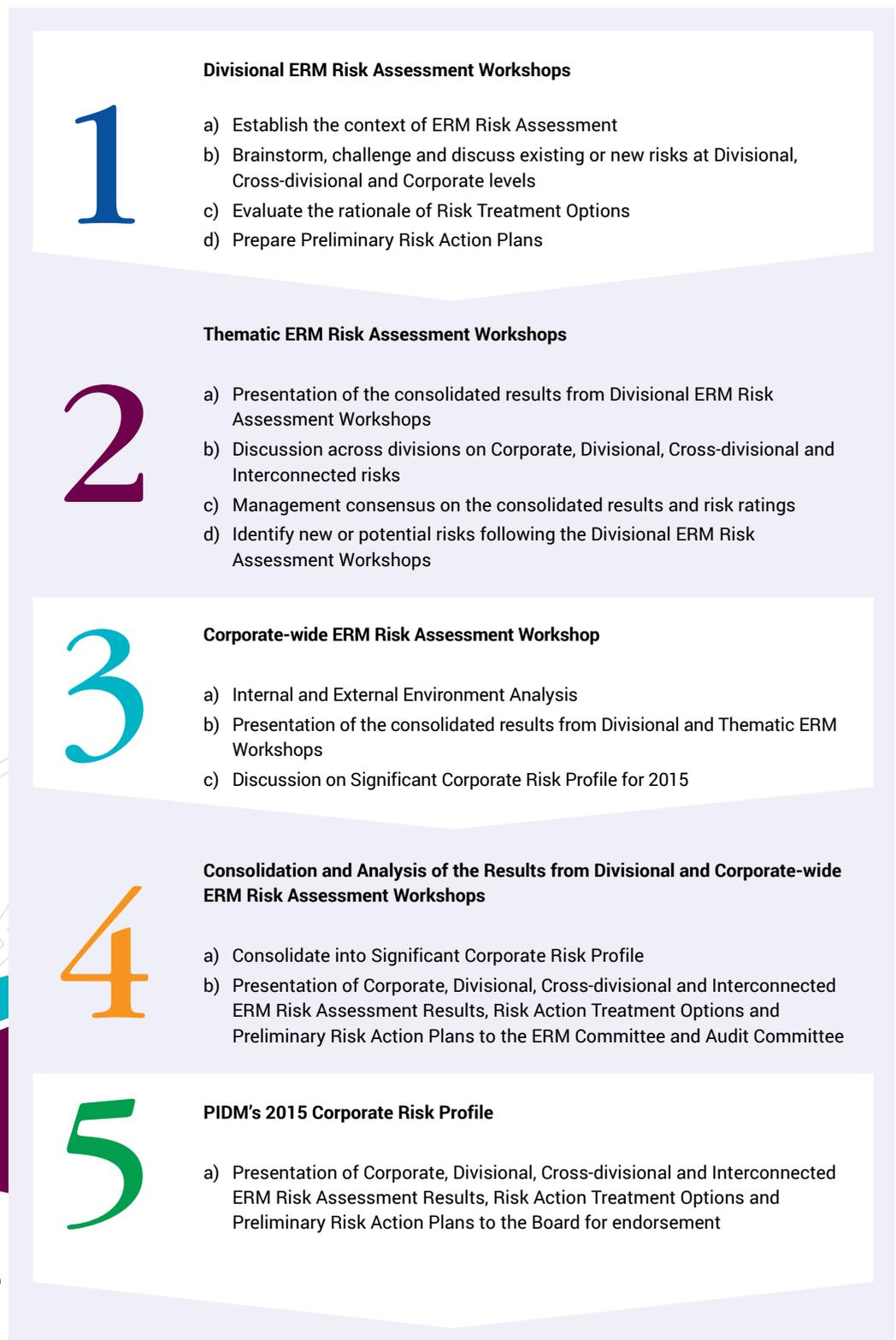
The ERM Division provides independent advice, monitors and maintains the ERM framework, promotes effective management of all risk categories and fosters the establishment and maintenance of an effective risk culture throughout PIDM. The CRO, as the Head of the ERM Division, is responsible for the implementation and maintenance of the ERM framework. The ERM Division assists and provides information to the AC on all ERM activities and outcomes of the ERM process, which is explained below.

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 2015, Management completed another 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 2015 Corporate Risk Profile

Following the completion of the ERM risk assessment activities in 2015, Management has identified and managed the key risks that could prevent the Corporation from achieving its objectives. Based on the assessment of the five risk categories, Management has concluded that three risk categories are acceptable while two other risk categories are manageable.

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

Risk Action Plans and Initiatives	Residual Risk Rating		Risk Trend
	2014	2015	
<p>1. Financial Risk</p> <p>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. The Corporation adopts a funding structure that combines both ex-ante and ex-post funding, supported by external funding arrangements to meet additional liquidity needs as and when the need arises.</p>	Acceptable	Acceptable	—
<p>2. Insurance Risk</p> <p>The Corporation carries out an ongoing review to strengthen the Malaysia Deposit Insurance Corporation Act (PIDM Act) and its subsidiary legislation and has proposed amendments to the PIDM Act, which were enacted by Parliament in December 2015.</p> <p>The Corporation also continues to assess and monitor the financial condition and risk profile of each member institution and the industry, and has implemented the Rating Prediction Model of the Early Warning System for DIS and enhanced the Risk Assessment System for insurer members.</p> <p>The Corporation does not expect any need for an intervention and failure resolution (IFR) in respect of any member institution during the planning period. Since its establishment, 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. To further enhance its readiness, the Corporation has signed an agreement with Cagamas Berhad, the National Mortgage Corporation, as one of several alternative liquidity funding arrangements. The Corporation will also develop and implement resolution plans as part of an effective resolution regime.</p>	Manageable	Manageable	▼
<p>3. Operational Risk</p> <p>The Corporation's key focus in relation to people risk is on succession management, talent development and capability for operational readiness. The Corporation continually undertakes initiatives to strengthen the technical expertise of its employees by enrolling them in various trainings on DIS and TIPS as well as simulation exercises and study visits. Work-life balance is also emphasised where employees are encouraged to utilise their leave entitlement and take compulsory leave to rejuvenate.</p> <p>In relation to Information Risk, the Corporation has developed a Corporate Information Security Framework and has in place the Information Classification Policy for managing and classifying information based on its sensitivity and importance.</p>	Acceptable	Acceptable	▼

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Risk Action Plans and Initiatives	Residual Risk Rating		Risk Trend
	2014	2015	
<p>4. Reputation Risk</p> <p>The Corporation continues its focus on improving public awareness and understanding of DIS, TIPS and the Corporation via a multi-year public awareness programme and education initiatives.</p> <p>In relation to stakeholder engagement, the Corporation continues to conduct briefing sessions for various stakeholders including member institutions, Government agencies, institutions of higher learning and the general public. Internationally, the Corporation's active involvement in IADI and the International Forum of Insurance Guarantee Schemes continues to enhance its stature in the industry as a best practice financial consumer protection authority.</p>	Manageable	Manageable	—
<p>5. Strategic and Governance Risk</p> <p>Long-term sustainability is the key focus for the Corporation. Moving forward, relationships with stakeholders will be enhanced by having more engagements with key stakeholders such as BNM, the Life Insurance Association of Malaysia, Persatuan Insurans Am Malaysia, the Association of Banks in Malaysia, Malaysian Takaful Association and member institutions.</p> <p>The Corporation continues to focus on sound corporate governance and best management practices with appropriate policies and procedures and authority matrices in place, and ensures continued compliance with these. Risk management and internal control continue to be key elements in strengthening the Corporation's governance.</p>	Acceptable	Acceptable	▼

Legend

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:	▲ Increasing ▼ Decreasing — Stable

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

The CRO is of the opinion that there are no risk categories that currently warrant heightened scrutiny from the AC or the Board, as adequate controls are in place and the appropriate risk action plans have been formulated to mitigate these risks. Nonetheless, the CRO and ERM Committee 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.

Board Risk Policies and Corporate-wide Board Risk Report

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

The Corporate-wide Board Risk Report outlines the current controls, processes and Management oversight 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-wide Board Risk Report.

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

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).

The 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 as 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 there is sound internal control established within PIDM which emphasises the following:

- 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 to prepare for succession and creation 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 at all levels of PIDM and by stakeholders, service providers and strategic partners;
- a conducive corporate environment that enforces accountability through established performance measurement that is appropriate for employees at all levels and reflects appropriate dimensions of performance and expected standards of conduct to achieve corporate goals and targets; and
- proper safeguarding of the flow of PIDM's confidential information via internal communication channels or through communications with external parties using communication methods that take into account the audience, nature of communication, timeliness, cost and legal or regulatory requirements.

Information Technology

PIDM is currently not classified as a Critical National Information Infrastructure entity and as such, the ISO/IEC⁹ 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 approved in August 2014 whilst the plan for preparedness towards certification is being implemented in phases commencing from 2015.

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

Business Continuity and Disaster Recovery

PIDM's interim Disaster Recovery Site was fully operational in September 2011. The resilience of PIDM's Business Continuity Plan and Disaster Recovery Plan, policies, procedures and facilities have been tested from 2011 to 2014. Management will conduct the next simulation exercise in 2016, upon completion of PIDM's permanent Disaster Recovery Centre (DRC).

The construction of PIDM's permanent DRC commenced in August 2014. As this project involves high investment and could expose the Corporation to risks, both Management and the CIA provide an update on the progress of the project together with an independent consulting services report to the AC, at every AC meeting. Beginning 2015, reporting to the AC was made on a semi-annual basis and this will continue until completion of the project in 2016.

⁹ Information security standard published by the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC)

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Key Policies, Practices and Processes

The following key policies, practices and processes were 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 a 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 as set out in 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 to ensure long-term sustainability of the Corporation.
- Codes of Conduct**
 Management continues to promote risk management and internal control culture by emphasising training and awareness of PIDM's corporate values, application and compliance with the Code of Business Conduct and Ethics, and the Conflict of Interest Code, and by requiring an annual declaration of personal assets and liabilities from all employees. A Code of Business Conduct and Ethics was also 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. An 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 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 the corporate website. This provides guidance for employees or any other person to make disclosures about any wrongdoings to the relevant authorised officer.

- Systems, Policies and Procedures**
 The Organisation and Methods Department continues to monitor the development and maintenance of policies and procedures as well as oversee the streamlining and integration of key and 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 investment 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 standards.

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:
 - PIDM's financial reports, including the utilisation of resources compared to the approved budget; and
 - 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.

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 2015 has been assessed by Management and validated by the ACS Division based on the criteria set out in the ICF.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

In addition, the views of the Chairman of the Board on the current strength of the Corporation's internal control environment were also obtained in January 2016 to facilitate Management in drawing a conclusion on the extent of PIDM's internal control compliance.

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's level to Management and ultimately all employees.
- (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 an enterprise-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 and sub-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 five 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 strategic direction and Corporate Plan provide relevant guidance on the objectives that the Corporation needs to achieve and the specific initiatives that need to be developed and implemented to mitigate significant risks. New initiatives are being identified to address potential new events, risks or activities that may affect the achievement of the corporate objectives. The progress of the corporate initiatives is being monitored against the Plan.
- (g) Control activities and other mechanisms have been established through policies and procedures to ensure that Management's directives 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 IT 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 are given access to 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 the level of information access allowed for external parties.
- (i) Management monitors the entire system of internal control continuously, addresses issues on a timely basis and communicates to relevant parties responsible for corrective actions.

For 2015, there were no reported incidents of 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 controls.

This Statement is made in accordance with the Board's resolution dated 25 February 2016.

 *Section*

3

Management's Discussion and Analysis

Our Operating Environment

Review of 2015 Operations and Achievements

Financial Overview

Summary of the Corporate Plan 2016 - 2018

OUR OPERATING ENVIRONMENT

In 2015, the Malaysian economy remained resilient. The economy achieved an encouraging real Gross Domestic Product (GDP) growth of 5% (2014: 6%), mainly supported by private domestic demand.

In 2016, we expect another year of modest growth for the global economy. We anticipate that there could be a number of downside risks to global growth due to many factors and uncertainties. These uncertainties include a further slowdown from rebalancing efforts in the Chinese economy, continuing suppression of commodity prices, and challenges from the United States (US) policy rate normalisation process that began in December 2015. Escalating geo-political risks also pose risks. 2016 is thus expected to be yet another challenging year for the global economy.

In Malaysia, private consumption is expected to moderate in view of the effects of the Goods and Services Tax (GST), higher costs of living and a softer employment market. Despite slowing investment activity in the oil and gas industry, investment will be supported by infrastructure development projects and capital spending by the manufacturing and services sectors. On the external front, weak regional, including China, demand and low commodity prices will continue to weigh on exports although an undervalued Ringgit exchange rate and stronger demand from the US should provide some support.

This notwithstanding, we expect the Malaysian economy to continue to grow within the range of 4% to 4.5%¹ as continued expansion in domestic demand provides the impetus for growth. A diversified structure and strong macroeconomic fundamentals, including low unemployment rate, a well-capitalised banking system and manageable level of external debt, will also give Malaysia the flexibility to absorb potential external shocks. In addition, the overall monetary and financing conditions for the year will continue to support the steady growth outlook for the Malaysian economy.

Despite the challenging operating environment in 2015, PIDM's member institutions were largely unscathed and remained resilient, underscored by a robust capital position that provides solid buffer to see them through these uncertain times. Further details on the overview of membership can be found in Section 5.

Going forward, PIDM continues to remain vigilant and will closely monitor the risk profiles of our member institutions.



¹ Recalibrated Budget 2016

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

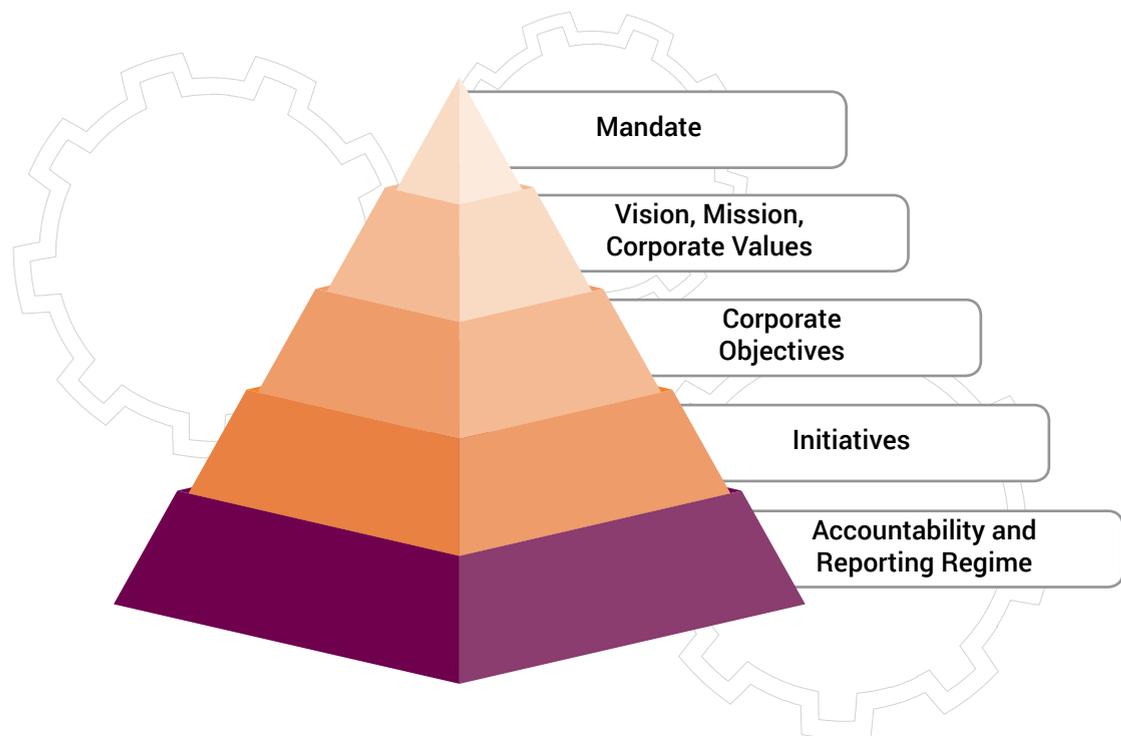
OVERVIEW

We have accomplished significant progress in relation to the Corporate Plan 2015 - 2017, which focussed on initiatives to:

- (a) develop a dynamic learning organisation that promotes and facilitates an interconnected way of working through continuous learning, sharing and collaboration, as well as leveraging on the knowledge and skills of all employees within the Corporation;
- (b) focus on talent management including enhancing employee competencies and succession planning;
- (c) strengthen relationships with key stakeholders; and
- (d) increase the level of public awareness and education of financial consumers in PIDM's protection systems.

Our progress and performance against the set targets in the Plan are monitored via a Balanced Scorecard approach. Our corporate objectives are based on three Balanced Scorecard perspectives and our initiatives are aligned to the corporate objectives towards achieving our vision and mission and ultimately, fulfilling our mandate.

An overview of our strategic management framework is depicted below. Detailed information on our framework is found in our Summary of the Corporate Plan 2016 - 2018, which is available on our website at www.pidm.gov.my.



In 2015, all 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 achievements are summarised in the 2015 Corporate Scorecard in the following pages.

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

SNAPSHOT OF 2015 CORPORATE SCORECARD

A Target achieved, initiative completed**P** Progressing as scheduled; and / or within budget**N** Target not achieved, slippage – time to completion; and / or below target; and / or > ±10% (full year) budget variance

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2015	Results Dec 2015
STAKEHOLDERS	A Educated and informed stakeholders	1. Public awareness index:		
		a. General awareness of PIDM	53%	A
		b. General awareness of Deposit Insurance System (DIS)	42%	N ¹
		c. General awareness of Takaful and Insurance Benefits Protection System (TIPS)	33%	N ¹
	2. Successful completion of key initiative:			
	a. Integrated Communications Plan	Implement and review	A	
	B Effective partnerships	3. PIDM's relationship with:		
		a. Bank Negara Malaysia (BNM)	Strong	A
		b. Member institutions	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	5. Board assessment on:		
		a. Best practices of governance adopted and maintained	High satisfaction	A
		b. Significant policies and practices complied with and kept current and relevant	High satisfaction	A
		c. Quality of management support to the Board	High satisfaction	A
	6. Successful completion of key initiative:			
a. PIDM legislation	Maintain	A		
D Robust risk assessment, monitoring, intervention and resolution capabilities	7. Successful completion of key initiative(s):			
	a. Differential Levy Systems framework for Takaful	Complete	P ²	
	b. Early Warning System for TIPS	Develop	P ³	
	c. Evaluation Model for DIS and TIPS	Develop	P ⁴	
	d. Intervention and resolution plans for complex financial institutions	Develop	P ⁵	
	e. Claims management system, policies and procedures for insurer members:			
i. Premium Reimbursement and Claims Management System	Develop	P ⁶		

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

Corporate Objectives		Key Performance Indicators (KPIs) / Corporate Initiatives	Target 2015	Results Dec 2015	
GOVERNANCE AND INTERNAL PROCESSES	D	Robust risk assessment, monitoring, intervention and resolution capabilities	f. Regulations:		
			i. TIPS Information Regulations	Implement	P ⁷
			ii. Terms and Conditions of Membership Regulations - DIS and TIPS	Implement	P ⁸
			8. The Financial Institutions Directors' Education (FIDE) Programme and the FIDE FORUM	Active participation and support	A
	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	A ⁹
			11. Internal Control and Risk Management Compliance	Strong	A
			12. Successful completion of key initiative(s):		
			a(i). Target Fund for TIPS:		
			i(1). General Fund	Implement	A
			i(2). Life Fund	Develop	A
			i(3). Takaful Funds	Research	P ¹⁰
a(ii). Alternative funding arrangements	Complete	A			
b. Annual Information Technology Strategic Plan	Complete	P ¹¹			
c. Disaster Recovery Centre (DRC) and infrastructure	Construct	P ¹²			
d. Corporate Information Security Management	Develop	P ¹³			
LEARNING AND GROWTH	F	Competent and knowledgeable workforce	13. Annual Human Capital Strategic Plan	Complete	A
	G	Conducive corporate environment	14. Employee Engagement Index (survey conducted once every two years to gauge level of employee engagement)	80%	A

¹ The awareness level of DIS at the end of 2015 has improved to 41% from 38% in 2014 whereas the awareness of TIPS was at 26% from 30% in 2014. Refer to our Communications Initiatives in Section 7 for further details

² The Regulations and Order were gazetted on 4 March 2016

³ The development of the Early Warning System is progressing and will continue into 2016

⁴ The development of the Evaluation Model is progressing and is expected to be completed in 2017

⁵ The research and development work related to the resolution plans for complex financial institutions is progressing and will continue into 2016

⁶ The development of the Premium Reimbursement System and Claims Management System is progressing and is expected to be completed in 2017

⁷ The regulations is expected to be issued in 2016, pending the gazetting process

⁸ The revised regulations is expected to be issued in 2016, pending the gazetting process

⁹ We achieved positive variances for both operating and capital expenditures

¹⁰ The research work will continue in 2016

¹¹ We have completed most of the strategic and operational initiatives as set out in PIDM's Information Technology (IT) Strategic Plan except for the following that have been deferred:

- Implementation of Phase 2 and Phase 3 of the Enhanced Financial Management System
- Implementation of the information security programmes to assess the condition and risk surrounding the Corporation's IT infrastructure and system

¹² The construction of the DRC is progressing as scheduled and will be completed in 2016

¹³ The audit on Information Security Management System certification readiness will be carried out in 2016

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

DIVISIONAL OPERATIONS REVIEW

All of the key initiatives in 2015 were completed by the 11 divisions in PIDM. The following tables provide a brief description of the respective functions of the divisions and their key activities and accomplishments in 2015.

AUDIT AND CONSULTING SERVICES DIVISION (ACS)

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

Key Achievements

Audit:

- Completed the following reviews and audits in accordance with the Audit Plan 2015 - 2017:
 - Limited review on the stakeholder engagement (international) function within the Policy and International Division;
 - Scoping review and audit on the process for the management of PIDM's agreements or contracts within the Legal Division;
 - Limited review on the process for the development and management of operational policies and procedures as well as the process for the monitoring of compliance with Treasury requirements within the Organisation and Methods Department;
 - Limited review on the performance management process, employee engagement management and employee disciplinary management;
 - Interim and final audit on PIDM's financial statements and disclosures for the financial year ended 31 December 2015;
 - Audit on the monitoring of member institutions' compliance with PIDM's regulations and guidelines;
 - Audit on the 14th International Association of Deposit Insurers Annual General Meeting and Conference; and
 - Audit on the DRC Project Management.
- Assessed the Corporation's state of internal control, further details of which can be found in the Statement on Risk Management and Internal Control in Section 2.

Consulting and advisory:

Continued to support the relevant divisions for PIDM's key projects, including Payout, the construction of the DRC as well as the development of key IT systems.

COMMUNICATIONS AND PUBLIC AFFAIRS DIVISION (COMMS)

Develops and communicates messages to the public and targeted market segments through ongoing public awareness and education initiatives to enhance public understanding of DIS, TIPS and PIDM's role.

Key Achievements

Advertising and public relations:

- Launched the PIDM Interactive Learning Platform, an online tool for information sharing purposes for employees of member institutions and the general public.
- Partnered with the famous cartoonist, Lat, on a new advertising campaign focussed on a wider public audience.
- Signed a collaboration agreement with Lions Clubs International District 308 B1 Malaysia to reach out to the community.
- Organised a dinner talk for insurer members as part of the Corporation's engagement activities.
- Certified 29 employees from various member institutions and the Federation of Malaysian Consumers Association under PIDM's Train-the-Trainer accreditation programme to deliver briefings on PIDM, DIS and TIPS.

Stakeholders engagement:

- Conducted the Corporate Outreach programme in Ipoh, Perak, which was attended by representatives from BNM, other Government agencies and the banking as well as insurance sectors.
- Held an annual dialogue with the liaison officers of member institutions as well as participated in exhibitions and roadshows.
- Conducted a total of 85 briefing sessions for various stakeholders including member institutions, Government agencies, institutions of higher learning and the general public.

Education programme:

- Recognised as a "Partner in Co-curriculum" by the Ministry of Education.
- Implemented the PIDM Project MoneySmart, which comprised three online competitions namely, Photography and Poster Drawing, Song and Video Production as well as MoneySmart Trivia quizzes.

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

CORPORATE SECRETARIAT DIVISION (COSEC)

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:

- Completed the annual Board Education Programme.
- Developed the Chairman and Board Succession Plan.
- Completed a review of the individual and collective Board Member profiles.
- Adopted the concept of an “evergreen” Board, where one non-ex officio Director will retire from the Board each year after having served two terms of three years each.
- Developed the Policy Against External Interference, which sets out the policy and procedures relating to the Corporation’s operational independence.
- Reviewed the Corporation’s approach to governance and updated the relevant Board-approved policies.

Board effectiveness assessment and individual Director assessment:

Conducted the individual Director assessment as well as an internal evaluation on the overall effectiveness of the Board.

Corporate compliance:

Organised the annual compliance training on key policies and procedures and implemented the annual compliance test for all employees.

The details on the Board’s work on corporate governance are described in the Statement on Governance in Section 2.

ENTERPRISE RISK MANAGEMENT DIVISION (ERM)

Implements, monitors and maintains best practice 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 five key risk categories and a Corporate-wide workshop.
- Performed ongoing risk assessment on issues and developments in the external environment that may affect the Corporation’s ability to achieve its mandate.

Business Continuity Management:

Conducted business impact analysis workshops with all divisions to determine and evaluate the potential effect to the Corporation’s critical operations as a result of a crisis or disaster.

Risk advisory:

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

More details on how PIDM manages its significant risks are described in the Statement on Risk Management and Internal Control in Section 2.

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

FINANCE AND ADMINISTRATION DIVISION (FINAD)

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

Key Achievements

Financial management:

- Implemented the Project Accounting Tracking in the Enhanced Financial Management System.
- Implemented Phase 1 of the Budgeting System to monitor actual expenses against budget.
- Rolled-out the financial dashboard to the Chief Executive Officer and the Executive General Managers.

Investment operations:

Develop internal processes for investing in Private Debt Securities.

Funding:

- Completed the annual review of the Target Fund model for DIS to ensure that the Target Fund range remains current and relevant.
- Developed an option for alternative liquidity funding arrangements.

IT strategy:

Completed a majority of the strategic and operational initiatives set out in PIDM's IT Strategic Plan except for two divisional initiatives that have been deferred. Further details can be found on page 67 of this Annual Report.

Corporate Information Security Management:

- Completed the Corporate Information Security Framework and updated the procedures for the Information Security Management System to prepare the Corporation to be ISO 27001:2013 certification ready.
- Commenced development of the retention and disposal requirements for the Corporation's information.

Disaster Recovery Centre and infrastructure:

Continued with the construction of the permanent DRC, which will be completed in May 2016.

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

HUMAN CAPITAL DIVISION (HC)

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

Key Achievements

Talent management:

- Completed a career profiling exercise for employees.
- Organised leadership executive coaching programmes for the Management team.
- Continued to develop our employees' capabilities and competencies via ongoing implementation of a comprehensive competency-based Learning and Development programme. This included various types of training such as leadership, soft skills and technical skills using a blended approach of study visits, external seminars and briefings, conferences and on-the-job training. In-house training sessions were also organised for employees to address common learning and development needs. The average external and internal training days per employee in 2015 totalled six days.
- Continued with succession planning efforts whereby development plans have been put in place for potential successors as well as job sharing opportunities for selected employees.
- In embracing inclusion and diversity, our employees are made up of diverse culture and work philosophies. This is demonstrated by our recruitment of hearing-impaired staff. As at 31 December 2015, our employee composition was 43% male and 57% female.

Learning organisation:

Conducted awareness sessions for the Management team.

Scholarship Programmes:

- Awarded scholarships to 10 external scholars. Details can be found in Section 7.
- Awarded scholarships to three employees' children.

Employee relations:

- Completed the 6th Employee Voice Survey and achieved a sustainable engagement index of 88%.
- Continued to foster an optimal workplace culture via various events and engagement activities to celebrate achievements.

Safety and Health:

The Safety and Health Committee continued to meet and identify related issues and put in place action plans for improvement, where necessary, as well as organised a First Aid / Cardiopulmonary Resuscitation Certification Course for employees.

Performance management:

Enhanced the Total Performance Management programme with a focus on behavioural assessment as well as implementation of the performance check-in process for continuous discussion and to provide feedback on performance.

Human Resource Information System:

Completed the development of the Training Database Management System to increase the efficiency and effectiveness of training administration matters.

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

INTERVENTION AND FAILURE RESOLUTION DIVISION (IFR)

Primarily responsible for intervention preparedness, which involves the development of IFR-related policies and procedures including payout system and infrastructure as well as to manage and conduct IFR-related activities in the least costly manner to the financial system.

Key Achievements

Funding:

Developed an option for alternative liquidity funding arrangements with Cagamas Berhad as part of operational readiness.

IFR:

- Conducted an IFR workshop on liquidation base-case model followed by a simulation exercise for bank failure.
- Implemented the submission tracking module of the Submission Tracking and Rating System (STARS) for the processing of member banks' submission of information in standard file format.
- Enhanced the IFR Readiness Programme for Service Providers.

Recovery and resolution plan and framework:

Commenced research and development work related to the resolution plans for complex financial institutions.

Payout:

- Completed the user requirements for the enhancement to the Depositor Support Management System and Payout Payment Management System for DIS.
- Issued the Consultation Paper (CP) on Requirements to Facilitate Payment of Protected Benefits for General Takaful and General Insurance to gather insurer members' comments on the proposed data requirements. The CP also aimed to obtain feedback on existing practices of insurer members that may affect PIDM's ability to effectively conduct the reimbursement of protected takaful and insurance benefits.
- Completed the user requirements to develop the Premium Reimbursement System and Claims Management System for TIPS. These systems facilitate speedier premium reimbursement and payment of claims in the event of an insurer member failure.

Evaluation Model:

Developed an evaluation model to help assess the liquidation cost of a member institution in the event of a failure.

INSURANCE, RISK ASSESSMENT AND MONITORING DIVISION (INRAM)

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:
 - Guidelines on the Differential Premium Systems for Deposit Insurance System;
 - Guidelines on Validation Programme: Differential Premium Systems and Total Insured Deposits; and
 - Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Premiums for Takaful and Insurance Businesses.
- Completed the Differential Levy Systems Framework for Takaful Operators (DLST), and the DLST Regulations and Order which were gazetted on 4 March 2016.

Funding:

- Completed the Target Fund for General Insurance Protection Fund.
- Commenced the development of the Target Fund for Life Insurance Protection Fund.

Risk Assessment System:

Commenced the development of the enhanced system for DIS and TIPS.

Effective partnerships:

- Continued to maintain strong and collaborative relationships with key stakeholders including BNM, member institutions as well as industry associations such as Persatuan Insurans Am Malaysia, Life Insurance Association of Malaysia and Malaysian Takaful Association.
- Organised a BNM-PIDM employee sports event with three Supervision Departments of BNM to foster a collaborative working relationship.

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

LEGAL DIVISION (LEGAL)

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:

The amendments to the PIDM Act were passed by Dewan Negara on 16 December 2015 and included the share transfer powers to address non-viable member institutions promptly and effectively. The relevant provisions in the Act are now aligned with the Financial Services Act 2013 and the Islamic Financial Services Act 2013, insofar as they relate mainly to the resolution of member institutions.

Product Registry System:

Provided support to member banks to address legal issues and matters relating to the certification of Investment Accounts issued under the Islamic Financial Services Act 2013.

Compliance programme for member banks:

Reviewed the outcome of the adherence to the Guidelines on Assessment of Compliance by Deposit-Taking Members with the PIDM Act and Subsidiary Legislation.

Legal advisory services:

Drafted and provided legal advice on contracts entered into by PIDM to ensure its interests were fully protected.

Corporate Social Responsibility:

Led PIDM in the successful implementation and organisation of its Corporate Social Responsibility (CSR) initiatives and activities together with the CSR Committee.

POLICY AND INTERNATIONAL DIVISION (POLICY)

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:

- Consulted with the industry and completed a public consultation on Information Regulations for DIS and TIPS.
- Completed compilation and storage of the Product Information submitted by the insurer members.

Effective partnerships:

- Participated in the 6th Tripartite Meeting hosted by Deposit Protection Agency (DPA), Thailand, to promote collaboration and transfer of knowledge amongst PIDM, Indonesia Deposit Insurance Corporation and DPA, Thailand.
- 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 (IFIGS).

Knowledge sharing and international fora:

- Participated in 24 international fora, involving local and international participants, in various capacities including promoting knowledge sharing through meetings, attachments and training with our counterparts, as well as providing resource persons to speak at conferences at both local and international events.
- Participated in various knowledge-sharing sessions including on economic matters, organised study visits for PIDM employees and hosted study visits for other deposit insurers, insurance guarantee schemes and central banks.
- Developed a draft discussion paper on Shariah Governance for Islamic DIS as part of the initiatives of IADI's sub-committee of the Islamic Deposit Insurance Group.

Hosting international events:

- Organised and hosted international conferences and seminars for our key stakeholders including inviting industry associations and member institutions to participate as speakers and panellist for the following events:
 - International Conference on Insurance Guarantee Schemes;
 - 5th Seminar on Islamic Deposit Insurance; and
 - 14th IADI Annual General Meeting and Conference.

REVIEW OF 2015 OPERATIONS AND ACHIEVEMENTS

STRATEGIC PLANNING DIVISION (SP)

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 strategic planning sessions and the annual workshop for Senior Management to discuss PIDM's strategic long-term plans, strategic priorities, key planning assumptions, corporate and divisional KPIs and initiatives.
- Conducted the annual Board Strategic Planning session and reviewed the budgets in detail, aligning them to the initiatives to be undertaken during the planning period.

Performance management:

Implemented regular monitoring of initiatives against the approved Corporate Plan.

Corporate publications:

- Managed the development and publication of PIDM's Corporate Plan and Annual Report in collaboration with COMMS and FINAD.
- Developed the Summary of the Corporate Plan 2016 - 2018 and an Executive Summary which highlights PIDM's strategic priorities and focus, its long-term and medium-term plans as well as the supporting financial plan for 2016 and the financial projections for 2017 and 2018.

FINANCIAL OVERVIEW

OPERATING RESULTS

	2015 Actual	2015 Budget	Variance Actual vs Budget		2014 Actual
	RM'000	RM'000	RM'000	%	RM'000
Premium revenues	442,006	364,500	77,506	21	310,998
Investment income from cash and investment securities	78,478	74,800	3,678	5	63,732
Miscellaneous income	777	-	777	-	-
Total Income	521,261	439,300	81,961	19	374,730
Employee benefits	51,561	57,250	5,689	10	47,623
Public relations and advertising	12,734	14,450	1,716	12	10,505
Depreciation of property and equipment	7,143	7,960	817	10	7,143
Operating leases	5,896	6,010	114	2	5,268
Other expenses	17,337	23,330	5,993	26	13,400
Total Expenses	94,671	109,000	14,329	13	83,939
Net Surplus for the Year Representing Total Comprehensive Income for the Year	426,590	330,300	96,290	29	290,791

CAPITAL EXPENDITURES

	2015 Actual	2015 Budget	Variance Actual vs Budget		2014 Actual
	RM'000	RM'000	RM'000	%	RM'000
Land and building	-	-	-	-	16,446
Furniture, fittings and office refurbishments	1,108	4,330	3,222	74	69
Office equipment and computer systems	11,864	14,805	2,941	20	2,338
Motor vehicle	440	460	20	4	-
Total Capital Expenditures	13,412	19,595	6,183	32	18,853

FINANCIAL OVERVIEW

COMMENTARY ON 2015 FINANCIAL PERFORMANCE

For the financial year ended 31 December 2015, PIDM recorded total income of RM521.3 million, an increase of RM146.6 million or 39.1% compared to the previous financial year. The increase was mainly due to higher premiums received during the year as well as higher investment income, which is attributable to the increase in the base of investable funds and an upward trend in investment yield observed during the year.

Our operating expenses for 2015 totalled RM94.7 million and were RM14.3 million or 13.1% below budget. The positive variance against budget was mainly due to lower employee benefits expenses as well as lower expenses on communications-related expenses, professional and consultancy, Board-related expenses, scholarship programme and travelling expenses. There was an increase of RM10.8 million or 12.9% from RM83.9 million compared to 2014. The increase was due to higher expenses related to advertising, public relations, professional and consultancy services and employee costs, as compared to 2014. Refer to pages 77 to 89 for further details of the operating results.

Our net surplus totalled RM426.6 million in 2015, an increase of RM135.8 million from 2014.

As at 31 December 2015, we contracted RM13.4 million for capital expenditures, which represents 68.4% of the capital expenditures budgeted for 2015 of RM19.6 million. The positive variance of 31.6% was primarily due to the deferment of IT equipment installation and interior fit-out works for the DRC, which is expected to commence in June 2016, as well as cost savings on the renovation of additional office space. Refer to page 87 for further details.

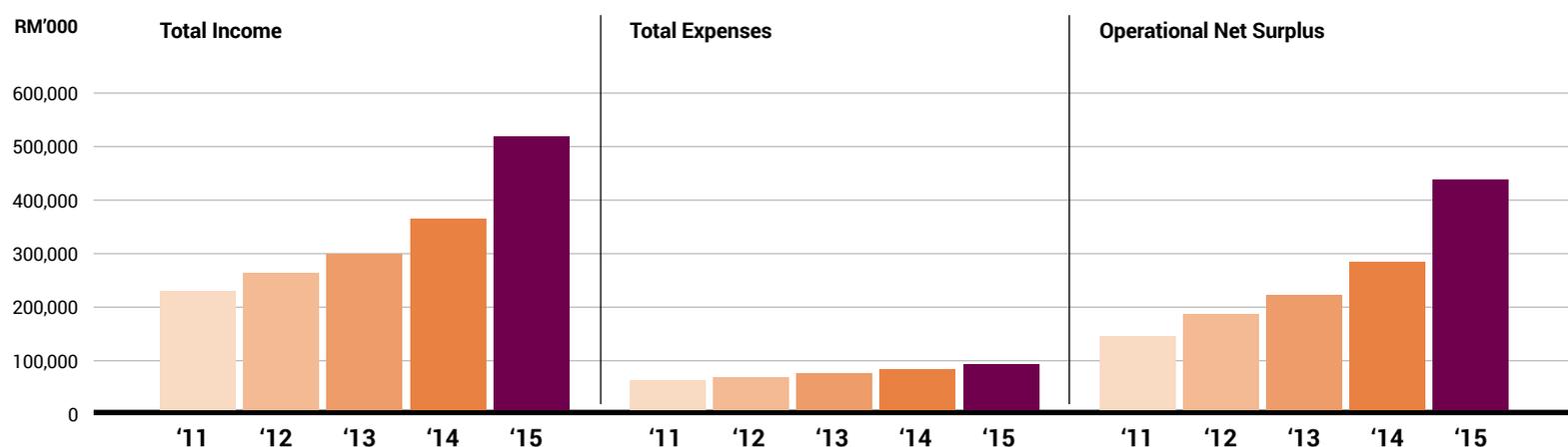
The balances of the Funds by the respective systems as at the end of the financial years 2015 and 2014 are as follows:

Funds by System	2015	2014	Variance	
	RM'000	RM'000	RM'000	%
Deposit Insurance Funds	1,298,403	973,123	325,280	33
Takaful and Insurance Benefits Protection Funds	1,335,490	1,234,180	101,310	8
Total	2,633,893	2,207,303	426,590	19

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.

FINANCIAL OVERVIEW

CHART 1: KEY FINANCIAL TRENDS FROM 2011 TO 2015



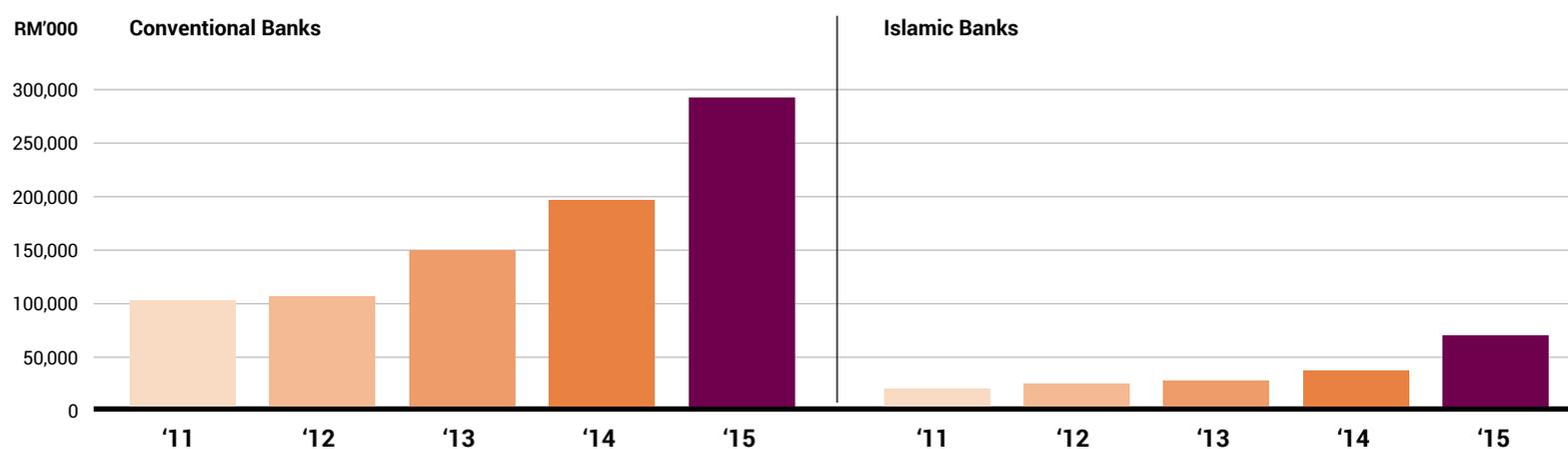
INCOME

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 2015, the total premiums collected from member banks amounted to RM359.2 million, compared to RM239.7 million last year. The higher premium collection reflected the revised premium rates applicable to member banks for assessment year 2015. Growth in member banks' deposits has also contributed to the increase in TID.

The premiums collected for the Conventional Deposit Insurance Fund amounted to RM291.8 million, an increase of 46.4% from the RM199.3 million collected in the previous year. For the Islamic Deposit Insurance Fund, the premiums collected rose by 66.8% to RM67.4 million from RM40.4 million in the previous year.

CHART 2: TREND OF PREMIUMS FOR DIS FROM ASSESSMENT YEARS 2011 TO 2015

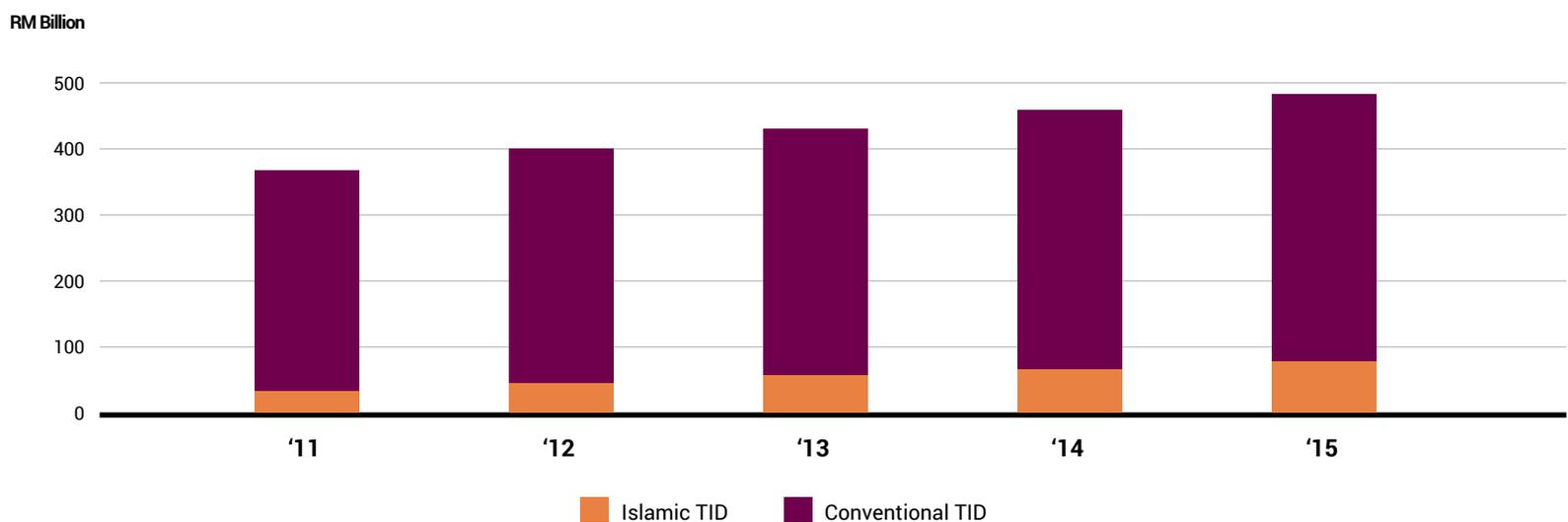


FINANCIAL OVERVIEW

For the assessment year 2016, we expect premium collection of RM425 million for DIS in line with the expected growth in the TID base. The annual premium rates for the assessment year 2016 will be the same as that of 2015, ranging from 0.06% for premium category 1 to 0.48% for premium category 4 (refer to Table 1).

For the assessment year 2015, TID stood at RM483.7 billion compared to RM461.8 billion in the previous year. The growth in TID of RM21.9 billion or 4.7% was in tandem with the deposits growth trend of member banks in 2014. TID for conventional banking business increased by RM12 billion or 3% and stood at RM408.2 billion as at the end of December 2014. For the Islamic banking business, TID totalled RM75.5 billion compared to RM65.6 billion in the previous year, an increase of RM9.9 billion or 15.1%.

CHART 3: TREND OF TID FROM ASSESSMENT YEARS 2011 TO 2015



Premium Rates

Premium rates applicable to member banks are prescribed by the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2012, which took effect from the assessment year 2013. Table 1 depicts the annual premium rates and the minimum annual premium that are applicable for the respective premium categories.

TABLE 1: PREMIUM RATES AND MINIMUM ANNUAL PREMIUM FROM ASSESSMENT YEAR 2013 ONWARDS

Premium Category	Revised Annual Premium Rates			Minimum Annual Premium Amount (RM)
	2013	2014	2015 onwards	
1	0.04%	0.05%	0.06%	100,000
2	0.08%	0.10%	0.12%	200,000
3	0.16%	0.20%	0.24%	400,000
4	0.32%	0.40%	0.48%	800,000

FINANCIAL OVERVIEW

Revised Differential Premium Systems Framework

The premium categories of member banks are determined based on the overall scores under the revised Differential Premium Systems (DPS). Under the DPS, member banks with lower risk profiles are placed in better premium categories compared to member banks with higher risk profiles. The DPS aims to introduce greater fairness into the premium assessment process and provide incentives for member banks to enhance their risk management practices and minimise excessive risk-taking. The DPS is also in line with our mandate to promote sound risk management and contribute to the soundness of the financial system.

With effect from the assessment year 2015, the DPS framework was enhanced with the introduction of a two-dimensional matrix approach in the assessment of the quantitative criteria, which will enable the risk profiles of member banks to be better differentiated based on two independent components of assessment.

Under the matrix approach, one of the dimensions of assessment is the member banks' capital buffer levels. The independent assessment of the capital buffer levels reflects the emphasis placed on the importance of having strong capital levels, in tandem with regulatory developments and the lessons learnt from the financial crisis.

The assessment of member banks' overall financial performance and condition is the other dimension of assessment and will be based on eight indicators grouped under three major criteria, which are Profitability, Asset Profile and Funding Profile. The Funding Profile is a new criterion introduced under the revised DPS framework.

PREMIUM REVENUES – TAKAFUL AND INSURANCE BENEFITS PROTECTION SYSTEM

The annual premiums payable by insurer members are derived based on the applicable premium rates (refer to Table 2 and Table 4 on the following pages) and the total actuarial valuation liabilities (AVL) of qualified certificates or policies² as at 31 December of the preceding assessment year for family solidarity takaful or life insurance business, and the total net contributions or net premiums of qualified certificates or policies received during the preceding assessment year in the case of general takaful or general insurance business.

For the assessment year 2015, total premiums collected from insurer members increased to RM82.8 million, from RM71.3 million in the previous year. The premiums collected for the General Insurance Protection Fund amounted to RM12.8 million, an increase of 21.9% from the RM10.5 million collected in the previous year. For the Life Insurance Protection Fund, the premiums collected rose by 16.4% to RM58.2 million from RM50 million in the previous year. The premiums collected for the General Takaful Protection Fund amounted to RM3.9 million, an increase of 11.4% from the RM3.5 million collected in the previous year. For the Family Solidarity Takaful Protection Fund, the premiums collected rose by 8.2% to RM7.9 million from RM7.3 million in the previous year.

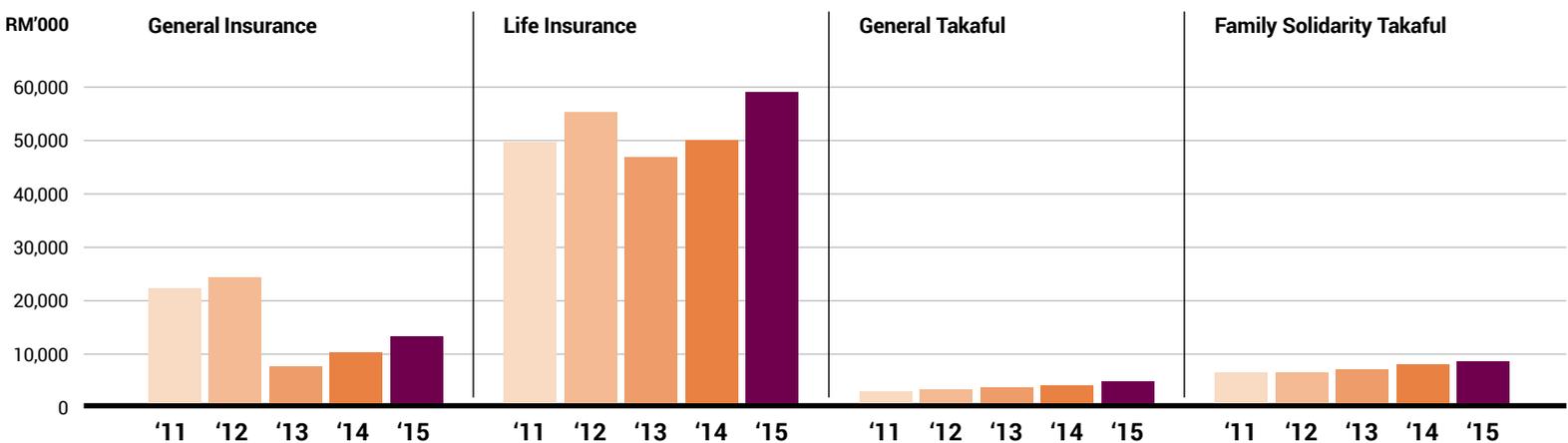
The combined growth in AVL and net premiums or contributions, which formed the basis for premiums computation, contributed to the increase in total premiums collected.

For the assessment year 2016, we are budgeting a total premium of RM87.6 million, after taking into consideration the sustained business growth, the reduced premium rate for general insurance business, and also the transition to DLS from the flat rate system for takaful operators.

² 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 Limit) Order 2011, and Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Premiums for Takaful and Insurance Businesses (2015)

FINANCIAL OVERVIEW

CHART 4: TREND OF TIPS PREMIUMS FOR ASSESSMENT YEARS 2011 TO 2015



Premium Rates

Life and General Insurance Businesses

The Differential Levy Systems (DLS) framework, which aims to introduce fairness into the premium assessment process as well as provide greater incentives for insurer members to enhance their risk management practices and minimise excessive risk-taking, has been in place for three years. The DLS framework classifies insurer members into four premium categories according to their risk profiles, where lower risk insurer members pay lower premiums than those in the higher risk categories. Table 2 lists the premium categories and their corresponding premium rates as well as the minimum annual premium payable as at assessment year 2015.

TABLE 2: BUSINESS TYPES, TIPS PREMIUM RATES AND MINIMUM ANNUAL PREMIUM

Premium Category	Premium Rates for Life Insurance Business	Premium Rates for General Insurance Business	Minimum Annual Premium Amount (RM)
1	0.025%	0.05%	75,000
2	0.05%	0.1%	150,000
3	0.1%	0.2%	300,000
4	0.2%	0.4%	600,000

FINANCIAL OVERVIEW

Revised First Premium and Annual Premium Rates and the Minimum Annual Premium for General Insurance Business

From the assessment year 2016 onwards, there will be a revision to the first premium and annual premium rates and the minimum annual premium for the general insurance business. The Order³ was gazetted on 4 March 2016 and the reduction in the premium rates are prescribed in Table 3 below. Refer to page 102 for further explanation.

TABLE 3: CURRENT PREMIUM RATES, NEW PREMIUM RATES AND NEW MINIMUM ANNUAL PREMIUM FOR GENERAL INSURANCE BUSINESS

Premium Category	General Insurance Business		
	Current Rates	New Rates	New Minimum Annual Premium Amount (RM)
1	0.05%	0.025%	25,000
2	0.1%	0.05%	
3	0.2%	0.1%	
4	0.4%	0.2%	

General Takaful and Family Solidarity Takaful Businesses

General Takaful and Family Solidarity Takaful operators continued to apply the flat rate system for the assessment year 2015, subject to the minimum annual premium payable as prescribed in Table 4 below.

TABLE 4: BUSINESS TYPES, TIPS PREMIUM RATES AND MINIMUM ANNUAL PREMIUM

Business Types	Flat Premium Rates	Minimum Annual Premium Amount (RM)
Family Solidarity Takaful	0.06%	150,000
General Takaful	0.25%	150,000

Revised First Premium and Annual Premium Rates and the Minimum Annual Premium for General Takaful and Family Solidarity Takaful Businesses

With the establishment of the DLS framework for takaful operators, from the assessment year 2016 onwards, a revision to the first premium and annual premium rates and the minimum annual premium for the general takaful and family solidarity takaful businesses will be implemented. The Order³ was gazetted on 4 March 2016 and the revised premium rates are prescribed in Table 5 below.

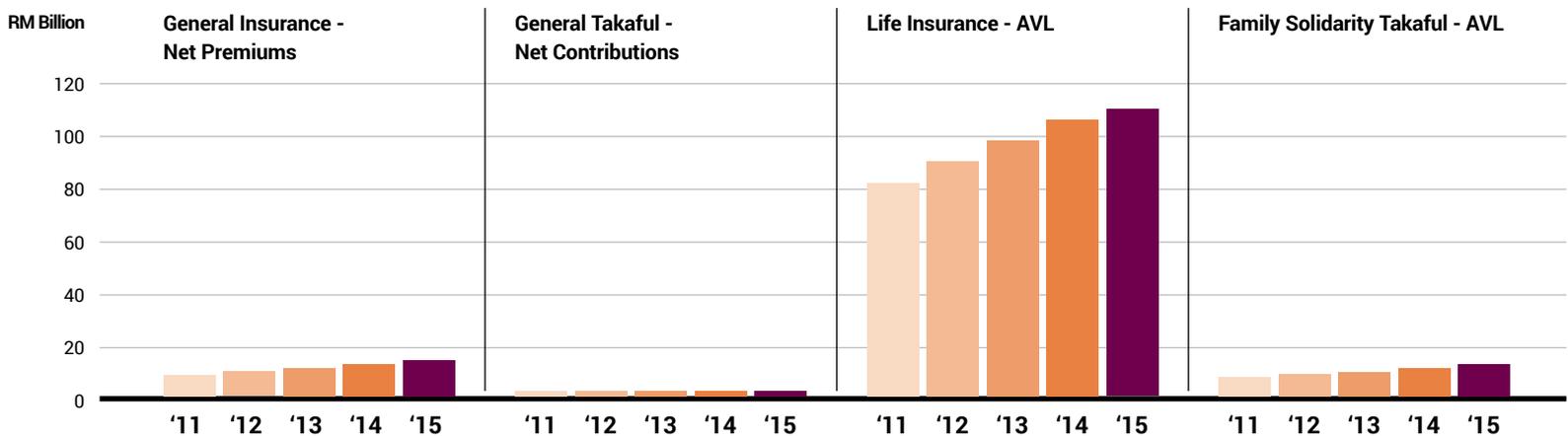
TABLE 5: NEW PREMIUM RATES FOR GENERAL TAKAFUL AND FAMILY SOLIDARITY TAKAFUL BUSINESSES

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

³ Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2016

FINANCIAL OVERVIEW

CHART 5: TREND OF NET PREMIUMS, NET CONTRIBUTIONS AND AVL FOR ASSESSMENT YEARS 2011 TO 2015



INVESTMENT-RELATED INCOME

PIDM operates within guidelines that are approved by its Board of Directors as well as the approved policies relating to the management of financial risks, i.e. liquidity, market and credit risks. Pursuant to our 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 a policy that our investments are held-to-maturity.

In relation to the day-to-day operational cash management, we continue 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 deposits.

Besides the 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 Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by BNM. The PDS were transferred to PIDM in 2011.

During the year, PIDM invested in PDS with rating of AAA issued by a Government-related entity with principal value of RM75 million.

Our investment income for 2015 of RM78.5 million (DIFs: RM36.7 million, TIPFs: RM41.8 million) was higher than budget due to the increase in the base of investable funds and an upward trend in investment yield observed during the year. The Weighted Average Effective Yield Rates (WAEYR) for other cash equivalents and investments as well as placements in short-term money market deposits were 3.12% (2014: 2.96%) and 3.18% (2014: 3.08%) 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 2011 TO 2015

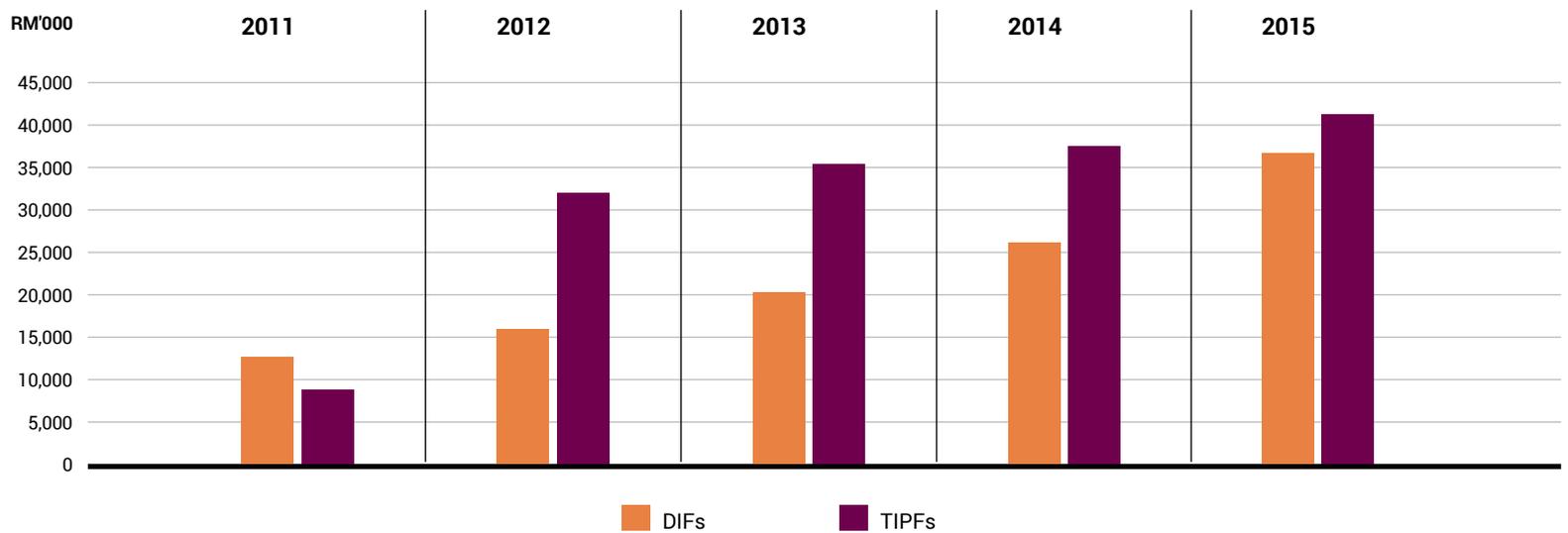
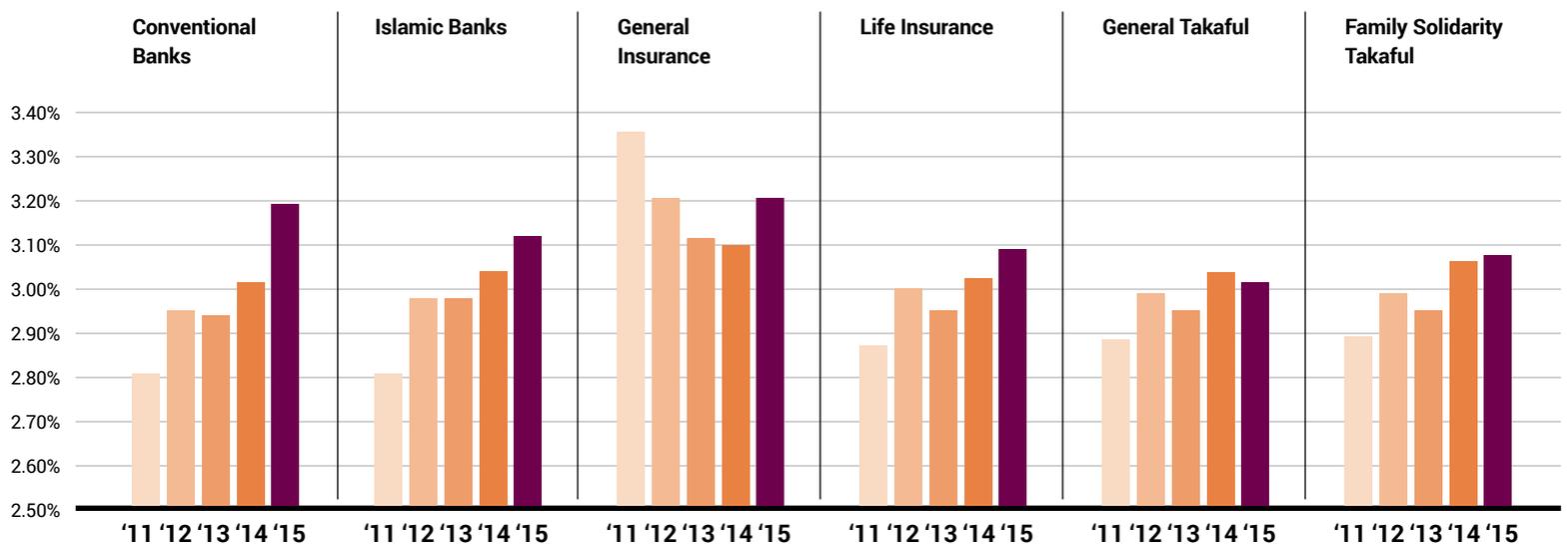
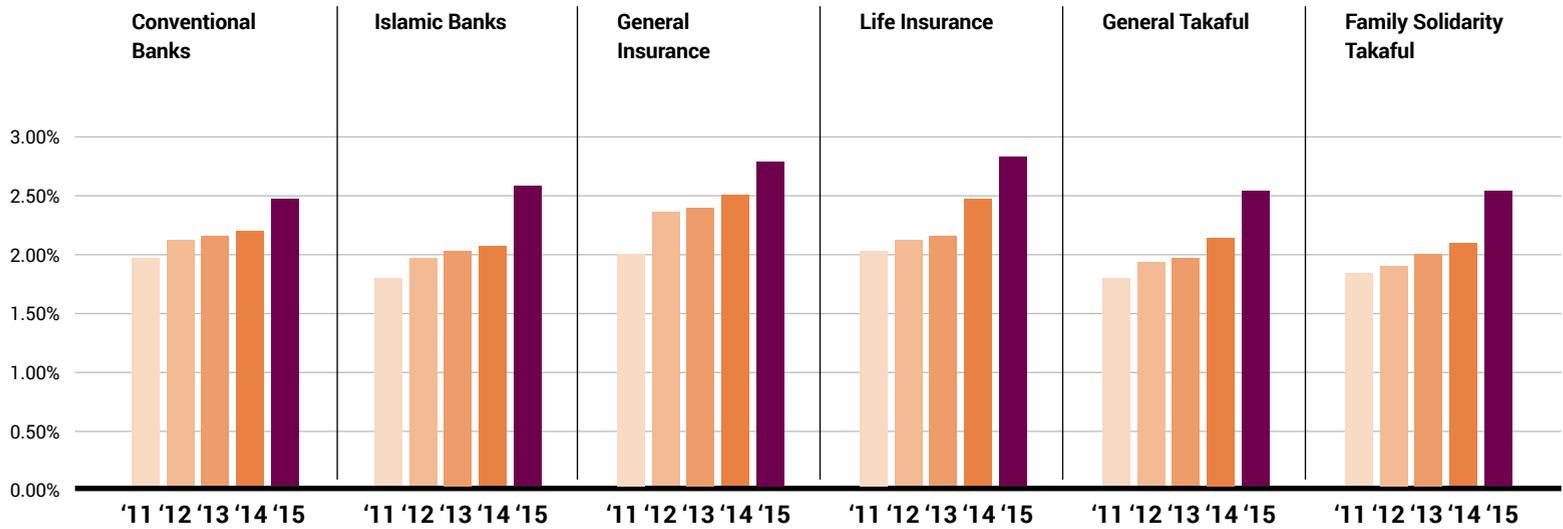


CHART 7: TREND OF WEIGHTED AVERAGE EFFECTIVE YIELD RATES FOR CASH EQUIVALENTS (SHORT-TERM INVESTMENTS) AND INVESTMENTS FROM 2011 TO 2015



FINANCIAL OVERVIEW

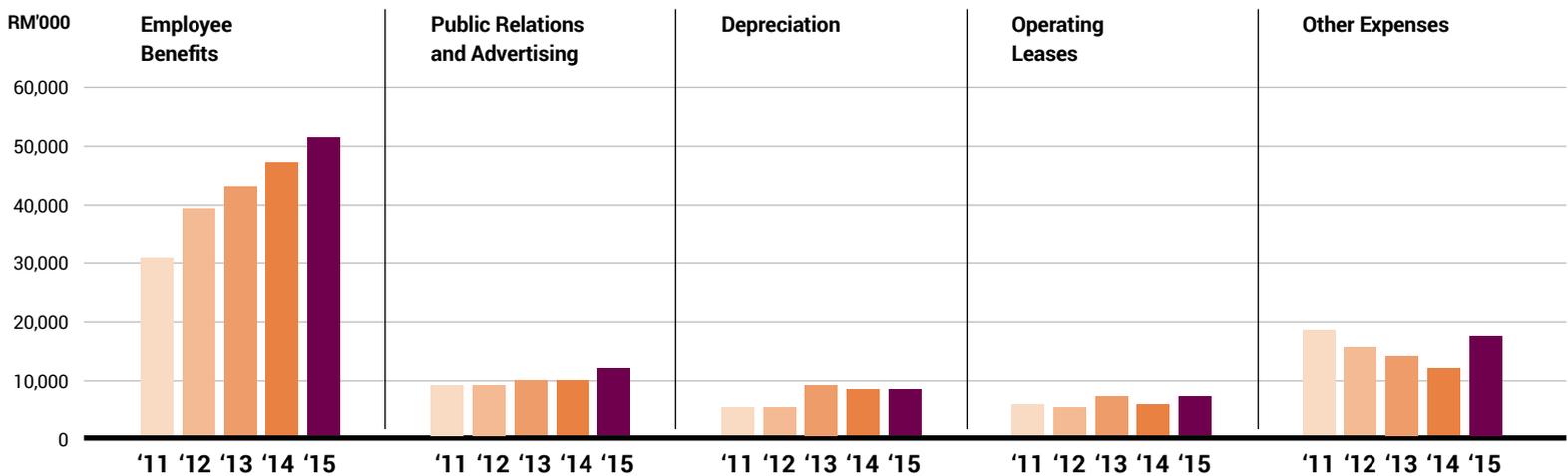
CHART 8: TREND OF WEIGHTED AVERAGE EFFECTIVE YIELD RATES FOR PLACEMENTS IN SHORT-TERM MONEY MARKET DEPOSITS FROM 2011 TO 2015



OPERATING EXPENSES

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

CHART 9: TREND OF OPERATING EXPENSES FROM 2011 TO 2015



FINANCIAL OVERVIEW

Our operating expenses of RM94.7 million for 2015 was an increase of 12.9% from 2014, largely attributable to employee-related costs as well as our continuous efforts in enhancing public awareness and operational readiness. During the year, the higher amount expended on our 2015 advertising campaigns as well as public relations and consumer research in supporting our awareness initiatives saw improved levels in public awareness. To ensure operational readiness, our expenses in professional and consultancy increased for the conduct of simulations and operationalisation of our failure resolution framework. Employee-related costs for 2015 were higher in tandem with the salary increment for employees and the full impact of the prior year's new hires. Our higher operating expenses were also partly attributable to the rental of additional office space, impact of GST as well as our hosting of international events that included the 2015 IADI Annual General Meeting and Conference.

Notwithstanding the overall increase in operating expenses, our budget for 2015 saw a positive variance of 13.1% with lower actual amounts expended on several areas. A contributing factor to the positive variance against budget is the reduced employee benefits expenses as a result of lower headcount from several resignations and the timing of hiring. On communications-related expenses, a different approach for the education programme in the form of a digital-based campaign resulted in a positive variance from the budgeted amount. In terms of our general and administration expenses, we expended less than the budgeted amount for professional and consultancy fees, Board-related expenses, scholarship programme and travelling expenses.

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

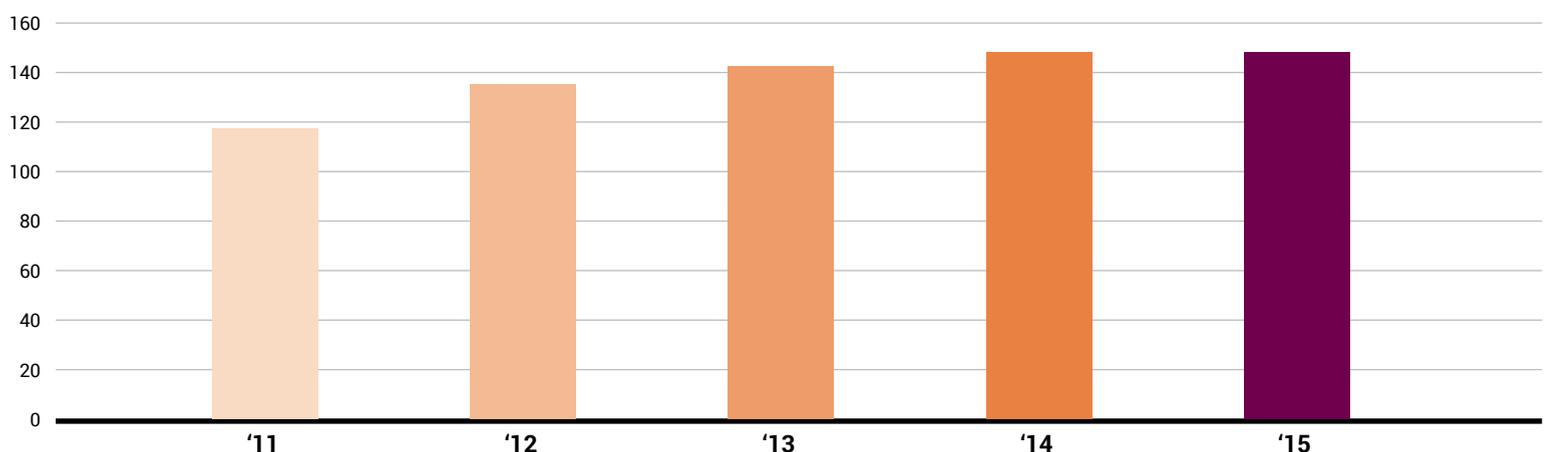
EMPLOYEE BENEFITS

Our employees remain our most important asset. For the 2015 financial year, as PIDM moves towards a mature phase, our focus was on the development and retention of skills and expertise for the purpose of succession planning and to support PIDM's strategic and operational capacity given our unique mandate. It is our strategy to provide competitive compensation that is benchmarked to the general market to attract and retain our talent.

During the year, PIDM continued to focus on the continuous development, retention and engagement of our employees, for a capable, resilient and high performing workforce. PIDM continues to grow and develop its employees' capabilities and competencies through various initiatives to support its operational effectiveness and long-term sustainability. Talent management continues to be the key focus in our efforts to enhance employee competencies, and we implement relevant learning and development initiatives and ensure knowledge transfer through collaboration with local and international subject matter experts. As part of our plan to develop bench strength for key Management and critical positions, we continue to develop potential successors to assume critical roles when the need arises with the emphasis on building an even stronger and capable leadership team.

CHART 10: TREND OF EMPLOYEE HEADCOUNT FROM 2011 TO 2015

Number of Employees



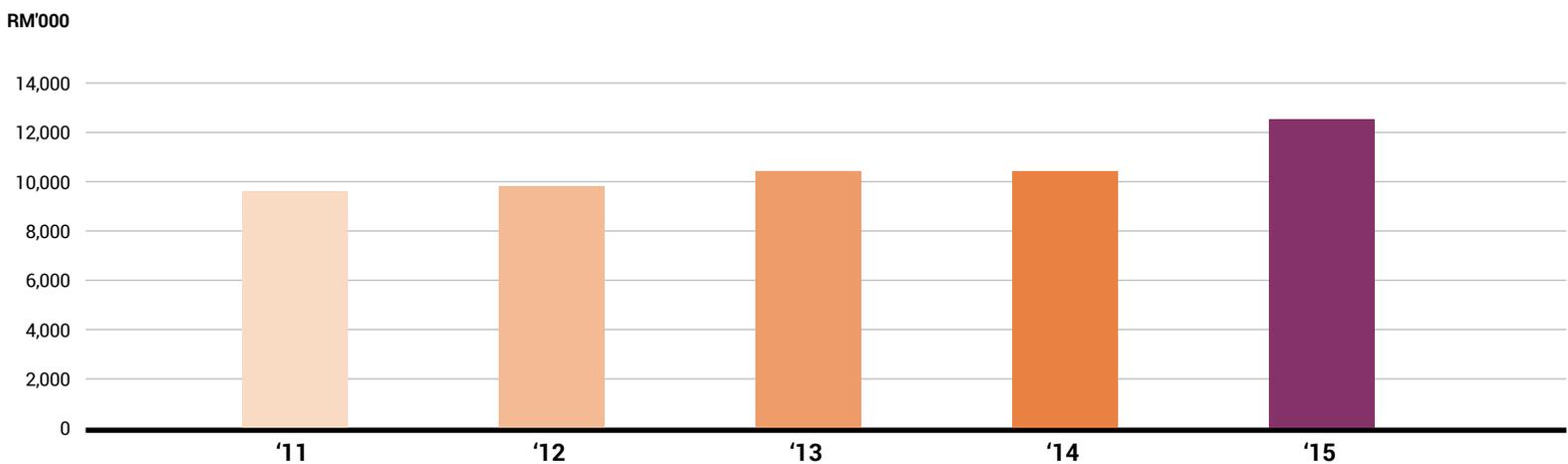
FINANCIAL OVERVIEW

A total of RM51.6 million has been incurred for employee benefits and compensation in 2015 (2014: RM47.6 million), representing an 8.4% increase from the previous year. The higher employee-related costs were primarily due to the full impact of new hires in 2014 which has now been fully reflected in 2015 as well as salary increment for eligible employees in 2015. Our resources have been planned to ensure support for strong governance and internal controls, effective administration of both DIS and TIPS, talent retention and succession planning as well as to ensure continuous operational readiness.

The favourable variance of RM5.7 million or 9.9% lower than budget for the employee benefits expenses was primarily attributable to the lower number of headcount at the end of the year as compared to budget due to the timing of hiring new employees as well as the resignations of several employees.

PUBLIC RELATIONS AND ADVERTISING

CHART 11: TREND OF PUBLIC RELATIONS AND ADVERTISING EXPENSES FROM 2011 TO 2015



Communications and public awareness initiatives continue to play a significant role in ensuring the effectiveness of our DIS and TIPS. Public relations and advertising expenses for 2015 totalled RM12.7 million, which is 21% higher than the previous year of RM10.5 million, but 11.9% lower than budget. The public relations and advertising budget for 2015 is still focussed on the implementation of PIDM's multi-year Integrated Communications Plan (ICP), which is aimed at supporting key communication activities, namely advertising campaigns and public relations activities including briefings and roadshows, media engagements and education programmes. PIDM continued with the implementation of its ICP in 2015 to enhance awareness and understanding of PIDM's role, DIS and TIPS, towards promoting confidence in the stability of the financial system.

The majority of the costs incurred on public relations and advertising during the year related to our advertising campaign as well as public relations and consumer research. We developed new advertising materials in collaboration with Malaysia's most well-known and much-loved cartoonist, Datuk Mohamed Noor Khalid, also known as Lat. New materials were produced for the print, television and online media as well as posters, billboards and collateral items for use at briefings and roadshows. The nationwide campaign aims to bring about a new level of public awareness and understanding about PIDM and its protection systems. For the first time in our annual media buy planning, we contracted advertising spaces in media channels for the first quarter of 2016 from the advertising budget for 2015. This was to enable us to enjoy savings on media rates and ensure preferred spots in the various media titles. During the year, the cost incurred for our advertising campaign amounted to RM10.9 million (2014: RM7.6 million), an increase of 43.4% from the previous year.

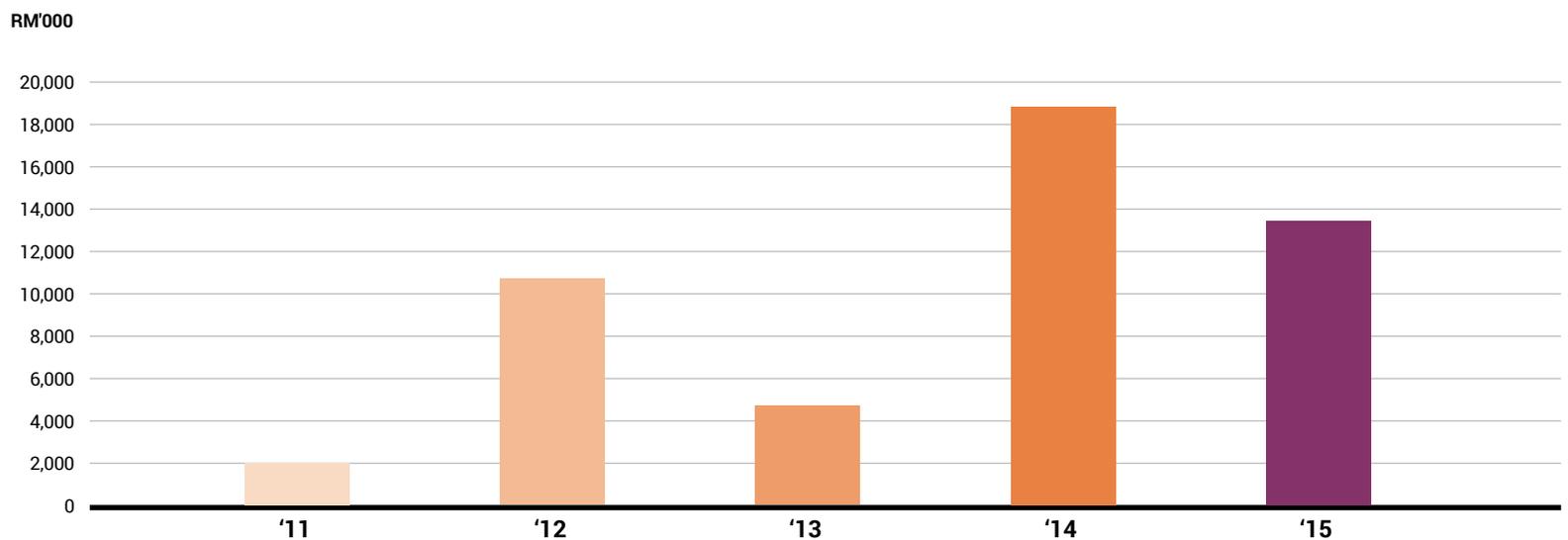
Our awareness initiatives for 2015 have gained traction, with improved levels in public awareness recorded in our annual year-end consumer survey. Public awareness of PIDM rose to 53% from 47% in 2014, and increased to 41% from 38% in 2014 for DIS. Awareness of TIPS declined to 26% from 30% in 2014, mainly attributed to the low levels of insurance ownership recorded among survey respondents, for whom there was less relevancy towards insurance products. Nevertheless, there is an improvement on the overall depth of understanding towards TIPS.

FINANCIAL OVERVIEW

CAPITAL EXPENDITURES AND DEPRECIATION

We continued to build strong and effective operational infrastructure, in particular IT systems. In 2015, we continued our focus on enhancing and developing our core IT systems as well as the development of our permanent DRC.

CHART 12: TREND OF CAPITAL EXPENDITURES FROM 2011 TO 2015



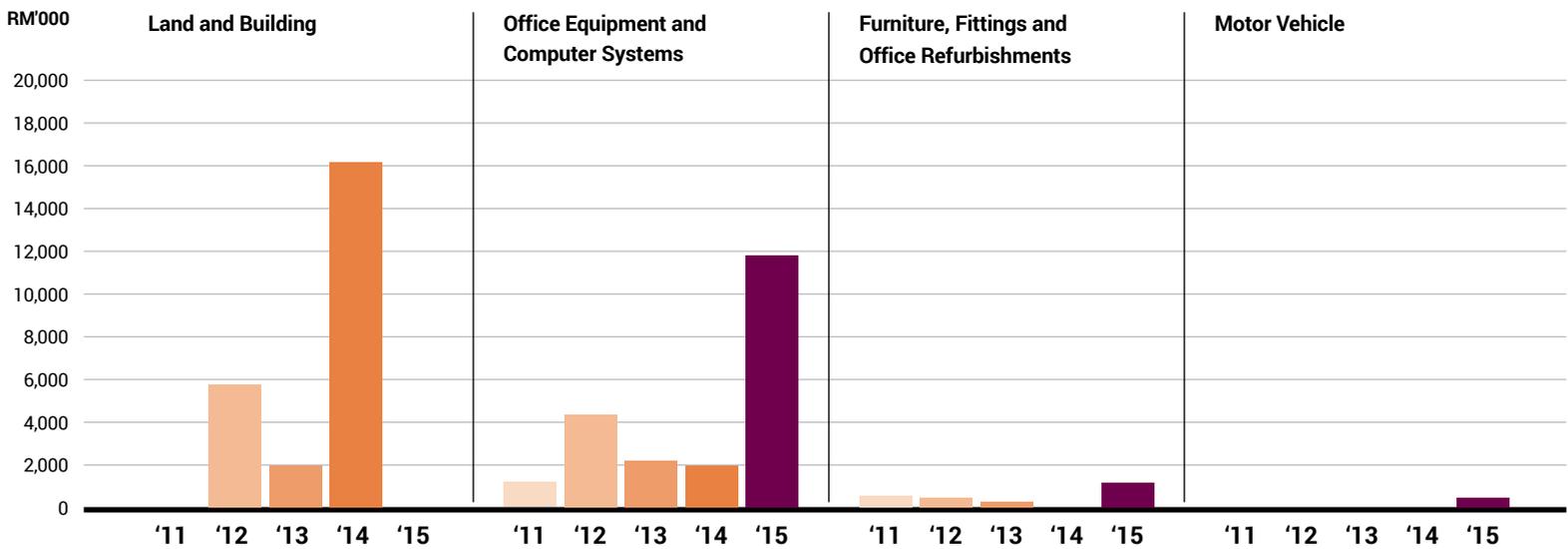
As at 31 December 2015, we contracted RM13.4 million for capital expenditures, which represents 68.4% of the capital expenditures budgeted for 2015 of RM19.6 million. The positive variance was mainly due to the following:

- a change in approach for the development of the Evaluation Model for DIS and TIPS. The Evaluation Model will be developed internally instead of engaging an external consultant as earlier planned;
- deferment of IT equipment installation and interior fit-out works for the DRC, which are expected to commence in June 2016; and
- cost savings on the renovation of additional office space.

As at the end of 2015, the construction of the DRC has reached 57% completion and the overall physical construction of the DRC is expected to be completed in the second quarter of 2016.

FINANCIAL OVERVIEW

CHART 13: TREND OF CAPITAL EXPENDITURE ITEMS FROM 2011 TO 2015

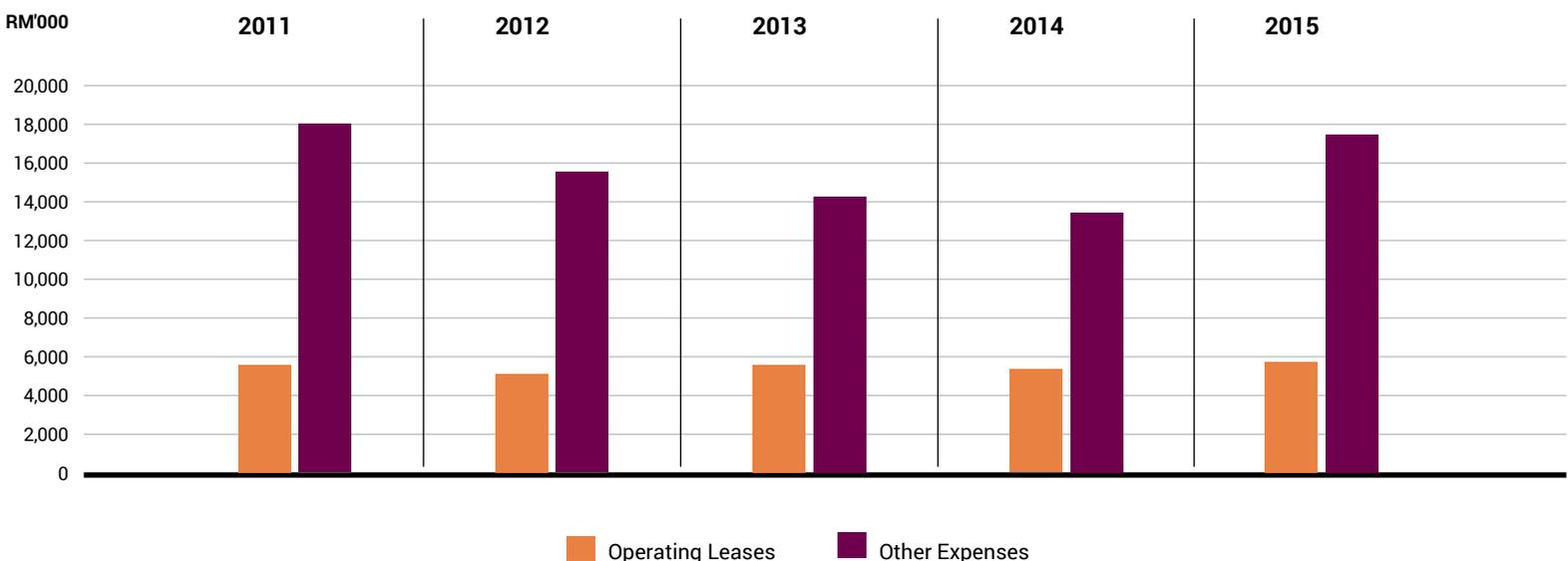


Depreciation expenses for the year amounting to RM7.1 million is comparable to that of the previous year. Whilst more assets have been fully depreciated, new assets have also been capitalised and depreciated. Depreciation expenses, however, is lower than budget by 10.3% due to some deferment of capitalisation of assets and the timing of the capitalisation of IT systems during the year.

OPERATING LEASES AND OTHER EXPENSES

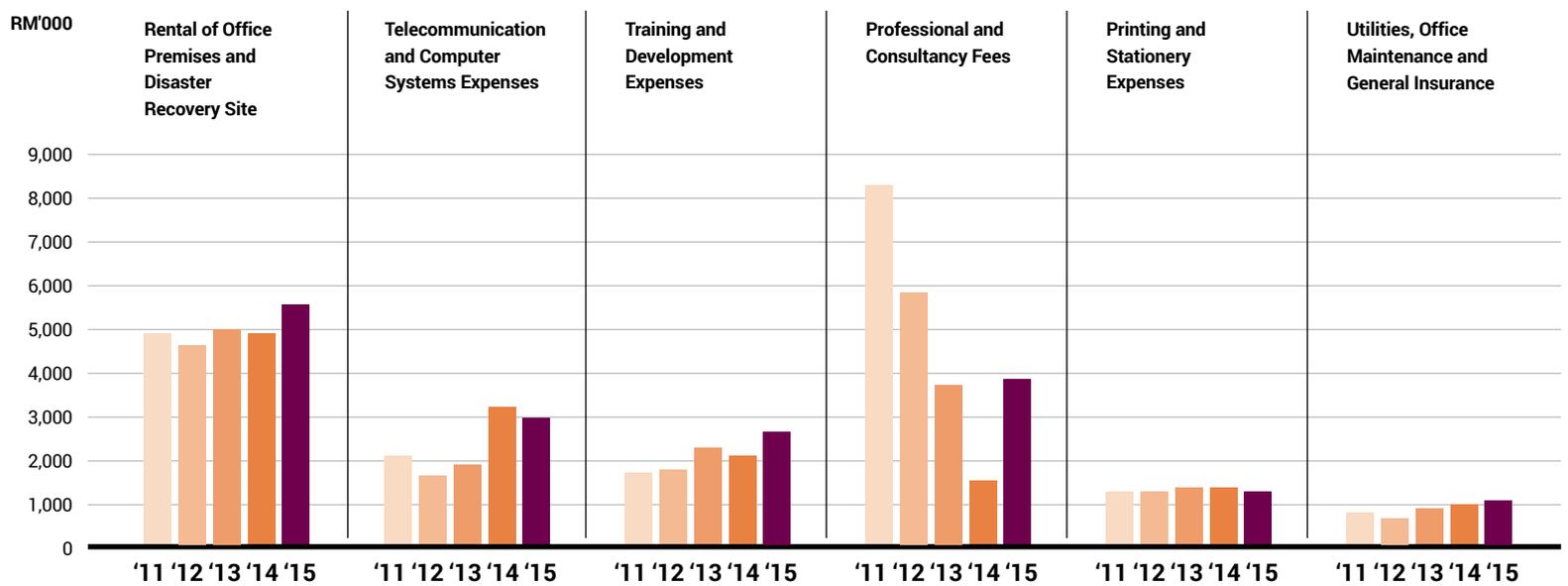
These categories of expenses relate to our general and administration expenses, such as rental of office premises, professional and consultancy fees, training and development expenses, printing and stationery costs and telecommunication costs as well as utilities, office maintenance and general insurance.

CHART 14: TREND OF OPERATING LEASES AND OTHER EXPENSES FROM 2011 TO 2015



FINANCIAL OVERVIEW

CHART 15: TREND OF MAJOR ITEMS WITHIN OPERATING LEASES AND OTHER EXPENSES FROM 2011 TO 2015



The operating leases of RM5.9 million relate mainly to the rental of our office premises, rental of space for our current 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 as well as the impact of GST. Nevertheless, the operating lease expenses were below budget.

Other expenses increased by 29.1% from RM13.4 million in 2014 to RM17.3 million in 2015 and were below budget by RM6 million or 25.8%. This was primarily due to the timing of and savings on several key activities, particularly on the engagement of consultants for intervention and failure resolution-related work, legal advice, telecommunication and IT-related expenses, travelling, printing and stationery expenses, training and development expenses, Board-related expenses as well as expenses on scholarship programme.

FINANCIAL OVERVIEW

VALUE ADDED STATEMENT

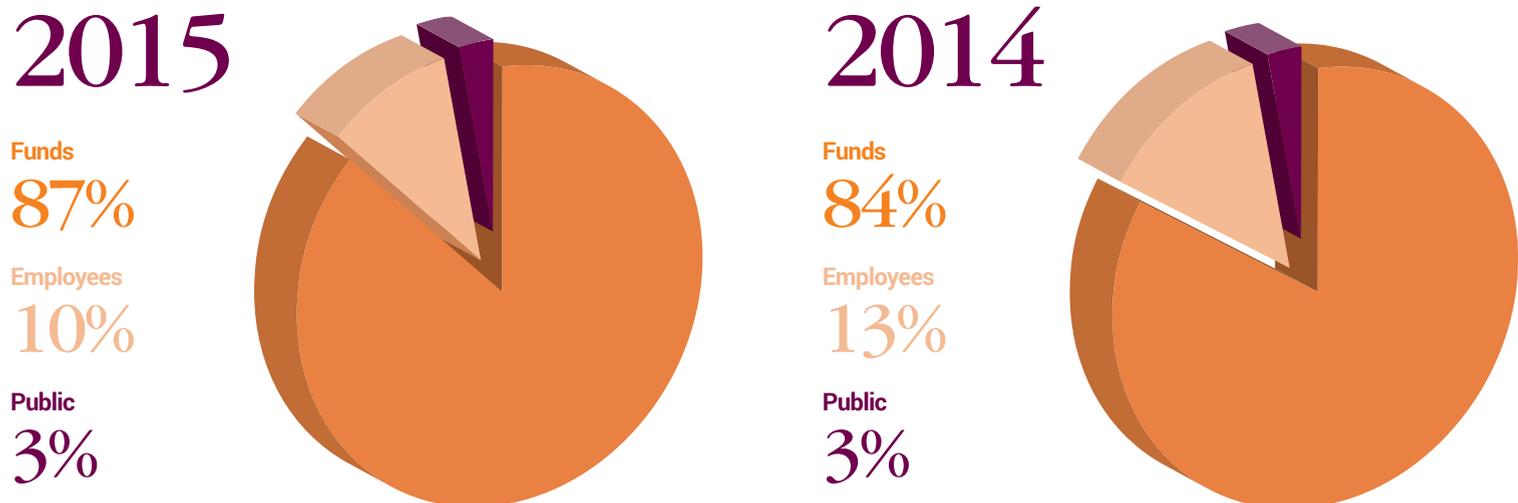
Value added is a measure of funds created by PIDM from its operations. The Value Added Statement indicates the total monetary value of the funds created during the financial year and its allocation to key stakeholders: (i) our internal stakeholders, i.e. our employees; and (ii) the funds retained in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

	2015 RM'000	2014 RM'000
Value Added		
Premium revenues*	442,006	310,998
Investment income*	78,478	63,732
Operating expenses excluding employee benefits expenses, public relations and advertising expenses as well as depreciation*	(23,233)	(18,668)
Miscellaneous income*	777	-
Value added available to be allocated	498,028	356,062
Distribution of Value Added		
To employees:		
Employee benefits expenses*	51,561	47,623
To public:		
Public relations and advertising expenses*	12,734	10,505
Retain in PIDM:		
Depreciation*	7,143	7,143
Funds		
- <i>Conventional Deposit Insurance Fund</i>	264,468	170,322
- <i>Islamic Deposit Insurance Fund</i>	60,812	34,446
- <i>General Insurance Protection Fund</i>	44,900	40,779
- <i>Life Insurance Protection Fund</i>	47,175	37,320
- <i>General Takaful Protection Fund</i>	3,053	2,560
- <i>Family Solidarity Takaful Protection Fund</i>	6,182	5,364
Total allocated to Funds	426,590	290,791
Total allocated	498,028	356,062

* Refer to Note 20 to the financial statements for the breakdown of the revenues and expenses allocated to the respective Funds

FINANCIAL OVERVIEW

CHART 16: ALLOCATION OF VALUE ADDED FOR 2015 AND 2014



The premium revenues and investment income go towards the accumulation of the Funds, net of PIDM's operating 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 operating expenses. Ultimately, it is expected that the investment income will be sufficient to cover PIDM's overall operating expenses and in that case, the premiums collected from the member institutions will go entirely towards the accumulation of the Funds.

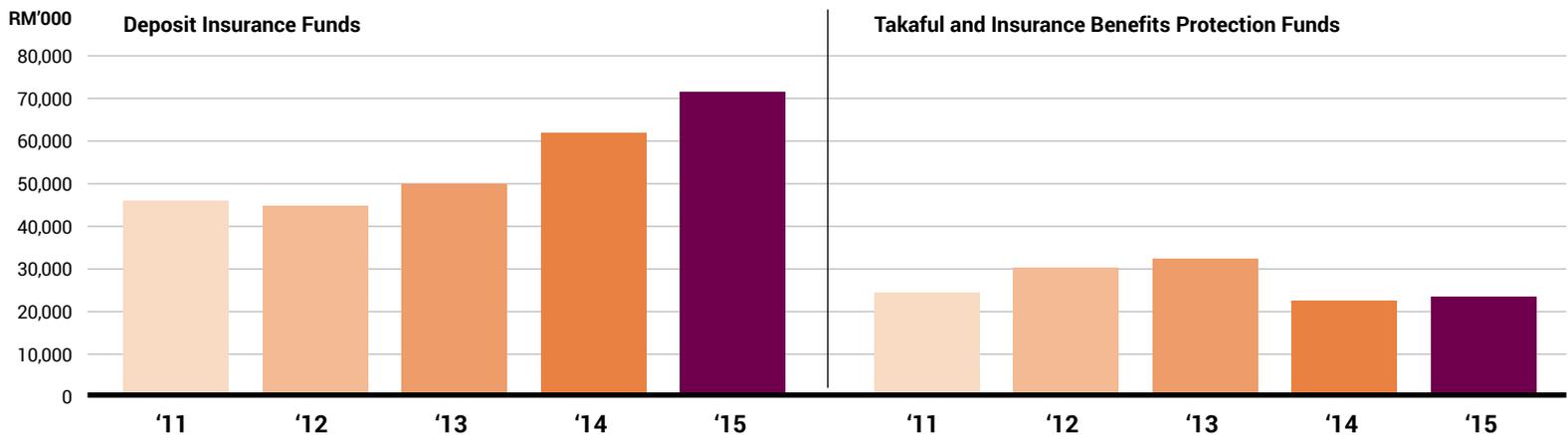
SEGMENT INFORMATION

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 in 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 whilst indirect expenses are to be charged to the DIFs, the TIPFs or allocated across all the six Funds, based on the premiums received in the previous year. Note 2.2(f) of the financial statements details out the basis and allocation percentages used to allocate indirect expenses to the respective Fund in accordance with the Costs Allocation Order.

FINANCIAL OVERVIEW

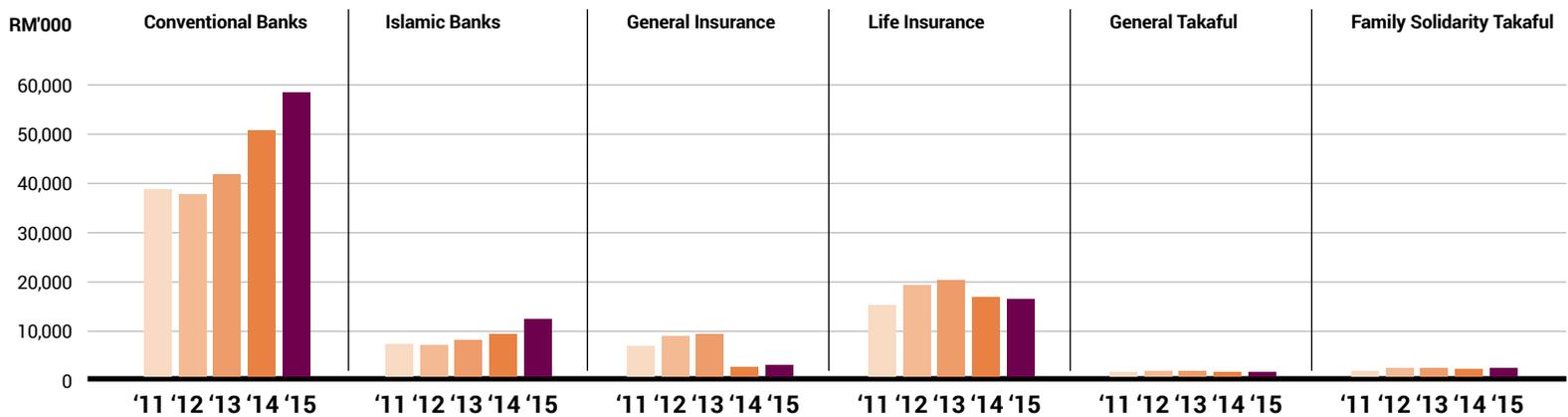
CHART 17: TREND OF OPERATING EXPENSES CHARGED TO DIFs AND TIPFs FROM 2011 TO 2015



The significant change in the allocation of operating expenses between the DIFs and TIPFs during the year was due to higher premium collection for DIS as a result of the revision to premium rates beginning assessment year 2013.

From the perspective of the six Funds, the share of total operating expenses of the respective Funds for 2015 is described in Chart 18 below.

CHART 18: TREND OF OPERATING EXPENSES CHARGED TO THE SIX FUNDS FROM 2011 TO 2015



We continue to direct our efforts to enhance our capacity and capabilities to ensure operational readiness for both DIS and TIPS. This includes enhancing our IT systems and infrastructure as well as our operational processes, policies and procedures, particularly for our intervention and failure resolution and insurance, risk assessment and monitoring functions.

FINANCIAL OVERVIEW

CHART 19a: KEY FINANCIAL TRENDS (TOTAL INCOME) FOR THE SIX FUNDS FROM 2011 TO 2015

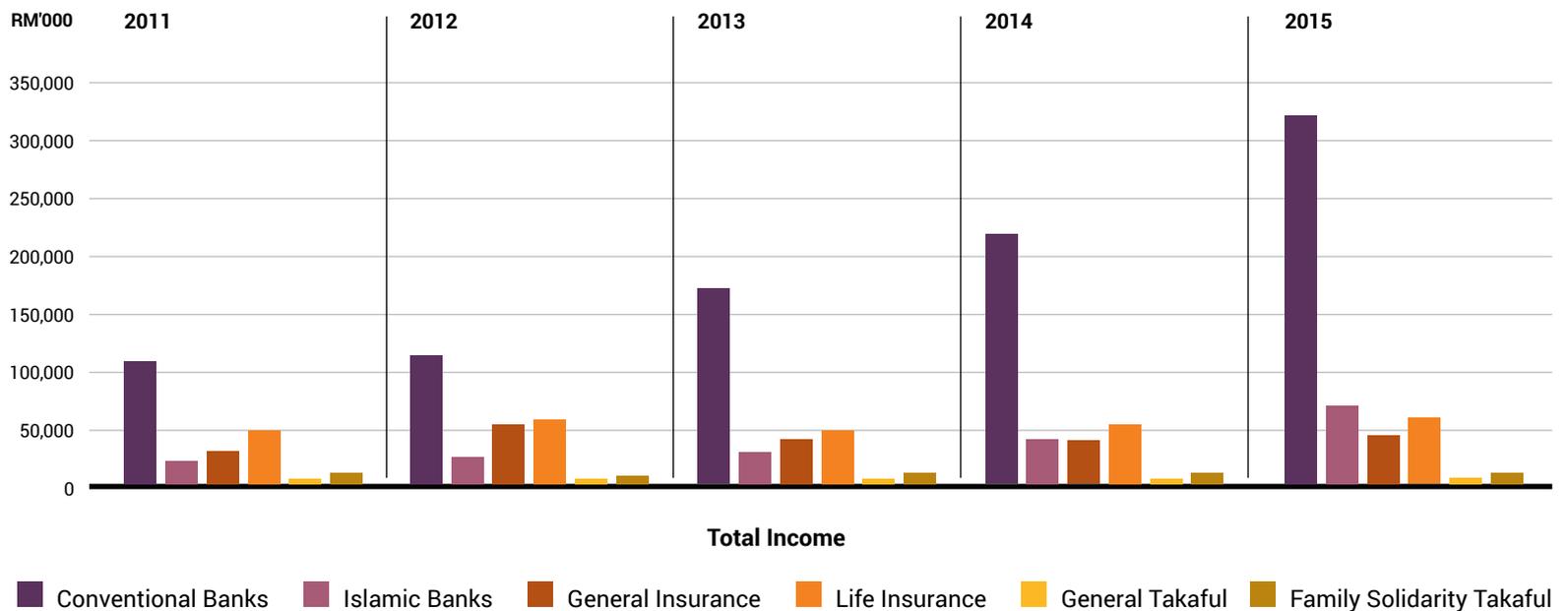
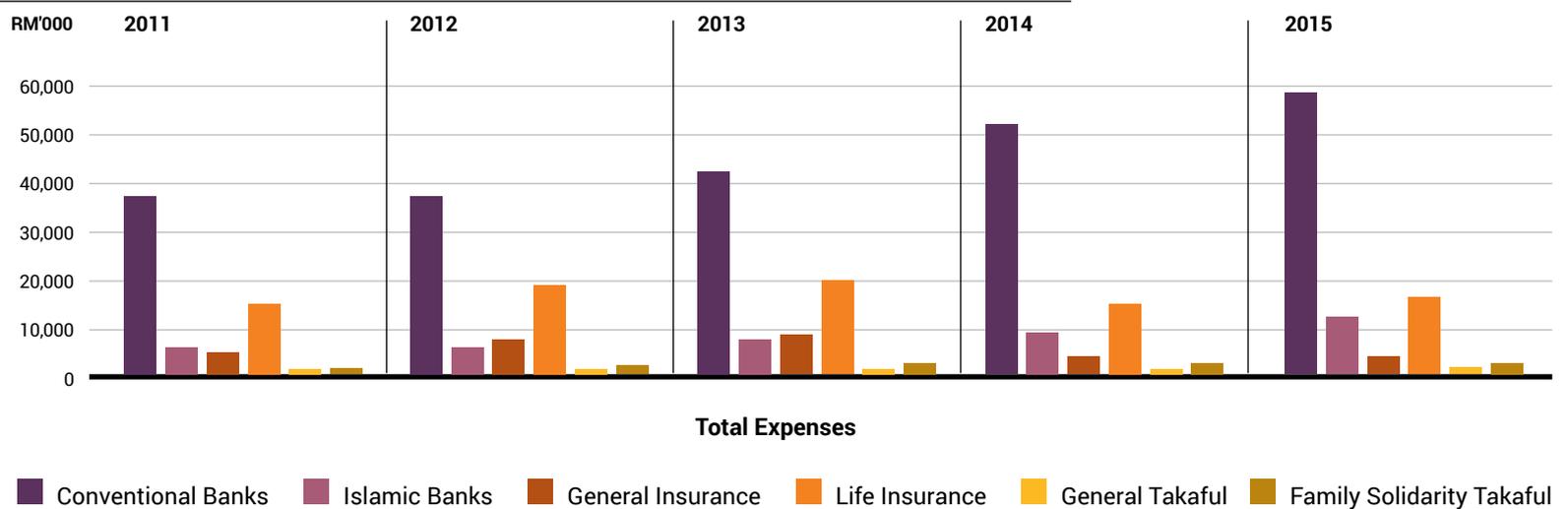
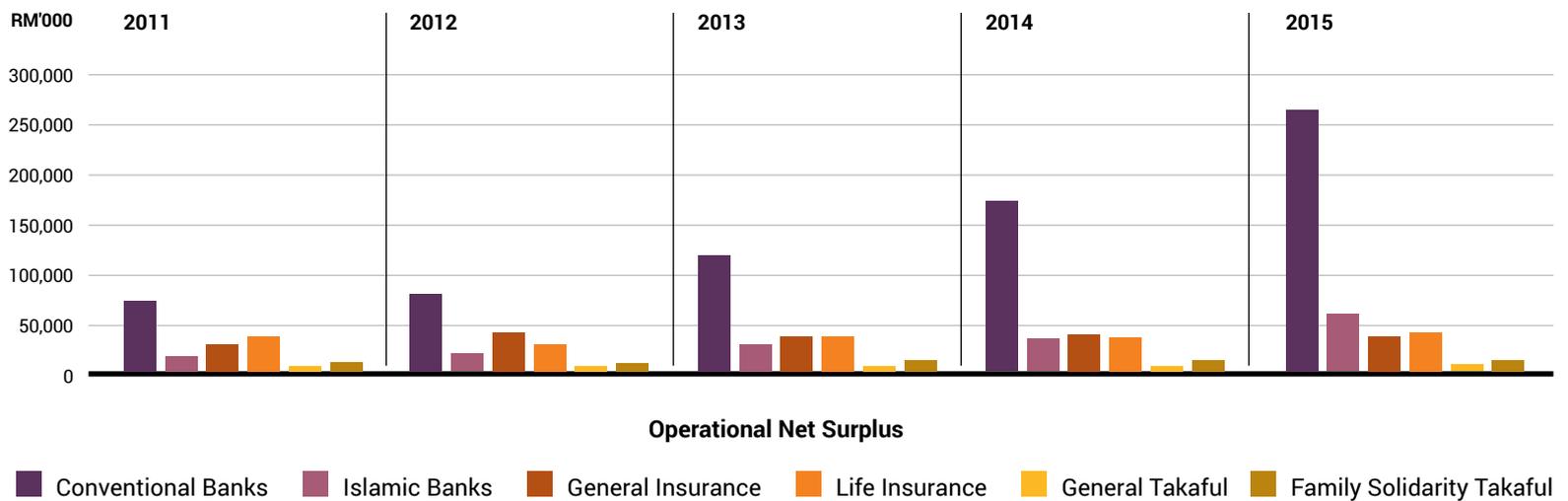


CHART 19b: KEY FINANCIAL TRENDS (TOTAL EXPENSES) FOR THE SIX FUNDS FROM 2011 TO 2015



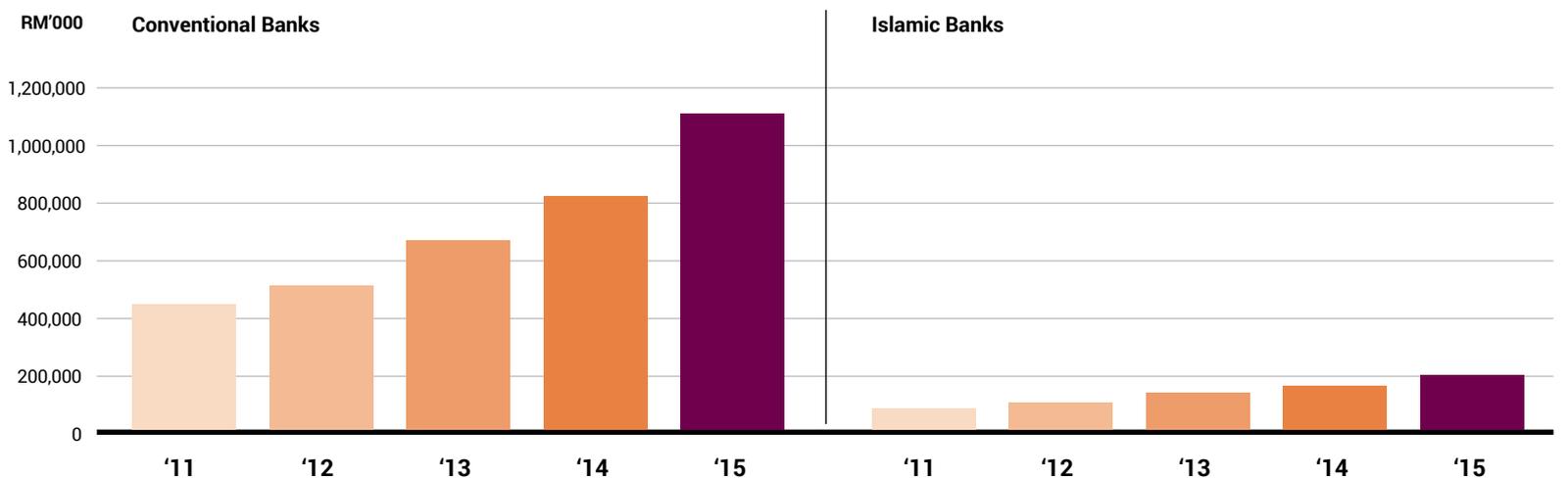
FINANCIAL OVERVIEW

CHART 19c: KEY FINANCIAL TRENDS (OPERATIONAL NET SURPLUS) FOR THE SIX FUNDS FROM 2011 TO 2015



Charts 19a, 19b and 19c provide a snapshot of the key financial trends pertaining to all six Funds from 2011 to 2015. Details of the financial position as well as the financial performance of the six Funds are available in Note 20 of the financial statements.

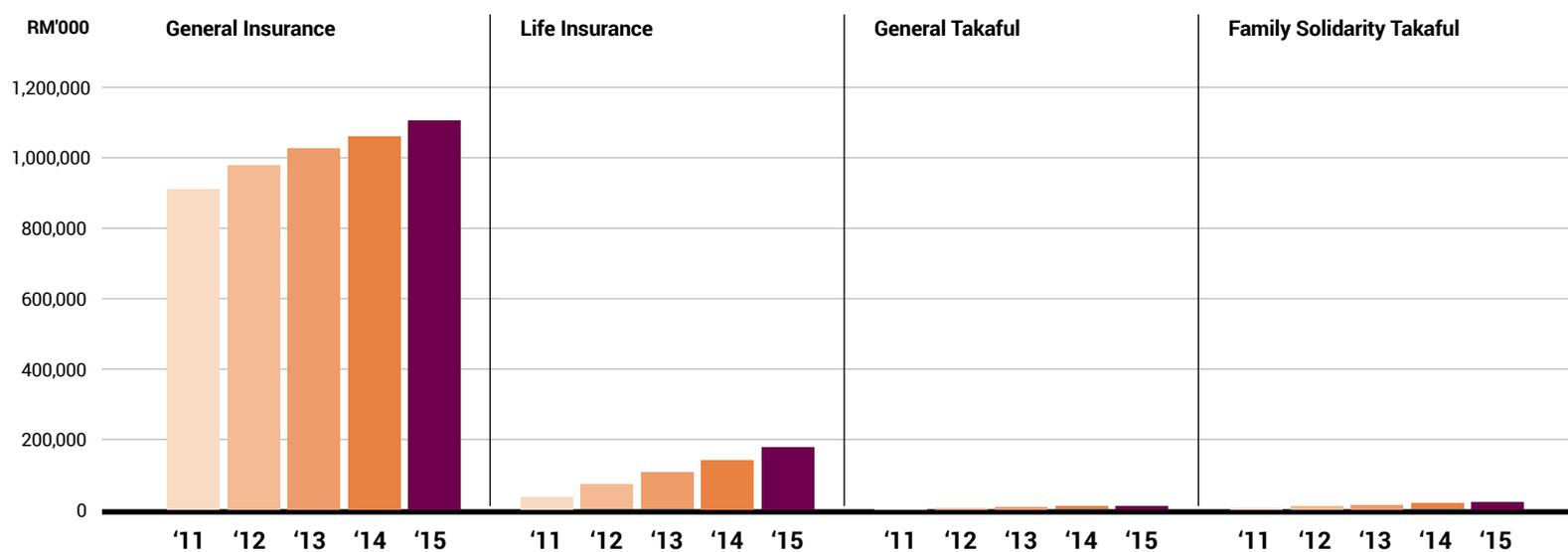
CHART 20: TREND OF CONVENTIONAL AND ISLAMIC DIFs FROM 2011 TO 2015



Total DIFs as at 31 December 2015 amounted to RM1.3 billion, an increase of 33.4% from the previous year. The Conventional DIF increased to RM1.1 billion or by 31.8% whilst the Islamic DIF increased to RM202.7 million or by 42.9%.

FINANCIAL OVERVIEW

CHART 21: TREND OF TIPFs FROM 2011 TO 2015

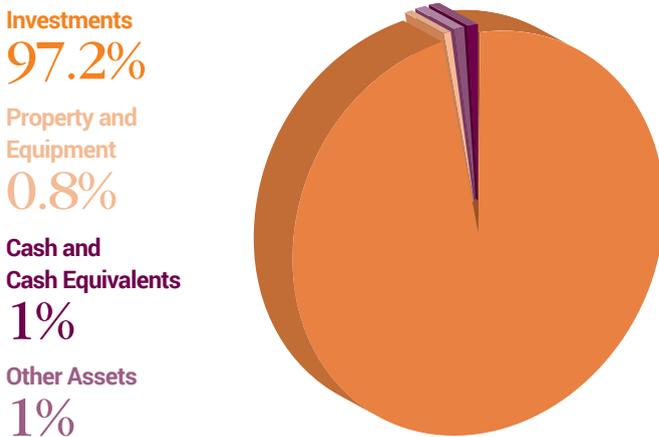


Total TIPFs as at 31 December 2015 amounted to RM1.3 billion, an increase of 8.2% from the previous year. The General Insurance Protection Fund (GIPF) increased by 4.2% whilst the Life Insurance Protection Fund increased by 33.4%. The General Takaful Protection Fund and the Family Solidarity Takaful Protection Fund increased by 33.8% and 33.4% respectively. The significantly lower growth for the GIPF compared to the other TIPFs was primarily due to its larger base of funds arising from the transfer of the former IGSF to PIDM in 2011.

FINANCIAL OVERVIEW

HIGHLIGHTS OF THE STATEMENT OF FINANCIAL POSITION

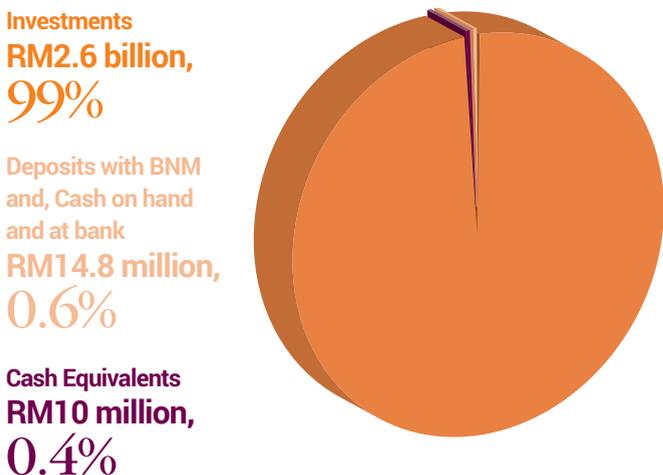
CHART 22: ASSET COMPOSITION AS AT 31 DECEMBER 2015



CASH, CASH EQUIVALENTS AND INVESTMENTS AS AT 31 DECEMBER 2015

Our assets remain liquid with cash, cash equivalents and investments, which stood at RM2.6 billion, representing 98.2% of our total assets as at 31 December 2015.

CHART 23: CLASSIFICATION OF CASH, CASH EQUIVALENTS AND INVESTMENTS AS AT 31 DECEMBER 2015



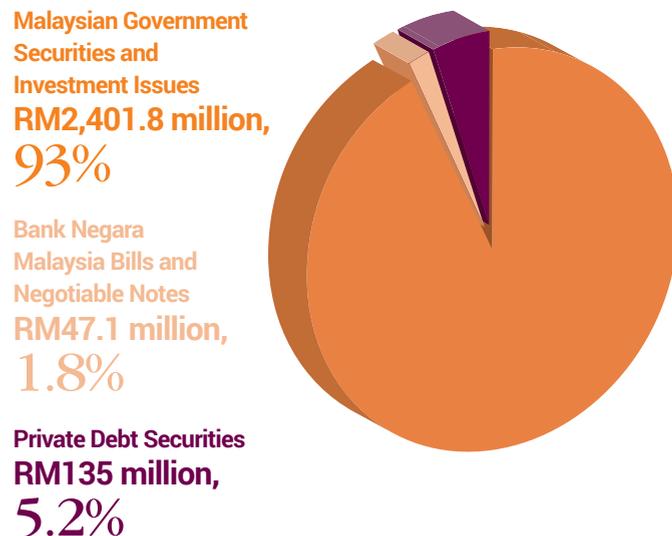
As at 31 December 2015, our cash and cash equivalents (which include short-term investments of less than 90 days from the date of acquisition), deposits as well as cash on hand and in the bank totalled RM24.8 million (DIFs: RM15.7 million and TIPFs: RM9.1 million).

Our investments as at 31 December 2015 totalled RM2.6 billion, an increase of 18.2% compared to RM2.2 billion in 2014. 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.

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 2015, comprised Malaysian Government Investment Securities and BNM Notes and with short-term tenures ranging from 42 days to 1,051 days. The longest tenure for these investments is until November 2018. As for the former IGSF portfolio, specific approval of 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 to Note 21(b) of the financial statements for the breakdown of the investment portfolio (by Funds) and their tenure to maturity.

As at 31 December 2015, PIDM has invested RM75 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 to Note 21(e) of 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 2015



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

FINANCIAL OVERVIEW

PROPERTY AND EQUIPMENT AND OTHER ASSETS AS AT 31 DECEMBER 2015

As at 31 December 2015, our property and equipment amounted to RM21.9 million (2014: RM19.2 million). The key additions to property and equipment in 2015 were attributed to the costs of the construction of the DRC as well as the development and implementation of IT systems and infrastructure upgrade, particularly the STARS and IT Servers and Data Storage Consolidation Project.

Other assets comprised deposits and prepayments, investment income receivables, other assets and other receivables amounting to RM26.9 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 is due to the nature of PIDM's investment securities holdings whereby there were more coupon-based investment instruments held during the year compared to the prior year.

INVESTMENTS IN SUBSIDIARIES AS AT 31 DECEMBER 2015

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 and failure resolution activity. The names of the subsidiaries are as follows:

1. The Federal Asset Management Agency of Malaysia Berhad
2. The Federal Commercial Bank of Malaysia Berhad
3. The Federal Islamic Bank of Malaysia Berhad
4. The National PIDM Insurance Corporation of Malaysia Berhad
5. The Federal Takaful Corporation of Malaysia Berhad

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

LIABILITIES AS AT 31 DECEMBER 2015

Our liabilities include payables for utilities, communication services, IT systems, provision for unutilised leave as well as accruals for services rendered in respect of consultancy engagements and the supply of goods.

SOURCES OF FUNDS 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. Annual net surplus is credited into and accumulated in the respective Funds as reserves to meet future obligations that may arise from providing financial consumer protection. As noted earlier, operating expenses are credited against the respective Funds on the costs allocation basis as described in Note 2.2(f)(i) and (ii) to the financial statements and there is no commingling between the Funds.

TARGET FUND OBJECTIVES AND GUIDING PRINCIPLES

The Target Funds are established to cover the expected net losses arising from any intervention and 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 specify the target levels for the Funds.

The Target Fund framework for DIFs was established in 2011. The development of the Target Fund framework for GIPF was completed during 2015, while the Target Fund framework for the remaining Protection Funds are planned for completion within the next few years.

The development of the Target Fund frameworks for DIFs and GIPF 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 size should be specified as a “range” rather than an absolute amount.

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 6: 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 profile of individual member institutions, the financial industry's landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in a different Target Fund level 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 to occur 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.

FINANCIAL OVERVIEW

TARGET FUND MODELLING APPROACH

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

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 and 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 targeted fund level that will be able to cover losses or to meet the costs of insolvency in a specified time horizon with specified confidence level.

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's landscape and operating environment as well as the financial system's regulatory and supervisory regime in Malaysia. These qualitative factors are either directly reflected within the statistical model or used in the determination of the Target Fund range.

TARGET FUND FOR DIFs

The determination of the Target Fund for DIFs is based on the macro-economic 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 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:

- (i) **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;
- (ii) **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 members are applied as proxies for EAD; and
- (iii) **Loss Given Default (LGD)** – The LGD adopted takes into consideration the potential recoveries in any given intervention and failure resolution action taken by PIDM.

FINANCIAL OVERVIEW

The Target Fund range is between 0.6% to 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2014, the range in Ringgit absolute terms is between RM2.4 billion and RM3.7 billion for Conventional DIF and between RM453 million and RM680 million for Islamic DIF. The underlying assumptions in the Target Fund model, as well as the Target Fund level, were reviewed during the year as part of the annual review process and were concluded to still be current and relevant. The present levels of DIFs, compared to the Target Fund range, are described in Table 7.

TABLE 7: LEVEL OF DIFs COMPARED TO THE TARGET FUND RANGE AS AT 31 DECEMBER 2014 AND 2015

Deposit Insurance Funds	Target Fund			
	2015 Actual RM Million / %	2014 Actual RM Million / %	Lower Range RM Million / %	Upper Range RM Million / %
Conventional Deposit Insurance Fund				
Balance	1,095.74	831.27	2,449	3,674
Percentage of Total Insured Deposits*	0.27%	0.21%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	202.66	141.85	453	680
Percentage of Total Insured Deposits*	0.27%	0.22%	0.60%	0.90%

* Based on TID as at 31 December 2014

TIME-TO-FUND FOR DIFs

Time-to-Fund refers to the timeframe (usually set out as 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 had determined the reasonable Time-to-Fund to achieve the lower range of the Target Fund level of 0.6% of TID to be between 10 and 12 years (beginning from 2012).

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

We will continue to monitor and report on the progress of achieving our Target Fund level 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 seven to nine years.

FINANCIAL OVERVIEW

TARGET FUND FOR GIPF

The model used for deriving the Target Fund level 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 an insurer member's failure.

KEY INPUT VARIABLES FOR THE STATISTICAL MODEL

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

- (i) **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 insurer members' supervisory risk rating or PIDM's internal ratings assessment.
- (ii) **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 exposures 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.

- (iii) **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 LEVEL FOR GIPF

The Target Fund framework for GIPF has adopted a Target Fund level at a range of 80% to 100% of the total net expected loss level. From the modelling results, the Target Fund level for GIPF shall be in the range of RM330 million to RM413 million. As at 31 December 2015, the GIPF level and Target Fund range in Ringgit absolute amounts were as follows:

TABLE 8: LEVEL OF GIPF AS AT 31 DECEMBER 2015

General Insurance Protection Fund	Target Fund		
	2015 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	1,110.1	330	413

The current GIPF level of RM1,110.1 million includes RM921.3 million transferred to PIDM in September 2011 from the IGSF which was previously administered by BNM. Since the commencement of the TIPS administration on 31 December 2010, PIDM has evolved from a flat rate premium to DLS in 2013 and has now completed the Target Fund framework for the general insurer members. The Target Fund, which will be 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 members.

FINANCIAL OVERVIEW

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 RM413 million. Based on the GIPF balance as at 31 December 2015, the current fund position has exceeded the upper range of the Target Fund level. The management of the surplus Funds upon reaching Target Fund levels is explained below.

MANAGEMENT OF FUNDS UPON REACHING TARGET FUND LEVEL

When the Funds reach the upper range of their respective Target Fund level, PIDM may consider a reduction in the premium rates or to rebate future premiums, 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 or the DLS framework continue to incentivise member institutions to improve their risk profiles and that the new entrants will pay premiums on the deposits and benefits that are protected by PIDM.

Given that the GIPF has currently surpassed its upper range of the Target Fund level, PIDM has proposed, and the Minister of Finance has approved, a reduction in the premium rates assessed on general insurer members for the assessment year 2016 onwards (refer to Table 3 on page 81). The Order⁴ was gazetted on 4 March 2016.

EXTERNAL FUNDING

We may raise external funds through either borrowings from the Government, capital markets or 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.

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

⁴ Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2016

SUMMARY OF THE CORPORATE PLAN 2016 - 2018

Staying ahead of the curve. The financial services and regulatory landscapes continue to change. As part of the financial safety net, we must monitor and take cognisance of these changes and challenges. We must be adaptable and flexible enough to respond promptly, and be proactive in anticipating, recognising and dealing with significant risks.

Towards long-term sustainability. PIDM develops a three-year rolling Corporate Plan that is updated annually. The Corporate Plan is based on an integrated approach, incorporating risk management processes to identify and manage the key risks that could prevent the Corporation from achieving its objectives. Our robust strategic plan also guides us in delivering value to our stakeholders over the long term. We must be operationally ready to deliver our mandate effectively and efficiently. Continued stakeholder trust and confidence is critical to our success in meeting our mandate.

HIGHLIGHTS OF OUR 2016 - 2018 PLAN

For the planning period of 2016 - 2018, the following strategic priorities will guide PIDM's activities.

Strategic Priorities	Key Focus and Supporting Initiatives
Implement our long-term Strategic Human Capital Plan that addresses the critical resources and core competencies that will help us reach our goals.	<p>Talent management</p> <ul style="list-style-type: none"> • Continue to develop leadership skills for the Management team. • Implement a career management strategy. • Review and validate the current competency model. • Monitor succession planning and develop the next level of successors. <p>Learning organisation</p> <ul style="list-style-type: none"> • Develop the learning organisation framework and strategies for implementation. <p>Employee engagement</p> <ul style="list-style-type: none"> • Continue to promote a positive work culture and environment.
Develop and implement an Effective Resolution Regime Plan.	<p>Operational readiness</p> <p>Intervention and failure resolution</p> <ul style="list-style-type: none"> • Develop a resolution plan framework in respect of Systemically Important Financial Institutions (SIFIs). • Complete the development of the evaluation model that supports the assessments of our resolution options. • Continue to conduct simulations for intervention and failure resolution readiness. • Develop systems to support faster reimbursement of insurance claims in the event of an insurer member failure. <p>Funding</p> <ul style="list-style-type: none"> • Complete the Target Fund for life and takaful funds. • Continue to develop other liquidity funding arrangements. <p>Risk assessment and monitoring</p> <ul style="list-style-type: none"> • Implement the Failure Prediction Model of the Early Warning System for insurer members. • Enhance the risk assessment framework to address the Islamic banking and takaful businesses. • Develop a separate DPS framework for the Islamic member banks. <p>IT and infrastructure</p> <ul style="list-style-type: none"> • Implement the PIDM Industry Portal to provide member institutions access to an interactive portal for information submissions. • Expand the collaboration facilities for employees to securely access corporate IT systems remotely. <p>National Resolution Authority</p> <ul style="list-style-type: none"> • Conduct research on the current financial landscape and make recommendations in regard to the related policies, legislative, funding and other issues. • Consult with other authorities with a view to determining the scope of PIDM's role.

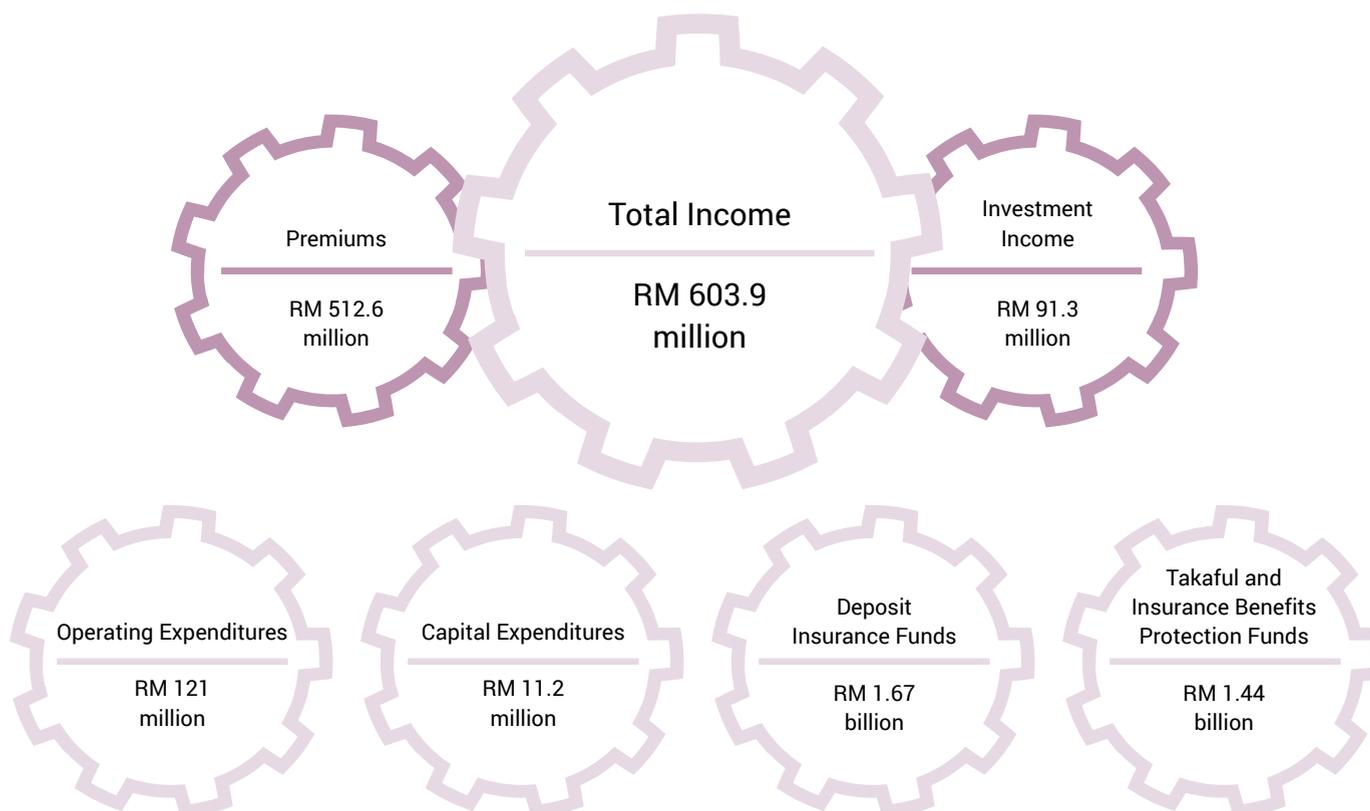
SUMMARY OF THE CORPORATE PLAN 2016 - 2018

Strategic Priorities	Key Focus and Supporting Initiatives
Enhance stakeholder engagement and promote best practices in corporate governance.	Stakeholder engagement <ul style="list-style-type: none"> Engage with relevant regulators and policymakers at the national and international levels. Directly engage with member institutions and industry associations on financial consumer protection or resolution matters.
	Communications <ul style="list-style-type: none"> Enhance public awareness of PIDM. Conduct a consumer behavioural economics study to better understand public behaviour in situations of uncertainty. Enhance the Corporation's profile and credibility through media profiling and engagement, positioning our experts as speakers at relevant events and international conferences, and participation by member associations.
	Corporate governance <ul style="list-style-type: none"> Continue to provide support and collaborate with FIDE FORUM to raise standards of corporate governance among directors of financial institutions in Malaysia.

The key initiatives in support of our corporate objectives are described in our Corporate Scorecard 2016 - 2018 as depicted in the Appendix.

HIGHLIGHTS OF OUR 2016 FINANCIAL PLAN

The Financial Plan 2016 has been developed to support the achievement of the initiatives as well as the management of our day-to-day operations.

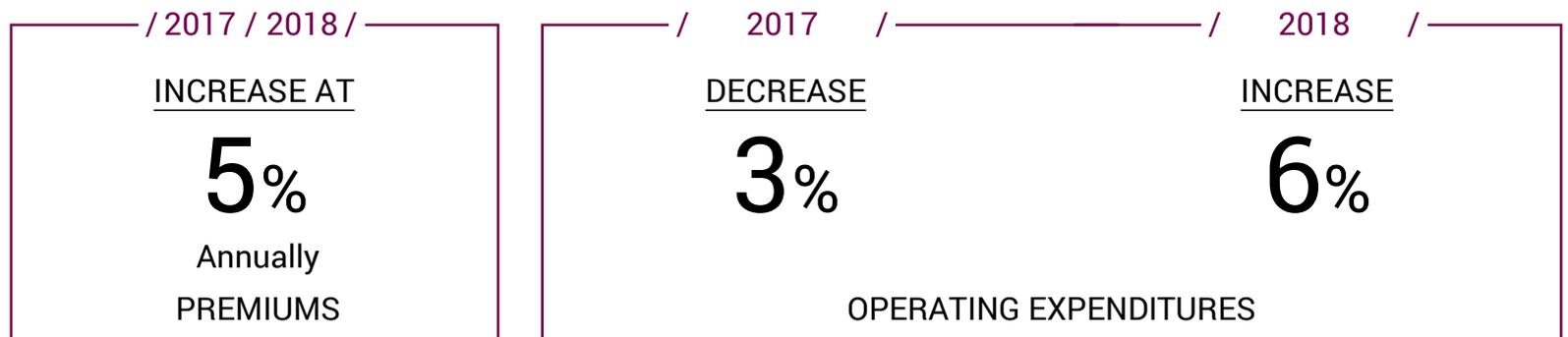


SUMMARY OF THE CORPORATE PLAN 2016 - 2018

HIGHLIGHTS OF OUR 2017 - 2018 FINANCIAL PROJECTIONS

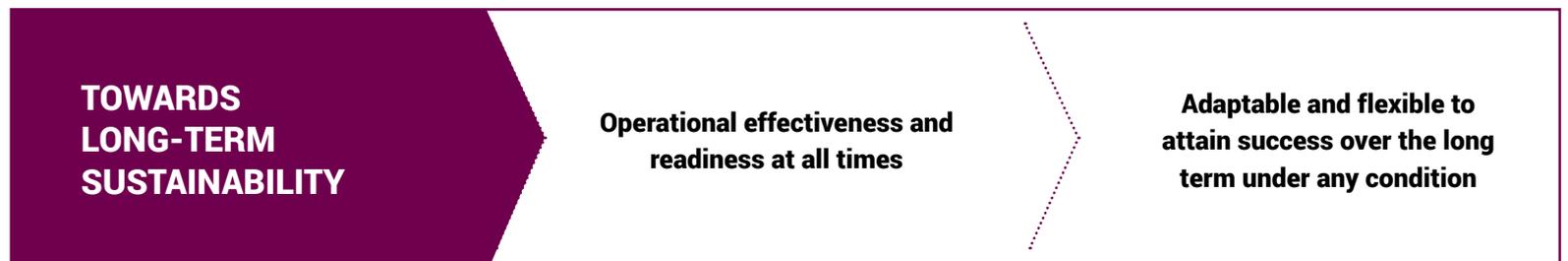
The financial projections for 2017 and 2018 have been prepared based on conservative forecasts and assumptions in relation to the Corporation's past trends in income and expenditures.

Key financial assumptions:



NO MEMBER INSTITUTION FAILURE IS ASSUMED DURING THE PLANNING PERIOD

GOING FORWARD



The Corporation is steadfast in continuing the challenging journey towards achieving our mandate and aspirations. Our strategic priorities and key focus areas, together with our supporting initiatives, namely, talent management and development, and effective resolution regime establishment, will support our long-term sustainability.

For full details of our Summary of the Corporate Plan 2016 - 2018, refer to our website at www.pidm.gov.my.

Section

4

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 2015.

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 solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segments within TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Funds.

FINANCIAL RESULTS

	2015	2014
	RM'000	RM'000
Net surplus for the financial year:		
Deposit Insurance Funds	325,280	204,768
Takaful and Insurance Benefits Protection Funds	101,310	86,023
Total net surplus	426,590	290,791

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.

DIRECTORS' REPORT

FINANCIAL RESULTS (continued)

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.

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

	2015 RM'000	2014 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	1,095,738	831,270
Islamic Deposit Insurance Fund	202,665	141,853
Total Deposit Insurance Funds	1,298,403	973,123
Takaful and Insurance Benefits Protection Funds:		
General Insurance Protection Fund	1,110,115	1,065,215
Life Insurance Protection Fund	188,607	141,432
General Takaful Protection Fund	12,095	9,042
Family Solidarity Takaful Protection Fund	24,673	18,491
Total Takaful and Insurance Benefits Protection Funds	1,335,490	1,234,180

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2015 were:

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

Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz and Tan Sri Dato' Sri Dr. Mohd Irwan Serigar Abdullah 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' 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.

DIRECTORS' REPORT

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.

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 (DPS) and Differential Levy System (DLS), which provide 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 will be implemented in 2016.

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. During the year, PIDM implemented the Target Fund framework for the General Insurance Protection Fund (GIPF). PIDM will be developing a Target Fund framework for the remaining funds within TIPFs over the next several years.

DIRECTORS' REPORT

CONTINGENT LIABILITIES (continued)

Exposure to losses (continued)

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 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.

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

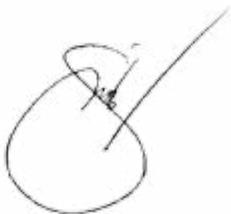
The Directors, in providing the opinion on the financial statements, relied on written representations by Management of their compliance with internal processes and their system of internal controls as well as the internal and external audit functions designed to ensure that:

- (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 2015, 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

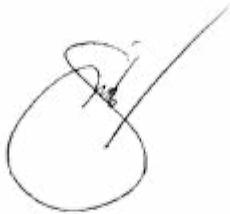


Encik Mohamad Abdul Halim Ahmad
Chairman of the Audit Committee

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 2015, 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
25 February 2016

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 2015, 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 are 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 25 February 2016.

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

Subscribed and solemnly declared by the abovenamed at Kuala Lumpur on 25 February 2016



Jean Pierre Sabourin
Chief Executive Officer



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.

AUDITOR GENERAL CERTIFICATION

[To be included]

STATEMENT OF FINANCIAL POSITION

As at 31 December

	2015	2014
Note	RM'000	RM'000
ASSETS		
Cash and cash equivalents	24,831	15,290
Investments		
<i>Held-to-maturity investments</i>	2,573,862	2,175,718
Other assets	26,930	8,483
Investment in subsidiaries	-*	-*
Property and equipment	21,881	19,180
Total Assets	2,647,504	2,218,671
LIABILITIES		
Payables	13,611	11,368
Total Liabilities	13,611	11,368
FUNDS AND RESERVES		
Deposit Insurance Funds		
<i>Accumulated surpluses</i>	1,298,403	973,123
Takaful and Insurance Benefits Protection Funds		
<i>Accumulated surpluses</i>	1,335,490	1,234,180
Total Funds and Reserves	2,633,893	2,207,303
Total Liabilities, Funds and Reserves	2,647,504	2,218,671

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 December

	Note	2015 RM'000	2014 RM'000
Premium revenues	11	442,006	310,998
Investment income from cash and investment securities	12	78,478	63,732
Miscellaneous income	13	777	-
Total income		521,261	374,730
Employee benefits	14	51,561	47,623
Public relations and advertising		12,734	10,505
Depreciation of property and equipment	8	7,143	7,143
Operating leases		5,896	5,268
Other expenses	15	17,337	13,400
Total expenses		94,671	83,939
Net surplus for the year representing total comprehensive income for the year		426,590	290,791

Note: PIDM is exempted from income tax.

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 2014	10a	660,948	107,407	768,355
Total comprehensive income for the year		170,322	34,446	204,768
As at 31 December 2014	10a	831,270	141,853	973,123
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

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 Solidarity Takaful Protection Fund RM'000	Total Funds and Reserves RM'000
Accumulated Surpluses						
As at 1 January 2014	10b	1,024,436	104,112	6,482	13,127	1,148,157
Total comprehensive income for the year		40,779	37,320	2,560	5,364	86,023
As at 31 December 2014	10b	1,065,215	141,432	9,042	18,491	1,234,180
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

STATEMENT OF CASH FLOWS

For the Year Ended 31 December

	2015	2014
Note	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received from member institutions	442,006	310,998
Payments in the course of operations to suppliers and employees	(87,875)	(77,276)
Receipts of investment income	102,271	53,804
Receipts of miscellaneous income	795	-
Net cash flows generated from operating activities	457,197	287,526
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investment securities	2,927,355	2,682,210
Purchase of investment securities	(3,368,294)	(3,130,396)
Proceeds from sale of property and equipment	11	-
Purchase of property and equipment	(6,728)	(4,751)
Net cash flows used in investing activities	(447,656)	(452,937)
Net increase / (decrease) in cash and cash equivalents	9,541	(165,411)
Cash and cash equivalents at beginning of year	15,290	180,701
Cash and cash equivalents at end of year	24,831	15,290
	4a	

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2015

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 solidarity takaful. To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Funds for Islamic and conventional deposits known as the DIFs as well as four separate Funds for each business segments within TIPS known as the 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 25 February 2016.

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 2015

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.

- **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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(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.

(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).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(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:

Furniture and fittings	20%
Motor vehicles	20%
Office refurbishments	20%
Office equipment and computer systems	33.33%

Freehold land has an unlimited useful life and therefore is not depreciated.

Property and equipment under construction are not depreciated until the assets are ready for their intended use.

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 as well as other receivables and other financial assets carried at amortised cost

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

If any such evidence exists, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The impairment loss is recognised in 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 asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the Statement of Profit or Loss.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 expenditures

All income and operating expenditures 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 expenditures against the relevant Fund or Funds. Expenditures that cannot be charged directly to the relevant Fund or Funds will be allocated based on the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) Order 2011. The expenditures that cannot be charged directly to a specific Fund or Funds are categorised into either the following two categories:

- (i) *Expenditures that can be attributed to either DIS or TIPS but are common or indirect expenditures for the respective systems.* The allocation of this category of expenditures are based on the proportion of premiums collected for the respective systems in the preceding year. For the 2015 financial year, the expenditures were allocated to the respective systems based on the proportion of premiums collected for the respective systems during the financial year ended 31 December 2014. The allocation rates used during the year are as follows:

Year	DIS		TIPS			
	Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Solidarity Takaful
2015	83.13%	16.87%	14.74%	70.10%	4.96%	10.20%
	100%		100%			
2014	84.05%	15.95%	11.56%	72.94%	5.20%	10.30%
	100%		100%			

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(f) Recognition of income and expenditures (continued)

- (ii) *Expenditures which are common or indirect costs of administering both DIS and TIPS.* Expenditures that cannot be specifically attributed to either DIS or TIPS, are allocated based on the proportion of premiums collected for the respective Funds in DIS and TIPS in the preceding year. For the 2015 financial year, these expenditures were allocated to the respective Funds based on the proportion of premiums collected for each of the Funds during the financial year ended 31 December 2014. The apportionment basis used is as follows:

Year	Total	DIS		TIPS			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Solidarity Takaful
2015	100%	64.08%	13.00%	3.38%	16.06%	1.14%	2.34%
2014	100%	61.84%	11.73%	3.05%	19.28%	1.38%	2.72%

Premium revenues are recognised in a financial year in respect of the premium assessed during that particular financial period. Member institutions pay annual premiums for the risk coverage period that coincides with PIDM's financial period.

Investment income including income from placements in short-term money market deposits is recognised on a time proportion basis that reflects the effective yield on the asset.

(g) Employee benefits

(i) Short-term benefits

Wages, salaries, bonuses, social security contributions and other benefits such as medical coverage benefits and allowances are recognised as an expense in the year in which the associated services are rendered by employees of PIDM. Short-term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensation. Short-term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

(ii) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which PIDM pays fixed contributions into a separate entity or fund. PIDM will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current or preceding financial years. Such contributions are recognised as an expense in the Statement of 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.

(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).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(h) Currencies (continued)

(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 except as noted below.

PIDM has early adopted the following accounting standards and amendments of the MFRS in its 2014 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 101 *Presentation of Financial Statements – Disclosure Initiative*
- Amendments to MFRS 116 *Property, Plant and 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*

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 MASB in its 2014 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 following are accounting standards, amendments and interpretations of the MFRS that have been issued by MASB and have been early adopted by PIDM during the year:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2016:

- Amendments to MFRS 12 *Investment Entities – Applying the Consolidation Exception*

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies (continued)

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 are accounting standards, amendments and interpretations of the MFRS that have been issued by MASB but have not been adopted by PIDM:

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. Early application of previous versions of MFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015.

PIDM is in the process of assessing the financial effects of this new accounting standard.

The following accounting standards, amendments and interpretations to the MFRS Framework that have been issued by MASB but are not applicable to PIDM's operations:

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*

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.

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:

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Judgements made in applying accounting policies (continued)

(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 receivables and other assets

PIDM assesses at each reporting date whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the debtor, issuer or obligor as well as any default or significant delay in payments.

(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.

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 receivables and other assets

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

4. CASH AND CASH EQUIVALENTS

a. Balances as at the end of the financial year

	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 premium	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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

4. CASH AND CASH EQUIVALENTS (continued)

a. Balances as at the end of the financial year (continued)

	2014		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Deposits with Bank Negara Malaysia	1,704	374	1,330
Cash on hand and at bank	13,586	11,730	1,856
	<u>15,290</u>	<u>12,104</u>	<u>3,186</u>
Short-term investments:			
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Malaysia Bills and Negotiable Notes	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Add: Accretion of discounts net of amortisation of premium	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
	<u>15,290</u>	<u>12,104</u>	<u>3,186</u>
Fair value of short-term investments held as at 31 December 2014 are as follows:			
Malaysian Government Securities and Investment Issues	-	-	-
Bank Negara Malaysia Bills and Negotiable Notes	-	-	-
Total fair value of short-term investments	<u>-</u>	<u>-</u>	<u>-</u>

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 amortisation of premiums and accretion of discounts.

The fair values of these short-term investments were based on indicative market prices.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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 sale 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)
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 2015

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method) (continued)

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	290,791	204,768	86,023
<i>Adjustments for:</i>			
Depreciation of property and equipment	7,143	6,441	702
Investment income from cash and investment securities	(63,732)	(26,233)	(37,499)
Miscellaneous income	-	-	-
Operating profit before changes in working capital	234,202	184,976	49,226
Change in payables	4,339	4,422	(83)
Change in other assets	(404)	(367)	(37)
Cash generated from operations	238,137	189,031	49,106
Net accretion / amortisation for investment securities	(15,127)	(9,748)	(5,379)
Change in investment income receivables	784	1	783
Investment income from cash and investment securities	63,732	26,233	37,499
Net cash flows generated from operating activities	287,526	205,517	82,009
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities	2,682,210	1,239,126	1,443,084
Purchase of investment securities	(3,130,396)	(1,527,017)	(1,603,379)
Proceeds from sale of property and equipment	-	-	-
Purchase of property and equipment	(4,751)	(3,287)	(1,464)
Net cash flows used in investing activities	(452,937)	(291,178)	(161,759)
Net decrease in cash and cash equivalents	(165,411)	(85,661)	(79,750)
Cash and cash equivalents at beginning of year	180,701	97,765	82,936
Cash and cash equivalents at end of year	15,290	12,104	3,186

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

5. INVESTMENTS

Held-to-maturity investments

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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 premium	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

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
Malaysian Government Securities and Investment Issues	1,046,561	409,323	637,238
Bank Negara Malaysia Bills and Negotiable Notes	1,034,456	529,681	504,775
Private Debt Securities	71,089	-	71,089
	2,152,106	939,004	1,213,102
Add: Accretion of discounts net of amortisation of premium	23,612	12,411	11,201
Total held-to-maturity investments	2,175,718	951,415	1,224,303
Fair value of investments held as at 31 December 2014 are as follows:			
Malaysian Government Securities and Investment Issues	1,053,658	415,629	638,029
Bank Negara Malaysia Bills and Negotiable Notes	1,044,158	534,857	509,301
Private Debt Securities	70,393	-	70,393
Total fair value of investments	2,168,209	950,486	1,217,723

Investments are denominated in Ringgit Malaysia.

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.

NOTES TO THE FINANCIAL STATEMENTS

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6. OTHER ASSETS

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
Deposits and prepayments	3,705	3,228	477
Investment income receivables	3,425	1	3,424
Other receivables	1,099	418	681
Other assets	130	90	40
Amounts due from subsidiaries	124	66	58
Total other assets	8,483	3,803	4,680

Included in other receivables are inter-fund balances of RM0.3 million (2014: RM1.1 million) for day-to-day operational activities.

Amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

7. INVESTMENT IN SUBSIDIARIES

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
At cost			
Unquoted shares	-*	-	-
Total investment in subsidiaries	-*	-	-

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

7. INVESTMENT IN SUBSIDIARIES (continued)

	2014		
	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.

The names of all Directors for all the subsidiaries in office during the financial year ended 31 December 2015 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 1965 as public companies limited by shares. The subsidiaries are incorporated in advance in case of any failure of a member institution and hence, will remain dormant until activated to carry out any necessary IFR activities.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

7. INVESTMENT IN SUBSIDIARIES (continued)

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 of, sell, deal with, transact and operate as a going concern or otherwise, the assets, liabilities, business, undertakings and affairs of a member institution as defined in the PIDM Act, whether by way of an arrangement, agreement, instrument or otherwise in accordance with the PIDM Act and any other applicable laws.
<p>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.</p>	
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 composite, life or general 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 registered takaful operator to carry on or transact every kind of takaful and re-takaful businesses under the Islamic Financial Services Act 2013.

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

7. INVESTMENT IN SUBSIDIARIES (continued)

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.

	2015				
	The Federal Asset Management Agency of Malaysia Berhad	The Federal Commercial Bank of Malaysia Berhad	The Federal Islamic Bank of Malaysia Berhad	The National PIDM Insurance Corporation of Malaysia Berhad	The Federal Takaful Corporation of Malaysia Berhad
	RM	RM	RM	RM	RM
Revenue	-	-	-	-	-
Operating 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

	2014				
	The Federal Asset Management Agency of Malaysia Berhad	The Federal Commercial Bank of Malaysia Berhad	The Federal Islamic Bank of Malaysia Berhad	The National PIDM Insurance Corporation of Malaysia Berhad	The Federal Takaful Corporation of Malaysia Berhad
	RM	RM	RM	RM	RM
Revenue	-	-	-	-	-
Operating expenses	10,641	10,641	10,641	10,641	10,641
Total assets	-	-	-	-	-
Total liabilities	25,091	24,793	24,793	24,822	24,793
Capital	2	2	2	2	2

NOTES TO THE FINANCIAL STATEMENTS

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8. PROPERTY AND EQUIPMENT

	2015						
	Land	Office equipment and computer systems	Furniture and fittings	Motor vehicles	Office refurbishments	Assets under construction*	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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

* Assets under construction amounting to RM11,590,240 consist of the development of Disaster Recovery Centre (DRC) of RM8,958,297, the Submission Tracking and Rating System (STARS) of RM701,660, the 2-Factors Authentication project of RM296,397, the Risk Assessment System (RAS) version 2 of RM278,999, office refurbishments amounted to RM247,434, the Claims Management System (CMS) of RM173,310, the Investment System of RM146,225, the Budgeting System of RM128,663, the Premium Reimbursement Information Management System (PRIMS) of RM124,338 as well as other Information Technology (IT) systems amounting to RM534,917. The development of the DRC is currently estimated at 57% stage of completion. The remaining balance of the cost ascertained as at 31 December 2015 is currently recognised as part of the capital commitment (building) in Note 18.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

8. PROPERTY AND EQUIPMENT (continued)

	2014						Total RM'000
	Land 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	
Cost							
Balance as at 1 January 2014	2,300	24,634	3,015	418	8,361	627	39,355
Additions	2,418	166	6	-	29	6,548	9,167
Reclassifications / Adjustments	-	2,540	34	-	-	(2,574)	-
Disposals	-	-	-	-	-	-	-
Balance as at 31 December 2014	4,718	27,340	3,055	418	8,390	4,601	48,522
Accumulated depreciation							
Balance as at 1 January 2014	-	14,620	2,511	415	4,653	-	22,199
Charge for the year	-	5,203	270	1	1,669	-	7,143
Reclassifications / Adjustments	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance as at 31 December 2014	-	19,823	2,781	416	6,322	-	29,342
Net carrying amount as at 31 December 2014	4,718	7,517	274	2	2,068	4,601	19,180

* Assets under construction amounting to RM4,601,072 consist of the development of Disaster Recovery Centre (DRC) of RM4,001,713, the enhancements to Deposit Liability Information Management System (DLIMS) of RM169,659, the enhancements to Enterprise Portal of RM165,880, server upgrade of RM103,618, the Submission Tracking and Rating System (STARS) of RM77,962, the Storage Consolidation Project Implementation of RM61,263, the Board Pad application of RM13,347 and the integration of Human Resource Information System with the Enhanced Financial Management System of RM7,630. The development of the DRC is currently estimated at 11% stage of completion. The remaining balance of the cost ascertained as at 31 December 2014 is currently recognised as part of the capital commitment (building) in Note 18.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

	2015						
	Land	Office equipment and computer systems	Furniture and fittings	Motor vehicles	Office refurbishments	Assets under construction	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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 2015

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds (continued)

	2014						
	Land	Office equipment and computer systems	Furniture and fittings	Motor vehicles	Office refurbishments	Assets under construction	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost							
Balance as at 1 January 2014	1,376	23,059	3,004	416	7,610	367	35,832
Additions	1,779	122	4	-	21	4,756	6,682
Reclassifications / Adjustments	-	1,864	25	-	-	(1,889)	-
Disposals	-	-	-	-	-	-	-
Balance as at 31 December 2014	3,155	25,045	3,033	416	7,631	3,234	42,514
Accumulated depreciation							
Balance as at 1 January 2014	-	14,368	2,511	415	4,437	-	21,731
Charge for the year	-	4,654	267	1	1,519	-	6,441
Reclassifications / Adjustments	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance as at 31 December 2014	-	19,022	2,778	416	5,956	-	28,172
Net carrying amount as at 31 December 2014	3,155	6,023	255	-	1,675	3,234	14,342

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds

	2015						
	Land	Office equipment and computer systems	Furniture and fittings	Motor vehicles	Office refurbishments	Assets under construction	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	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 2015

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

	2014						
	Land 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 2014	924	1,575	11	2	751	260	3,523
Additions	639	44	2	-	8	1,792	2,485
Reclassifications / Adjustments	-	676	9	-	-	(685)	-
Disposals	-	-	-	-	-	-	-
Balance as at 31 December 2014	1,563	2,295	22	2	759	1,367	6,008
Accumulated depreciation							
Balance as at 1 January 2014	-	252	-	-	216	-	468
Charge for the year	-	549	3	-	150	-	702
Reclassifications / Adjustments	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance as at 31 December 2014	-	801	3	-	366	-	1,170
Net carrying amount as at 31 December 2014	1,563	1,494	19	2	393	1,367	4,838

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

9. PAYABLES

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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	1,503	1,130	373
Total payables	13,611	10,363	3,248

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
Other payables	2,318	1,900	418
Accruals	7,790	5,734	2,056
Sundry creditors	48	35	13
Provision for unutilised leave	1,212	872	340
Total payables	11,368	8,541	2,827

Included in other payables are inter-fund balances of RM0.3 million (2014: RM1.1 million) for day-to-day operational activities.

Other payables include amount due to related parties as disclosed in Note 19.

10. FUNDS AND RESERVES

a. Deposit Insurance Funds

Accumulated surpluses

	2015		
	Total	Conventional Deposit Insurance	Islamic Deposit Insurance
	RM'000	RM'000	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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

10. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

	2014		
	Total	Conventional Deposit Insurance	Islamic Deposit Insurance
	RM'000	RM'000	RM'000
Balance as at 1 January	768,355	660,948	107,407
Net surplus	204,768	170,322	34,446
Balance as at 31 December	973,123	831,270	141,853

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 net of operating expenses for a particular year.

In 2011, PIDM had established a framework to determine the levels of DIFs that PIDM aims to build as reserves over the long-run to meet its objectives and fulfil its mandate. This level (known as the Target Fund) represents the level of funds that would be sufficient to cover the net 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 2014, the range in RM absolute terms is between RM2.4 billion and RM3.7 billion for the Conventional DIF and between RM453 million and RM680 million for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

The current levels of DIFs compared to the Target Fund range are described in the following table:

DEPOSIT INSURANCE FUNDS	TARGET FUND			
	2015 ACTUAL RM MILLION/%	2014 ACTUAL RM MILLION/%	LOWER RANGE RM MILLION/%	UPPER RANGE RM MILLION/%
Conventional Deposit Insurance Fund				
Balance	1,095.74	831.27	2,449	3,674
Percentage of Total Insured Deposits	0.27%	0.21%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	202.66	141.85	453	680
Percentage of Total Insured Deposits	0.27%	0.22%	0.60%	0.90%

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

10. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

In order to achieve the Target Fund levels 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 7 to 9 years.

b. Takaful and Insurance Benefits Protection Funds

Accumulated surpluses

	2015				
	Total	General Insurance	Life Insurance	General Takaful	Family Solidarity Takaful
	RM'000	RM'000	RM'000	RM'000	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

	2014				
	Total	General Insurance	Life Insurance	General Takaful	Family Solidarity Takaful
	RM'000	RM'000	RM'000	RM'000	RM'000
Balance as at 1 January	1,148,157	1,024,436	104,112	6,482	13,127
Net surplus	86,023	40,779	37,320	2,560	5,364
Balance as at 31 December	1,234,180	1,065,215	141,432	9,042	18,491

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 holders. 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 premium revenue and investment income net of operating expenses for a particular year.

During the year, PIDM implemented the Target Fund framework for the General Insurance Protection Fund (GIPF).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

10. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

The Target Fund framework for GIPF has adopted the Target Fund level at the range of 80% to 100% of the maximum expected loss level. The Target Fund level for GIPF shall be in the range of RM330 million to RM413 million. Based on the exposures as at 31 December 2015, the Target Fund range in absolute RM amounts are as follows:

GENERAL INSURANCE PROTECTION FUND	TARGET FUND		
	2015 ACTUAL RM MILLION	LOWER RANGE RM MILLION	UPPER RANGE RM MILLION
Balance	1,110.12	330	413

Based on the above GIPF balance as at 31 December 2015, the current fund position has exceeded the upper range of the Target Fund level. PIDM has revised the premium rates to be assessed on general insurer members for the assessment year 2016 onwards. Refer to Note 11(b)(ii).

PIDM will be developing a Target Fund framework for the remaining Funds within TIPFs over the next several years.

11. PREMIUM REVENUES

a. Premium revenues from member banks

	2015		
	Total	Conventional Deposit Insurance	Islamic Deposit Insurance
	RM'000	RM'000	RM'000
Annual premiums	359,232	291,825	67,407
Total premium revenues from member banks	359,232	291,825	67,407
	2014		
	Total	Conventional Deposit Insurance	Islamic Deposit Insurance
	RM'000	RM'000	RM'000
Annual premiums	239,726	199,276	40,450
Total premium revenues from member banks	239,726	199,276	40,450

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.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

11. PREMIUM REVENUES (continued)

a. Premium revenues from member banks (continued)

i. Rates for annual premium under the Differential Premium Systems

PREMIUM CATEGORY [COLUMN (1)]	PREMIUM RATE			MINIMUM ANNUAL PREMIUM AMOUNT (RM) [COLUMN (5)]
	ASSESSMENT YEAR 2013 [COLUMN (2)]	ASSESSMENT YEAR 2014 [COLUMN (3)]	ASSESSMENT YEAR 2015 ONWARDS [COLUMN (4)]	
1	0.04%	0.05%	0.06%	100,000
2	0.08%	0.10%	0.12%	200,000
3	0.16%	0.20%	0.24%	400,000
4	0.32%	0.40%	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) to (4), subject to minimum annual premiums as specified in column (5). The current premium rate will remain unchanged from the assessment year 2015.

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. Premium revenues from insurer members

	2015				
	Total	General Insurance	Life Insurance	General Takaful	Family Solidarity Takaful
	RM'000	RM'000	RM'000	RM'000	RM'000
Annual premiums	82,774	12,851	58,152	3,891	7,880
Total premium revenues from insurer members	82,774	12,851	58,152	3,891	7,880
	2014				
	Total	General Insurance	Life Insurance	General Takaful	Family Solidarity Takaful
	RM'000	RM'000	RM'000	RM'000	RM'000
Annual premiums	71,272	10,508	49,962	3,533	7,269
Total premium revenues from insurer members	71,272	10,508	49,962	3,533	7,269

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

11. PREMIUM REVENUES (continued)

b. Premium revenues from insurer members (continued)

i. Premium rates under the Differential Levy Systems for general and life insurer members

All general and life insurer members are assessed based on the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) Regulations 2012 (DPS Regulation – Insurer Members 2012), which took effect from the assessment year 2013. The premium 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 2012 (Premium Order – Insurer Members 2012) based on the premium category for which that insurer member is classified, which also took effect from the assessment year 2013. The rates assessed on the general and life insurer members, as specified in the Premium Order – Insurer Members 2012, are as follows:

PREMIUM CATEGORY	GENERAL INSURANCE	LIFE INSURANCE
1	0.05%	0.025%
2	0.1%	0.05%
3	0.2%	0.1%
4	0.4%	0.2%

The above annual premiums payable were subject to minimum premiums based on their premium category as follows:

PREMIUM CATEGORY	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
1	75,000
2	150,000
3	300,000
4	600,000

In respect of a new insurer member [as defined in Regulation 3 of the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) Regulations 2012], the rate for the first premium for such new insurer member will be the same as the premium rate for premium category 1.

ii. Revised first premium and annual premium rates and the minimum annual premium for general insurer members

With the establishment of the Target Fund for GIPF, PIDM is in the process of obtaining an Order from the Minister of Finance on the revision of the first premium and annual premium rates and the minimum annual premium for the general insurer members. This Order is expected to be effective from assessment year 2016.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

11. PREMIUM REVENUES (continued)

b. Premium revenues from insurer members (continued)

iii. Premium rates for general takaful and family solidarity takaful members

Premiums on general takaful and family solidarity takaful members were levied in accordance with the Premium Order – Insurer Members 2012, which took effect from the assessment year 2013. The general takaful and family solidarity takaful members were assessed based on a flat rate applied on the relevant protected benefits during the preceding year, as follows:

BUSINESS SEGMENT	PREMIUM RATE
General Takaful	0.25% of the total net premiums received
Family Solidarity Takaful	0.06% of actuarial valuation of family solidarity takaful liabilities

The minimum premiums payable by each general takaful and family solidarity takaful member was RM150,000.

iv. Revised first premium and annual premium rates and the minimum annual premium for general takaful and family solidarity takaful members

With the establishment of the Differential Levy Systems for general takaful and family solidarity takaful members, PIDM is in the process of obtaining an Order from the Minister of Finance on the revision of the first premium and annual premium rates and the minimum annual premium for the general takaful and family solidarity takaful members. This Order is expected to be effective from assessment year 2016.

12. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES

a. Investment income according to investment securities

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

12. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES (continued)

a. Investment income according to investment securities (continued)

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
Malaysian Government Securities and Investment Issues	35,313	13,940	21,373
Bank Negara Malaysia Bills and Negotiable Notes	25,101	12,154	12,947
Private Debt Securities	3,139	-	3,139
Placements in Short-term Money Market Deposits	179	139	40
Total investment income from cash and investment securities	63,732	26,233	37,499

b. Investment income according to nature of income

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
Coupon and profit rate from investment securities	14,112	-	14,112
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	49,441	26,094	23,347
Returns from placements in Short-term Money Market Deposits	179	139	40
Total investment income from cash and investment securities	63,732	26,233	37,499

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

12. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES (continued)

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 SOLIDARITY TAKAFUL
2015	Cash equivalents and investments	3.19%	3.13%	3.21%	3.09%	3.02%	3.08%
	Placements in Short-term Money Market Deposits	2.45%	2.60%	2.81%	2.86%	2.55%	2.53%
	Overall	3.12%		3.18%			
2014	Cash equivalents and investments	3.03%	3.05%	3.10%	3.04%	3.04%	3.07%
	Placements in Short-term Money Market Deposits	2.27%	2.12%	2.52%	2.49%	2.15%	2.14%
	Overall	2.96%		3.08%			

13. MISCELLANEOUS INCOME

	2015 RM'000	2014 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 expenditures incurred in organising this event is disclosed in Note 15.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

14. EMPLOYEE BENEFITS

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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
Other benefits	3,152	2,307	845
Total employee benefits	51,561	37,269	14,292

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
Wages and salaries	39,154	27,156	11,998
Contributions to defined contribution plan	5,380	3,725	1,655
Provision for unutilised leave	107	201	(94)
Other benefits	2,982	1,916	1,066
Total employee benefits	47,623	32,998	14,625

The number of employees at the end of the financial year was 148 (2014: 148).

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

15. OTHER EXPENSES

	2015		
	Total	DIFs	TIPFs
	RM'000	RM'000	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

	2014		
	Total	DIFs	TIPFs
	RM'000	RM'000	RM'000
Audit fees	48	35	13
Directors' fees and remuneration*	680	500	180
Hosting of international event	246	212	34
Parking space rental	534	393	141
Printing and stationery	1,441	1,063	378
Professional and consultancy fees	1,574	1,312	262
Scholarship programme	622	458	164
Subscriptions and memberships	569	422	147
Telecommunication and computer systems	3,378	2,370	1,008
Training and development	2,215	1,720	495
Travelling	731	609	122
Utilities, office maintenance and general insurance	1,050	770	280
Miscellaneous	312	234	78
Total other expenses	13,400	10,098	3,302

* Directors are paid on a fee and allowance structure as approved by the Minister of Finance.

** Included in the hosting of international events are expenditures incurred in organising the IADI International Conference 2015 amounted to RM1.5 million (2014: RM Nil). The annual conference contribution received from IADI and fees collected from participants for this event are disclosed in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

16. TAXATION

PIDM is exempted from income tax.

17. OPERATING LEASES

PIDM has entered into a non-cancellable tenancy contract for the use of office space at Levels 11A, 12, 13, 15 and 16, Axiata Tower, Kuala Lumpur Sentral. 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.

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. During the year, PIDM exercised its option to extend the tenancy contract for the Third Term at the same rate as agreed by both PIDM and the landlord.

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:

	2015	2014
	RM'000	RM'000
Future minimum lease payments:		
Within 1 year	6,181	5,624
More than 1 year but less than 5 years	12,168	16,248
Total operating lease commitments	18,349	21,872

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

18. CAPITAL COMMITMENTS

	Note	2015 RM'000	2014 RM'000
Approved and contracted for:			
Building	a	10,770	15,585
Office equipment and computer systems	b	11,274	2,740
Office refurbishments		7	-
Total capital commitments		22,051	18,325

- a. The Capital commitment balance for building mainly comprises construction costs as well as professional and consultancy expenses for the development of PIDM's DRC.
- b. 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.

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	
		2015 RM'000	2014 RM'000	2015 RM'000	2014 RM'000
Bank Negara Malaysia	a.	442	276	205	2,310
Kumpulan Wang Simpanan Pekerja	b.	5,873	5,294	9	9
Pertubuhan Keselamatan Sosial	b.	89	86	-	-

- a. Transaction mainly relate to rental of space for the Disaster Recovery Site as well as balance for the purchase of land (Payables for the year ended 2014).
- b. PIDM makes contributions to the statutory national pension scheme, the Kumpulan Wang Simpanan Pekerja as well as the Pertubuhan Keselamatan Sosial as disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

19. RELATED PARTY DISCLOSURES (continued)

a. Transactions with related parties (continued)

- 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. PIDM has previously engaged the partner before he joined the Firm on 1 November 2015.
- 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 2015, the amount due to the Firm is RM30,000.

- 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 2015 is RM75 million.

b. Remuneration of key management personnel

	2015	2014
	RM'000	RM'000
Short-term benefits	12,583	11,797
Post employment benefits:		
Contributions to defined contribution plan	1,338	1,154
Total remuneration of key management personnel	13,921	12,951

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 Solidarity 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 2015

20. SEGMENT INFORMATION (continued)

Fund reporting

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 Solidarity 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 2015

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
ASSETS								
Cash and cash equivalents	4a	15,290	11,455	649	1,544	590	450	602
Investments								
<i>Held-to-maturity investments</i>	5	2,175,718	812,312	139,103	1,059,353	138,829	8,466	17,655
Other assets	6	8,483	2,765	1,038	3,669	805	74	132
Investment in subsidiaries	7	-*	-*	-*	-*	-*	-*	-*
Property and equipment	8	19,180	12,080	2,262	963	3,243	209	423
Total Assets		2,218,671	838,612	143,052	1,065,529	143,467	9,199	18,812
LIABILITIES								
Payables	9	11,368	7,342	1,199	314	2,035	157	321
Total Liabilities		11,368	7,342	1,199	314	2,035	157	321
FUNDS AND RESERVES								
Accumulated surpluses	10	2,207,303	831,270	141,853	1,065,215	141,432	9,042	18,491
Total Funds and Reserves		2,207,303	831,270	141,853	1,065,215	141,432	9,042	18,491
Total Liabilities, Funds and Reserves		2,218,671	838,612	143,052	1,065,529	143,467	9,199	18,812

* The amount is significantly below the rounding threshold.

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

		Total	Conventional Deposit Insurance	Islamic Deposit Insurance	General Insurance	Life Insurance	General Takaful	Family Solidarity Takaful
	Note	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Premium 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
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 2015

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
Premium revenues	11	310,998	199,276	40,450	10,508	49,962	3,533	7,269
Investment income from cash and investment securities	12	63,732	22,423	3,810	32,959	3,815	234	491
Miscellaneous income	13	-	-	-	-	-	-	-
Total income		374,730	221,699	44,260	43,467	53,777	3,767	7,760
Employee benefits	14	47,623	27,733	5,265	1,653	10,693	765	1,514
Public relations and advertising		10,505	6,527	1,242	297	2,009	144	286
Depreciation of property and equipment	8	7,143	5,459	982	188	437	25	52
Operating leases		5,268	3,265	620	156	1,012	72	143
Other expenses	15	13,400	8,393	1,705	394	2,306	201	401
Total expenses		83,939	51,377	9,814	2,688	16,457	1,207	2,396
Net surplus for the year representing total comprehensive income for the year		290,791	170,322	34,446	40,779	37,320	2,560	5,364

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 Solidarity Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums 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 sale 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)
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 2015

20. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Solidarity Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums received from member institutions		310,998	199,276	40,450	10,508	49,962	3,533	7,269
Payments in the course of operations to suppliers and employees		(77,276)	(45,189)	(8,898)	(2,949)	(16,639)	(1,209)	(2,392)
Receipts of investment income		53,804	16,440	3,438	30,323	2,974	172	457
Receipts of miscellaneous income		-	-	-	-	-	-	-
Net cash flows generated from operating activities		287,526	170,527	34,990	37,882	36,297	2,496	5,334
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from sale of investment securities		2,682,210	991,294	247,832	1,097,028	268,651	20,407	56,998
Purchase of investment securities		(3,130,396)	(1,239,407)	(287,610)	(1,195,778)	(313,433)	(23,811)	(70,357)
Proceeds from sale of property and equipment		-	-	-	-	-	-	-
Purchase of property and equipment		(4,751)	(2,770)	(517)	(261)	(1,005)	(66)	(132)
Net cash flows used in investing activities		(452,937)	(250,883)	(40,295)	(99,011)	(45,787)	(3,470)	(13,491)
Net decrease in cash and cash equivalents		(165,411)	(80,356)	(5,305)	(61,129)	(9,490)	(974)	(8,157)
Cash and cash equivalents at beginning of year		180,701	91,811	5,954	62,673	10,080	1,424	8,759
Cash and cash equivalents at end of year	4a	15,290	11,455	649	1,544	590	450	602

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 2015

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 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

31 December 2014

Fixed rate

Cash and cash equivalents	4a	2.40	11,455	-	-	-	-	11,455
Investments	5	3.13	328,108	484,204	-	-	-	812,312

Islamic Deposit Insurance Fund**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

31 December 2014

Fixed rate

Cash and cash equivalents	4a	-	649	-	-	-	-	649
Investments	5	3.21	35,001	104,102	-	-	-	139,103

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 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
31 December 2014								
Fixed rate								
Cash and cash equivalents	4a	-	1,544	-	-	-	-	1,544
Investments	5	3.23	532,605	395,328	55,525	56,424	19,471	1,059,353
Life Insurance Protection Fund								
31 December 2015								
Fixed rate								
Cash and cash equivalents	4a	-	1,003	-	-	-	-	1,003
Investments	5	3.01	71,949	111,626	-	-	-	183,575
31 December 2014								
Fixed rate								
Cash and cash equivalents	4a	-	590	-	-	-	-	590
Investments	5	3.18	63,419	75,410	-	-	-	138,829

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

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 2015								
Fixed rate								
Cash and cash equivalents	4a	2.19	3,650	-	-	-	-	3,650
Investments	5	3.03	3,441	4,783	-	-	-	8,224
31 December 2014								
Fixed rate								
Cash and cash equivalents	4a	-	450	-	-	-	-	450
Investments	5	3.19	4,985	3,481	-	-	-	8,466
Family Solidarity Takaful Protection Fund								
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
31 December 2014								
Fixed rate								
Cash and cash equivalents	4a	-	602	-	-	-	-	602
Investments	5	3.31	1,988	15,667	-	-	-	17,655

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

21. FINANCIAL INSTRUMENTS (continued)

b. Interest rate risk and rate of return risk (continued)

Based on PIDM's investment portfolio as at 31 December 2015, 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 SOLIDARITY TAKAFUL RM'000
50 basis points increase							
- 31 December 2015	12,324	4,891	878	5,541	851	53	110
- 31 December 2014	10,396	3,707	625	5,317	628	39	80
50 basis points decrease							
- 31 December 2015	(12,324)	(4,891)	(878)	(5,541)	(851)	(53)	(110)
- 31 December 2014	(10,396)	(3,707)	(625)	(5,317)	(628)	(39)	(80)

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.

	NOTE	2015					TOTAL RM'000
		LESS THAN 30 DAYS RM'000	31 – 60 DAYS RM'000	60 – 90 DAYS RM'000	MORE THAN 90 DAYS RM'000		
Cash and cash equivalents	4a	14,833	9,998	-	-	24,831	
Investments	5	-	386,744	39,784	2,147,334	2,573,862	
Payables	9	-	(12,108)	-	(1,503)	(13,611)	
Net short-term assets		14,833	384,634	39,784	2,145,831	2,585,082	

	NOTE	2014					TOTAL RM'000
		LESS THAN 30 DAYS RM'000	31 – 60 DAYS RM'000	60 – 90 DAYS RM'000	MORE THAN 90 DAYS RM'000		
Cash and cash equivalents	4a	15,290	-	-	-	15,290	
Investments	5	225,713	276,178	464,215	1,209,612	2,175,718	
Payables	9	(10,021)	(66)	-	(1,281)	(11,368)	
Net short-term assets		230,982	276,112	464,215	1,208,331	2,179,640	

NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2015

21. FINANCIAL INSTRUMENTS (continued)

c. Liquidity risk (continued)

PIDM also has a funding framework to deal with funding requirements relating to IFR activities. The main objective of the framework is to ensure that PIDM has adequate financial resources required for the proper operations of a robust and sound DIS as well as TIPS. The funding framework takes into consideration PIDM's role in the financial safety net and its legislative powers relating to sources of funding as well as clear objectives for its internal and external sources of funding.

- i. **Internal funding** is developed through the accumulation of net surpluses after operating expenses. The annual net surplus is credited into the respective Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.
- ii. **External funding** may be raised through either borrowings from the Government, from capital markets or other sources as deemed necessary and appropriate. 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.

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 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 2015. 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)	40,000	20,000	75,000
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.

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 2015

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 provide 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 will be implemented in 2016.

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, PIDM has established the Target Fund framework for DIFs in 2011. During the year, PIDM implemented the Target Fund framework for GIPF. PIDM will be developing a Target Fund framework for the remaining funds within TIPFs over the next several years.

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 in relation to the relevant Fund with the approval of the Minister of Finance.

Section

5

Overview of Membership

OVERVIEW OF MEMBERSHIP

PIDM has 86 member institutions comprising 43 member banks and 43 insurer members as at end of 2015.

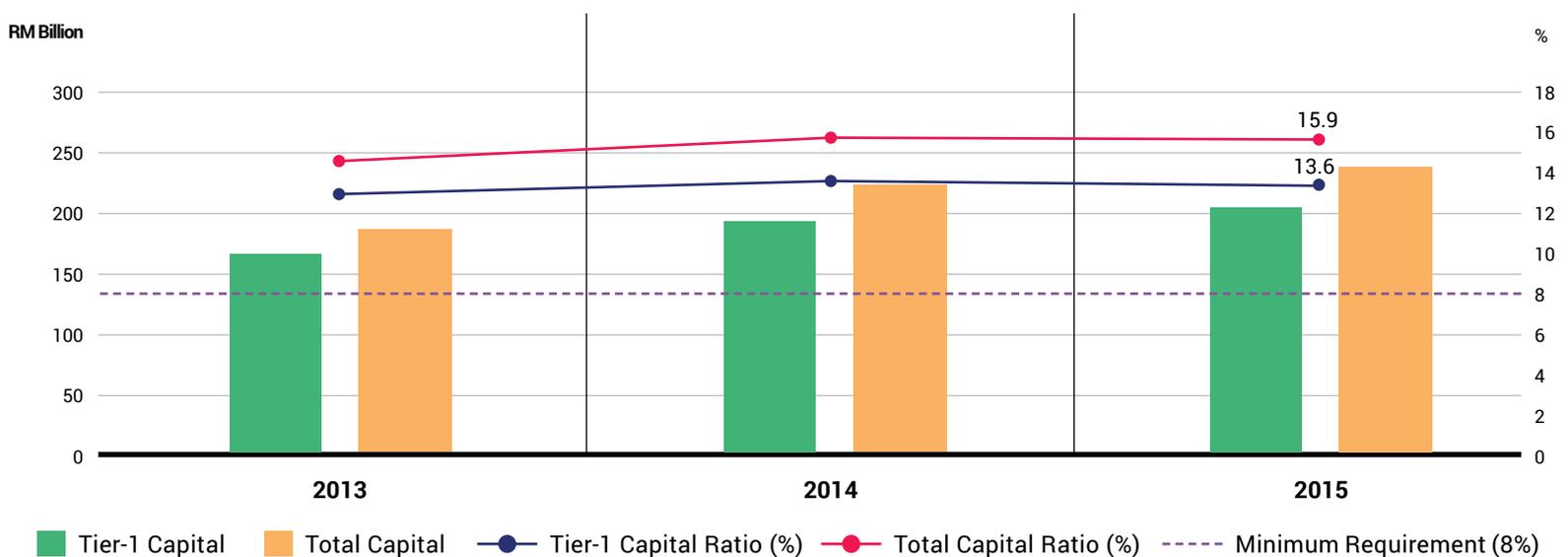
Despite the challenging operating environment in 2015, the member institutions were largely unscathed and remained resilient. As expected, overall profitability is trending lower, as a result of slower business growth, coupled with narrowing margins and higher expenses. Positively, asset quality held firm, supported by prudent lending and reserving practices. In addition, the robust capital buffer adds to the overall strength and resilience of the member institutions.

MEMBER BANKS

SOLID CAPITALISATION

Member banks maintained strong capitalisation levels, largely supported by high quality capital. Total Capital and Tier-1 Capital ratios stood firm at 15.9% and 13.6% respectively, as at December 2015 (2014: 15.7% and 13.8%). This provides a system-wide capital buffer of RM118.7 billion to absorb losses before the total capital ratio breaches the minimum requirement of 8.0%.

CHART 1: CAPITALISATION INDICATORS



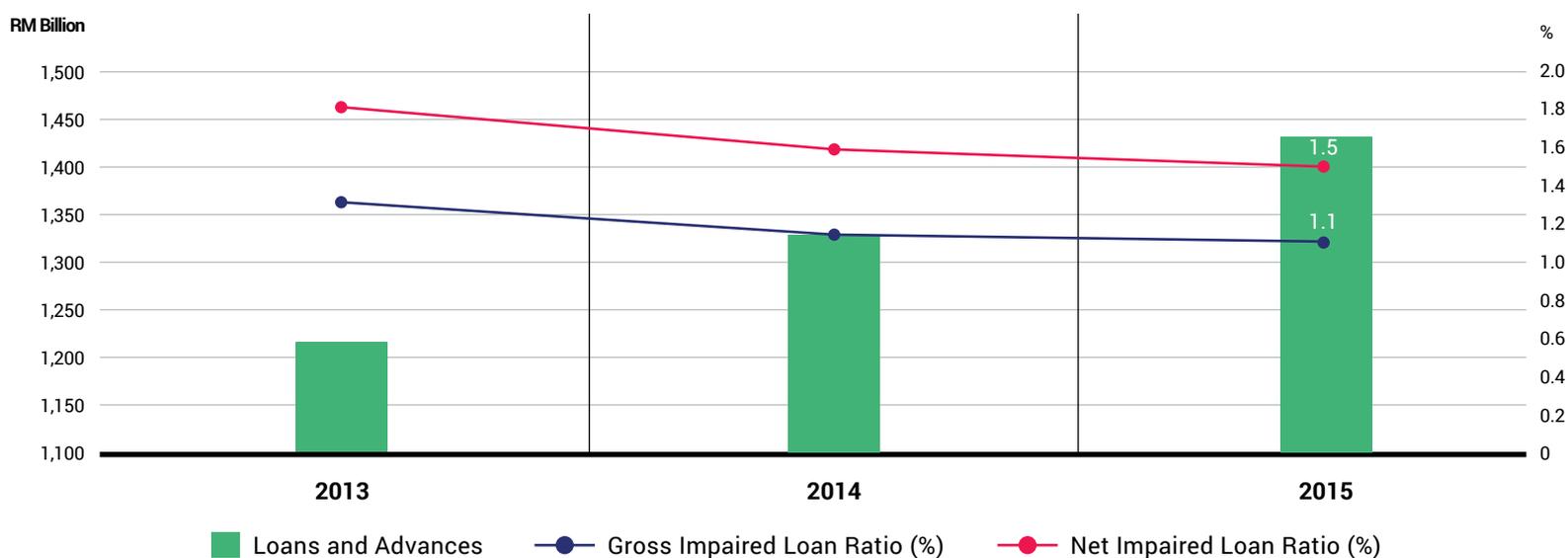
SUSTAINED ASSET QUALITY AND SLOWER LOAN GROWTH

Total industry loans stood at RM1.4 trillion as at December 2015 (2014: RM1.3 trillion), reflecting a lower growth of 8.0%, year-on-year (2014: 9.5%). Business loans grew by 8.2% during the year (2014: 8.7%), driven by demand for non-residential property financing and working capital loans. Meanwhile, lending to the household sector grew by 7.7%, year-on-year, (2014: 10.1%), with financing of residential property as the primary growth driver.

Asset quality remained intact in 2015, although impairment levels are likely to face pressure as we brace for softer macroeconomic conditions. As at December 2015, member banks' gross and net impaired loan ratios stood sound at 1.5% and 1.1% respectively (2014: 1.6% and 1.2%). In addition, the loan loss reserve coverage ratio (including regulatory reserves) remained comfortable at 111.8% as at December 2015.

OVERVIEW OF MEMBERSHIP

CHART 2: ASSET QUALITY INDICATORS

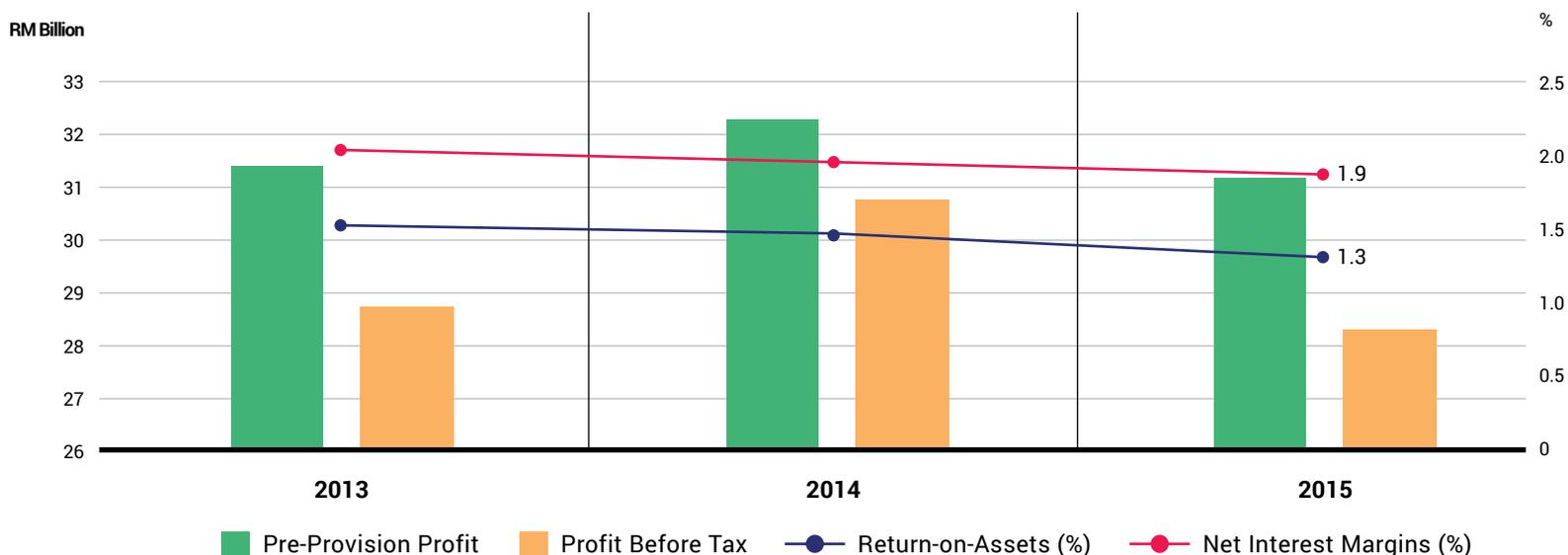


TAPERED PROFITABILITY

Profit was noticeably lower in 2015, affected by margin compression as well as higher operating expenses and credit cost. Collectively, member banks reported a profit before tax of RM28.3 billion for the period ended December 2015, 8.0% lower than the RM30.8 billion recorded in 2014. Return-on-Assets stood at 1.3% up to December 2015, compared to 1.5% in 2014, while the cost-to-income ratio elevated to 47.7% as at December 2015 (2014: 44.4%). Credit cost was also higher at 0.21% (2014: 0.14%), on the back of lower recoveries and higher individual impairment provisions.

Over the past year, member banks have stepped up efforts to enhance efficiency and competitiveness, which include measures to right-size the workforce and streamline operations. While these initiatives will result in member banks recognising a one-off rationalisation cost, expected savings from higher productivity and a leaner cost structure is likely to improve performance over the medium to long term.

CHART 3: EARNINGS INDICATORS



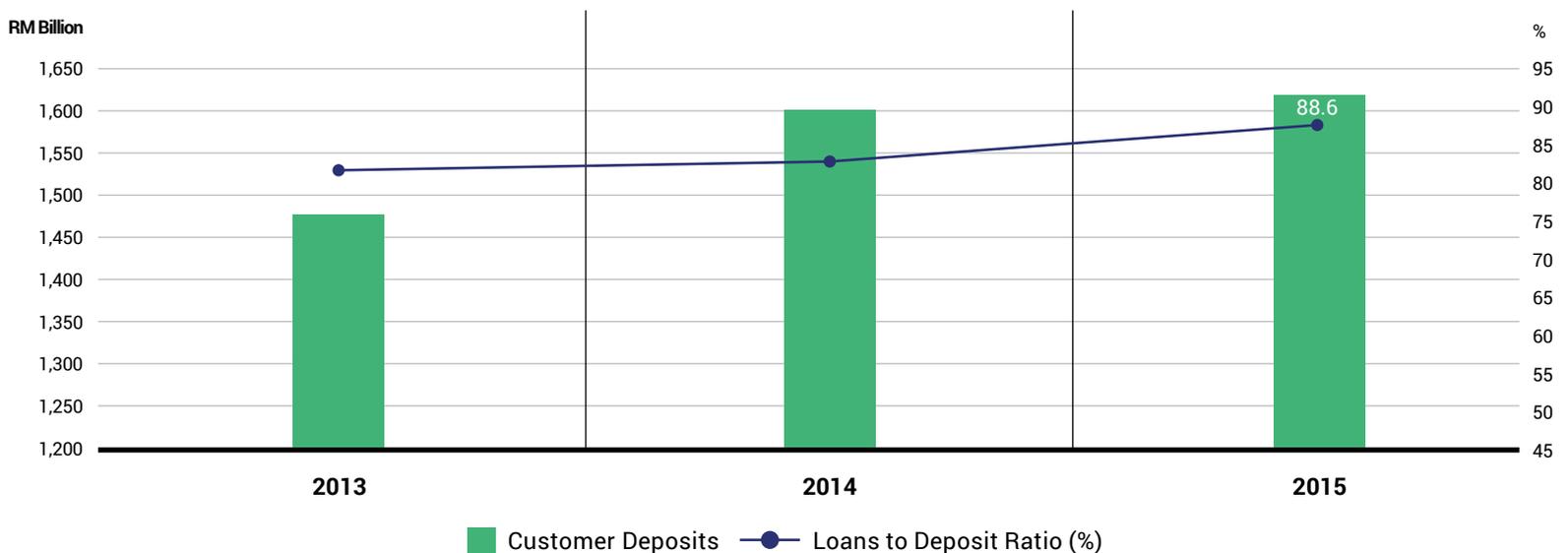
OVERVIEW OF MEMBERSHIP

SUFFICIENT LIQUIDITY BUFFERS

As at December 2015, member banks reported an aggregate Liquidity Coverage Ratio of 130%. Member banks are in compliance with the minimum regulatory requirement of 60%, with most institutions maintaining a level of more than 100%.

Member banks continued to be primarily funded by customer deposits, which stood at RM1.6 trillion as at December 2015 or 78.4% of total liabilities. Customer deposits grew at a slower pace of 1.3% year-on-year in 2015 (2014: 8.1%), as member banks managed liquidity requirements through the issuance of longer tenured funding such as medium-term papers. For Islamic member banks, the growth in customer deposits was marginal at 0.3% (2014: 15.0%), partly due to the effects of the reclassification of Investment Account funding as an investment instrument under the Islamic Financial Services Act 2013. Nevertheless, the loans to deposit ratio was still comfortable at 88.6% as at December 2015.

CHART 4: LIQUIDITY INDICATORS



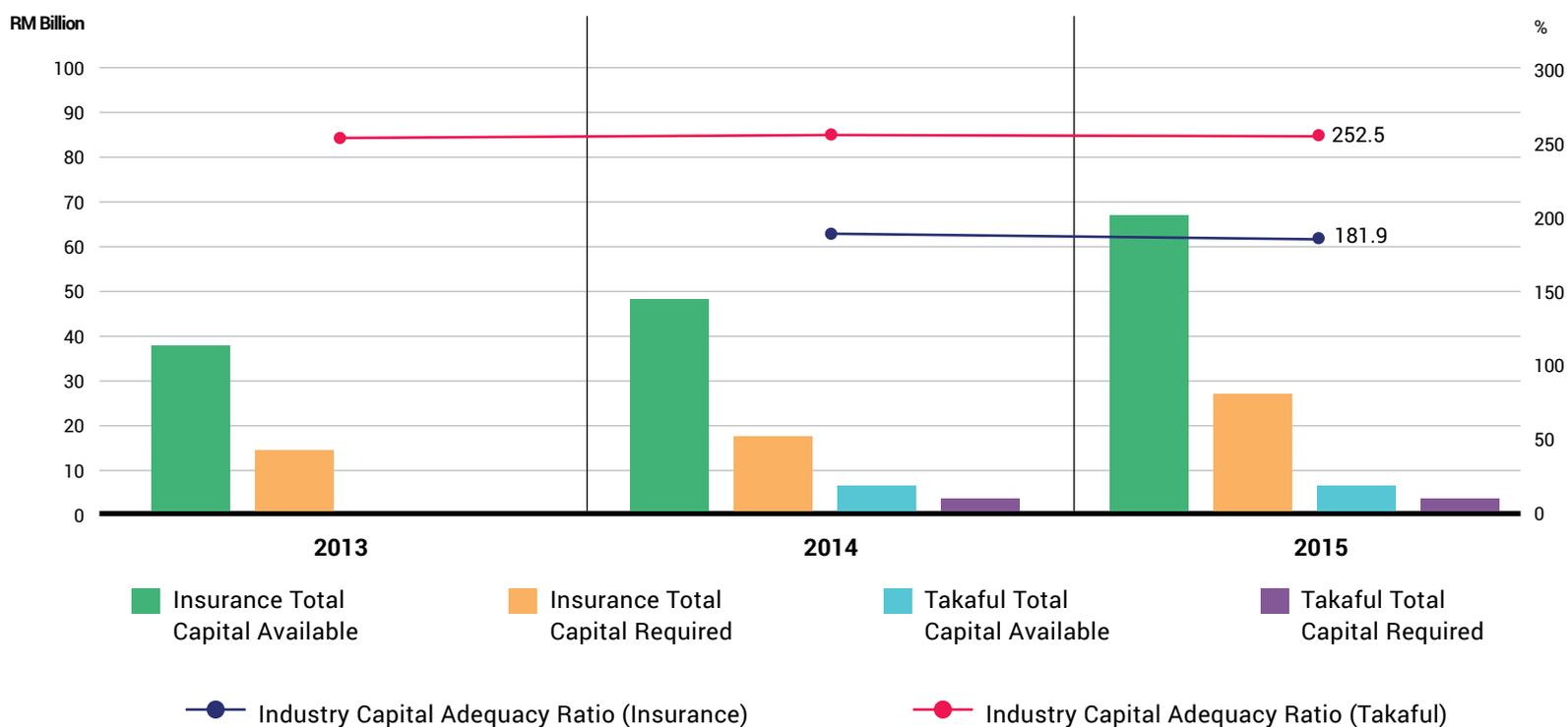
INSURER MEMBERS

ROBUST CAPITAL POSITION

The insurer members demonstrated their resilience with robust capital adequacy ratios (CAR) and healthy capital buffers, with all insurer members operating well above Bank Negara Malaysia (BNM)'s supervisory target level of 130%. The CAR for the life and general insurance industry stood at 252.5% in 2015 (2014: 252.3%) while takaful operators' CAR was at 181.9% (2014: 184.5%). Looking forward, with strong capital positions and good capital buffers in place, insurer members are well-positioned to withstand future uncertainties and adverse developments.

OVERVIEW OF MEMBERSHIP

CHART 5: CAPITAL POSITION



Note: Risk-Based Capital Framework for Takaful Operators was implemented in 2014

SLOWER BUSINESS GROWTH

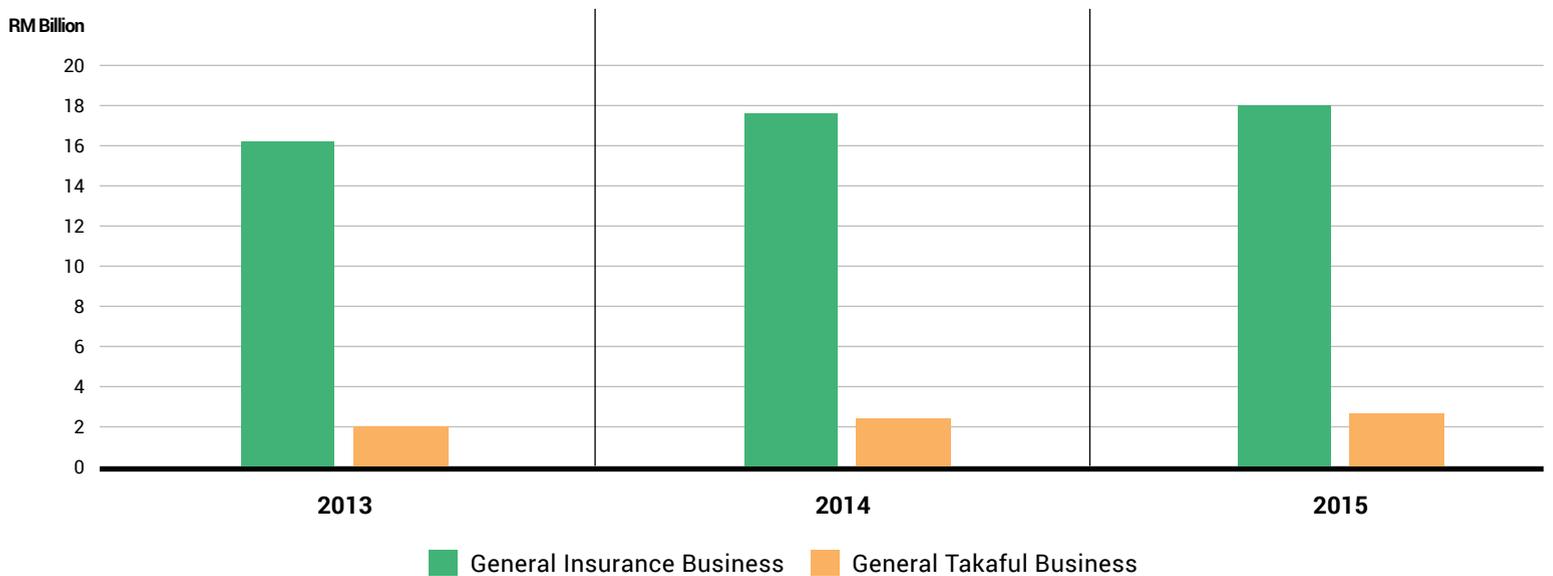
The challenging operating environment has dampened business growth in the general insurance and general takaful industries. As the motor business remained the main growth driver, the subdued automotive sales resulted in a lower growth rate of 1.7% in 2015 (2014: 6.0%) in the general insurance industry's gross premiums, while the general takaful industry's gross contributions moderated to 6.0% (2014: 13.3%).

Likewise, the less favourable operating conditions have reduced underwriting margins in both the general insurance and general takaful industries. For the general insurance industry, higher operating expenditures caused a slight reduction in underwriting margin to 11.6% (2014: 12.7%). Meanwhile, the general takaful industry's ability to attain economies of scale remains a challenge. Given the smaller size, the general takaful industry's underwriting margin was affected by increases in claims experience, declining to 11.7% in 2015 (2014: 17.6%).

For the general insurance industry, the deregulation of motor and fire tariffs in 2016 is a positive development for insurer members. Under the tariff system, the losses from the motor segment are often compensated by the performance of other lines of business, such as the fire business. With the deregulation, the margins in the fire business may be slimmer as they will be more competitively priced. However, insurer members will have greater flexibility to appropriately price motor cover, thereby eliminating inefficiencies in pricing and creating a more sustainable motor business for the future.

OVERVIEW OF MEMBERSHIP

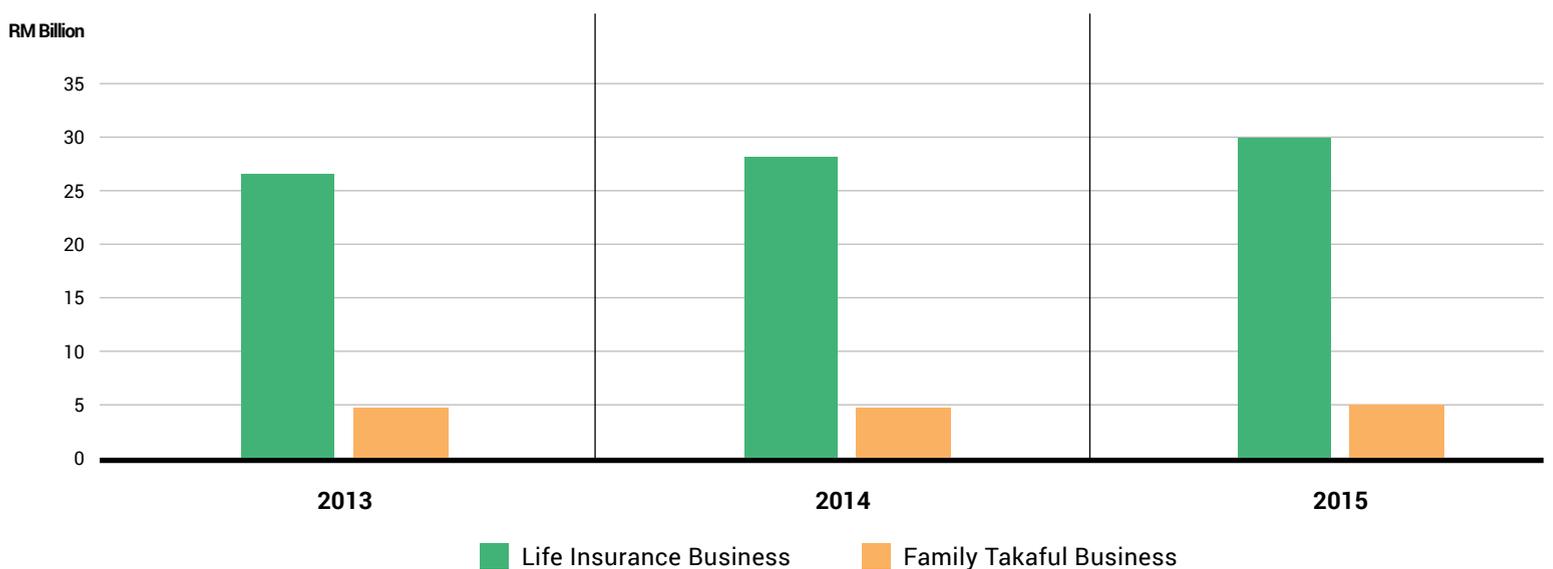
CHART 6: GROSS PREMIUMS / GROSS CONTRIBUTIONS



As for the life insurance industry, the economic uncertainties and cautious consumer sentiment have naturally slowed business growth as consumers reduce their discretionary spending. Despite these challenges, net premiums rose by 4.2% (2014: 8.9%) with new business dominated by investment-linked insurance. Meanwhile, mortgage reducing term takaful remained the main growth driver for the family takaful industry, with net contributions rising by 6.5% in 2015 (2014: -0.3%). In terms of investment returns, the uncertain investment climate has effected an important component of earnings for the life insurance and family takaful industries.

Moving forward, the introduction of the new Life Insurance and Family Takaful Framework by BNM is a beneficial reform that is likely to catalyse product innovation, encourage new distribution channels and further the penetration rates for life insurance and family takaful insurer members.

CHART 7: NET PREMIUMS / NET CONTRIBUTIONS



OVERVIEW OF MEMBERSHIP

CONSERVATIVE INVESTMENT STRATEGY

The insurer members have maintained a high quality asset base. Total insurance industry assets expanded by 5.2% in 2015 to RM230.8 billion and total assets in the takaful industry grew by 8.8% to RM24.8 billion.

As the general insurance and general takaful industries are characterised by short-term liabilities, the holdings of cash tends to form a sizeable proportion of total assets as at end of 2015. The general insurance industry's cash level stood at 23.3% (2014: 24.2%) of total assets while the general takaful industry had cash holdings of 15.7% (2014: 17.1%) of total assets. Generating investment returns to supplement underwriting income remained a priority for the general insurance and general takaful industries with investments in collective investment schemes, corporate debt securities and Malaysian Government Securities (MGS), or Government Investment Issues (GII) standing at 57.3% (2014: 57.1%) of total assets and 73.6% (2014: 71.7%) respectively.

The life insurance and family takaful industries remain heavily invested in corporate debt securities, MGS and GII. This reflects the nature of the industries and their long-term asset liability management requirements. Accordingly, investments made up the largest component of total assets for the life insurance industry at 79.5% in 2015 (2014: 80.1%) while investments comprised 79.5% (2014: 80.9%) of the total assets in the family takaful industry.

Looking to 2016, further slowing of top-line growth may filter down to slower expansion in insurer members' asset base. Nevertheless, insurer members are in a good position to maintain good asset quality and liquidity to support their operational needs.

OUTLOOK AND CONCLUSION

The challenging operating landscape is expected to continue in 2016. Member banks are anticipating lower loan growth and higher credit costs over the next year, further suppressing profitability for the period. In tandem, the insurance and takaful industries may also experience slower growth on the back of cautious consumer sentiments and continued investment uncertainties. Notwithstanding the short-term hurdles, the fundamentals of member institutions remain well supported by strong risk management practices and prudent business growth. Moreover, PIDM expects its member institutions' collective capital and liquidity positions to be able to cushion the downturn.

Section **6** **Articles**

Differential Levy Systems for Takaful Operators –
Contributing to the Financial Stability of an Evolving Takaful Sector

Corporate Governance in Statutory Bodies

DIFFERENTIAL LEVY SYSTEMS FOR TAKAFUL OPERATORS

Contributing to the Financial Stability of an Evolving Takaful Sector

THE TAKAFUL INDUSTRY IS AN INCREASINGLY IMPORTANT PART OF THE FINANCIAL SYSTEM

Malaysia's takaful industry has grown remarkably since the enactment of the Takaful Act 1984. With the Islamic Financial Services Act 2013 (IFSA), further strides have been made in the development of the industry and its players. The emergence of takaful as an important contributor to the financial system is underscored by the presence of 11 takaful operators and the rapid growth in the size of takaful fund assets in recent years.

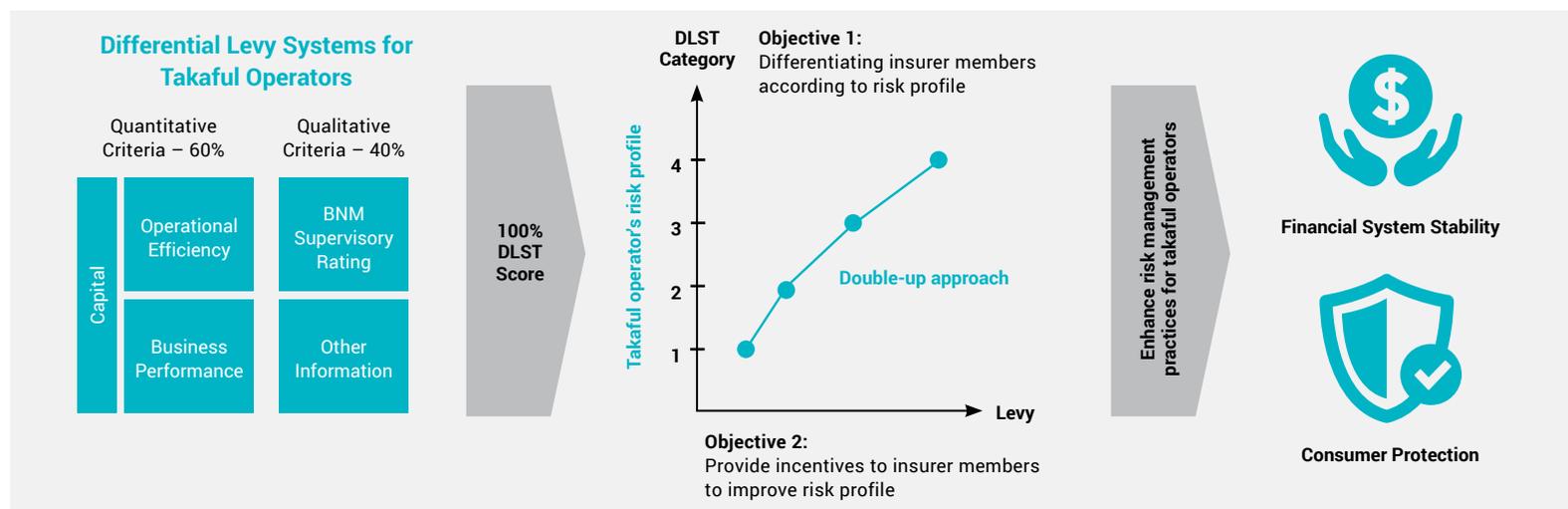
In view of its growing importance, it is vital to promote confidence in the safety and soundness of takaful operators amongst takaful certificate owners. The establishment of the Takaful and Insurance Benefits Protection System (TIPS) in 2010, which protects takaful certificate and insurance policy owners from the loss of their eligible takaful and insurance benefits (up to the limits set out in the PIDM Act) in the event a takaful operator or insurer member fails, was a significant step towards this direction.

As a financial safety net player, PIDM's mandate is also to promote financial system stability and provide incentives for sound risk management amongst its member institutions. In this regard, the Differential Levy Systems Framework for Insurance Companies (DLS) was implemented in 2013 to incentivise insurer members to enhance their risk management practices. With the implementation of the Risk-Based Capital Framework for Takaful Operators in 2014, it is timely to introduce the Differential Levy Systems Framework for Takaful Operators (DLST).

Similar with the DLS, a key aspect of the DLST is that takaful operators are assessed based on their risk profiles. The higher their risk profile, the higher the levy payable. The intention is to introduce a degree of fairness into the levy assessment process and to promote financial stability.

OVERVIEW OF THE DLST, RELATIONSHIP BETWEEN TAKAFUL OPERATORS' RISK PROFILES, FINANCIAL CONSUMERS AND FINANCIAL SYSTEM STABILITY

DIAGRAM 1: DLST OVERVIEW



Our experience with the Differential Premium Systems (DPS) for member banks and the DLS has proven that the DLST is capable of differentiating takaful operators based on their risk profiles. The DLST encourages takaful operators to focus on operational efficiency, business performance and capital management.

DIFFERENTIAL LEVY SYSTEMS FOR TAKAFUL OPERATORS

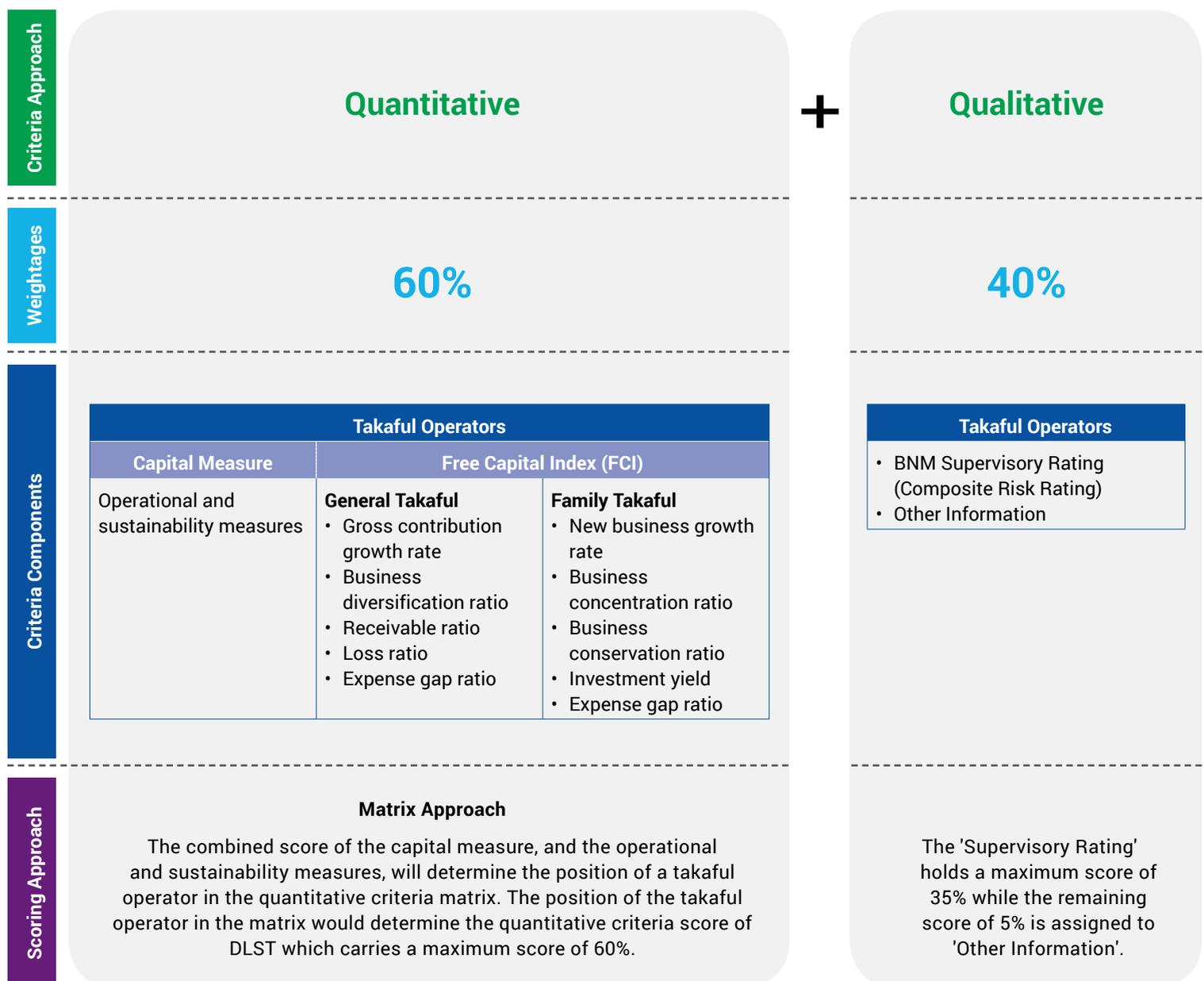
Contributing to the Financial Stability of an Evolving Takaful Sector

DLST METHODOLOGY AND CRITERIA ARE BASED ON THE PROVEN IMPLEMENTATION OF DPS AND DLS

The introduction of the DLST follows the successful implementation of similar systems – the DPS for member banks in 2008, and the DLS for conventional insurer members in 2013. The DLST has been developed based on a tested and viable methodology that is suitable for the Malaysian context. The DLST adopts a similar approach to the DPS and DLS by using a combination of quantitative and qualitative criteria to classify takaful operators into different risk categories. This methodology has proven to be more effective and comprehensive in measuring a takaful operator's risk profile.

As we aim to have an objective, transparent and forward-looking DLST, a matrix approach has been adopted, with 60% weightage attributed to the quantitative criteria while 40% is assigned to the qualitative criteria.

DIAGRAM 2: DLST METHODOLOGY AND CRITERIA



DIFFERENTIAL LEVY SYSTEMS FOR TAKAFUL OPERATORS

Contributing to the Financial Stability of an Evolving Takaful Sector

OBJECTIVE AND TRANSPARENT QUANTITATIVE CRITERIA IS USED IN THE MATRIX APPROACH

The quantitative approach uses measures that are driven by data to derive a takaful operator's levy category. The benefit of a quantitative approach is that it utilises objective data to better assess a takaful operator's risk profile and leverages on available information that is reliable, timely and consistent.

In designing the matrix, we have considered the effectiveness of the relevant measures within the quantitative criteria in assessing takaful operators according to the risks associated with their business portfolios and regulatory requirements. We have conducted extensive analysis to ensure the suitability of the indicators. Further reviews and tests were performed on the indicator results, trends and distribution to ensure its applicability in the takaful business operating environment.

The quantitative criteria comprises indicators representing two key statistical measures, capital strength, and operational performance and business sustainability of takaful operators.

CAPITAL MEASURE FORMS A PRIMARY COMPONENT IN THE QUANTITATIVE CRITERIA

Capital provides critical cushion against adverse changes in a takaful operator's earnings and asset quality, with free capital index as a crucial measure of the extent of capital buffer maintained by takaful operators. A strong capital buffer is important to ensure that takaful operators remain solvent as it represents the last line of defence against any expected and / or unexpected losses. Therefore, a well-capitalised takaful operator is in a better position to fulfil its obligations to its certificate owners.

ASSESSMENT OF TAKAFUL OPERATORS' OPERATIONAL EFFICIENCY AND SUSTAINABILITY OF FINANCIAL PERFORMANCE

While a strong capital buffer is an important aspect of a takaful operator's long-term sustainability, of equal importance is its ability to ensure operational soundness and business sustainability. In order to capture the distinctive characteristics of the general takaful and family takaful businesses, the operational and sustainability measures are made of different sets of indicators.

We have introduced expense gap ratio to cater for takaful operators' duties to certificate owners, particularly in managing the expenses incurred in the operations of the takaful business. These indicators are assigned weightages based on their levels of significance as a reflection of the takaful operators' well-being as described in Table 1.

TABLE 1: ASSESSMENT CRITERIA FOR OPERATIONAL AND SUSTAINABILITY MEASURES – GENERAL TAKAFUL BUSINESS AND FAMILY TAKAFUL BUSINESS

Indicators	Weightage	Rationale for Measures
General Takaful Business		
Gross contribution growth rate	25%	Sustainability of business underwritten.
Business diversification ratio	20%	Sensitivity of takaful operators to adverse experiences in their lines of businesses.
Receivable ratio	15%	Efficiency of business operations as reflected in the ability to ensure timely collection of takaful receivables.
Loss ratio	20%	Ability of takaful operators to implement rigorous underwriting and managing claims costs efficiently.
Expense gap ratio	20%	Efficiency in managing the actual expenses incurred in operating the takaful business against the expected expenses.

DIFFERENTIAL LEVY SYSTEMS FOR TAKAFUL OPERATORS

Contributing to the Financial Stability of an Evolving Takaful Sector

Indicators	Weightage	Rationale for Measures
Family Takaful Business		
New business growth rate	25%	Sufficiency of new business growth.
Business concentration ratio	20%	Extent of business concentration through an assessment of contribution composition between single and regular contributions.
Business conservation ratio	20%	Ability of takaful operators to ensure continuation of the business underwritten.
Investment yield	15%	Sustainability of earnings of takaful operators from the perspective of investment return.
Expense gap ratio	20%	Efficiency of takaful operators in managing the actual expenses incurred in operating the takaful business against the expected expenses.

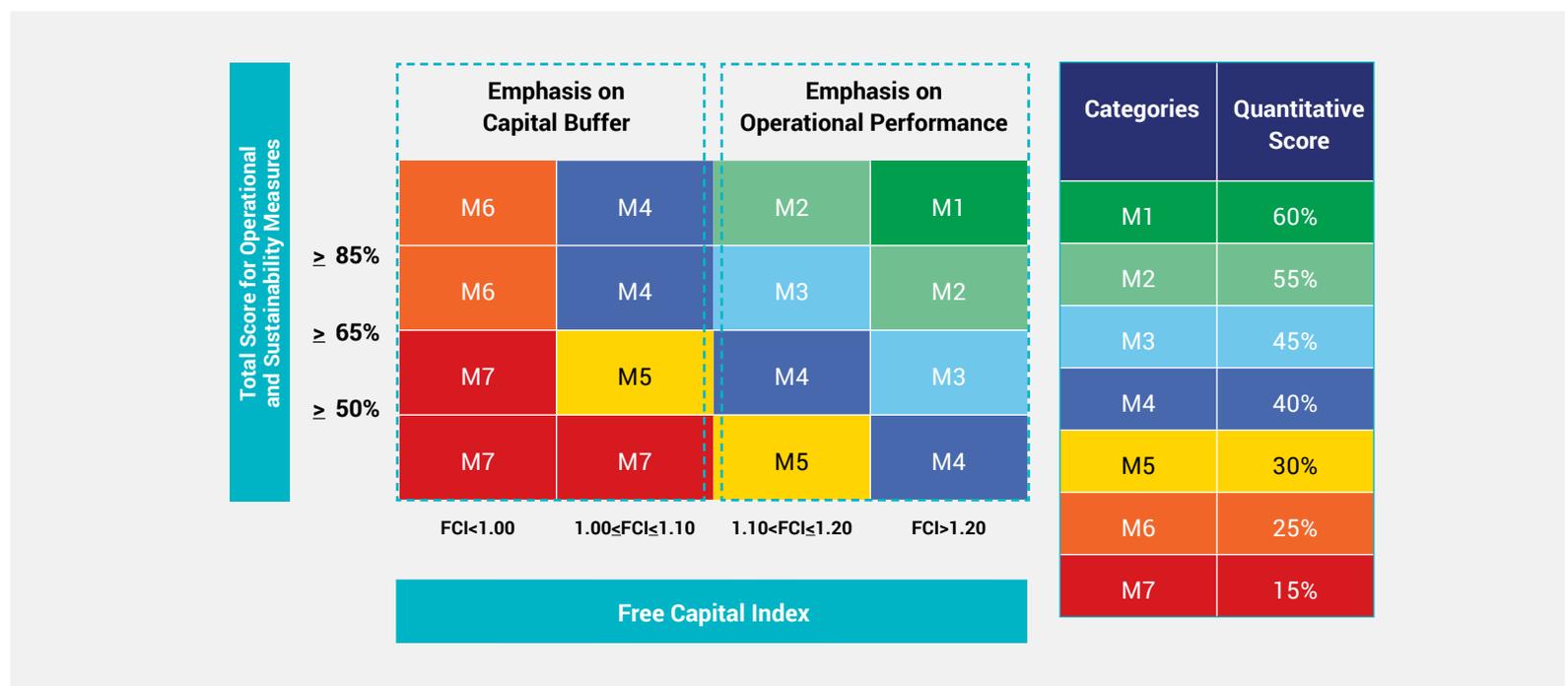
THE MATRIX APPROACH BETTER ASSESSES TAKAFUL OPERATORS' RISK PROFILES BASED ON TWO INDEPENDENT COMPONENTS OF ASSESSMENT

Under the matrix approach, the level of capital buffer is assessed at the horizontal axis of the matrix whilst the assessment of operational and sustainability measures is at the vertical axis, differentiated by four levels of threshold scores as shown in Diagram 3.

The matrix categories of M1 to M7, and the corresponding quantitative scores have been designed to provide different levels of incentives and focus for takaful operators. For takaful operators with capital buffers above 1.10, the emphasis would be on improvements in the operational and sustainability measures. As the score for operational and sustainability measures improves, so would the matrix category and the quantitative score.

In contrast, for takaful operators with a capital buffer of less than 1.10, improvements in the capital buffer levels will have a bigger impact on the matrix category as it is desirable for such takaful operators to strengthen capital and improve their resilience against any potential adverse events.

DIAGRAM 3: QUANTITATIVE CRITERIA MATRIX



DIFFERENTIAL LEVY SYSTEMS FOR TAKAFUL OPERATORS

Contributing to the Financial Stability of an Evolving Takaful Sector

THE QUALITATIVE SCORE PROVIDES A FORWARD LOOKING ASSESSMENT OF TAKAFUL OPERATORS

'Supervisory Rating', which forms part of the qualitative assessment, acts as an incentive for takaful operators to improve their overall risk management practices. It also has the added advantage of providing important information on the current and future risk profiles of takaful operators, which may not be captured by quantitative factors. 'Supervisory Rating' carries significant weight due to the direct supervisory relationship with the supervisory authority, Bank Negara Malaysia (BNM), which regulates and supervises takaful operators' risk profiles, operational management and risk management control functions, amongst others. Therefore, 'Supervisory Rating' conveys crucial information about the overall risk profiles of takaful operators.

'Other Information' carries a maximum score of five and aims to capture any issues that may have a significant impact on the financial performance or reputation of a takaful operator. Among the factors considered under this criterion are the takaful operators' compliance with regulations, guidelines and any other regulatory requirements, which may include supervisory concerns or intervention actions.

THE FINAL DLST SCORE IS A COMBINATION OF QUANTITATIVE AND QUALITATIVE SCORES

The sum of the respective scores from the quantitative and qualitative criteria will determine the overall DLST score, ultimately translating into the levy category and levy payable by a takaful operator. Each levy category carries a prescribed levy rate and minimum levy amount for the purpose of computing the levy payable to PIDM for the corresponding assessment year, as depicted in Table 2.

Takaful operators will be classified into four categories based on their DLST score, with Category 1 representing the lowest risk category and Category 4 being the highest risk category. The levy rates are designed using a double-up approach from each category to provide incentives for takaful operators to improve their overall risk profiles.

TABLE 2: DLST SCORES, LEVY CATEGORIES, LEVY RATES AND MINIMUM LEVY

DLST Score	Levy Category	Levy Rate for Family Takaful Business*	Levy Rate for General Takaful Business**	Minimum Annual Levy Amount (RM)
Score \geq 85%	1	0.025%	0.1%	75,000
65% \leq Score < 85%	2	0.05%	0.2%	150,000
50% \leq Score < 65%	3	0.1%	0.4%	300,000
Score < 50%	4	0.2%	0.8%	600,000

* Basis for calculation of levy payable for family takaful business is actuarial valuation liabilities

** Basis for calculation of levy payable for general takaful business is net contributions received

ONE-YEAR TRANSITIONAL PERIOD TO PROVIDE TAKAFUL OPERATORS WITH THE OPPORTUNITY TO IMPROVE THEIR RISK MANAGEMENT PRACTICES

For the first year of the DLST implementation in the assessment year 2016, we will provide a one-year transitional period during which the takaful operators' quantitative scores will be adjusted upwards by 10 percentage points subject to a ceiling score of 60%.

This transitional period is to give takaful operators time to improve their risk management practices and mitigate any volatility from drastic changes in the levy rates in subsequent years. Takaful operators with well-managed risk management practices may see an immediate reduction in the overall levies payable.

The key benefit of the DLST is its objectivity and transparency. The DLST facilitates clear identification of areas to focus on to improve the DLST score and at the same time, enhance the takaful operators' risk management practices.

DIFFERENTIAL LEVY SYSTEMS FOR TAKAFUL OPERATORS

Contributing to the Financial Stability of an Evolving Takaful Sector

THE IMPACT OF THE DLST ON TAKAFUL OPERATORS IS EXPECTED TO BE MINIMAL

Given the development of the takaful industry, a robust supervisory regime and the one-year transitional period, we believe that the financial impact to takaful operators arising from the implementation of the DLST will be minimal.

CONTINUOUS REVIEW IS NECESSARY TO ENSURE THE DLST REMAINS CURRENT AND RELEVANT

From our experience with the DPS and DLS, we have seen the value in reviewing and enhancing the respective frameworks to ensure ongoing effectiveness and relevance, given the dynamic operating environment and continuous regulatory developments. Consequently for the DLST, the Corporation is committed to its continuous review including engagement with relevant stakeholders such as takaful operators and BNM, to identify relevant areas for future enhancement.

ENCOURAGING THE DEVELOPMENT OF A STABLE AND SUSTAINABLE TAKAFUL INDUSTRY IN A CONTINUOUSLY EVOLVING ENVIRONMENT

As the takaful industry reaches a pivotal point in its development arc, major changes are on the horizon such as the separation of composite takaful licenses required under the IFSA. Takaful operators are now a significant component of the financial system and the implementation of the DLST will contribute to the sustainable development of the takaful industry through incentives to improve risk management practices. The DLST will also provide takaful operators with objective measures on their capital management, sustainability of business performance and operational efficiency. Ultimately, the DLST will assist in building a more sustainable and resilient takaful industry and ensure that takaful operators are in a better position to meet their obligations to takaful certificate owners.

In conclusion, the introduction of the DLST is in line with the Corporation's mandate to promote sound risk management in the takaful industry and contribute to the stability of the nation's financial system.

CORPORATE GOVERNANCE IN STATUTORY BODIES

In recent years, "... governance in public entities has become a pressing issue gaining greater exposure as a result of the financial and sovereign debt crises and a constant stream of governance failures ...".¹ "Good governance in the public sector requires an eye to the future, transparency, and accountability ... in particular with respect to the effects they have on the capacity to attract capital, global financial stability, and long-term sustainability ... improvement of ... governance arrangements is essential if governments worldwide are to be successful in the sustainable development of our economies and societies".²

Statutory bodies like PIDM, are public sector bodies established by Parliament. They deliver important public policy objectives and operate in many sectors of the Malaysian economy, including the financial services. Public sector bodies provide significant opportunities to achieve public policy objectives and must be able to carry out their mandated roles in the public realm.

At the same time, public sector bodies can also represent significant exposure to risks, if, for example, they fail to provide the services assigned to them as expected or if they incur financial losses through mismanagement. The public sector is also accountable to, and subject to the close scrutiny of a wider range of stakeholders than the private sector, whose main focus is their shareholders.

Just as significant is the fact that statutory bodies such as PIDM operate on trust and confidence. If for example, depositors do not believe PIDM will reimburse them promptly upon failure of a financial institution, this could cause a run on the institution. Financial consumers must thus have confidence and trust that PIDM will make good its promise to reimburse them in the event of a member institution failure and that PIDM is carrying out its mandate to promote and contribute to the soundness of the financial system.

As a financial consumer protection and resolution authority, implementing and maintaining high standards of governance and management is therefore paramount. In order to maintain public trust, PIDM must be credible in the eyes of the public by demonstrating, at all times, that it is well governed and well managed.

PIDM'S CORPORATE GOVERNANCE FRAMEWORK

From the beginning, PIDM has recognised that good governance must be the foundation for building the organisation. Therefore, from the outset, PIDM has established key governance policies and complied with best practices.

The challenge has always been the different organisational structures of public sector bodies, and the different legislative frameworks that apply. On the whole, while there are some, the body of "best practices" prescriptions in governance for public sector bodies has been scarce.

Despite this, PIDM adopted universal principles of governance, that is – openness, integrity and accountability; applying relevant and best practices drawn from private as well as public sector material that meet these principles.

A key step was to establish clear governance policies for the organisation.

THE BOARD GOVERNANCE POLICY

PIDM's Board Governance Policy is a key Board-approved policy that sets out the standards that the Board should attain in carrying out its responsibilities. This was developed with reference to corporate governance principles of openness, integrity and accountability as well as recognised best practices, adapted where appropriate to reflect the fact that PIDM is a statutory body with public policy objectives. The Board Governance Policy has been implemented since the inception of PIDM and is reviewed regularly.

Annually, the Board of PIDM will report its performance against the standards in this Policy, in order to account to its stakeholders on its governance standards.

¹ <http://www.ifac.org/news-events/2014-07/ifac-and-cipfa-release-important-new-framework-good-governance-public-sector>

² Launching the International Federation of Accountants / Chartered Institute of Public Finance and Accountants "International Framework: Good Governance in the Public Sector", quoting the IFAC CEO Fayez Choudhury

CORPORATE GOVERNANCE IN STATUTORY BODIES

OPERATIONAL AND FINANCIAL INDEPENDENCE

"The deposit insurer should be operationally independent, well-governed, transparent, accountable, and insulated from external interference".

*Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers (IADI)
(reissued November 2014)*

PIDM is an important component of Malaysia's financial safety net system. As recommended by the "Core Principles for Effective Deposit Insurance Systems", the PIDM Act ensures that PIDM is operationally independent, and not subject to external interference.

PIDM is established under the PIDM Act as a separate legal entity, accountable to Parliament through the Minister of Finance. It has its own powers under the PIDM Act. To ensure the Board's and by extension PIDM's independence, legislative assembly members, officers of member institutions as well as members and divisional heads of political parties cannot be appointed to the Board. Further, Board Members can only be removed with cause. The Chief Executive Officer (CEO) is accountable to the Board. Being operationally independent ensures that the deposit insurer is able to exercise its powers objectively and effectively to fulfil its mandate without interference from external parties. Recently, in December 2015, in line with the recommendations of IADI, the Board approved a "Policy Against External Interference"³ to guide employees as to their courses of action, if faced with any external interference in the course of their work.

Another key aspect of PIDM's governance framework is its financial independence. To fund its establishment, no capital was provided by the Government although a loan was obtained from BNM, which was subsequently repaid. Its operational funding is provided through annual premiums and levies assessed on member institutions and this further enhances its autonomy and independence.

OPENNESS, INTEGRITY AND ACCOUNTABILITY

The principles of openness, integrity and accountability underpins PIDM's governance practices.

Ensuring Openness and Comprehensive Stakeholder Engagement

This is to ensure that stakeholders can have confidence in the decision-making processes and actions of public sector entities, in the management of their activities, and in the individuals within them. Being open through meaningful consultation with stakeholders and communication that is full, accurate and clear leads to effective and timely action and stands up to necessary scrutiny.

Behaving with Integrity, Demonstrating Strong Commitment to Ethical Values, and Respecting the Rule of Law

This comprises both straightforward dealing and completeness. It is based upon honesty and objectivity, and high standards of propriety and probity in the stewardship of public funds and resources, and management of an entity's affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the individuals within the entity. It is reflected both in the entity's decision-making procedures and in the quality of its financial performance reporting. The entity as a whole must be able to demonstrate the appropriateness of its actions and has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Implementing Good Practices in Transparency, Reporting and Audit, to Deliver Effective Accountability

This is the process whereby the public sector entities, and individuals within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the entity plans and carries out its activities in a transparent manner. Both external and internal audits contribute to effective accountability.

PIDM's Board Governance Policy

³ Available at PIDM's website, www.pidm.gov.my

CORPORATE GOVERNANCE IN STATUTORY BODIES

Openness in communications with the stakeholders is an important element of good corporate governance. PIDM subjects itself to scrutiny by its stakeholders by being open and transparent about the work we do, within the constraints of the law. PIDM ensures that there are appropriate reporting and public disclosures in relation to the Corporation's work and its performance against the approved Corporate Plan in its Annual Report. PIDM also consults with industry and obtains industry members' feedback prior to the implementation of any regulations and guidelines.

Integrity also plays a key role in PIDM's values and culture. Board Members must abide by the Conflict of Interest Code and conform to the principles of:

- (a) promoting individual responsibility and personal example;
- (b) serving public interests;
- (c) supporting transparency and scrutiny; and
- (d) confidentiality.

Board Members hold a position of trust with the public and other stakeholders as well as with each other, and with officers and employees of PIDM. They are also bound by the Code of Business Conduct and Ethics that sets the standards of business conduct and ethical behaviour expected of them. Board Members are also required to make annual disclosures regarding their financial obligations and interests in PIDM's contractors, if any. Additionally, employees of PIDM are required to declare their financial obligations and assets annually.

Accountability is an important element of PIDM's governance framework. PIDM publishes its Corporate Plan yearly and disseminates this to its stakeholders. The Corporate Plan sets out PIDM's corporate initiatives over the planning period. The Board has oversight, through the Audit Committee (AC), of the progress of the corporate initiatives against the set targets and financial performance. Within three months from the end of its financial year, PIDM must transmit a copy of its annual accounts certified by the Auditor General and an annual report on PIDM's work throughout the year to the Minister of Finance, who shall cause them to be presented before Parliament.⁴

OVERSIGHT

At PIDM, the Board – led by the Chairman – is responsible for the conduct of PIDM's business and affairs and may establish by-laws, as set out in the PIDM Act. Board Members must act independently and in the best interest of PIDM at all times.⁵

Two key aspects of the Board's role are as follows:

- (a) The Board has full responsibility for setting the vision, mission and strategic direction for PIDM and oversight of the strategic plan execution, with a view to successfully achieving PIDM's mandate, vision and mission.⁶
- (b) The Board is also accountable for ensuring that internal controls are in place, risks are mitigated, and that the organisation is well managed.

⁴ Section 34, PIDM Act

⁵ Section 17, PIDM Act

⁶ Standard 13, Board Governance Policy

CORPORATE GOVERNANCE IN STATUTORY BODIES

PIDM's governance structure was designed such that there is a separation of responsibilities and accountability between the Board and Management. This separation is key for good governance as it creates independence and accountability of the Board and the CEO, who represents Management. The CEO is thus not a Member of the Board. To ensure independence, the Chief Internal Auditor (CIA) and the Chief Risk Officer (CRO) report functionally to the Board through the AC.

Some of the key practices adopted in order to ensure that the Board is effective are as follows:

- (a) **Board composition and succession.** PIDM undertakes the appropriate due diligence in selecting its Board Members to enable an appropriate Board composition. The Governance Committee develops a profile of the skills needed on the Board on a regular basis, taking into account PIDM's environment, strategic direction and current needs. It then performs a skills gap analysis to determine the available skills on the Board and those that are required. This enables the Board to provide recommendations to the Minister of Finance on the appropriate profile as well as the names of suitable candidates. For Board succession plan, the Board has also recently adopted the concept of an "evergreen" Board. Under this approach, one non-ex officio Director will retire from the Board each year after having served two terms of three years each. This ensures rejuvenation of the Board and fresh perspectives.
- (b) **Board oversight of Management.** In carrying out its oversight role in particular, the Board expects Management to provide it with relevant, timely and sufficient information to enable the Board to make informed decisions. The Board and the Board Committees may conduct meetings *in camera* with the external auditors, CIA, CRO or any member of Management. The Board, Board Committees or a Board Member also have the authority to obtain independent financial, legal, governance or other advice from an independent counsel or advisor, at PIDM's expense, to assist in the fulfilment of responsibilities.
- (c) **Board education.** To effectively fulfil their role, Board Members must be familiar with the Corporation's work and constantly enhance their skills and knowledge. Board Members participate in continuous education on the various technical aspects of PIDM's work and other topical issues that they should be aware of. The Board Education Programme is planned and approved by the Board one year in advance.
- (d) **Board performance.** In order to monitor and improve its own performance, the Board undertakes an annual assessment of its performance and carries out an externally-facilitated Board assessment once every three years. This assessment helps the Board to identify the Board's strength as well as areas for improvement. The Board's assessment of the quality of Management's support is also undertaken at the same time. This feedback enables Management to enhance its support to the Board.

STRATEGIC PLANNING

The Board is the "directing mind" of PIDM and has full responsibility for setting the vision, mission and strategic direction for PIDM. The Board has a fiduciary duty to play a role in the strategic thinking and planning processes as well as providing oversight in the execution of the strategic plan.⁷

The International Federation of Accountants / Chartered Institute of Public Finance and Accountants publication titled "International Framework: Good Governance in the Public Sector" contemplates, among others that, "... achieving good governance in the public sector also requires effective arrangements for ... Defining outcomes in terms of sustainable economic, social, and environmental benefit". In particular, "... It is essential that governing bodies develop and articulate a clear vision for their entities given the roles and functions that public sector entities fulfil, the nature of their funding, their impact on society, and the resulting need for accountability. This should be a formally agreed-on statement of an entity's purpose and the intended outcomes, which should be used as a basis for the governing body's overall strategy, planning, and other decisions. The statement should contain appropriate performance indicators ... for measurement and evaluation".

⁷ Standard 13, Board Governance Policy

CORPORATE GOVERNANCE IN STATUTORY BODIES

Strategic planning and defining outcomes in terms of economic and social benefits over the long term in line with PIDM's mandate has always been a key focus for the Board. PIDM is one of the few statutory bodies that has adopted the practice of issuing a Corporate Plan with its vision, mission, strategic direction as well as performance indicators that allow stakeholders to monitor the progress of PIDM's work as set out in the Plan.

During the 2015 strategic planning session, the Board considered PIDM's strategic direction for its long-term sustainability, acknowledging PIDM's anticipated role as a national resolution authority.⁸ Being operationally ready has always been a key objective for PIDM and this will continue to underline all that we do.

Looking to the future, the Board agreed that, in order to adapt and thrive in a constantly changing environment, PIDM should focus on the following strategic priorities over the long term:

- (a) to implement PIDM's long-term Strategic Human Capital Plan;
- (b) to continue our work on stakeholder engagement, including public awareness and corporate governance; and
- (c) to implement an effective resolution regime.

The Strategic Human Capital Plan also considers trends and challenges as well as anticipates PIDM's human capital needs and contemplates a considerable amount of effort to ensure that we continue to have the right competencies for the long term and sustainable success of PIDM. The Board also acknowledges the importance of continuous stakeholder engagement, public awareness, and, unsurprisingly, continues to promote good corporate governance.

The final key strategic priority, namely ensuring that we have an effective resolution regime, addresses an area that has been steadily gaining global attention since the 2008 global financial crisis.⁹ This takes into consideration the multiple challenges of dealing with the failures of complex or large financial institutions that pose risks to the financial system, known as Systemically Important Financial Institutions (SIFIs).

The global financial crisis saw huge amounts of public funds injected into the financial system to address systemic risks that are associated with unwinding such institutions. In order to restore market confidence and avoid a vicious cycle of asset price declines, regulators – in the absence of sufficient tools or authority – resorted to the use of public funds to avoid the fallout feared in already fragile financial systems. Like the crises before this, this portends even greater entrenchment of expectations that governments will always support the financial system in situations of crisis. Perversely, this also incentivises size and complexity in financial institutions and could fuel more risk-taking and similar activities that led to the global financial crisis.

Such entrenchment is widely thought to be untenable from the perspective of the economy and the public, who suffer the consequences of risk-taking by such institutions.

Thus, globally, policymakers have been looking for solutions to enable distressed financial institutions to be resolved in an orderly manner and without burdening the public. Policymakers around the world are developing recovery and resolution regimes to achieve the orderly unwinding of SIFIs. These will require that financial institutions reduce impediments to a resolution of a SIFI, through pre-emptive measures, with the ultimate goal of reducing the probability of a systemic event. This will also require regulators to review their tools and authority to ensure that the resolution regime can support the anticipated resolution plans.

⁸ As envisaged in the Financial Sector Blueprint 2011 - 2020, by 2020

⁹ Key Attributes for Effective Resolution Regimes for Financial Institutions (October 2011 reissued October 2014)

CORPORATE GOVERNANCE IN STATUTORY BODIES

In its strategic planning discussions, the Board considered PIDM's anticipated role as a national resolution authority, and its mandate to promote and contribute to the stability of the financial system – as well as the possible risks that PIDM may face and the steps it should take to mitigate such risks. As described above, the Board concluded, with an eye to the future, that we must ensure that Malaysia has an effective resolution regime, as a critical outcome for the long-term sustainable development of our economy and our key stakeholders – the public.

As stated in our Summary of the Corporate Plan 2016 - 2018, underlining all of our plans and work for our long-term sustainability is our desire to make recognisable and positive contributions to society in fulfilling our mandate.

Towards this journey, we focus on the following:

- (a) ensuring a workforce that is committed and competent, with agility to address challenges under all conditions is also a must. Dexterity, mental agility, and innovation are some of the competencies that are critical in changing environments. Our workforce is the brain and lifeblood of PIDM; and
- (b) looking to the future, we must continue to be aware of changing conditions and the risks that we might face. We must anticipate the changes and ensure that we have a regime and the tools necessary to achieve our *raison-d'être*, which is to promote financial system stability as well as to protect financial consumers as best that we can.

INTERNAL CONTROL AND RISK MANAGEMENT

As stated above, the Board is accountable for ensuring that internal controls are in place, risks are mitigated, and that the organisation is well managed. Also, the CIA and the CRO are independent and to ensure this, they report functionally to the Board through the AC.

PIDM's internal audit function provides an independent assurance to the Board on the state of internal controls within PIDM. The Board, through the AC, reviews all internal audit reports, and tracks the completion of action plans arising from such audits. Annually, the internal audit function carries out a review of PIDM's compliance with internal controls pursuant to the Internal Control Framework.

The management of risk through enterprise risk management is an integral part of sound corporate governance. Pursuant to the Board Governance Policy, the Board obtains an understanding of the significant risks of the Corporation's business, ensures that the appropriate and relevant process to manage these risks has been implemented and is reviewed regularly. PIDM's Board Risk Policies clarify the oversight function of the Board in relation to specific risks and outline the Board's expectations of Management's role in supporting them in managing PIDM's risks and fulfilling the Board's governance responsibilities as prescribed in the Board Governance Policy.

The Board also on a regular basis, obtains reasonable assurance, that the risk management process is being adhered to and continues to effectively manage the risks affecting the Corporation. The independence of the CRO ensures that information provided to the Board relating to risks is impartial and objective.

See the Statement on Risk Management and Internal Control in Section 2 for further details.

CONCLUSION

As for our key stakeholders – the public – our commitment to good corporate governance will remain perpetual. Entrenching good governance builds an institution that does not rely on political will or the personal will of a strong leader. Neither is it subject to external interference. As a foundation, it ensures that the organisation will be sustainable over the longer term, and can meet its mandate, vision and mission. This is the backbone of PIDM.

Section **7**

Communications Initiatives and Corporate Social Responsibility

Communications Initiatives

Corporate Social Responsibility

COMMUNICATIONS INITIATIVES

Financial consumer confidence is a key component to financial stability, as the financial system is only secure when the public believes that the system is safe and that their funds will always be readily available. Therefore, the importance of public awareness and education programmes as an effective tool to increase public support and trust in consumer protection systems cannot be understated.

In fulfilling our mandate to promote and contribute to the stability of the nation's financial system, public awareness of PIDM and its financial consumer protection systems is an integral part of the Corporation's communications initiatives. There is a need to enhance and deepen financial consumers' understanding of the features, benefits and limits of the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS).

Our efforts towards this are undertaken through our Integrated Communications Plan (ICP).

2015 INITIATIVES AND PROGRAMMES

PIDM undertakes various initiatives and utilises multiple platforms to reach out to financial consumers. Advertising, however, remains our key communications tool as the results from our consumer surveys indicate that it is the most effective platform to reach out to the masses and directly contributes to the awareness of PIDM, DIS and TIPS.



COMMUNICATIONS INITIATIVES

ADVERTISING AND PUBLICITY

For 2015, the Corporation’s advertising campaign was conducted in two phases. In the first and second quarters of the year, we featured our existing advertising materials that had high recall among survey respondents in the previous year’s consumer awareness survey. The creative materials were a combination of emotive storytelling, to capture the attention of our audiences and informative messaging, to provide more detailed information to the public.

In September 2015, a new advertising campaign was introduced in collaboration with Malaysia’s well-known and much-loved cartoonist, Datuk Mohamed Noor Khalid, also known as Lat. We chose to engage Lat as most Malaysians can identify with his trademark black-and-white drawings. Lat’s cartoons also have brilliant storytelling ability and are able to bring complex messages to life, cutting across all races and demographics. His distinctive cartoon style and simple messaging are ideal in communicating the features of PIDM’s protection systems to the general public.

The nationwide campaign aims to bring about a new level of public awareness and understanding about PIDM and its protection systems. New communications materials featuring Lat’s cartoon characters were produced for the print, television and online media, as well as buntings and standees for use at briefings and roadshows. In addition, Lat’s posters and billboards were also featured at local colleges and universities.

More public information materials and collaterals are being developed in keeping with the Lat campaign, and these will be released in 2016.



COMMUNICATIONS INITIATIVES

FINANCIAL AWARENESS AND LITERACY

The PIDM Project MoneySmart education programme was developed and implemented with the aim of enhancing financial awareness and literacy among the younger generation. Within five years of its launch in 2010, it had successfully reached out to 2,239 national secondary schools and 150 institutions of higher learning in Malaysia through on the ground briefings and roadshows. PIDM's efforts received recognition by the Ministry of Education as a "Partner in Co-curriculum" for the years 2014, 2015 and 2016.



For 2015, the PIDM education programme continued with a digital-based campaign targeted at students in secondary schools and institutions of higher learning with the following activities:

- Photography and Poster Drawing Competition, which encouraged students to use their creativity, artistic and photography skills to draw posters and create photographic interpretations in line with the theme "Financially Savvy Habits and Practices";
- Song and Video Production Competition where students developed, produced and submitted creative pieces in the form of songs or videos with educational messages about being money smart and having prudent financial management practices; and
- MoneySmart Trivia, which is a series of quizzes to promote learning and application of financial values as well as financially savvy habits and practices.

STAKEHOLDER ENGAGEMENT

A total of 85 briefing sessions were conducted nationwide, reaching out to some 8,500 bank employees, takaful and insurance agents, employees in the private and public sectors, community groups as well as students.

These briefing sessions were held in collaboration with our key strategic partners including the Malaysian Insurance Institute, the Islamic Banking and Finance Institute Malaysia, Asian Institute of Chartered Bankers (AICB), Federation of Malaysian Consumers Associations (FOMCA), Malaysian Financial Planning Council (MFPC), Lions Clubs International and Money Compass. Briefing sessions were also conducted for employees of banks, takaful operators and insurance companies at their training centres.

In addition, PIDM also continued to conduct the "Train-the-Trainer" accreditation programme, the objective of which is to train and certify employees of member institutions and collaboration partners as PIDM's outsourced speakers at public and other stakeholder briefings. In 2015, a total of 29 participants successfully completed the programme.

COMMUNICATIONS INITIATIVES

PIDM also continued to conduct the annual meeting with liaison officers of member institutions to update them on new initiatives and regulatory and compliance related matters. The meeting was held on 11 February 2015 with a total of 115 participants. The Corporation also conducted specific consultation briefings with representatives from member institutions in relation to the Corporation's proposed new developments. These included briefings to member banks on the Guidelines on the Differential Premium Systems for Deposit Insurance System, and to insurance companies in respect of the Consultation Paper on Enhancements to the Differential Levy Systems Framework.

During the year, PIDM also hosted the 5th Seminar on Islamic Deposit Insurance, the Insurance Guarantee Schemes Conference as well as the 14th International Association of Deposit Insurers (IADI) Annual General Meeting (AGM) and Conference. Representatives from member institutions were invited to participate in these events. A dinner talk was also held specifically for insurer members, with a discussion on insurance guarantee schemes. More of such initiatives are being planned in the future.

COMMUNITY RELATIONS

Corporate Outreach

The Corporate Outreach is an annual event where PIDM's Board Members and Management team visit a state in Malaysia to reach out to Government officials and business community leaders to enhance awareness about PIDM and its role in the financial system. Since 2006, PIDM has covered Johor Bahru, Kota Kinabalu, Kuala Terengganu, Kuantan, Kuching, Melaka and Pulau Pinang.

For 2015, the Corporate Outreach was held in Ipoh, Perak. A Luncheon Talk was organised on 25 May 2015 for representatives from the Perak State Government as well as the banking and insurance sectors, with 50 participants in attendance. A public talk on "Effective Financial Consumer Protection" was held the following day, which was attended by more than 110 participants. The talk, which was organised in collaboration with Bank Negara Malaysia (BNM), Agensi Kaunseling dan Pengurusan Kredit (AKPK) and the Financial Mediation Bureau (FMB), was aimed at educating the local community about the role of PIDM in the financial system and at the same time enhance their awareness regarding other organisations that provide financial consumer protection and education.

Exhibitions and Roadshows

In 2015, PIDM participated in a total of nine exhibitions, three of which were organised by FOMCA. These were exhibitions organised in conjunction with the Closing Ceremony of Malaysian Consumer Day (*Hari Pengguna Malaysia*), *Karnival Teratak Pengguna* and the Conference on Strengthening Financial Resilience of Malaysian Consumers.

Other exhibitions included the MFPC event in conjunction with its Graduation Ceremony and Luncheon 2015, the 6th MFPC National Forum, the 2015 Investment Outlook Expo & Forum 2.0 organised by Money Compass, and the Investor Education Weekend organised by the Securities Commission.

The Corporation also participated in exhibitions at the 14th IADI AGM and Conference, the Global Banking Conference organised by AICB as well as the Lions Clubs International Centennial Service Day with AKPK and PIDM, organised by the Lions Clubs International.

For a complete listing of our participation in exhibitions and roadshows, refer to our Calendar of Events for 2015 in Section 8.



COMMUNICATIONS INITIATIVES

MEDIA RELATIONS

The media plays an important role in the dissemination and sharing of information about PIDM. During the year, PIDM engaged the media through various activities, including media releases, a media preview of the Lat advertising campaign as well as several media interviews. Members of PIDM's Senior Management were featured on "Ringgit and Sense" on BFM radio, as well as morning talk shows on Traxx FM and Lite FM. In 2015, PIDM issued 10 media releases, held a press conference in conjunction with the 14th IADI AGM and Conference and a media briefing on the issuance of the Consultation Paper for Information Regulations for the DIS and TIPS.

Regular networking sessions with editors and journalists of the print, online and electronic media were also held in 2015 as part of our ongoing efforts to enhance relations with members of the media. An annual media *Buka Puasa* event was held on 23 June 2015 and was attended by senior editors and journalists.



NATIONWIDE SURVEY

PIDM carries out an annual nationwide quantitative consumer survey through an independent research agency to gauge the levels of public awareness about PIDM, DIS and TIPS as well as the effectiveness of the Corporation's communications strategies and initiatives. This enables the Corporation to review and enhance its communications approaches and initiatives on an ongoing basis.

PIDM's communications initiatives for 2015, which were geared towards a strong mix of emotive and informative advertising and supported by traditional and digital media have gained much traction.

The survey results for 2015 showed that there was still a high level of awareness about PIDM and DIS. Public awareness of PIDM had increased to 53% from 47% in 2014, while awareness of DIS had also improved to 41% from 38% in 2014 for the same period.

Awareness of TIPS declined to 26% from 30% in 2014. This is mainly attributed to low awareness and relevancy towards insurance products among the survey respondents, among whom insurance ownership was recorded at low levels. Nevertheless, there is an improvement on the overall depth of understanding towards TIPS.

There was also improved financial awareness among those surveyed, with more sensitivity towards savings behaviour as well as the awareness that their deposits are protected by PIDM in the event of a bank failure.

The member institutions' compliance with the Deposit Insurance Information Regulations at their bank branches has also contributed towards the increased levels of awareness.

The survey findings inform us that the member institutions' compliance with our Information Regulations has an important role to play in our public awareness efforts. Further, a combination of an emotive and informative approach, and Lat's creatives has generated higher reach and engagement among consumers.

MOVING FORWARD

Going forward, the Corporation will continue its communications strategies and initiatives, with relevant enhancements based on research findings, in order to ensure that our public awareness efforts remain effective and meet their key objectives and priorities.

CORPORATE SOCIAL RESPONSIBILITY

“Being good is commendable, but only when it is combined with doing good is it useful” – Stephen King

Social responsibility is a value shared by all employees of PIDM. Emphasis on community development and environmental conservation and sustainability has been the focus of our Corporate Social Responsibility (CSR) efforts.

SCHOLARSHIP PROGRAMME

The PIDM Undergraduate Scholarship Programme, which is part of our CSR efforts, is now into its sixth year since its inception in 2010. It serves as a platform for talented and deserving students to obtain financial aid to pursue their tertiary education in Malaysia. The scholarship comes without bonding and provides for funding of tuition fees, living expenses as well as books.

The scholarships are awarded to well-rounded and talented students who are in need of financial assistance. The recipients undergo a stringent selection and assessment process to validate their family and financial background, academic achievement, community involvement and demonstrated leadership skills. In 2015, 10 external scholars were awarded scholarships to pursue various courses of study ranging from Law, Business Administration, Accounting, Actuarial Science and Statistics.

The scholarship programme is part of PIDM's contribution to the nation in developing the human capital of the country. The intention is to support the creation of a talent pool, in particular for the financial services sector. Currently, 19 out of the 60 scholars have successfully completed their studies with more than 60% of our scholar graduates are employed in the financial services sector.

DEVELOPING THE FUTURE GENERATION OF YOUNG MALAYSIANS

Our commitment towards the scholarship programme is to develop a future generation of young Malaysians who are not only talented academically but also well balanced in all other areas. With this objective in mind, the scholarship also provides various soft skills training programmes and internship opportunities at PIDM. In addition, each scholar is assigned mentors from the PIDM Management team as a support system – to provide guidance and advice to scholars, both academically as well as for personal growth and professional development.

PIDM SCHOLARS ALUMNI

2015 marked the establishment of an alumni for PIDM scholars. The objective of the alumni is to create a network among the scholars for their continued professional and personal development and also to maintain networks and connections with PIDM. We see this as an opportunity for the scholars to be role models to others, engage in peer coaching as well as to give back to society in the long term.

PIDM is proud to play a part in the scholars' personal, academic and professional journey and to make a difference in their lives so that they can have a better life for themselves, their families as well as their communities.

As Lao Tzu said, “the journey of a thousand miles begins with one step”. PIDM is pleased to have established the scholarship programme and is committed towards developing a future generation of scholars to ensure this legacy continues for years to come.



CORPORATE SOCIAL RESPONSIBILITY



OTHER CSR ACTIVITIES

COMMUNITY INITIATIVES

East Coast Floods Aid

The torrential monsoon rain in the last quarter of 2014 caused severe flash floods and landslides, destroying buildings, roads and houses in the East Coast of Peninsular Malaysia. Many lost their homes and belongings. PIDM employees were actively involved in giving assistance to ease the burden of the flood victims through various governmental and non-governmental organisations. The employees also initiated a cash donation drive for a school in one of the worst hit districts of Kuala Krai, Kelantan, which was used to purchase school uniforms, stationery sets, blankets and mattresses for the affected students and their families.

Charity Run

On 29 November 2015, PIDM, together with the Lions Clubs International District 308 B1 Malaysia and AKPK, supported and participated in the Lions Charity Balloon Run 2015. The event was aimed at enhancing awareness of health and financial issues to the public. More than 40 PIDM employees and their family members participated in the event.

REDUCE, REUSE, RECYCLE

Donation of Computers

PIDM is mindful of the need to reduce the environmental impact of our operations and supports initiatives benefiting the environment. We consciously minimise usage and wastage in all aspects of our work. As part of our efforts to reduce and reuse, PIDM donated used fully functional computers to 21 schools and a non-governmental organisation in October 2015.

Going Green

Our office waste is separated and recyclable items are collected and sold, whereby the proceeds are added to the CSR fund and is matched ringgit for ringgit by the Corporation. The fund is held in trust for charitable causes that the Corporation will choose to contribute to from time to time.

In 2015, employees also continued to collect used Tetra Pak cartons that were sent for recycling under Tetra Pak's CARETON Project to help build homes for the Orang Asli community.

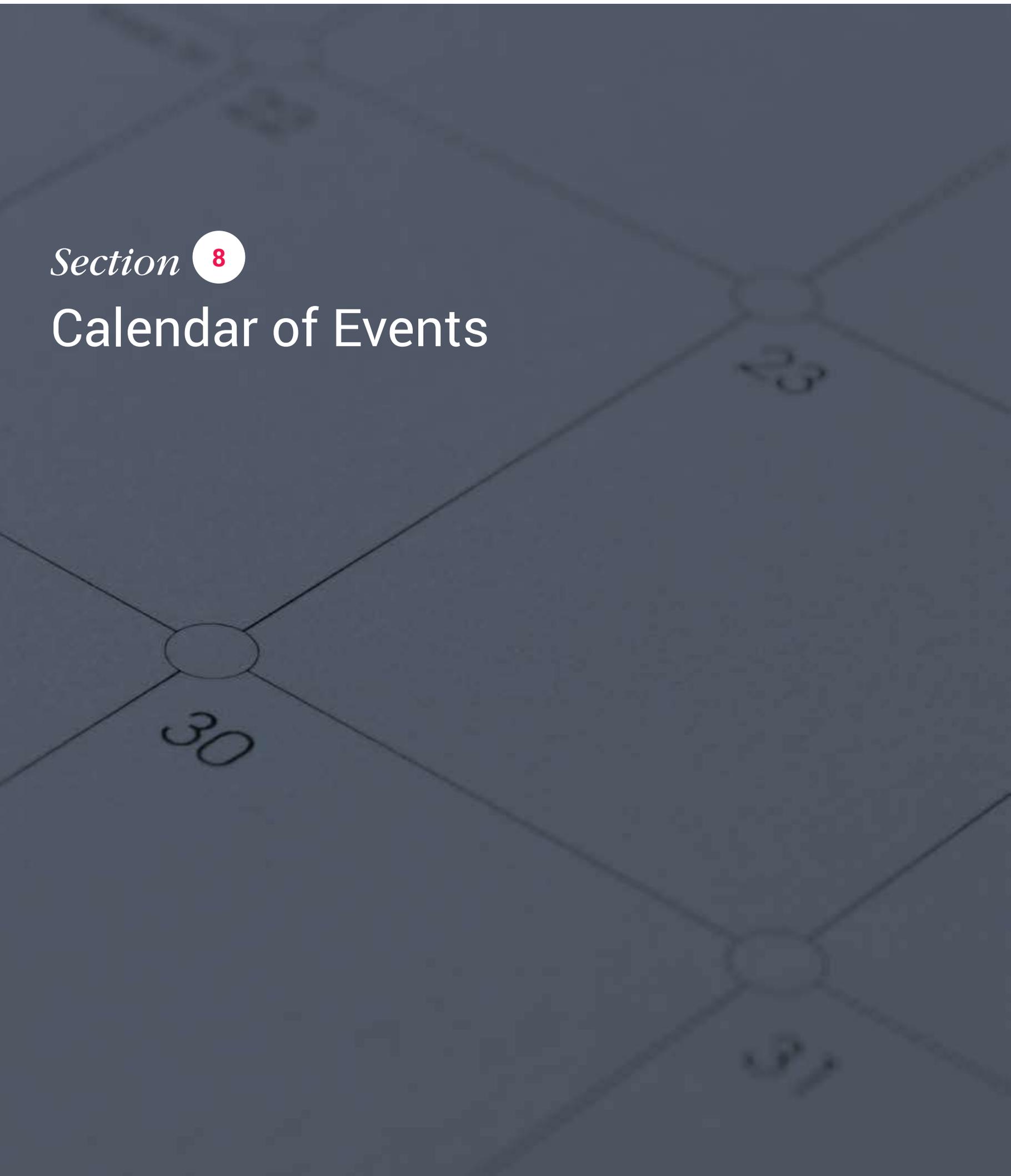
CONCLUSION

Our CSR spirit is best described by Theodore Roosevelt's quote "Do what you can, with what you have, where you are". There is no better time to start doing good than now.

Section

8

Calendar of Events



CALENDAR OF EVENTS

JAN

8 JAN : PIDM, KUALA LUMPUR

Briefing on PIDM's Guidelines For Insurer Members On Submission Of Product Information and Consultation Paper On The Draft Malaysia Deposit Insurance Corporation (Provision Of Information On Protected Benefits) Regulations for Malaysian Takaful Association members

27 JAN : PIDM, KUALA LUMPUR

Governance Committee Meeting

28 JAN : PIDM, KUALA LUMPUR

Board Education Session



FEB

5 FEB : PIDM, KUALA LUMPUR

Certificate Presentation Ceremony for certified trainers under the PIDM Train-the-Trainer Programme 2014

9 FEB : PIDM, KUALA LUMPUR

Study Visit by Islamic Economics Forum (IsEF) Sekolah Tinggi Ekonomi Islam Shariah Economic Banking Institute (STEI SEBI), Indonesia

9 FEB : PIDM, KUALA LUMPUR

Audit Committee Meeting

10 FEB : PIDM, KUALA LUMPUR

Succession Planning Committee Meeting

11 FEB : KUALA LUMPUR

Annual Meeting with Liaison Officers of Member Institutions

16-17 FEB : AMMAN, JORDAN

Participated in the International Association of Deposit Insurers (IADI) Middle East and North Africa Committee (MENA) and Africa Regional Committees' Joint Annual Meeting and Conference

24 FEB : PIDM, KUALA LUMPUR

Meeting with Indonesia Deposit Insurance Corporation (IDIC)

27 FEB : KUALA LUMPUR

Presentation by PIDM on Islamic Deposit Insurance System in Malaysia for the representatives from the Supreme Council Scholars of Morocco



CALENDAR OF EVENTS

MAR

3 MAR : PIDM, KUALA LUMPUR

Board of Directors Meeting

4 MAR : TANJONG KARANG, SELANGOR

PIDM Community Talk organised by Federation of Malaysian Consumers Associations (FOMCA)

5 MAR : PIDM, KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for students and academic staff of Politeknik Ungku Omar, Perak

8 MAR : KUANTAN, PAHANG

PIDM Community Talk organised by FOMCA

9-12 MAR : BOGOTA, COLOMBIA

Participated in the 44th IADI Executive Council Meeting, Regional and Standing Committee Meetings

Presentation by PIDM on What is the Future of the Deposit Insurance System? at the Latin America and North America Regional Joint Conference

11 MAR : BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad

12 MAR : PIDM, KUALA LUMPUR

Briefing on Guidelines on the Differential Premium Systems for Deposit Insurance System for member banks

13 MAR : PIDM, KUALA LUMPUR

Briefing on Guidelines on the Differential Premium Systems for Deposit Insurance System for external auditors

17-19 MAR : LONDON, UNITED KINGDOM

Presentation by PIDM at the 3rd Annual European Summit on Recovery and Resolution Strategies

19 MAR : HONG KONG

Participated in the 2015 HSBC Asia Core College of Supervisors / Crisis Management Group Meetings

21-24 MAR : SAN FRANCISCO, USA

Participated in the International Association of Restructuring, Insolvency and Bankruptcy Professionals (INSOL International) Annual Regional Conference

23 MAR : PIDM, KUALA LUMPUR

Briefing on Consultation Paper on Proposed Enhancements to the Differential Levy Systems (DLS) Framework For Insurance Companies for general insurers members

24 MAR : MUTIARA DAMANSARA, SELANGOR

Briefing on PIDM Financial Consumer Protection for employees of Allianz Life Insurance Malaysia Berhad

26 MAR : PIDM, KUALA LUMPUR

Briefing on Consultation Paper on Proposed Enhancements to the DLS Framework For Insurance Companies for life insurers members

26 MAR : SUNGAI BESAR, SELANGOR

Exhibition and Community Talk at *Karnival Teratak Pengguna* 2015 organised by FOMCA

29 MAR : BUTTERWORTH, PULAU PINANG

PIDM Community Talk organised by FOMCA

30 MAR : JAKARTA, INDONESIA

Participated in the Islamic Financial Services Board (IFSB)'s Focus Group Meeting on the Strategic Performance Plan 2016 - 2018

31 MAR : MUTIARA DAMANSARA, SELANGOR

PIDM Community Talk organised by FOMCA



CALENDAR OF EVENTS

APR

2 APR : KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for employees and agents of Tokio Marine Insurans (Malaysia) Berhad

8 APR : PIDM, KUALA LUMPUR

Briefing on Consultation Paper on Requirements To Facilitate Payment Of Protected Benefits For General Takaful And General Insurance

10 APR : PIDM, KUALA LUMPUR

Board Education Session

10 APR : SIMPANG RENGGAM, JOHOR

PIDM Community Talk organised by FOMCA

11 APR : JOHOR BAHRU, JOHOR

PIDM Community Talk organised by FOMCA

15 APR : KUALA LUMPUR

Presentation by PIDM on Islamic Deposit Insurance System in Malaysia for the representatives from the Central Bank of the Western African States

19 APR : SEBERANG JAYA, PULAU PINANG

PIDM Community Talk organised by FOMCA

20-22 APR : TAIPEI, TAIWAN

Participated in the 13th IADI Asia-Pacific Regional Committee (APRC) Annual Meeting and International Conference

21 APR : LARKIN, JOHOR

PIDM Community Talk organised by FOMCA

21 APR : PIDM, KUALA LUMPUR

Train-the-Trainer session for FOMCA facilitators

23 APR : PASIR GUDANG, JOHOR

PIDM Community Talk organised by FOMCA

26 APR : PASIR GUDANG, JOHOR

PIDM Community Talk organised by FOMCA

28 APR : PIDM, KUALA LUMPUR

2015 Corporate-wide Enterprise Risk Management (ERM) Risk Assessment Workshop

29 APR : BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection for employees of RHB Bank Berhad



CALENDAR OF EVENTS

MAY

6 MAY : KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for member institutions

7 MAY : PIDM, KUALA LUMPUR

Audit Committee Meeting

9 MAY : GEORGE TOWN, PULAU PINANG

Briefing on PIDM Financial Consumer Protection for members of the public

11 MAY : PIDM, KUALA LUMPUR

Remuneration Committee Meeting

12 MAY : MANILA, PHILIPPINES

Participated in the 20th Asia-Pacific Economic Cooperation Financial Regulators Training Initiatives (APEC FRTI) Advisory Group Meeting for Bank Supervisors

12-13 MAY : PIDM, KUALA LUMPUR

Train-the-Trainer session for member institutions' employees

13 MAY : KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for employees and agents of Tokio Marine Insurans (Malaysia) Berhad

14 MAY : JOHOR BAHRU, JOHOR

Briefing on PIDM Financial Consumer Protection for member institutions

15 MAY : KUALA LUMPUR

Presentation by PIDM on Importance of Deposit Insurance as a Safety Net for Financial Stability at the Financial Stability, Financial Surveillance and Macro Prudential Policy Programme

16 MAY : JOHOR BAHRU, JOHOR

Briefing on PIDM Financial Consumer Protection for members of the public

20 MAY : PIDM, KUALA LUMPUR

Board of Directors Meeting

20-21 MAY : ALMATY, KAZAKHSTAN

Participated in the 12th IFSB Summit on Core Principles for Islamic Finance: Integrating with the Global Regulatory Framework

23 MAY : KUCHING, SARAWAK

Briefing on PIDM Financial Consumer Protection for members of the public

23 MAY : KUALA LUMPUR

Exhibition at 6th Malaysian Financial Planning Council (MFPC) National Forum 2015

24 MAY : IPOH, PERAK

Strategic Planning Session for PIDM Senior Management

Board Education Session

25-26 MAY : IPOH, PERAK

PIDM Corporate Outreach 2015

26-27 MAY : MADRID, SPAIN

Participated in the 3rd International Forum of Insurance Guarantee Schemes Conference and General Meeting

27 MAY : KUALA LUMPUR

Presentation by PIDM on IADI Core Principles for Effective Deposit Insurance at the 2nd Alliance for Financial Inclusion (AFI) Global Standards Proportionality Working Group Meeting and Global Symposium on Proportionality in Practice

29 MAY : PIDM, KUALA LUMPUR

Special Governance Committee Meeting



CALENDAR OF EVENTS

JUN

1-4 JUN : BASEL, SWITZERLAND

Participated in the 45th IADI Executive Council Meeting, Regional and Standing Committee Meetings and the 3rd IADI Biennial Research Conference on Current Issues Facing Deposit Insurers

3 JUN : KOTA KINABALU, SABAH

Briefing on PIDM Financial Consumer Protection for members of the public

3 JUN : PITAS, SABAH

PIDM Community Talk organised by FOMCA

4 JUN : BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection for employees of Employees Provident Fund

5 JUN : SUGUT, SABAH

PIDM Community Talk organised by FOMCA

8 JUN : PAGINATAN, SABAH

PIDM Community Talk organised by FOMCA

8-9 JUN : PIDM, KUALA LUMPUR

Train-the-Trainer session for member institutions' employees

8-9 JUN : KUALA LUMPUR

Strategic Planning Workshop for PIDM Senior Management

9 JUN : LIAWAN, SABAH

PIDM Community Talk organised by FOMCA

11 JUN : KAWANG, SABAH

PIDM Community Talk organised by FOMCA

12 JUN : KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for Lions Clubs International members

15-17 JUN : MAKATI CITY, PHILIPPINES

Participated in the International Workshop on Deposit Insurance Fund Target Size hosted by Philippine Deposit Insurance Corporation

23 JUN : KUALA LUMPUR

Buka Puasa with members of the media

26 JUN : KUALA LUMPUR

Presentation by PIDM at the 9th South East Asian Central Banks (SEACEN) Advanced Leadership Course

JUL

7 JUL : KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for students and academic staff of the Financial Sector Talent Enrichment Programme (FSTEP)

27-30 JUL : BANGKOK, THAILAND

Study Visit to Deposit Protection Agency (DPA), Thailand



CALENDAR OF EVENTS

AUG**3 AUG : KUALA LUMPUR**

Briefing on PIDM Financial Consumer Protection for participants of the 12th Banking Supervision Course

5 AUG : KUALA LUMPUR

Presentation by PIDM on Islamic Deposit Insurance System in Malaysia for the representatives from the Central Bank of Gambia

10-21 AUG : KUALA LUMPUR

PIDM-BNM Supervision Sports Carnival 2015

12 AUG : SHAH ALAM, SELANGOR

PIDM Community Talk organised by FOMCA

12 AUG : PIDM, KUALA LUMPUR

Special Audit Committee Meeting

13 AUG : KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for member institutions

13 AUG : SENAWANG, NEGERI SEMBILAN

PIDM Community Talk organised by FOMCA

13 AUG : PIDM, KUALA LUMPUR

Audit Committee Meeting

15-16 AUG : KUALA LUMPUR

Exhibition at 2015 Investment Outlook Expo & Forum 2.0

18-19 AUG : PIDM, KUALA LUMPUR

Train-the-Trainer session for member institutions' employees

19 AUG : KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for members of the public

19 AUG : KUALA LUMPUR

Presentation by PIDM on Islamic Deposit Insurance System in Malaysia for the representatives from the China Banking Regulation Commission (Shanghai Office)

22 AUG : KUALA LUMPUR

PIDM Scholarship Award Ceremony

24-25 AUG : KUALA LUMPUR

International Conference for Insurance Guarantee Schemes on Recovery and Resolution of Insurance Companies and a Dinner Talk for Insurer Members hosted by PIDM

25 AUG : PIDM, KUALA LUMPUR

Study Visit by Deposit Insurance Corporation of Mongolia

25-27 AUG : MUMBAI, INDIA

Presentation by PIDM at the Financial Stability Institute (FSI) - the Central Banks of South East Asia, New Zealand and Australia (SEANZA) Regional Seminar on the Regulation and Supervision of Systemically Important Banks

26 AUG : PIDM, KUALA LUMPUR

Study Visit by Depositor's Insurance Fund of Libya and Policyholders Compensation Fund of Kenya

27 AUG : KUALA LUMPUR

Media Preview and Launch of PIDM Advertising Campaign with Lat



CALENDAR OF EVENTS

SEP

2 SEP : KUANTAN, PAHANG

Briefing on PIDM Financial Consumer Protection for member institutions

2-3 SEP : PIDM, KUALA LUMPUR

First Aid / Cardiopulmonary Resuscitation (CPR) Certification Course for PIDM employees

5 SEP : CHERATING, PAHANG

PIDM Community Talk organised by FOMCA

8 SEP : BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection for employees of Public Bank Berhad

8-10 SEP : BASEL, SWITZERLAND

Participated in the Panel on Total Loss-Absorbing Capacity (TLAC) for Systemic Banks – Current Developments at the FSI-IADI Joint Conference on Bank Resolution, Crisis Management and Deposit Insurance Issues

9 SEP : KUANTAN, PAHANG

Briefing on PIDM Financial Consumer Protection for employees of Standard Chartered Bank Malaysia Berhad

9 SEP : KUANTAN, PAHANG

PIDM Community Talk organised by FOMCA

10 SEP : LONDON, UNITED KINGDOM

Presentation by PIDM on The Role of Deposit Insurers in Bank Resolutions at the Banking Law Symposium 2015 on Multinational Banking: Capturing the Benefits and Avoiding the Pitfalls

10 SEP : GEORGETOWN, PULAU PINANG

Briefing on PIDM Financial Consumer Protection for member institutions

17 SEP : BEIJING, CHINA

Presentation by PIDM on DLS Framework at the Insurance Security Fund (Beijing) Forum 2015 on Strengthening Risk Management of Insurance Security Fund, Consolidating Risk Prevention Schemes for Insurance Industry

17 SEP : DAMANSARA, SELANGOR

Briefing on PIDM Financial Consumer Protection for members of the public

19 SEP : SERDANG, SELANGOR

Exhibition and Community Talk at Malaysian Consumers Day 2015

21 SEP : TAPAH, PERAK

PIDM Community Talk organised by FOMCA

22 SEP : PIDM, KUALA LUMPUR

Governance Committee Meeting

23 SEP : SUBANG JAYA, SELANGOR

Briefing on PIDM Financial Consumer Protection for members of the public

28 SEP : PIDM, KUALA LUMPUR

Board Education Session

29 SEP : PIDM, KUALA LUMPUR

Board of Directors Meeting

29 SEP : NILAI, NEGERI SEMBILAN

Briefing on PIDM Financial Consumer Protection for members of the public

29 SEP : BATU PAHAT, JOHOR

Briefing on PIDM Financial Consumer Protection for members of the public in collaboration with Islamic Banking and Finance Institute Malaysia (IBFIM)



CALENDAR OF EVENTS

OCT

1 OCT : MELAKA

Briefing on PIDM Financial Consumer Protection for member institutions

5 OCT : PIDM, KUALA LUMPUR

Board Education Session

7 OCT : IPOH, PERAK

Briefing on PIDM Financial Consumer Protection for member institutions

7 OCT : KUALA LUMPUR

Keynote Address by PIDM on The Roles of Corporate Governance In Business Continuity Management at the World Continuity Congress Malaysia 2015

9-11 OCT : KUALA LUMPUR

Exhibition and Briefing at the Investor Education Weekend 2015 (InvestSmart Fest) organised by Securities Commission Malaysia

13 OCT : PIDM, KUALA LUMPUR

Succession Planning Committee Meeting

19 OCT : MUAR, JOHOR

Briefing on PIDM Financial Consumer Protection for members of the public in collaboration with IBFIM

22 OCT : ALOR SETAR, KEDAH

Briefing on PIDM Financial Consumer Protection for member institutions

22-23 OCT : KUALA LUMPUR

5th Seminar on Islamic Deposit Insurance – Essential Elements for Effective Islamic Deposit Insurance Systems: Shariah Governance and Sources and Management of Funds hosted by PIDM

25-30 OCT : KUALA LUMPUR

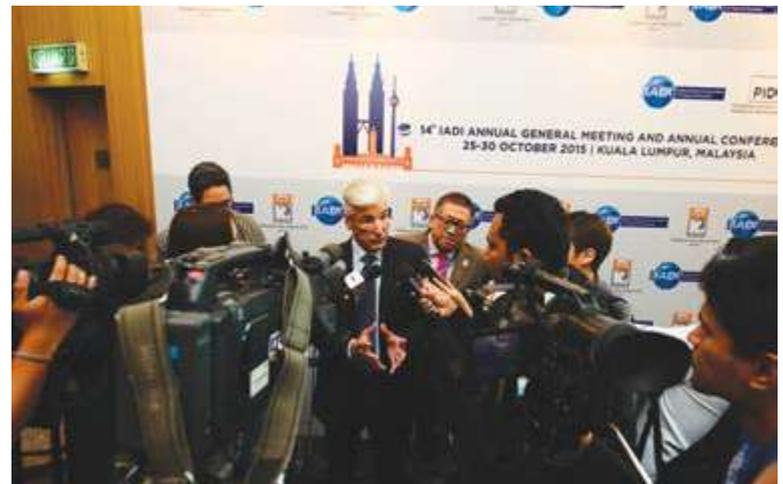
14th IADI Annual General Meeting and Conference on Crisis Preparedness – Institutional Arrangements and Coordination, Crisis Communication and Contingency Planning hosted by PIDM

27 OCT : BANGI, SELANGOR

Briefing on PIDM Financial Consumer Protection for employees of Standard Chartered Bank Malaysia Berhad

28 OCT : KUALA LUMPUR

Press Conference at 14th IADI Annual General Meeting and Conference



CALENDAR OF EVENTS

NOV

1 NOV : KUANTAN, PAHANG

PIDM Community Talk organised by FOMCA

3-4 NOV : KUALA LUMPUR

Exhibition at the Global Banking Conference organised by the Asian Institute of Chartered Bankers (AICB)

5 NOV : KUALA LUMPUR

Presentation by PIDM on Shariah-Compliant Structures for a Deposit Insurance Scheme at the IFSB-International Shariah Research Academy (ISRA) Shariah Roundtable on Financial Safety Nets: Striking a Balance between Shariah Requirements and the Soundness of the Islamic Financial System

5 NOV : KUCHING, SARAWAK

Briefing on PIDM Financial Consumer Protection for member institutions

12 NOV : KOTA KINABALU, SABAH

Briefing on PIDM Financial Consumer Protection for member institutions

13 NOV : PIDM, KUALA LUMPUR

PIDM Media Briefing on the Consultation Paper on Information Regulations for the Deposit Insurance System and the Takaful and Insurance Benefits Protection System

13 NOV : PIDM, KUALA LUMPUR

Briefing on PIDM Financial Consumer Protection for students and academic staff of Universiti Teknologi Mara (UiTM), Melaka

17 NOV : PIDM, KUALA LUMPUR

Remuneration Committee Meeting

18 NOV : PIDM, KUALA LUMPUR

Audit Committee Meeting

19 NOV : PASIR GUDANG, JOHOR

Briefing on PIDM Financial Consumer Protection for members of public in collaboration with IBFIM

19-21 NOV : CHIANG MAI, THAILAND

6th Tripartite Meeting between PIDM, DPA, Thailand and IDIC

21 NOV : PUTRAJAYA

PIDM Community Talk organised by FOMCA

25 NOV : PIDM, KUALA LUMPUR

Board Education Session

26 NOV : KUALA LUMPUR

Participated in the Conference on Strengthening Financial Resilience of Malaysian Consumers organised by FOMCA

29 NOV : KUALA LUMPUR

Exhibition and Community Talk at Lions Clubs International Centennial Service Day with Agensi Kaunseling dan Pengurusan Kredit (AKPK) and PIDM

29 NOV : KUALA LUMPUR

PIDM Corporate Social Responsibility Initiative – Participated in Lions Balloon Charity Run 2015



CALENDAR OF EVENTS

DEC

2 DEC : KUALA LUMPUR

Memorandum of Understanding Signing Ceremony with Cagamas Berhad

3 DEC : PIDM, KUALA LUMPUR

Board of Directors Meeting

3 DEC : KUALA LUMPUR

The Malaysia Deposit Insurance Corporation (Amendment) Bill 2015 passed by Dewan Rakyat

5 DEC : KUALA LUMPUR

PIDM Annual Dinner 2015

5 DEC : KUALA LUMPUR

PIDM Community Talk organised by FOMCA

11 DEC : KUALA LUMPUR

Presentation by PIDM on Safety Nets: Strengthening Protection of the Financial Sector at the IFSB-International Centre For Education In Islamic Finance (INCEIF) Executive Forum on Resilience and Stability of the Islamic Financial Services Industry: Opportunities and Challenges Ahead

16 DEC : KUALA LUMPUR

The Malaysia Deposit Insurance Corporation (Amendment) Bill 2015 passed by Dewan Negara



Appendix

Charter of Governance Committee

Charter of Remuneration Committee

Charter of Audit Committee

Charter of Succession Planning Committee

Corporate Scorecard 2016 - 2018

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.

3.11 **Term of Appointment / Rotation / Re-appointment of Members** – Membership of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire membership of the Committee is not changed at any one time. The advice of the Chair on a Committee member's performance shall be considered where an extension of that member's tenure or re-appointment is being considered.

3.12 **Reporting** – The Committee will, where appropriate, provide a written or verbal report of each meeting of the Committee at the next regular Board meeting or as may otherwise be required by the Board.

3.13 **Review of Charter** – The Committee shall review and assess the adequacy of this Charter biennially. If the Committee recommends any amendments, the Committee shall submit a revised Charter to the Board for its approval.

CHARTER OF GOVERNANCE COMMITTEE

- 3.14 **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, amongst others, 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.

4.2 Evaluation of Board Operations and Board Committees

- (a) In consultation with the Chief Executive Officer (CEO), the Committee shall assess the needs of the Board in terms of the frequency and location of Board and Committee meetings, meeting agendas, documents and information, and the conduct of meetings, and make recommendations to the Board as required.
- (b) The Committee shall 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 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.

CHARTER OF GOVERNANCE COMMITTEE

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, terms, retirement dates and the strategic direction of the Corporation.
- (b) The Committee shall identify a list of potential Board nominees who possess the skills, experience, knowledge and characteristics which fit the profiles and update such list on a regular basis.
- (c) When a vacancy or vacancies on the Board occurs or are anticipated, the Committee shall prepare and recommend to the Board a list of potential nominees.
- (d) Develop and implement a strategy to communicate the profiles and potential candidate or candidates to the Minister.
- (e) The Committee shall review periodically the compensation programme of members of the Board and make recommendations to the Board.
- (f) The Committee shall make recommendations regarding the orientation programme, training and ongoing development of members of the Board.

4.4 **Succession Planning** – The Committee shall review Management’s succession plans for the corporate officers and make recommendations in respect of the same, to the Board for approval.

4.5 **Leadership Needs** – The Committee shall keep under review the leadership needs of the Corporation, both executive and non-executive, with a view to ensure the continued ability of the Corporation to efficiently and effectively meet its mandate.

4.6 **Reporting and Disclosure** – Recommend to the Board the content of such governance reports as may be required or considered advisable for public disclosure.

4.7 Stakeholder Awareness and Engagement – The Committee shall:

- (a) review and recommend for Board approval, any amendments to the Corporation’s Communications Policy;
- (b) review and recommend for Board approval, the Corporation’s long-term public awareness strategies and receive the public awareness plan of activities for the next fiscal year; and
- (c) regularly receive and review the results of such plan.

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.

3.11 **Term of Appointment / Rotation / Re-appointment of Members** – Members of the Committee should be changed on an appropriate, regular basis. Such change should be on a rotation basis in order to ensure that the entire Committee is not changed at any one time. The 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.

CHARTER OF REMUNERATION COMMITTEE

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.

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 of Directors, as named by the Board. Committee members shall each be independent of Management. The Committee will carry out such functions as are assigned or delegated to it by the Board.

(b) **Competencies** – All members appointed to the Committee shall either:

- (i) be financially literate, upon appointment, that is, having a basic understanding of finance and accounting and being able to read and understand fundamental financial statements, including a balance sheet, income statement and statement of cash flows; or
- (ii) undertake to be financially literate within a reasonable period of time after their appointment to the Committee.

The Chair and the Vice-Chair (if appointed) shall have financial expertise. "Financial expertise" means a person who has professional qualifications as an accountant and who has had extensive experience in auditing.

Where appropriate, Committee members will enhance their familiarity with financial and accounting practices for audit committees and other areas relevant to their responsibilities by keeping abreast of trends and best practices in these areas including considering topical issues and their application to the Corporation and by participating in educational sessions or other opportunities for development.

3.2 **Chair** – The Chair is a non-ex officio Director, as named by the Board.

3.3 **Vice-Chair** – The Vice-Chair may, if the Board considers appropriate, for the purposes of succession planning be appointed from among the non-ex officio Directors, as named by the Board. In the absence of the Chair, if there is a Vice-Chair, the Vice-Chair shall preside at the meeting of the Committee, and while so presiding, shall have all the powers of the Chair. If the Chair or the Vice-Chair is absent or there is no Vice-Chair, a chair shall be appointed by the members present, who shall preside at the said meeting, or until the arrival of the Chair or the Vice-Chair, as the case may be. The Vice-Chair (if appointed) is the Chair's deputy, and shall perform on his behalf such duties as may be delegated by the Chair.

3.4 **Quorum** – The presence of two members constitutes a quorum for a meeting of the Committee. A quorum shall only be constituted where the Chair or Vice-Chair is present at the meeting.

3.5 **Voting** – A matter put to a vote at a meeting of the Committee shall be decided by a majority of the votes cast and in the event of an equality of votes its Chair has a second vote.

3.6 **Procedure and Conduct** – Subject to any resolution of the Board in respect of a specific matter, the Chair shall determine the procedure at and conduct of meetings of the Committee.

3.7 **Secretary and Minutes** – The Corporate Secretary shall be the secretary of the Committee. Copies of the minutes shall be sent by the Corporate Secretary to all members of the Board once they have been approved by the Committee.

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.

CHARTER OF AUDIT 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 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.
- 3.17 **Self-assessment** – An evaluation of the Committee shall be conducted regularly, in which the Committee shall review its performance for the purpose, among other things, of assessing whether the Committee fulfilled the responsibilities and duties stated in this Charter.

3.18 **Disclosure** – The Committee shall ensure that this Charter and the composition of the Committee are publicly disclosed.

3.19 **Independent Counsel or Other Advisors** – The Committee has the authority to engage outside advisors, including but not limited to counsel, independent audit consultants and / or other experts, as needed, to review any matter under its responsibility, in accordance with the relevant Board resolution or policy.

4.0 PRINCIPAL DUTIES AND RESPONSIBILITIES

4.1 **Advice and Recommendations to Board** – In discharging its duties and responsibilities, the Committee relies on the expertise of Management, the Corporation's internal audit function and the AG. Although it does not carry out internal audits, the Committee shall monitor the audit and review the reports, and make reasonable inquiries, to allow it to provide sound advice and recommendations to the Board.

4.2 **Investigation** – In assisting the Board in discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, AG and personnel of the Corporation. The Committee shall recommend to the Board that special investigations be conducted into such matters as the Committee may deem appropriate based on information supplied to it.

4.3 **Financial Reporting** – The Committee shall assist the Board in discharging its oversight role of reliable, accurate and clear financial reporting, including by reviewing the Corporation's annual financial statements and Management's Discussion and Analysis (MD&A) prior to approval by the Board, and reviewing, as appropriate, releases to the public of significant non-public financial information. Such review shall include, where appropriate but at least annually, discussion with Management, the internal audit function, and the AG, of significant issues regarding accounting principles, the Corporation's accounting policies, and significant management estimates and judgments, including the quality and acceptability of Generally Accepted Accounting Principles (GAAP).

The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure in the Corporation's annual financial statements and MD&A, and must periodically assess the adequacy of those procedures.

CHARTER OF AUDIT COMMITTEE

4.4 Financial Reporting Processes, Accounting Policies and Internal Control Structure – Management is responsible for the preparation, presentation, and integrity of the Corporation’s financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The Committee shall seek Management’s and the AG’s views on opportunities to improve the quality of the Corporation’s accounting principles as applied in its financial reporting, inquire into alternative treatments that may have been considered but rejected, review the aggressiveness or conservatism of the Corporation’s accounting principles and estimates, and review instances where the AG’s advice on accounting or disclosure matters has not been followed.

Specifically, the Committee shall assist the Board in its oversight of the financial reporting process of the Corporation including:

- (a) reviewing and advising the Board with respect to the Corporation’s annual financial statements;
- (b) reviewing and advising the Board with respect to the AG’s annual audit report;
- (c) reviewing major changes to the Corporation’s auditing and accounting principles and practices as suggested by the AG, the internal audit function or Management;
- (d) ensuring that Management has the necessary policies and procedures in place related to internal controls, in accordance with applicable laws, regulations and guidance, to provide reasonable assurance on the adequacy and effectiveness of the Corporation’s internal control systems; and reviewing the related reporting by Management and the internal audit function on such internal controls;
- (e) reviewing the integrity of the Corporation’s financial reporting processes and the internal control structure;
- (f) reviewing the process relating to and the certifications of the Chief Executive Officer (CEO) and the Chief Financial Officer on the integrity of the Corporation’s financial statements;
- (g) reviewing the plan for the annual audit by assessing the reasonableness of the audit scope and plan and determining whether the Corporation is receiving appropriate audit coverage and overall effort;

satisfying itself that the AG has considered the work of the internal audit function in developing its overall audit strategy; and, assessing the degree of assurance that the Board will be able to take from the AG’s work. Accordingly, the Committee should satisfy itself that the audit scope will not be restricted in any way and that key areas of interest to the Board are adequately covered;

- (h) reviewing and monitoring the implementation of recommendations made through the annual audit by the AG and any management letter provided by the AG and Management’s responses to such reports and any such letter;
- (i) establishing systems of reporting to the Committee by each of Management, the AG and the internal audit function regarding any significant judgments made in Management’s preparation of the financial statements and any significant difficulties encountered during the course of the review or audit, including any restrictions on the scope of work or access to required information; and
- (j) through its oversight of the internal audit function, satisfying itself that the Corporation is maintaining its books of account, records in relation thereto, financial and management control and information systems and management practices in such manner as will provide reasonable assurance that:
 - (i) the assets of the Corporation are safeguarded and controlled;
 - (ii) the transactions of the Corporation are in accordance with the requirements of the Statutory Bodies (Accounts and Annual Reports) Act 1980 (Act 240), other legislative requirements, directives, circulars or guidelines issued by the Ministry of Finance or the Prime Minister’s Department (if applicable); and
 - (iii) the financial, human and physical resources of the Corporation are managed economically and efficiently and the operations of the Corporation are carried out effectively.

4.5 Strategic and Financial Management Oversight

- (a) Corporate Plan and Operating Capital Budgets – review and recommend to the Board with respect to the Corporation’s Corporate Plan and monitor and advise the Board with respect to Management’s performance against said plan.

CHARTER OF AUDIT COMMITTEE

- (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;
- (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.

CHARTER OF AUDIT COMMITTEE

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 at least once a year to ensure that they remain appropriate and prudent;
 - (d) on a regular basis, obtain reasonable assurance that the Corporation's risk management policies and guidelines for significant risks are being adhered to;
 - (e) report to the Board on: the significant risk profile; the mitigation plans and controls in place to manage these significant risks; and the overall effectiveness of the risk management process;
 - (f) periodically consider the respective roles of the AG and internal audit function concerning risk management at the Corporation and annually evaluate the AG's and internal audit function's respective performance in relation to such roles;
 - (g) request reports from the internal audit function validating Management's risk assessments; and
 - (h) review with Management and advise the Board on whether a sound and effective approach has been followed in establishing the Corporation's business continuity planning arrangements, including whether disaster recovery plans have been tested periodically.
- (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.

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;

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, 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.

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.

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

- 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 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.
- 4.14 **Meetings with Other Committees** – The Committee may, as appropriate, request for meetings with other relevant Board Committees to clarify the co-ordination 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.

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

5.0 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 the 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.

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 the 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 2016 - 2018

Corporate Objectives		Corporate Initiatives	Targets		
			2016	2017	2018
STAKEHOLDERS	A Educated and informed stakeholders	1. Public awareness index:			
		a. General awareness of PIDM	58%	63%	65%
		b. General awareness of Deposit Insurance System (DIS)	46%	50%	54%
		c. General awareness of Takaful and Insurance Benefits Protection System (TIPS)	28%	31%	35%
		2. Successful completion of:			
		a. 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
GOVERNANCE AND INTERNAL PROCESSES	C Well-governed and well-managed organisation	f. Other key stakeholders	Satisfactory	Satisfactory	Satisfactory
		4. Other international fora	Active participation	Active participation	Active participation
		5a. Best practices of governance adopted and maintained	Compliance	Compliance	Compliance
		5b. Laws and significant corporate policies and practices complied with, and kept current and relevant	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
		6. The Financial Institutions Directors' Education Association (FIDE FORUM)	Active support and participation	Active support and participation	Active support and participation
	D Robust risk assessment, monitoring, intervention and resolution capabilities	7. Successful completion of:			
		a. PIDM legislation kept current and relevant	Review	Review	Review
		8. Successful completion of:			
		a. Early Warning System for TIPS	Research	Develop	Implement
b. Evaluation Model for DIS and TIPS	Develop	Complete and simulate	Review		
c. Intervention and resolution plans for complex financial institutions:					
i. Resolution Planning Framework and Guidelines	Develop and complete	Review	Consult		
ii. Resolvability Assessment Framework	Develop and complete	Review	Review		

CORPORATE SCORECARD 2016 - 2018

Corporate Objectives		Corporate Initiatives	Targets		
			2016	2017	2018
D	Robust risk assessment, monitoring, intervention and resolution capabilities	d. Claims management system, policies and procedures for insurer members:			
		i. Premium Reimbursement Information Management System	Develop	Complete and implement	Maintain
		ii. Claims Management System	Develop	Complete and implement	Maintain
		iii. Policy Holders Support Management System	-	Develop	Complete
		iv. Payment Management System	-	Develop	Complete
		e. Regulations:			
		i. TIPS Information Regulations	Implement	Monitor	Monitor
		ii. Terms and Conditions of Membership Regulations – DIS and TIPS	Monitor	Monitor	Monitor
		f. Member institutions' compliance programme with PIDM legislation for insurer members	Develop	Develop	Implement
		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. Successful completion of:					
a(i). Target Fund for TIPS:					
i(1). General Fund	Review			Review	Review
i(2). Life Fund	Implement			Review	Review
i(3). Takaful Funds	Research			Develop	Implement
a(ii). Alternative funding arrangements	Complete			Review	Review
b. Annual Information Technology Strategic Plan	Complete			Complete	Complete
c. Disaster Recovery Centre (DRC) and infrastructure	Complete			Maintain	Maintain
d. Corporate Information Security Management	Maintain	Maintain	Maintain		
F	Competent and knowledgeable workforce	13. Strategic Human Capital Plan	Develop	Implement	Implement
G	Conducive corporate environment	14. Sustainable Engagement Index (survey conducted once every two years to gauge level of employee engagement)	-	80%	-

LIST OF MEMBER INSTITUTIONS

As at 31 December 2015, 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 (formerly known as AmIslamic Bank Berhad)
5. Asian Finance Bank Berhad
6. Bank Islam Malaysia Berhad
7. Bank Muamalat Malaysia Berhad
8. CIMB Islamic Bank Berhad
9. Hong Leong Islamic Bank Berhad
10. HSBC Amanah Malaysia Berhad
11. Kuwait Finance House (Malaysia) Berhad
12. Maybank Islamic Berhad
13. OCBC Al-Amin Bank Berhad
14. Public Islamic Bank Berhad
15. RHB Islamic Bank Berhad
16. Standard Chartered Saadiq Berhad

INSURANCE COMPANIES

1. ACE Jerneh Insurance Berhad
2. AIA Bhd.
3. AIG Malaysia Insurance Berhad
4. Allianz General Insurance Company (Malaysia) Berhad
5. Allianz Life Insurance Malaysia Berhad
6. AmGeneral Insurance Berhad
7. AmMetLife Insurance Berhad
8. AXA Affin General Insurance Berhad
9. AXA Affin Life Insurance Berhad
10. Berjaya Sampo 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 (formerly known as Uni.Asia General Insurance Berhad)
16. Lonpac Insurance Bhd
17. Manulife Insurance Berhad
18. MCIS Insurance Berhad
19. MPI Generali Insurans Berhad (formerly known as Multi-Purpose Insurans Bhd)
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. MAA Takaful Berhad
8. Prudential BSN Takaful Berhad
9. Sun Life Malaysia Takaful Berhad
10. Syarikat Takaful Malaysia Berhad
11. Takaful Ikhlas 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

GLOSSARY OF TERMS

Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio is the ratio of a financial institution'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 insurance companies, below which supervisory actions of increasing intensity will be taken to resolve the financial position of the insurance company. For banks, beginning 2013, capital components are reported based on Basel III Capital Adequacy Framework. The framework sets out the approach for computing regulatory capital adequacy ratios, as well as the levels of those ratios at which banking institutions are required to operate. Regulatory capital requirement seek to ensure banks have an adequate amount of high quality capital which absorb losses on a going-concern basis. BNM requires banks to maintain a minimum Total Capital Ratio (TCR) of 8% at all times.

Certificate owner

The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Conventional Deposit Insurance Fund

All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the direct cost of operating the conventional Deposit Insurance System (DIS).

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 System (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.

Failure Prediction Model

A failure prediction model is a model which incorporates early triggers to predict and identify the likelihood of a member institution's failure or distress.

Family Solidarity Takaful Protection Fund

All premiums received by PIDM from insurer members conducting family takaful business and returns made minus the direct costs of operating the Takaful and Insurance Benefits Protection System (TIPS).

Financial safety net

Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender of last resort function.

Foreign currency

Any currency other than Ringgit Malaysia, the Malaysian currency.

General Insurance Protection Fund

All premiums received by PIDM from insurer members conducting general insurance business and interest earned minus the direct costs of operating TIPS.

General Takaful Protection Fund

All premiums received by PIDM from insurer members conducting general takaful business and returns made minus the direct costs of operating TIPS.

Government Deposit Guarantee (GDG)

The GDG announced by the Government of Malaysia on 16 October 2008 was a temporary deposit guarantee that covered the full amount of guaranteed deposits and instruments held in member banks and other guaranteed financial institutions. The GDG was a pre-emptive and precautionary measure, consistent with measures taken by neighbouring jurisdictions, to preserve confidence in the financial system. It was in effect until 31 December 2010.

GLOSSARY OF TERMS

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.

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 and / or general insurance business in Malaysia, as well as takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family and / 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 225.

Integrated Communications Plan

This five-year plan identifies the strategies and initiatives to enhance understanding and awareness of the protection systems.

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 Solidarity Takaful Protection Fund.

Levy

Premiums payable by insurer members to PIDM. "Levy" or "levies" shall be read as having the same meaning as "premium" or "premiums" in the PIDM Act.

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 225.

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.

Resolution Planning Framework

A framework that provides for the orderly resolution of troubled financial institutions without severe systemic disruptions and minimising risk of loss to public funds while preserving continuity of vital economic functions.

GLOSSARY OF TERMS

Risk-Based Capital Framework for Takaful Operators (RBCT)

Risk-Based Capital Framework for Takaful Operators refers to the framework introduced by BNM, which amongst others is to govern the capital adequacy computation of takaful operators. It also sets the expectation of BNM for takaful operators' maintenance of capital adequacy levels to commensurate with the risk profiles of the takaful operators, and act as a financial buffer for takaful exposure.

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).

Systemically Important Financial Institution (SIFI)

A Systemically Important Financial Institution (SIFI) is a bank, insurance company, or other financial institution whose distress or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity.

Standard File Format (SFF)

A text file of relevant deposit information that is prepared by member banks in accordance with the format set out in the Guidelines on Deposit Information Systems and Submission issued by the Corporation. The SFF has dual purposes namely, to assist the Corporation to validate member banks' annual computation of total insured deposits as well as to facilitate the Corporation in undertaking its mandate of reimbursing insured depositors.

Takaful benefits

The aggregate of takaful benefits for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Takaful Protection Funds

Takaful Protection Funds refer to General Takaful Protection Fund; and Family Solidarity Takaful Protection Fund.

Target fund

A target fund, in general, is the level of accumulated 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 capital to its risk-weighted assets. Capital comprised 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.

Total Insured Deposits

The sum of deposits insured by PIDM and held in a member bank.

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