

STATEMENT ON GOVERNANCE FOR THE YEAR ENDED 2021

PIDM benchmarks its corporate governance against local and international best practices such as the International Federation of Accountants' "Good Governance in the Public Sector" and the International Association of Deposit Insurers' (IADI) "Core Principles for Effective Deposit Insurance Systems". PIDM also ensures compliance with Shariah requirements in relation to the Islamic protection systems it administers through a Shariah governance framework.

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

STANDARD 1: INDEPENDENCE OF THE BOARD

Board members will exercise independent judgement.

The PIDM Act provides for nine (9) Directors on PIDM's Board, comprising the Governor of Bank Negara Malaysia and the Secretary General of Treasury as ex officio Directors, one (1) public sector Director and another Director who may be either from the public sector or who has public sector experience, a Chairman who has relevant private sector experience and four (4) Directors with relevant private sector experience. With the exception of the ex officio Directors, the other Board members are appointed by the Minister of Finance (Minister).

Under the amendments to the PIDM Act which came into force on 22 February 2022, the Minister, in appointing the Board members, shall have regard to (a) diversity of the Board in terms of interest, knowledge, skills and experience; (b) the person's probity and standing; and (c) the person's knowledge, skill and experience in banking, insurance, economics or in any other relevant discipline, which will enable him to discharge his functions as a Director.

The Board is required to exercise independent judgement, and to act honestly and in PIDM's best interests. PIDM has an authority matrix, which sets out the authority of the Board and the CEO. To ensure the separation of the roles of the Board and Management, the CEO is responsible for administering PIDM's day-to-day business and is not a member of the Board. The Board exercises oversight over governance-related policies, succession plans for Directors, the CEO and corporate officers, strategic plans, financial plans and statements, and risk policies. Management keeps the Board apprised on its progress against corporate initiatives and significant operational matters. Management's performance is tracked against the corporate scorecard. The Chief Internal Auditor (CIA) and the Chief Risk Officer (CRO) report functionally to the Board through the Audit Committee.

Directors are expected to actively challenge Management's proposals and the Board is encouraged to regularly hold *in camera* sessions without Management's presence. As a matter of practice, *in camera* sessions are always part of the agenda of PIDM's Board and Board Committee meetings. To facilitate Board independence, the Individual Board Member's Profile states that Directors are required to have independence in thought and action, and to have integrity and courage to dissent when required. The Board also has access to independent professional advice at PIDM's expense as provided under the Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors.

Principle 3 of the IADI's Core Principles for Effective Deposit Insurance Systems states that deposit insurers should be operationally independent, and insulated from external interference. Under the PIDM Act, no person shall be appointed or shall remain as a Director of the Board who is a member of the Dewan Negara or Dewan Rakyat or any Legislative Assembly.

PIDM also has a Policy Against External Interference made pursuant to the powers under section 12(1) of the PIDM Act. This policy seeks to prevent any external interference that could impede PIDM's ability to carry out its mandate, business and affairs with integrity, professionalism and objectivity at all times. It sets out steps that employees must take if they face or believe that there is any external interference when performing their duties and responsibilities to PIDM.

STANDARD 2: BOARD EFFECTIVENESS AND GOVERNANCE RESPONSIBILITIES

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

To achieve this, the Board will:

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

BOARD EVALUATION

The performance of the Board and Board Committees is regularly evaluated. Generally, the self-evaluation by the Board is conducted internally and an external evaluation is carried out once every three (3) years.

In 2021, the Board appointed an external evaluator cameron.ralph.khoury,¹ to assess the effectiveness of the Board and its governance practices. The evaluation criteria include the skills, experience, ethics, leadership and independence of the Directors, the comprehensiveness, quality and timeliness of information provided by Management to the Board and Board Committees, the quality of oversight by the Board through accountability mechanisms, the quality of decision processes of the Board and Board Committees, and the group dynamics within the Board and between the Board and Management. The process was conducted through self-assessment via the completion of questionnaires and interviews with Board members, the CEO and other members of Senior Management.

cameron.ralph.khoury rated the Board of PIDM as "Strong" for 2021² and noted that the Board demonstrates strong capabilities across the majority of the critical elements of board effectiveness and is actively minimising governance risk to the organisation and for stakeholders.

The Board evaluation also highlighted some areas for improvement such as the Board appointment and succession framework. The Board will continue to monitor the succession planning process to ensure that the Board continues to have the appropriate mix of skills.

¹ Cameron Ralph Pty Ltd.

² cameron.ralph.khoury considers materials provided by PIDM and interviews with Directors and others, to make this assessment, which is solely of the corporate governance risk with respect to PIDM at the specified point in time. The rating cannot, and does not, represent either a credit assessment or an assessment of PIDM's suitability as an investment, or an assessment with respect to its corporate governance risk at any other time or in changed circumstances.

BOARD ORIENTATION AND TRAINING

PIDM carries out orientations for new Directors. After his appointment on 1 February 2021, PIDM conducted orientation sessions for Mr Lee Kong Eng. Orientation sessions were also conducted for Puan Suhara Husni upon her appointment as a member of the Governance Committee, and for Mr Lee Kong Eng upon his appointment as a member of the Audit Committee and Human Capital and Remuneration Committee.

Management arranged the following education sessions and trainings in 2021 for the Directors:

LIST OF TRAINING ATTENDED	MODE OF TRAINING	DATE(S)
Deposit Insurer Measures & Resolution Cases	Webinar	14 January
Establishing A Public Asset Management Company	Webinar	29 March
Anti-Corruption and Anti-Money Laundering – Preventive Measures & What Next in Malaysia	Webinar	28 May
Inter-Agency Knowledge Sharing Session: Simulation Exercises	Webinar	8 July
International Association of Deposit Insurers Asia Pacific Regional Committee (IADI-APRC) International Conference 2021	International Webinar	3 to 5 August
The Board's Role and Responsibilities in Crisis Communication	FIDE Forum webinar	19 August
(1) FROB's Experience - The Transfer of Non-Performing Loan Assets to Sareb	Webinar	7 September
(2) COVID-19, Non-Performing Loans, and Financial Challenges in Asia		
Inter-Agency Knowledge Sharing Session: Crisis Communications	Webinar	14 September
Economic Conditions in Malaysia	Webinar	15 September
Case Studies of Failed Digital Banks	Webinar	29 November
Inter-Agency Crisis Simulation Exercise	Face to Face	10 December

STANDARD 3: ROLES AND RESPONSIBILITIES OF COMMITTEES

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

PIDM's Board has established three (3) Board Committees, namely the Audit Committee, the Governance Committee, and the Human Capital and Remuneration Committee, to assist with oversight of the business and affairs of PIDM. Each Board Committee's responsibilities, authority and accountability are detailed in their respective charters. These charters are available on PIDM's website at www.pidm.gov.my. The role and membership of the Board Committees are found on page 23 of the Annual Report. The Board Committees report their work at each Board meeting.

The reports on the activities of the Board Committees are found on pages 10 to 12 of this Statement on Governance.

STANDARD 4: BOARD COMPOSITION AND SUCCESSION

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

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

- i. develop a profile of desirable skills and capabilities that would best enable the Board to fulfil its responsibilities and advise the Minister of Finance of the desired mix that should be sought in filling upcoming non-ex officio Board vacancies; and*
- ii. have a Board succession plan to recommend to the Minister of Finance for the orderly turnover of Directors.*

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

STANDARD 5: ROLES AND RESPONSIBILITIES OF THE CEO

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

In this connection, the Board will:

- i. develop a position description for the CEO;*
- ii. develop a set of corporate objectives at least annually for which the CEO is responsible for achieving, and evaluate the performance of the CEO against those objectives; and*
- iii. establish an accountability relationship for the CEO to the Board.*

The division of responsibilities and accountability of the Chairman and the CEO is reflected in the PIDM Act³ and in their respective position descriptions. The Chairman is expected to lead and manage Board meetings and represent PIDM at meetings with the Minister or other government officials. The CEO is responsible for operational matters.

The key performance indicators (KPIs) for the CEO are determined annually, based on Board-approved corporate objectives. The CEO's performance against those KPIs was tracked and considered by the Human Capital and Remuneration Committee and the Board at the end of 2021.

STANDARD 6: APPOINTMENT OF SENIOR CORPORATE OFFICERS

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

Pursuant to the Corporate By-Law, the Chief Risk Officer, Chief Internal Auditor and Corporate Secretary are appointed by the Board, and their terms of service and compensation are determined by the Board. There were no new appointments of corporate officers in 2021.

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.

Total wages and salaries for employees in 2021 amounted to RM52,246,217.31. Refer to page 138 of the Annual Report for further information.

The PIDM Act provides for Directors to be paid such fees, allowances and any other remuneration as may be determined by the Minister on the recommendation of the Board.⁴ Total fees and remuneration including medical benefits received by the Directors in 2021 amounted to RM1,218,396.02. Refer to page 139 of the Annual Report for further information.

³ Sections 11(1) and 19(2) of the PIDM Act

⁴ Section 16 of the PIDM Act

STANDARD 8: SUCCESSION PLANNING

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

Under the PIDM Act, the CEO will be appointed by the Minister on the recommendation of the Board.⁵ The Board ensures there are appropriate succession plans for the CEO and key senior management, and the CEO provides regular reports on the status of succession plans for key senior management to the Board.

STANDARD 9: STANDARDS OF BEHAVIOUR AND ETHICS

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

PIDM's policies are available on PIDM's website at www.pidm.gov.my. These policies are reviewed periodically to incorporate the latest local and global developments. Each year a compulsory compliance test is conducted to gauge employees' understanding of these policies.

PIDM's Directors are required under the Conflict of Interest Code for Directors, to disclose annually, if they have any interest in the shares of any member institution or any affiliate of a member institution, as well as any credit facilities or deposits of RM250,000 or more with any member institution. Employees of PIDM are required under the Conflict of Interest Code for Employees, to make annual declarations of their assets and financial obligations. Annually, PIDM's Directors and key employees are also required under the Conflict of Interest Codes to disclose if they or their connected persons hold any interest or key management position in any entity with which PIDM has contractual or business relations. Employees and Directors are also required to certify annually that they have complied with the Conflict of Interest Codes.

Reports on compliance with laws, standards and ethics are provided to the Audit Committee and Human Capital and Remuneration Committee, and subsequently to the Board.

STANDARD 10: SIGNIFICANT RISKS TO PIDM

The Board will:

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

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

⁵ Section 19 of the PIDM Act

The ERM Division provides the Audit Committee and the Board with regular risk reports which allow the Board to monitor compliance with the ERM programme to ensure that risk management practices are applied consistently and that the risk action plans to mitigate risks are carried out effectively. The CRO or a representative attends all Board meetings.

Each Division has the responsibility for managing and mitigating its risks and the Head of each Division confirms this each year. The CRO provides the Board with an annual ERM representation letter confirming that PIDM's risks are being managed and that the relevant policies and ERM processes continue to be effective and relevant.

STANDARD 11: CONTROL ENVIRONMENT AND INTERNAL AUDIT

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

In this connection the Board will:

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

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

Annually, the Board approves the ACS Division's Audit Plan and monitors its performance. The Board also ensures that the ACS Division is sufficiently resourced, with the appropriate skills and experiences. The CIA's qualifications are stated on PIDM's website at www.pidm.gov.my.

The CIA reports functionally to the Board through the Audit Committee. He has full and free access to the Audit Committee, and is at liberty to request in camera sessions without the presence of Management. The Chair of the Audit Committee is consulted prior to the appointment or termination of any CIA, and will conduct entry and exit interviews.

The CIA provides an annual representation letter to the Audit Committee and the Board, which sets out the assessment results on PIDM's system of internal controls that covers the areas identified to be of significant risk, as well as those pertaining to PIDM's financial management and reporting. For 2021, there were no reported incidents of significant weaknesses or deficiencies in the adequacy and integrity of risk management and internal controls embedded in PIDM's systems, policies, practices and processes.

STANDARD 12: IN CONTROL

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

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

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

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

Based on the above, the Board is of the view that a sound system of risk management and internal control has been established and maintained.

STANDARD 13: STRATEGIC MANAGEMENT PROCESS

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

To fulfil this responsibility, the Board will:

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

On a periodic basis, the Board assesses PIDM's statutory objects to ensure their continued relevance.

Each year, Management conducts an external scan of PIDM's operating environment and identifies and assesses significant risks that PIDM needs to manage in order to achieve its objectives. Since the commencement of PIDM's <IR> journey, the Board also considers material matters. These are discussed with the Board and incorporated in the Corporate Plan. Management regularly provides detailed updates to the Board on its achievements to enable the Board to have reasonable assurance that PIDM's business and affairs are being managed effectively. Material matters and risks are found on page 40 of the Annual Report. The achievements of key performance indicators in the Corporate Plan are on page 48 of the Annual Report.

STANDARD 14: EFFECTIVE COMMUNICATION

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

The Board oversees the implementation of PIDM's communications and stakeholder engagement plans. As part of stakeholder engagement, PIDM's Annual Report and summary of its Corporate Plan are made publicly available. The stakeholder engagements for the year 2021 are reported in the performance section on pages 46 to 51 of the Annual Report.

STANDARD 15: REVIEW OF THE BOARD GOVERNANCE POLICY

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

The Board Governance Policy was reviewed in 2021. No amendments were made as it remains current and adequate for PIDM's needs.

BOARD COMMITTEES

Throughout 2021, the Board was supported by the Audit Committee, the Governance Committee, and the Human Capital and Remuneration Committee. In 2021, all the Board Committees fulfilled their responsibilities against their respective charters. The attendance of the Board and Board Committee members is on page 23 of the Annual Report.

Audit Committee

The following is a summary report of the Audit Committee's key areas of work in 2021:

Internal Audit

The Audit Committee considered internal audit reports issued by the ACS Division. The audit areas included but were not limited to:

- a. PIDM's financial statements and disclosures for the financial year ended 31 December 2020;
- b. audit on asset management process;
- c. limited review on business continuity management process;
- d. audit on employees' recruitment, resignation and movement processes;
- e. audit on the safety and health function, and related processes;
- f. full review on member institutions' compliance monitoring process;
- g. audit on transactions that are excluded from the Procurement Policy;
- h. limited scope review on corporate governance and Board administration processes; and
- i. full review on the risk management processes.

Recommendations from these audits were made to the Audit Committee, and Management's responses and action plans were considered. For 2021, there were no reported incidents of significant weaknesses or deficiencies in the adequacy and integrity of risk management and internal controls embedded in PIDM's systems, policies, practices and processes. There were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in its systems of risk management and internal control.

The Audit Committee monitors the internal audit function's performance against the ACS Division's plan on an annual basis and ensures that it is independent. The Audit Committee reviewed the ACS Division's plan for 2022 – 2024 and considered the financial plan and resource needs of the ACS Division, as well as certain proposed revisions to the charter of the ACS Division. The Audit Committee also monitored the implementation of action plans arising from previous internal audits.

Financial Reporting

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

Financial Reporting Processes, Accounting Policies and Internal Control Structure

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

Strategic and Financial Management Oversight

The Audit Committee fulfilled its responsibilities with regard to financial management oversight, including the management of the annual financial plan and investments. In particular, the Audit Committee reviewed regular reports on the progress against the Corporate Plan 2021 – 2023, and considered and recommended the Corporate Plan 2022 – 2024 to the Board. The Audit Committee also considered certain proposed revisions to the Investment Policy.

Risk Management

The Audit Committee reviewed the updated Corporate Board Risk Report, which continued to take into account heightened risks due to the COVID-19 pandemic and its impact on the economy and PIDM's employees, as well as the risks to PIDM's cybersecurity. The Audit Committee also monitored the identification, evaluation and management of significant risks.

The Audit Committee also noted the overview on how PIDM manages its Shariah risks in respect of its Islamic protection systems.

Ethical and Legal Compliance

The Audit Committee reviewed the report on the establishment of an Integrity and Governance Unit in PIDM.

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

Disclosure of Financial Information

The Audit Committee considered certain proposed revisions to the Policy and Procedures on Public Disclosure of Information, which deals with the disclosure of financial and other information to the public.

Governance Committee

In 2021, the Governance Committee reviewed the following:

- a. PIDM's key governance policies namely the Board Governance Policy, Corporate By-Law, Board profiles, Board Committee charters, Code of Business Conduct and Ethics for Directors, and the Policy for Appointment and Rotation of Board Committee Members;
- b. corporate governance disclosures in the annual report and the Statement on Governance on PIDM's website;
- c. the results and proposed key action plans from the external Board assessment and evaluation of Management's support to the Board;
- d. the proposal to establish an Integrity and Governance Unit in PIDM;
- e. Board succession plan in relation to the potential candidates for Board vacancies;
- f. PIDM's approach to corporate governance;
- g. the annual Board education programme for Directors; and
- h. the report on PIDM's corporate social responsibility activities.

Human Capital and Remuneration Committee

In 2021, the Human Capital and Remuneration Committee reviewed the following:

- a. PIDM's achievement of key initiatives in the Corporate Plan;
- b. key policies relating to human capital matters and the relevant laws applicable to PIDM; and
- c. the CEO's performance against his KPIs for 2021 as well as his KPIs for 2022.

The Human Capital and Remuneration Committee also recommended to the Board for approval, the employees' bonus awards for 2021 and salary increments for 2022.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

The Directors' Report on the financial statements for the financial year ended 31 December 2021 and the accompanying Statement by Directors are found on page 68 of the Annual Report.

Five (5) subsidiaries were incorporated in 2012 for operational readiness to carry out any intervention or failure resolution activities. These companies are currently dormant. In line with section 35 of the PIDM Act, the financial results of the subsidiaries were not consolidated with the financial statements of PIDM. PIDM believes that consolidating its financial statements with those of its subsidiaries will not provide meaningful information and a true and fair view of the financial position and performance of PIDM. The financial exposure and impact of any intervention or failure resolution of a member institution only affects the specific fund(s) to which that member institution relates. Furthermore, in accordance with the requirements of the Malaysian Financial Reporting Standard 10 (MFRS 10) *Consolidated Financial Statements*, PIDM did not prepare consolidated financial statements as PIDM did not meet all the criteria required for having "control" over its subsidiaries, as defined in MFRS 10. Refer to Note 2.2(b) to the financial statements for details.

Related Party Transactions

PIDM has an internal process by which it identifies its related parties and monitors related party transactions. PIDM maintains a list of individuals and entities regarded as its related parties to identify related party transactions. As a rule, related party transactions must be part of PIDM's ordinary course of business, and must be carried out on arms-length terms. In respect of related party transactions that are not part of PIDM's ordinary course of business and/or that are not carried out in accordance with arms-length terms, these will be brought to the Audit Committee and the Board of Directors for deliberation and decision. Members of the Board of Directors cannot participate in the approval of a decision if they or their related parties are party to any related party transactions. PIDM complies with the requirements under MFRS in respect of specific reporting and disclosure obligations on related party transactions. PIDM's internal audit function reviews all related party transactions, and its audit report is considered by the Audit Committee and the Board of Directors. Refer to Note 20(a) to the financial statements for details.

Audit

Pursuant to the PIDM Act, the financial statements of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. PIDM maintains a collaborative working relationship with the external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all Audit Committee meetings. NAD representatives receive, as a matter of course, all Audit Committee reports and documentation prior to the Audit Committee meetings. NAD representatives attended one (1) out of five (5) Audit Committee meetings held in 2021. The annual fees paid to the NAD are found on page 139 of the Annual Report.

ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

PIDM seeks advice and endorsements from the Shariah Advisory Council of Bank Negara Malaysia on Shariah issues relating to the operations of the Islamic deposit insurance system and takaful benefits protection system. The arrangements and salient features of the Islamic deposit insurance system and takaful benefits protection system have been endorsed by the Council. Premiums and levies collected from Islamic and takaful member institutions are managed separately and invested according to Shariah principles.

The premiums, levies and income from investments are pooled in the Islamic Deposit Insurance Fund or the Takaful Benefits Protection Funds respectively. Only Shariah-permissible expenses will be charged to the Islamic Deposit Insurance Fund or the Takaful Benefits Protection Funds.

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

The roles and responsibilities of the Board, Heads of Division and the Shariah Unit are covered under the Shariah Governance Framework.