

# STATEMENT ON GOVERNANCE FOR THE YEAR ENDED 2023

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](http://www.pidm.gov.my).

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 ensures compliance with Shariah requirements in relation to the Islamic protection systems it administers through a Shariah governance framework.

## STANDARD 1: INDEPENDENCE OF THE BOARD

*Board members will exercise independent judgment.*

PIDM's Board of Directors comprises nine (9) Directors as stipulated under the PIDM Act. The Directors are the Governor of Bank Negara Malaysia and the Secretary General of Treasury as ex officio Directors, the Chairman of the Board who has relevant private sector experience, one (1) public sector Director and another Director who may be either from the public sector or who has public 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).

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 ex officio Directors may assign a position within their organisation as the alternate director to attend any Board meetings in their absence.

PIDM has an authority matrix, which sets out the authority of the Board and the Chief Executive Officer (CEO). The Board is responsible for the conduct of PIDM's business and affairs and is required to exercise independent judgment, as well as to act honestly and in PIDM's best interests. The CEO is responsible for administering PIDM's day-to-day business. To ensure the separation of the roles of the Board and Management, the CEO 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), the Chief Risk Officer (CRO) and the Chief Integrity and Governance Officer (CIGO) 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 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 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.

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## 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 and effectiveness of the Board and Board Committees are evaluated regularly. Generally, the self-evaluation by the Board is conducted internally and an external evaluation is carried out once every three years.

The Board evaluation in 2023 was conducted internally through a self-assessment process. The evaluation covered areas such as the Board's roles and responsibilities, the Board's structure, succession planning, competence and composition, ethics, diligence, the Board processes, Board dynamics, the Board's oversight functions, Board leadership and management relations, the Board's management of stakeholder relationships, and the performance of the Board Committees. The Board also evaluated Management's support to the Board.

The evaluation showed that the Board and Board Committees' performance was "highly satisfactory". The areas in which the Board expressed the highest satisfaction was Board ethics, the Board's understanding of its roles and responsibilities and the Board structure. The Board evaluation indicated that Board succession planning would continue to be an area of focus.

### Board Education and Orientation

In light of the bank failures in the US (including the failure of Silicon Valley Bank) and in Switzerland (i.e., the failure of Credit Suisse), the Board education programme in 2023 focused on resolution matters as well as crisis simulation. The simulation provided the Board with an opportunity to practice decision making on resolution strategies.

Management had organised the following specialised Board education sessions, some of which were presented by subject matter experts from foreign and local regulatory authorities.

List of Training	Date(s)
1. Knowledge Sharing Session: Inter-agency Collaboration in the Management of Banking Crisis	12 January 2023
2. Board Simulation	16 January 2023
3. Resolution Planning Developments Globally including Recent Regulations and Policies	18 May 2023
4. Insurance Resolution (which included a speaker from Assuris, Canada <sup>1</sup> )	5 July 2023
5. National Resolution Symposium	18 to 19 October 2023
6. Knowledge Sharing Session on Resolution (which included speakers from the US Federal Deposit Insurance Corporation, the International Association of Deposit Insurers and the European Union Single Resolution Board)	20 October 2023
7. Deposit Reimbursement Approach	20 October 2023

<sup>1</sup> Assuris is a nonprofit organization under Canadian federal regulation to protect policyholders of life insurance instruments if a life insurance company becomes insolvent.

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Board members also participated in the following events:<sup>2</sup>

List of Events	Date(s)
1. Can America stop China's rise? Will ASEAN be damaged?	12 January 2023
2. Operationalising Resolution Planning – A Perspective from the Trenches	17 August 2023

In addition, PIDM carries out orientations for new Directors. In 2023, orientation sessions were conducted for the Chairman of PIDM, Dato Sri (Dr.) Zukri Samat, Datuk Shaik Abdul Rasheed Ghaffour, Datuk Johan Mahmood Merican, Dato' Nor Eni Ismail and the alternate Directors to the Secretary General of Treasury, Encik Ashadi Ramly<sup>3</sup> and Encik Abdillah Azizudin.<sup>4</sup>

### 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 four Board Committees, namely the Audit Committee, the Governance Committee, the Human Capital and Remuneration Committee and the Succession Planning Committee, to assist with oversight of the business and affairs and leadership succession of PIDM. Each Board Committee's responsibilities, authority and accountability are detailed in their respective charters, which are available on PIDM's website at [www.pidm.gov.my](http://www.pidm.gov.my). The role and membership of the Board Committees are found on pages 19 to 20 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 8 to 10 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, as well as legal and technological developments, amongst others, 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.

<sup>2</sup> Organised by FIDE FORUM

<sup>3</sup> Appointed from March 2023 to September 2023.

<sup>4</sup> Appointed in September 2023.

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## **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 Act<sup>5</sup> 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 2023.

## **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 Corporate Secretary, the CIA, CRO and CIGO are appointed by the Board and their terms of service and compensation are determined by the Board.

## **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.*

Annually, the Board approves the Corporation's corporate plan and manpower plan including the budget. The Board also approves the employees' annual bonus and salary increments on the recommendation of the Human Capital and Remuneration Committee.

In 2023, the total wages and salaries for employees amounted to RM61.4 million. Refer to page 134 of the Annual Report for further information.

The PIDM Act provides for Directors, including the alternate Directors, to be paid such fees, allowances and any other remuneration as may be determined by the Minister on the recommendation of the Board.<sup>6</sup> Total fees and remuneration including medical benefits received by the Directors in 2023 amounted to RM1.2 million. Refer to page 135 of the Annual Report for further information.

<sup>5</sup> Sections 11(1) and 19(2) of the PIDM Act

<sup>6</sup> Section 16 of the PIDM Act

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### STANDARD 8: SUCCESSION PLANNING

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

Under the PIDM Act, the CEO shall be appointed by the Minister on the recommendation of the Board.<sup>7</sup> 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. In 2023, the Board established the Succession Planning Committee to oversee CEO succession in PIDM. The Succession Planning Committee will advise and make recommendations to the Board on CEO succession to ensure a smooth transition of leadership in PIDM.

### 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](http://www.pidm.gov.my). These policies are reviewed periodically to ensure that they are current and fit for PIDM's purpose. The policies are benchmarked against latest best practice developments. Each year, PIDM conducts a compulsory compliance test 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 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.

Employees of PIDM are required to undertake compulsory annual compliance test carried out by the Integrity and Governance Department to test their understanding on various PIDM's codes, guidelines, policies and plan including the PIDM's Organisational Anti-Corruption Plan 2020 – 2024.

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) Department) should regularly attend all scheduled Board meetings or as determined by the Board.*

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 Organisation for Standardization 31000:2018 (Risk Management – Guidelines).

<sup>7</sup> Section 19 of the PIDM Act

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

Each department has the responsibility for managing and mitigating its risks and the head of each department 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; and*
- iv. ensure that the Chief Internal Auditor (or in his absence, a senior representative from the internal audit group) should regularly attend all scheduled Board meetings or as determined by the Board.*

PIDM's Internal Control Framework (ICF) is benchmarked against the Committee of Sponsoring Organizations of the Treadway Commission Internal Controls – Integrated Framework (COSO) Framework. The Audit and Consulting Services (ACS) Department 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 Department's plan and monitors its performance through the Audit Committee. The Board ensures that the ACS Department is sufficiently resourced, with the appropriate skills and experiences. The CIA's qualifications are available on PIDM's website.

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 2023, 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.)*

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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. The Board receives annual report from the CIGO, through the Audit Committee, on internal compliance, integrity and governance related activities;
- d. the ERM Department 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. The CIGO reports functionally to the Board through the Audit Committee, on internal compliance, integrity and governance related activities. In 2023, the CIGO developed two new policies on the submission period of the annual declaration of assets and financial obligations by PIDM’s employees and the retention period of asset declaration records. In July 2023, the CIGO successfully completed the Certified Integrity Officer programme conducted by the Malaysia Anti-Corruption Academy, the learning academy of the Malaysian Anti-Corruption Commission;
- f. the Board receives comprehensive representation letters from the CEO, the Executive Vice President in charge of finance and stakeholder, and the CRO that address the accuracy and reliability of the relevant information provided to the Board. The CEO and the CRO in turn receive representation letters from the heads of department 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 PIDM’s 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.

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 integrated reporting 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 PIDM’s 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 pages 36 to 43 of the Annual Report. The achievements of key performance indicators in the corporate plan are on pages 44 to 55 of the Annual Report.

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## **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 a summary of its corporate plan are made publicly available. The stakeholder engagements for the year 2023 are reported on pages 33 to 35 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 2023 and amendments were made to Standard No. 10 and 11 to align with current practices of the Corporation.

## **BOARD COMMITTEES**

Throughout 2023, the Board was supported by the Audit Committee, the Governance Committee, the Human Capital and Remuneration Committee and the Succession Planning Committee. In 2023, all the Board Committees fulfilled their responsibilities against their respective charters. The attendance of the Board and Board Committee members is on pages 18 to 19 of the Annual Report.

### **Audit Committee**

The following is a summary report of the Audit Committee's key areas of work in 2023:

#### *Internal Audit*

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

- a. audit on PIDM's financial statements and disclosures for the financial year ended 31 December 2022;
- b. annual assessment of PIDM's state of internal controls for 2022;
- c. assessment and review of the compliance with PayNet's Cyber Resilience Guidelines;
- d. information security assessment – vulnerability assessment, penetration testing and physical security assessment;
- e. limited scope audit on project management for office relocation, office reinstatement and data centres relocation;
- f. audit on the advertisement and brand management process;
- g. limited scope audit on business continuity management, focusing on business continuity simulation exercise; and
- h. audit on the Information Security Management System (ISMS) for purposes of maintaining ISO/IEC 27001:2013 certification.

Recommendations from these audits were made to the Audit Committee, and Management's responses and action plans were considered. For 2023, 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 Department's annual plan and ensures that it is independent. The Audit Committee reviewed the ACS Department's plan for 2024 – 2025 and considered the financial plan and resource needs of the ACS Department. The Audit Committee monitored the implementation of action plans arising from previous internal audits.



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### *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 2023, as well as considered and recommended the Corporate Plan 2024 to the Board.

The Audit Committee reviewed its charter, the enhancements to the investment policy, the operational cash management policy, the exit policy for holdings of private debt securities as well as the progress on the development of a resolution accounting framework for PIDM.

### *Risk Management*

The Audit Committee reviewed the Board Risk Report for 2023, which continued to take into account PIDM's exposure to cyber and information security risks while operating in a hybrid work arrangement. The Audit Committee also monitored the identification, evaluation and management of other significant risks.

The Audit Committee considered the reports on PIDM's ISMS – ISO/IEC 27001:2013 certification initiative, and cyber and information security risk management, as well as on PIDM's Shariah risk management.

### *Ethical and Legal Compliance*

The Integrity and Governance Department updated the Audit Committee on its internal compliance, integrity and governance related activities in 2023 which included the development of new policies on the submission period of annual declarations of assets and financial obligations by PIDM's employees and the retention period of the annual declarations.

The Audit Committee also reviewed the report on compliance with applicable laws and key codes and policies from the General Counsel.

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## **Governance Committee**

In 2023, the Governance Committee considered:

- a. PIDM's Board Committee Charters and Board Governance Policy;
- b. the corporate governance disclosures in the annual report and the Statement on Governance on PIDM's website;
- c. PIDM's approach to corporate governance;
- d. the Conflict of Interest Code for Directors;
- e. the report on the results of the Board's and Board Committees' performance and management's support to the Board in 2022;
- f. PIDM's Chairman succession planning;
- g. the establishment of the Succession Planning Committee to oversee CEO succession;
- h. the annual Board education programme for Directors; and
- i. PIDM's undergraduate scholarship programme and other corporate social responsibility objectives and activities.

## **Human Capital and Remuneration Committee**

In 2023, the Human Capital and Remuneration Committee considered:

- a. the Human Capital and Remuneration Committee Charter;
- b. the amendments to the PIDM's Compensation and Benefits Policy;
- c. PIDM's Human Capital, Training and Capability Development Strategic Priorities 2024 – 2026;
- d. the key policies relating to human capital matters and the relevant laws applicable to PIDM; and
- e. the CEO's performance against his KPIs for 2023 as well as his KPIs for 2024.

The Human Capital and Remuneration Committee recommended to the Board for approval, the employees' bonus awards for 2023 and salary increments for 2024.

## **Succession Planning Committee**

In 2023, the Succession Planning Committee considered:

- a. the Succession Planning Committee Charter;
- b. the CEO position description;
- c. the CEO candidate profile; and
- d. the assessment and appointment of a consultant in respect of CEO succession.

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### 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 2023 and the accompanying Statement by Directors are found on pages 67 to 72 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.

#### Audit

Pursuant to the PIDM Act, the financial statements of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. PIDM maintains a collaborative working relationship with the external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all Audit Committee meetings. NAD representatives receive, as a matter of course, all Audit Committee reports and documentation prior to the Audit Committee meetings. NAD representatives attended two out of six Audit Committee meetings held in 2023. The annual fees paid to the NAD are found on pages 135 to 136 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 as well as intervention and failure resolution of Islamic member institutions (i.e. Islamic banks and takaful operators). 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. 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, Executive Management, heads of department and the Shariah & Sustainable Development Department are covered under the Shariah Governance Framework.