ANNUAL REPORT 2019

PROMOTING CONFIDENCE

PIDM

Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

ABOUT THE REPORT

Perbadanan Insurans Deposit Malaysia (PIDM) has embarked on a journey of integrated reporting. In this Annual Report, we endeavour to provide a comprehensive view about how PIDM and its protection systems create value.

This report is available online at www.pidm.gov.my.

GOVERNING REGULATIONS AND GUIDELINES

The financial statements as at 31 December 2019 have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act (PIDM Act)[1] and the Malaysian Financial Reporting Standards (MFRS). They also comply with the International Financial Reporting Standards (IFRS).

When developing this Annual Report, we referred to the International Integrated Reporting Framework, published by the International Integrated Reporting Council.

The Board has reviewed and approved the Annual Report and financial statements. It has obtained management representations as well as internal control and risk assurances to ensure that the Annual Report and financial statements accurately represent the performance and the state of affairs of PIDM. The Board has also provided oversight to ensure the identification and evaluation of material matters for value creation by PIDM.

NAVIGATION, LINKS AND LEGENDS

Connect to more information within this Annual Report

Connect to more information online

FEEDBACK

Provide your feedback on our Annual Report at info@pidm.gov.my

[1] *Amended in 2010 and 2016*

TABLE OF CONTENTS

FROM OUR LEADERSHIP	3
ORGANISATION OVERVIEW AND OPERATING ENVIRONMENT	5
VALUE CREATION	8
STAKEHOLDERS	13
GOVERNANCE	22
RISKS	36
MATERIAL MATTERS	40
STRATEGY	46
PERFORMANCE Performance Review Financial Review	54
OVERVIEW OF MEMBERSHIP	89
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	99
Glossary of Terms	173
Technical Reference	175

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

FROM OUR LEADERSHIP

Tan Sri Dr. Rahamat Bivi Yusoff
Chairman

Rafiz Azuan Abdullah
Chief Executive Officer

Introduction

The beginning of 2020 brought with it more challenges to economies as coronavirus disease (COVID-19) pervaded the world. At the time of writing, there are still no clear answers to when a vaccine will be discovered, let alone produced. Asian financial markets are feeling the reverberations of these uncertainties. Most are in a state of confusion about this virus outbreak and its possible impact on the global economy. The biggest factor fueling fear and confusion is that nobody seems to know anything for certain about this virus. What we may think we know seems to keep changing. Coupled with the rapid spread of misinformation and a feeling of mistrust, authorities are hard-pressed to respond confidently or consistently.

This is reminiscent of the feelings that were stirred during past financial crises, when the public and markets had to ride the roller coaster of uncertainties and hidden risks.

In situations like these, trust and confidence is key. When we reflect on bank and other financial institution failures during the global financial crisis, we are also reminded that in situations of uncertainty, public response correlates with the degree of trust it has in the authority in charge. This in turn depends on the authority's reputation or ethics and competence. Importantly, it also depends on how ready the authority is to act decisively and communicate consistently.

This is why, in good times, PIDM takes the trouble to build trust and confidence. We report to our stakeholders about the work we do. We also strive to attain as high a state of readiness as we can, given the many possible scenarios and contingencies during a member institution failure. Being in a good position to help tackle the risks of uncertainties in today's financial world has occupied much of our work over the past few years.

Our report for 2019

Over the past year, we have continued to work on strengthening our role of protecting financial consumers and as a resolution authority. Key highlights in 2019 include:

- progress in providing another reimbursement option for Malaysian depositors with member banks leveraging on recently available technology systems;
- attaining a key milestone by commencing the resolution planning pilot exercises with pilot member banks; and
- commencing fruitful engagements with other safety net players to ensure coherent crisis management and contingency planning for an intervention or failure resolution.

FROM OUR LEADERSHIP

Industry portal and other member engagements

In 2019, PIDM was pleased to witness the smooth roll-out of the industry portal service for member institutions. Member institutions now have the convenience of securely submitting their returns on annual insured deposits and calculation of premiums and levies to PIDM online, instead of through manual channels of delivery. Before the service roll-out, we worked closely with users at member institutions to test the system to ensure it operated as intended.

In anticipation of the resolution planning exercises, in 2019 we also continued to engage and familiarise the industry on what they might expect during the resolution planning process. The process will entail information gathering from member institutions, and background planning by PIDM.

Governance and reporting

PIDM's Board has complied with standards of governance set out in its Board Governance Policy, as reported on our website at www.pidm.gov.my. In the course of the past year, the Board's Audit Committee also oversaw our work to improve our annual reporting approach.

Similar with other regulators, the value we create is difficult to identify and measure. What we do on a day-to-day basis is not always publicly visible. Hence, the Board has agreed that we begin our integrated reporting journey, which helps to relate our story in a meaningful way for key stakeholders. Using this approach and with continuous stakeholder engagement, we hope to improve external perception about how we operate and the value we create for different stakeholder groups.

Going forward – driving readiness

"The experience of North America and Europe, the Middle East and Africa (EMEA) suggests that pre-emptive recovery and resolution plan can help materially reduce the cost of financial crisis and provide an effective safety net."[1]

The rapid and ever-changing environment and growing uncertainties in recent times are the primary reason that we are accelerating our state of readiness for reimbursement and resolution planning in the coming years.

Our Summary of the Corporate Plan 2020 - 2022, themed "Shifting Gears: Driving PIDM's Readiness", highlights our key area of focus, which is to strive for as high a state of preparedness for any intervention and failure resolution of a member institution as practicable. In particular:

- We plan to carry out an inter-agency simulation to test the external aspects of our readiness for an intervention and failure resolution.
- We anticipate rolling out the final guidelines for the industry after the pilot exercises and industry consultations have taken place. Thereafter we will be working with the rest of the member institutions to develop their respective resolution plans.

Certainty and confidence in times of uncertainty

At its heart, our vision is essentially about financial resilience for Malaysia and Malaysians. For the individual, financial resilience means the ability to bounce back after a financial shock. For a country, financial resilience is about the ability to withstand shocks to financial system stability. In a continuously changing environment, the factors that can possibly bring about financial system instability are manifold.

There can be no certainty about what the future brings and we cannot control how events play out. What we can do, however, is to have clear and coherent plans for what we need to do. We must then execute these plans with determination, and work closely with our strategic partners to achieve our vision for Malaysians and the nation.

Tan Sri Dr. Rahamat Bivi Yusoff

Rafiz Azuan Abdullah

[1] *"Perspectives on Recovery and Resolution Planning in Asia Pacific" by Oliver Wyman, Asia Pacific Risk Centre https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2017/nov/Perspectives_On_Recovery_And_Resolution_Planning_In_Asia_Pacific.pdf*

ORGANISATION OVERVIEW AND OPERATING ENVIRONMENT

ORGANISATION OVERVIEW AND OPERATING ENVIRONMENT

ORGANISATION OVERVIEW

Who we are

PIDM is a statutory body established in 2005 under the PIDM Act. Governed by a nine-member Board, PIDM reports to Parliament through the Minister of Finance.

MANDATE – the statutory objects (Section 4 of the PIDM Act)	How we carry out our mandate
Administer the Deposit Insurance System (DIS) and Takaful and Insurance Benefits Protection System (TIPS)	We are accountable for carrying out our mandate in line with good governance and our corporate values.
Protection against loss of deposits or takaful or insurance benefits in a member institution failure	We monitor the health of member institutions and we remain in a state of readiness for an intervention and failure resolution.
Provide incentives for sound risk management	Our differential premium and levy systems provide member institutions with incentives to adopt sound risk management practices. We also support good corporate governance within member institutions.
Promote or contribute to the stability of the financial system	Together with the Ministry of Finance and Bank Negara Malaysia, we form the nation's financial safety net. Our stakeholders must have trust and confidence in PIDM.

OUR VISION

To promote confidence by being a best practice financial consumer protection and resolution authority

OUR MISSION

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

Together with the Ministry of Finance (MOF) and Bank Negara Malaysia (BNM), PIDM is part of the nation's financial safety net. As a resolution authority, we need to work with our member institutions to establish feasible and credible resolution plans to mitigate adverse consequences on the broader financial system. Close collaboration with other financial safety net players is also key.

Our standards

In carrying out our functions, we strive to achieve regulatory excellence[1] by adopting the following key practices:

- best practices in corporate governance in the public sector;
- extensive research and benchmarking, adapting where needed to the specific circumstances of our industry and operating environment. We benefit by learning from others and have strong partnerships and extensive networks with our international counterparts;
- consultation on matters that may have significant impact on key stakeholders, taking into consideration views about publicly valuable outcomes; and
- attention to matters that are vital to the long-term sustainability and success of PIDM and the achievement of our mandate. Key to our success is our investment in our people – we strive to attain and maintain the right level of competencies, attitudes and culture within PIDM.

As an entity in the public sector, we are committed to ensuring effective allocation of resources, managing performance and strengthening accountability.

[1] *Refer to "Listening, Learning, Leading: A Framework for Regulatory Excellence", Cary Coglianese*

OPERATING ENVIRONMENT

Overview of membership

As at December 2019, PIDM has 92 member institutions, which comprised 42 member banks (conventional and Islamic banks) and 50 insurer members (insurance companies and takaful operators).

- Member banks:[2] Deposits insured by PIDM amounted to RM569 billion or 30.6% of total deposits which represents full protection for 97% of total depositors.
- Insurer members:[2] Total actuarial valuation liabilities of life insurance companies and family takaful operators amounted to RM156 billion and total liabilities of general insurance companies and takaful operators amounted to RM20 billion. PIDM fully protects 99% of life policy and family takaful certificate owners, and 96% of general policy and takaful certificate owners.

Overall, PIDM's membership continues to deliver strong financial results, with strong capital and other fundamentals to weather potential economic shocks. Nevertheless, in light of the uncertainties in our operating environment and potential challenges, PIDM must maintain its focus on the monitoring of risks to which the membership might be exposed and the overall risk environment in order to be prepared.

Refer to Overview of Membership Section for more details.

Internal environment

In assessing the risk ratings in 2019, PIDM took note of key environmental risk factors to PIDM, in particular the increasing trend in cybersecurity threats and potential vulnerabilities arising from the external environment. This guided our approach to managing risks and the development of our corporate plan and future action plans for 2020 onwards. Our assessment of material matters also guided how we developed our long-term plans. This was, in particular, to prepare for future leadership, the development and transfer of existing knowledge and skills, and other measures for the sustainability of our future workforce.

Refer to Risks Section and Material Matters Section for more details.

Economic conditions in 2019 and outlook

In 2019, the global economy lost further momentum as global manufacturing activities slowed. Major headwinds such as the ongoing trade disruptions, Brexit fears, tensions in the Middle East, and protests in Hong Kong continued to cloud business and consumer sentiments. Fears of an impending recession in the US was also heightened by the inversion of the yield curve. Central banks across the world responded by cutting rates. Despite the rising headwinds, the Malaysian economy remained resilient, recording a real Gross Domestic Product (GDP) growth of 4.3%.

In 2020, the balance of risks to the global economy remains skewed to the downside. The uncertainties remain due to events such as trade negotiations, the outbreak of COVID-19, geopolitical risks, which would have significant impact on financial market volatility. Some of these events, including recent domestic developments which are ongoing and the global outbreak of COVID-19 still pose significant challenges to the Malaysian economic outlook unless they are resolved quickly.

[2] *As at end of 2018*

VALUE CREATION

THE VALUE OF PROTECTION SYSTEMS

The intended value of PIDM's protection systems can be inferred from our mandate and the preamble of the PIDM Act.

"Whereas the stability of the financial system is a key determinant of the economic growth and prosperity of Malaysia:

Whereas the purpose of the deposit insurance system and the takaful and insurance benefits protection system is to protect financial consumers... in the event of failure of a member institution and PIDM is to carry out its mandated functions with speed and efficiency; ... and promote sound risk management in the financial system and enhance financial consumer protection" (Preamble to the PIDM Act as passed by Parliament).

Ensuring that the financial system is stable and encouraging member institutions to not take excessive risks provide a fundamental protection for financial consumers. This also means, among others, that PIDM must be ready to honour its promise to pay out in the event of an unforeseen future loss, or to intervene early in a troubled member institution, so as to help mitigate adverse consequences on the rest of the financial system.

PIDM and our systems are intended, by design, to promote sound risk management in the financial system, and support public confidence in financial system stability. Confidence is generated, among others, by the protection (insurance) that PIDM provides to financial consumers in a member institution failure. By design, the costs of such protection fall on the industry, through our differential premium or levy systems. The differential premium and levy systems help place controls on excessive risk-taking by member institutions.

As stated in the preamble to the PIDM Act, the ability to intervene early and act promptly is key. Experiences in other jurisdictions show that prompt action supports public confidence, and reduces the overall costs of failures and potential adverse effects on the rest of the financial system. PIDM also has extensive powers to act quickly to intervene and resolve a member institution in a failure. All of this is reflected in the PIDM Act.

PIDM's design features also recognise that it would accumulate funds through its differential premium or levy systems, in order to perform the societal functions of protecting financial consumers against member institution failure and promoting the stability of the nation's financial system. In making policy decisions, PIDM does nevertheless consider diverse stakeholder interests and must make decisions in respect of diverging interests of its many stakeholders.

Our systems have been designed to fulfil our statutory mandate in line with the Core Principles for Effective Deposit Insurance Systems.[1] Key design features include:

(a) clear legislation setting out compulsory membership;
(b) independence of PIDM and its Board from conflict of interest or undue influence;
(c) minimising overlaps with the prudential regulator's role and responsibilities;
(d) the imposition of differential premium or levy to reflect risks of member institutions;
(e) separate funds for conventional and Islamic industry; and
(f) funding for our costs and the ability to borrow to carry out our statutory functions.

[1] *Published by the International Association of Deposit Insurers (latest edition 2014)*

Our value drivers

Our value drivers reflect the attributes of ‘regulatory excellence’[2] as follows:

(a) a clear mandate, so that there is no confusion about the role we are playing and our responsibilities;
(b) accountability, underpinning how we implement corporate governance and account to our stakeholders;
(c) ensuring a continuous pool of highly competent talents with the right attitudes and agility; and
(d) appropriate stakeholder engagement.

‘Value’ addresses not just present needs or needs of specific stakeholders, but also the longer-term public good. Achieving our statutory objectives calls for trade-offs when deciding how to apply our resources and address competing sources of value, as well as to achieve an appropriate balance between internal and external stakeholders over the short, medium and long term. All of these are important to the effective performance of PIDM’s statutory role and functions.

[2] *Discussed in “Achieving Regulatory Excellence” edited by Cary Coglianese, Brookings Institution Press, 2016*

How we create value

Inputs (Resources and capabilities and resource allocation)

Human capital

Social and relationship capital

Financial capital

Intellectual capital

Manufactured capital

Refer to page 12

What we do ('Value' or business model)

Ensure the protection of financial consumers against loss in the event of a member institution failure

- Establish and maintain systems, people and processes to ensure a high state of operational readiness for an intervention and failure resolution
- Monitor and risk assess member institutions for readiness
- Carry out a regular review of intervention and failure resolution tools for effectiveness and efficiency
- Carry out resolution planning

Provide incentives for sound risk management

- Administer differential premium or levy systems
- Provide support for good corporate governance in member institutions through FIDE FORUM

Promote trust and confidence

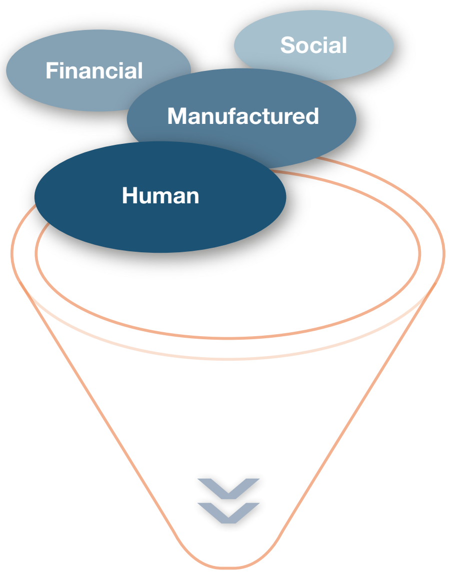
- Carry out public awareness and appropriate communications initiatives

Value drivers (Refer to page 10)

- Clear mandate
- Accountability
- Talent
- Stakeholder engagement

Outputs (Refer to the Performance Section on page 54)

Financial, human, and social and relationship capitals translate into intellectual capital (including brand and reputation, organisation systems and related procedures). Manufactured capital allows for greater efficiency in performing our functions. Refer to page 12 for the description of how the capitals are translated into achievement of our mandate.



Intellectual capital

Outcome / Value

Accountability

- Demonstration of good governance and accountability in the public sector
- Sustainability initiatives, such as scholarship and financial literacy

Talent

- Highly-capable employees
- Knowledge transfer and expertise development

Stakeholder management

- Effective policies and laws

Value to financial consumers

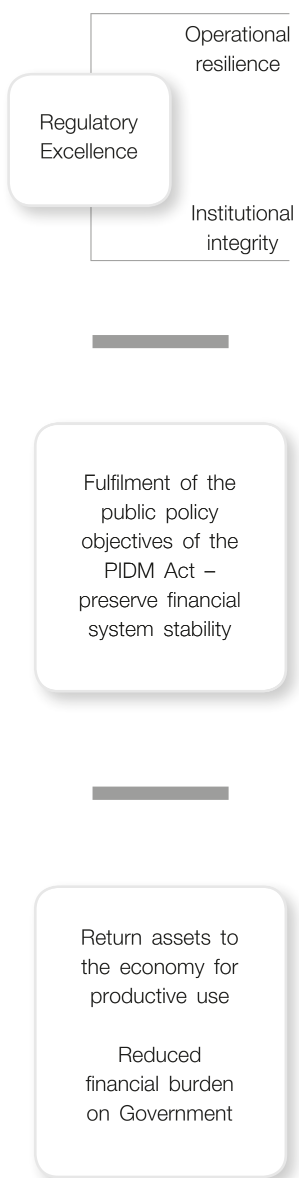
- Ensures depositors, takaful certificate and insurance policy owners have continued access to their financial entitlements if a member institution fails

Value to the public and industry – overall financial system stability

- Mitigates risks of bank runs
- Promotes confidence in the financial system, its smooth functioning and supports the economy as a whole
- Helps reduce risks of failure (incentivises risk management)
- Reduces moral hazard
- Mitigates costs to the financial system

Value to the economy

- Assets of the failed institution can be returned to the economy for productive use
- Costs of failure are borne by the industry; financial burden on the Government is reduced



Our key stakeholders

Members of the public

Member institutions and industry associations

Safety net players and Government agencies

Media

International counterparts

Strategic service providers and partners

Employees

Refer to the Stakeholders Section on page 13

Our key risks

- **Human capital**
  – People risk
- **Cyber threats and vulnerabilities**
  – Operational risk
- **Readiness to perform our mandate**
  – Insurance risk
- **Damage to image and reputation**
  – Reputation risk

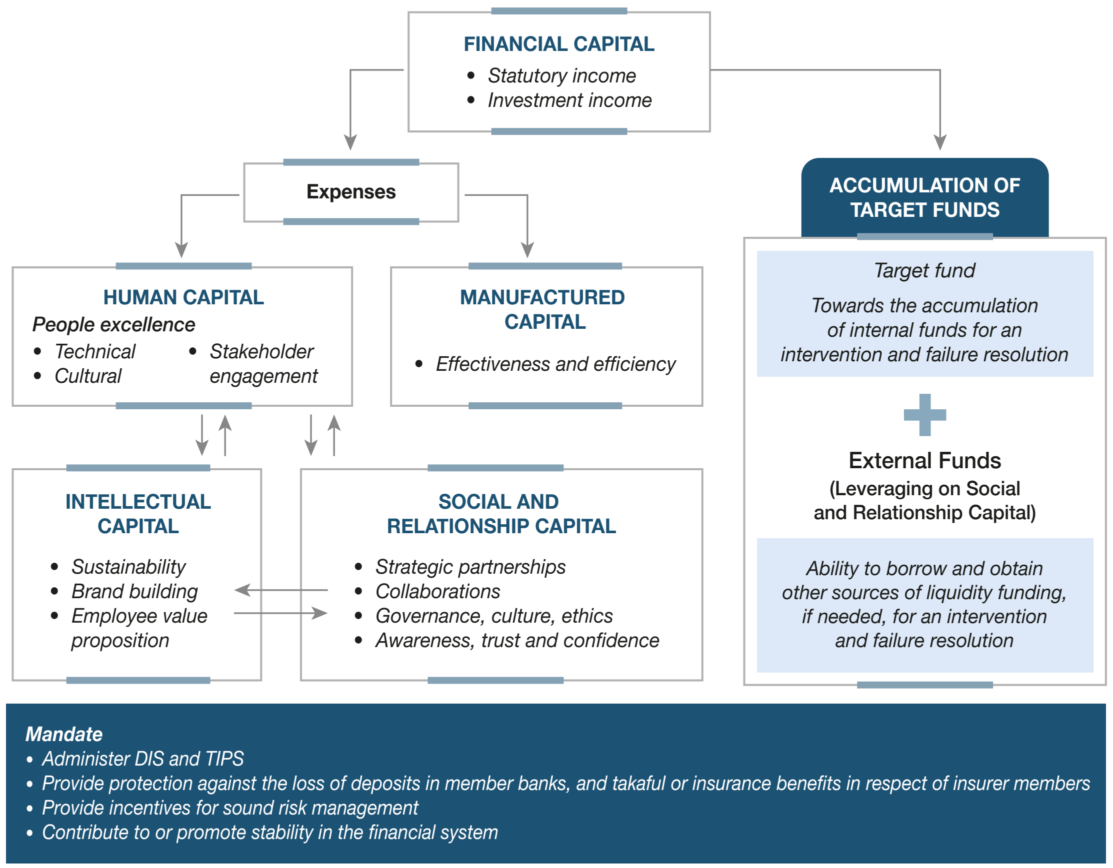
Refer to the Risks Section on page 36

Our conduct is guided by our corporate values: Financial stewardship, Excellence and professionalism, Respect and fairness, Integrity and trustworthiness, and Communications and teamwork

Capitals

Human capital	• Competencies, capabilities and experience of employees
Social and relationship capital	• Strong relationship within PIDM and with our external stakeholders • Reputation and image
Financial capital	• Statutory income from premiums and levies collected from our member institutions and investment income from the funds • Ability to borrow to carry out our statutory functions
Intellectual capital	• Knowledge and expertise in DIS and TIPS • Knowledge of corporate governance practices in the public sector • Knowledge acquired and captured through our learning organisation initiatives
Manufactured capital	• Systems and infrastructure for our day-to-day operations and for intervention and failure resolution • Disaster recovery centre and information technology security infrastructure

How our capitals are interlinked and translated to achieve PIDM's mandate



Source of financial capital

PIDM's primary source of financial capital is the premiums or levies imposed on member institutions, and investment income from the funds. The rates at which premium are levied are decided by the Minister of Finance on PIDM's recommendations. They are imposed in a way that is mandated by the PIDM Act – to incentivise sound risk management in the financial services industry.

The respective funds are collected before a failure of any member institution (ex-ante). The target fund size is determined by reference to what is considered sufficient to meet PIDM's expected future obligations and to cover PIDM's operational and related costs. The target funds are not intended to cover all of the insured deposits or insurance or takaful liabilities. This is to avoid PIDM holding funds that are not needed and that could be better used by the industry for lending and other business purposes. This means, then, for PIDM to be able to promptly carry out its obligations during an intervention and failure resolution, it must have access to prompt liquidity funding should there be a shortfall in its internal funds.

Financial and relationship capitals are translated into intellectual, and other capitals for creation of value

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

Knowledge – which involves experience, research and learning – is a main capital for PIDM. For knowledge to be a valuable asset, thus, it cannot reside primarily in the current set of employees. It must be consciously acquired, captured and transferred for the medium to long term. The building of this intellectual capital is essential for the success of PIDM.

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

Our manufactured capital, such as our information technology (IT) infrastructure, is important for effectiveness and efficiency. Going forward, as we collect more data and information from member institutions, and carry out more research, we will also address an additional value source – data that we and others can analyse and use, with a view to facilitating the creation of value for society as a whole.

STAKEHOLDERS

STAKEHOLDERS

Stakeholder engagement is part of our governance process. We engage with stakeholders through outreaches, regular dialogues, consultative groups or direct engagements. The following describes our stakeholder engagements, our feedback mechanisms, their interests and our key engagement approaches. More detail about our engagements in 2019 are found in the Performance Section on page 54.

Key stakeholder	Feedback mechanisms	What are their interests?
Members of the public	• Awareness and trust index survey feedback • Specific surveys or questionnaires • Degree of media interest in carrying PIDM-specific related articles • Compliance with information regulations • Focus group feedback • Stakeholder perception audit (media)	**Mandate fulfilment** We must fulfil our statutory mandate with accountability and transparency. **Financial system stability** According to our consumer awareness surveys, those who were aware of deposit insurance felt that PIDM protection was relevant to them. **Value creation** Awareness and trust in PIDM promotes confidence in the stability of the financial system. A stable financial system allows member institutions to perform their businesses and their functions within the economy.
Member institutions and industry associations	• Stakeholder perception audit • Post-event satisfaction survey (e.g. from FIDE FORUM directors) • Industry engagements such as the annual dialogues with associations and industry • One-to-one engagements with senior management of member institutions, and heads or representatives of industry associations • Specific engagement sessions with board and senior management of member institutions (e.g. resolution planning engagement briefings) • Consultations on specific matters, such as differential premiums or levy regulations • Feedback through directors, senior management and participation in Chief Risk Officers Forum facilitated by Asian Institute of Chartered Bankers	**Key insights from feedback** • Industry wishes to see value from PIDM on a day-to-day basis, given the overall stability of the financial system. • Industry associations have requested for more collaboration with PIDM in areas of common interest. • Expectations are also for PIDM to demonstrate competencies, effectiveness and efficiency as a regulator, in particular in its requests for information submission. • Industry expects PIDM to demonstrate financial stewardship. **Value creation** By carrying out our engagements, PIDM promotes effective policy-making, regulations and regulatory solutions.

How do we respond?	Future plans
Our progress against our corporate plan initiatives is reported in our annual report. Financial statements are laid in Parliament through the Minister of Finance each year. All of our corporate plans and annual reports are publicly available on our website.	We will continue our current practices and comply with the PIDM Act.
We have a consultation process for feedback from our stakeholders on relevant matters such as regulations.	Our consultation papers will continue to be publicly available on our website. For 2020, we expect to issue the following consultation papers: • Revised External Auditor Validations Guidelines; and • Review of Differential Premium Systems Framework.
We promote awareness about PIDM through diverse channels and activities.	We continue to carry out awareness programmes including through our Facebook page. In 2020, we plan to carry out a public engagement campaign on financial resilience.
The DIS Information Regulations require member banks to display information about PIDM at their premises, websites and provide information to relevant customers.	The TIPS Information Regulations will impose similar requirements on insurer members.
We conduct specific briefings, consultations, dialogues and focus group discussions with representatives from member institutions.	We plan to roll out the next stakeholder perception audit in 2021 to key stakeholders to assess progress.
We meet with member institutions and provide briefings prior to rolling out significant initiatives involving member institutions, e.g. for the resolution planning initiative.	We will consult the member institutions on the resolution planning guidelines prior to the industry roll-out of the resolution planning exercise.
We have held briefings on resolution planning through the ICLIF Financial Institutions Directors' Education (FIDE) programme. With the pilot banks for the resolution planning pilot exercises, we have held several engagement sessions including: • regular checkpoints; • meetings; • workshops with the management teams; and • briefings to directors.	We will complete the resolution planning pilot exercises within the planning period 2020 - 2022. Once completed, we will revise the resolution planning guidelines based on the feedback received from the pilot banks. We will continue to familiarise member institutions through the FIDE programme. We will work with the Asian Institute of Chartered Bankers programmes on a syllabus on recovery and resolution planning.

STAKEHOLDERS

Key stakeholder	Feedback mechanisms	What are their interests?
Safety net players and Government agencies	• BNM Strategic Alliance Agreement Liaison Committee • Ex officio Board members • One-to-one engagements by the Chief Executive Officer (CEO) with other agencies, including Agensi Kaunseling dan Pengurusan Kredit • Engagements with senior officials in government • Feedback at working level	**Financial system stability** MOF and BNM share the same public policy objective as PIDM, which is financial system stability.
		Clear regulatory roles and responsibilities There must be effective communications and collaborations to address concerns about the stability in the financial system. There should be clarity of roles and responsibilities especially during a crisis. **Value creation** There is value creation in ensuring collaboration and clarity of roles and responsibilities among financial safety net players.
		Promotion of financial literacy among the public **Value creation** We work with partners in the Financial Education Network (FEN) to promote financial literacy, which is important for awareness of PIDM over the long term.
		Adherence to national reporting standards The National Audit Department (NAD) obtains information from PIDM to carry out its statutory audit. Its interest is to ensure that we adhere to the Malaysian accounting standards.

<table>
<tr><th>How do we respond?</th><th>Future plans</th></tr>
<tr><td>We collaborate with BNM to reduce duplication of information submissions.

In response to feedback from industry, as reported in our 2018 annual report:
• We looked for ways to improve operational efficiency. We have commenced cost-reduction exercises, such as eliminating the publication of hard copies of annual reports except as required by the MOF and Parliament.
• We also reached ‘self-sufficiency’, in that the investment income from our funds are now sufficient to cover expenses.

In 2019, we rolled out the PIDM industry portal to help industry make submissions online in a secure and efficient manner.</td><td>We will continue to look for ways to reduce duplication of information submissions.

We will continue to practise prudent financial management.

We are in discussions with industry associations for collaborations in areas of mutual interest.</td></tr>
<tr><td>We have a Strategic Alliance Agreement with BNM and we work closely.

The Secretary General of the Treasury and the Governor of BNM are ex officio Board members of PIDM. This is to support coordination among the financial safety net players.</td><td rowspan="2">We are reviewing our arrangements with BNM and will work together to refine the Strategic Alliance Agreement if needed.</td></tr>
<tr><td>We consult relevant agencies prior to any amendments to the PIDM Act.</td></tr>
<tr><td>We participate in inter-agency information-sharing sessions to achieve a clear understanding of respective roles and responsibilities during an intervention and failure resolution. In 2019, PIDM hosted a workshop on crisis management simulation, facilitated by the World Bank. A total of 80 participants from MOF, BNM and PIDM attended.</td><td>We are working to agree on crisis management arrangements (including protocols) for these purposes and on simulations to test these arrangements.</td></tr>
<tr><td>In 2019, PIDM collaborated with FEN members on the launch of the National Strategy for Financial Literacy.</td><td>We will develop and implement plans to support the increase in access by the public to financial management information, tools and resources.</td></tr>
<tr><td>We work with NAD on their external audits. The NAD must, under the Audit Committee Charter, be invited to our Audit Committee meetings.</td><td>We will continue to work closely with NAD on their external audits to ensure adherence to the Malaysian accounting standards.</td></tr>
</table>

STAKEHOLDERS

Key stakeholder	Feedback mechanisms	What are their interests?
Media	• Stakeholder perception audit • Media engagement sessions feedback	**Provide clear and accurate information** The media plays a significant role in shaping public opinion. The media expects PIDM's communications to be able to provide clear and accurate information to the public. **Key insights from feedback** Current media interest in PIDM tends to be skewed towards scam-related stories and profiles of leaders, rather than on the specific topic of deposit insurance or insurance guarantee schemes. **Value creation** A good understanding of PIDM and its work, as well as relationships with PIDM will help support PIDM during a crisis event including an intervention and failure resolution.
International counterparts	• Requests for knowledge sharing and study visits by other deposit insurers or insurance guarantee schemes • Appointments onto executive and other committees of international institutions • Invitations to speak at international conferences and to give views • Offers for secondments to international organisations or counterpart organisations of members • Participation in conferences and Crisis Management Groups	**Knowledge sharing and support network** International networks allow for effective knowledge sharing, the development of best practices, data collection, research and thought leadership. **Coordination in respect of resolution plans for member institutions with cross-border presence** To deal with cross-border bank failures, many jurisdictions are working on ensuring robust mechanisms for resolution and cross-border cooperation. This is with the view to achieving orderly resolution of financial groups operating across borders. PIDM has been invited to participate in some of the relevant crisis management groups. **Value creation** With these engagements, we have been able to contribute to international policy benchmarks and thought leadership in areas such as Islamic deposit insurance and developing standards in this field. We are also able to participate in coordination and planning with foreign resolution authorities on cross-border resolution.

How do we respond?	Future plans
We engage with senior management and working levels of the media to establish good relationships. This is to help enable the appropriate profiling for PIDM among the public, and to help maintain its reputation and image.	We will continue to build content for PIDM's public awareness as well as intervention and failure resolution including resolution planning.
We engage with relevant media agencies.	We will continue to engage the media.
We execute memoranda of understanding for knowledge and expertise sharing. To-date, we have signed memoranda of understanding with Federal Deposit Insurance Corporation, Central Deposit Insurance Corporation (Taiwan), Philippines Deposit Insurance Corporation, Korea Deposit Insurance Corporation and Indonesia Deposit Insurance Corporation. We have also established agreements with resolution authorities to facilitate cross-border resolution.	We will maintain good relationships with other deposit insurers and insurance guarantee schemes through the International Association of Deposit Insurers (IADI), International Forum of Insurance Guarantee Schemes (IFIGS) and bilateral engagements.
We participate in international forums and seminars.	In 2020, we plan to host the 18th IADI Asia Pacific Regional Committee Annual Meeting and International Conference as well as the 7th IFIGS International Conference and Annual General Meeting.
We engage with other international organisations, especially those involved in resolution, financial markets and promotion of financial growth and stability. We also engage with foreign authorities in relation to cross-border recovery and resolution planning.	We continue to have ongoing discussions with foreign authorities bilaterally, and through platforms such as, the Crisis Management Groups and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP).

STAKEHOLDERS

Key stakeholder	Feedback mechanisms	What are their interests?
Strategic service providers and partners	Feedback from certain members in FEN was obtained through the stakeholders' perception audit. The perception audit will include service providers going forward.	**Transparent and fair selection process and strategic partnerships with service providers** Service providers expect PIDM to follow a fair process in selecting service providers. PIDM has Board-approved procurement policies supported by best practice procedures. Understanding of PIDM's business will also allow them to provide quality and effective services. **Value creation** Working with external service providers as strategic partners and familiarising them with PIDM's business and affairs will allow PIDM to leverage on these providers for capacity in the event of an intervention and failure resolution.
Employees	• Other senior management-led engagement or division sessions • Biennial employee voice survey • 360-degree assessment (on leadership) • Cross-divisional survey feedback • Learning organisation survey feedback • Enterprise risk management (ERM) maturity level survey • External employee-related service providers • Attrition rates • ERM workshops • Management audit and talent review • Townhall sessions	For employee engagement, employees have an interest to: • understand and align their performance in line with PIDM's goals; • contribute to PIDM's successes; • have learning and growth opportunities; and • have a safe and conducive work place. **Other insights** PIDM has a conducive work environment and the overall sustainable employee engagement index is high at 81% in 2019. The learning organisation maturity survey shows that PIDM could do more to cultivate a learning culture. **Value creation** Engagements with employees are important to build culture, a common vision, clarity of objectives and, importantly, a conducive work environment that will help retain talents within PIDM.

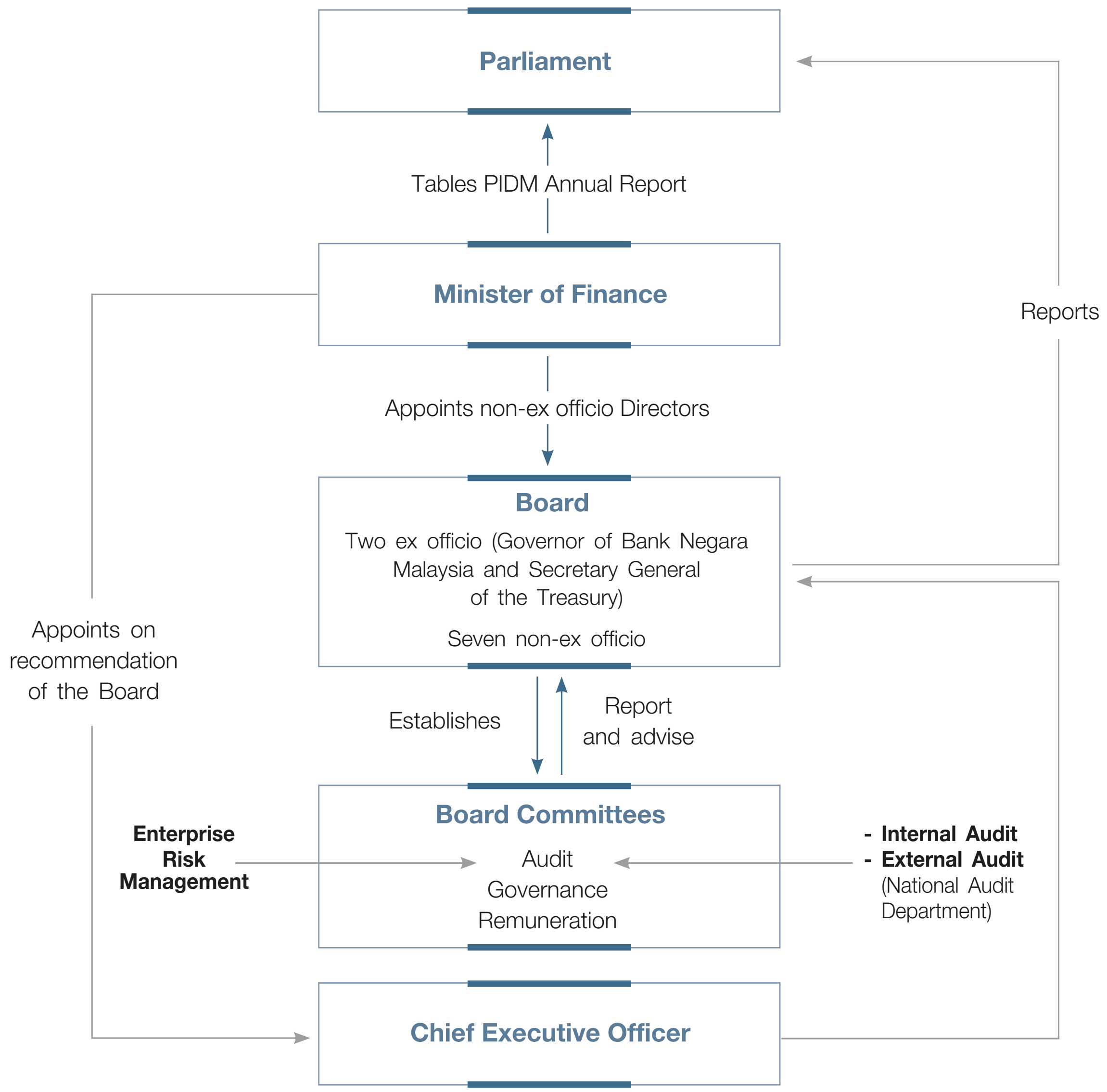
Our Summary of the Corporate Plan, available at www.pidm.gov.my, sets out our plans for 2020 - 2022.

How do we respond?	Future plans
We engage them to familiarise them on relevant matters such as our legislation, mandate, approaches and processes. As part of our simulation exercise, we conduct training and knowledge sharing sessions to enhance the readiness of our service providers.	We will engage with the appointed strategic partners and service providers to facilitate their understanding of PIDM's roles.
There are several communication channels with employees, including townhalls and employee engagement activities. PIDM's Kelab Sukan, Rekreasi dan Kebajikan organised various employee engagement activities including corporate social responsibility activities. In 2019, we carried out an employee voice survey to gauge employees' engagement.	We will continue to conduct internal communication sessions and encourage open communication among employees. Management will review and develop relevant action plans to address feedback received from the biennial employee voice survey.
Talent and leadership development continues to be high on our agenda. Average training days per employee in 2019 totalled 13 days. We also implement learning organisation initiatives and strive to encourage a learning culture.	With the increasing demands on regulators to be adaptable and agile for long-term sustainability, we must continue to promote a learning culture.

GOVERNANCE

GOVERNANCE OVERVIEW

There are no obligatory codes on corporate governance applicable to PIDM. This notwithstanding, we voluntarily benchmark our governance practices against best practices. These include practices recommended in publications such as the Federation of International Accountants' Good Governance in the Public Sector,[1] IADI's Core Principles for Effective Deposit Insurance Systems[2] and the Organisation of Economic Cooperation and Development's Best Practice Principles on the Governance of Regulators.[3] PIDM's governance structure is shown in the diagram below.



PIDM's Governance Structure

The PIDM Act requires our Board to include two ex officio directors, namely, the Governor of BNM and the Secretary General of the Treasury. This helps support coordination and collaboration with other financial safety net players. The other Directors comprise individuals from the private and public sectors appointed by the Minister of Finance.

1 *2 July 2014*
2 *Updated 2014*
3 *2012*

Independence

Directors of PIDM must "act in the best interests of the Corporation" and are independent.

An important design feature for effective deposit insurers is operational independence.[4] The PIDM Act provides that the Directors must "… act in the best interests of the Corporation" and addresses potential risks to the Board's independence as follows:

- Members of Parliament, office bearers in political parties and officers of member institutions are prohibited under the PIDM Act from being appointed to our Board.
- The CEO is not a member of the Board.
- Breach of the Conflict of Interest Code for Directors is a statutory offence.

Composition of the Board and Board Committees

BOARD

The Board of Directors is responsible for the conduct of the business and affairs of PIDM. It is assisted by the Board Committees in its oversight of PIDM's value creation.

GOVERNANCE COMMITTEE (GC)	AUDIT COMMITTEE (AC)	REMUNERATION COMMITTEE (RC)
Supports the Board's oversight to maintain effective corporate governance. This encompasses governance principles and practices, board evaluations, board nominations and succession planning of corporate officers.	Supports the Board's oversight to ensure the integrity of financial statements, financial reporting, internal accounting, financial controls, internal audit, risk management and compliance with ethics and legal and regulatory requirements.	Supports the Board's oversight of human resource policies, compensation policies, and management succession plans.
Members: Dato Dr. Nik Ramlah Mahmood *(Chairman)* Tan Sri Dr. Rahamat Bivi Yusoff Ms. Gloria Goh Ewe Gim	**Members:** Ms. Gloria Goh Ewe Gim *(Chairman)* Datuk Saat Esa *(until his retirement on 30 October 2019)* Datuk Dr. Yacob Mustafa *(with effect from 1 January 2020)* Dato' Dr. Gan Wee Beng Mr. Alex Foong Soo Hah	**Members:** Mr. Alex Foong Soo Hah *(Chairman)* Dato' Dr. Gan Wee Beng

[4] *Principle 5 (Governance), The Core Principles for Effective Deposit Insurance Systems, Revised 2014*

The current Board has gender diversity (44% female, 56% male). The Board possesses a mix of skills and experience needed for PIDM. These include skills in law, accounting, corporate finance, mergers and acquisitions, interventions and insolvency, insurance and takaful and corporate governance. Board members generally serve for a period of two terms of three years each. Retirements of Board members are staggered.

In 2019, meeting attendances were as follows:

Member	Meeting attendances			
	Board	AC	GC	RC
Tan Sri Dr. Rahamat Bivi Yusoff	5/5	–	2/2	–
Datuk Nor Shamsiah Mohd Yunus	4/5	–	–	–
Tan Sri Ahmad Badri Mohd Zahir	5/5	–	–	–
Tan Sri Dr. Ismail Haji Bakar[5]	1/5	–	–	–
Datuk Saat Esa[6]	3/4	2/2	–	–
Datuk Dr. Yacob Mustafa[7]	1/1	–	–	–
Mr. Alex Foong Soo Hah	4/5	5/5	–	2/2
Dato Dr. Nik Ramlah Mahmood	4/5	–	2/2	–
Dato' Dr. Gan Wee Beng	4/5	5/5	–	2/2
Ms. Gloria Goh Ewe Gim	5/5	5/5	1/2	–

In 2019, Board members attended 17 Board education and training sessions.

STRATEGY, RISK AND GOVERNANCE

Governance

In 2019, the Board has complied with the expected standards set out in its Board Governance Policy.

Based on relevant best practices, PIDM's Board Governance Policy is a key reference document for PIDM. It sets out the corporate governance standards the Board is expected to meet and spells out both the Board's and senior management's respective key governance responsibilities. The report on the performance against these standards is made annually and can be found in the Statement on Governance at www.pidm.gov.my.

Culture of ethics

Culture, values and ethics are essential for the performance of PIDM's statutory mandate.

The Board and senior management set the tone for a strong ethical foundation within PIDM. Board members and all employees are bound by conduct and conflict of interest codes, and make annual declarations of compliance with the same. Annually, employees are provided with training on relevant codes and tested. The Board through the AC receives reports on compliance from Management as well as reports of any whistleblowing complaints.

[5] *Tan Sri Dr. Ismail Haji Bakar – appointed on 18 February 2019 and retired with effect from 19 January 2020*
[6] *Datuk Saat Esa – appointed on 18 February 2019 and retired with effect from 30 October 2019*
[7] *Datuk Dr. Yacob Mustafa – appointed on 1 November 2019*

Risk management and internal control

The Board ensures there are effective controls to identify and manage key risks, and has effective oversight of strategic management.

PIDM's internal controls include a code of ethics, requirements for declarations of conflicts and assets, and a whistleblowing policy. Controls are also embedded in all activities related to PIDM's management of the systems it administers.

The Board ensures that it obtains an understanding of key risks and ensures that they are appropriately managed. Extensive discussions about PIDM's risks are carried out through ERM workshops among PIDM's employees. There are ongoing efforts to raise the risk awareness culture, and assessments are carried out regularly to track the maturity of our risk culture. The annual ERM Board Risk Report contains a detailed annual assessment of PIDM's risks and action plans and is presented to the Board. The Board also reinforces risk management through requiring, in respect of all strategic recommendations, thorough analyses of risks and, where relevant, stakeholder feedback.

The Chief Internal Auditor reports to the Board through the AC, as does the Chief Risk Officer. The independent internal audit function provides reasonable assurance that the internal control and risk management systems are effective. PIDM's Statement on Risk Management and Internal Control is found at www.pidm.gov.my.

Our risk management processes and internal controls support the setting and achievement of our strategic goals. Our annual scanning for risks and opportunities is integrated with our strategic planning process.

Strategy formulation

After an environmental scan and after considering stakeholder interests, risks and opportunities, and material matters, Management will discuss and propose PIDM's strategic direction for Board approval. Annually, the Board considers key risks and opportunities when setting PIDM's strategic directions. Refer to the Risks Section for our key risks.

In 2019, the Board, through the Audit Committee, also specifically considered material matters and priorities.

In 2019, the Board, through the AC, also specifically considered material matters. Refer to the Material Matters Section.

Monitoring of execution

The CEO is tasked with leading Management and ensuring the achievement of the key initiatives outlined in the corporate plan. His key performance indicators are cascaded from the corporate plan to the CEO and then to employees. The CEO's and employees' bonus rewards, if any, are based on the achievement of those initiatives. The CEO is expected to administer PIDM in line with PIDM's corporate values and culture. The Board regularly monitors progress against the corporate plan.

In 2019, the Board continued to emphasise the importance of stakeholder engagement, particularly in light of PIDM's strategic priority towards an Effective Resolution Regime.

External audit

PIDM's financial statements are audited by the Auditor General in accordance with the Audit Act 1957. Representatives from the NAD have an open invitation to attend all AC meetings and receive, as a matter of course, all AC documentation prior to the AC meetings.

THE CAPITALS

Human capital

The Board pays considerable attention to the importance of people within PIDM. The Board ensures that the human capital strategy continues to meet not only the short term needs of PIDM but that it is aligned with the corporate objectives and enables the organisation's long-term sustainability. The RC supports the Board in reviewing PIDM's remuneration philosophy, structures and incentives and monitors the state of health of our human capital.

In approving the learning organisation initiative in 2014, the Board recognised that PIDM needed to embed processes and practices that encourage employees to adopt a continuous improvement culture. This is so that PIDM will have the agility to adapt to changes in the operating environment and new challenges. The learning organisation initiative also encourages the building of intellectual capital.

Social capital and stakeholder engagements for effective decision-making

The Board considers stakeholder engagement highly important to the achievement of our end objectives. Where relevant, processes have been adopted to ensure the appropriate consideration of stakeholder views. For example, Management consults relevant stakeholders before bringing recommendations that may impact these stakeholders for Board approval. Prior to issuances of regulations, draft consultation papers on them are approved by the Board.

APPROACH TO GOVERNANCE AND ACCOUNTABILITY

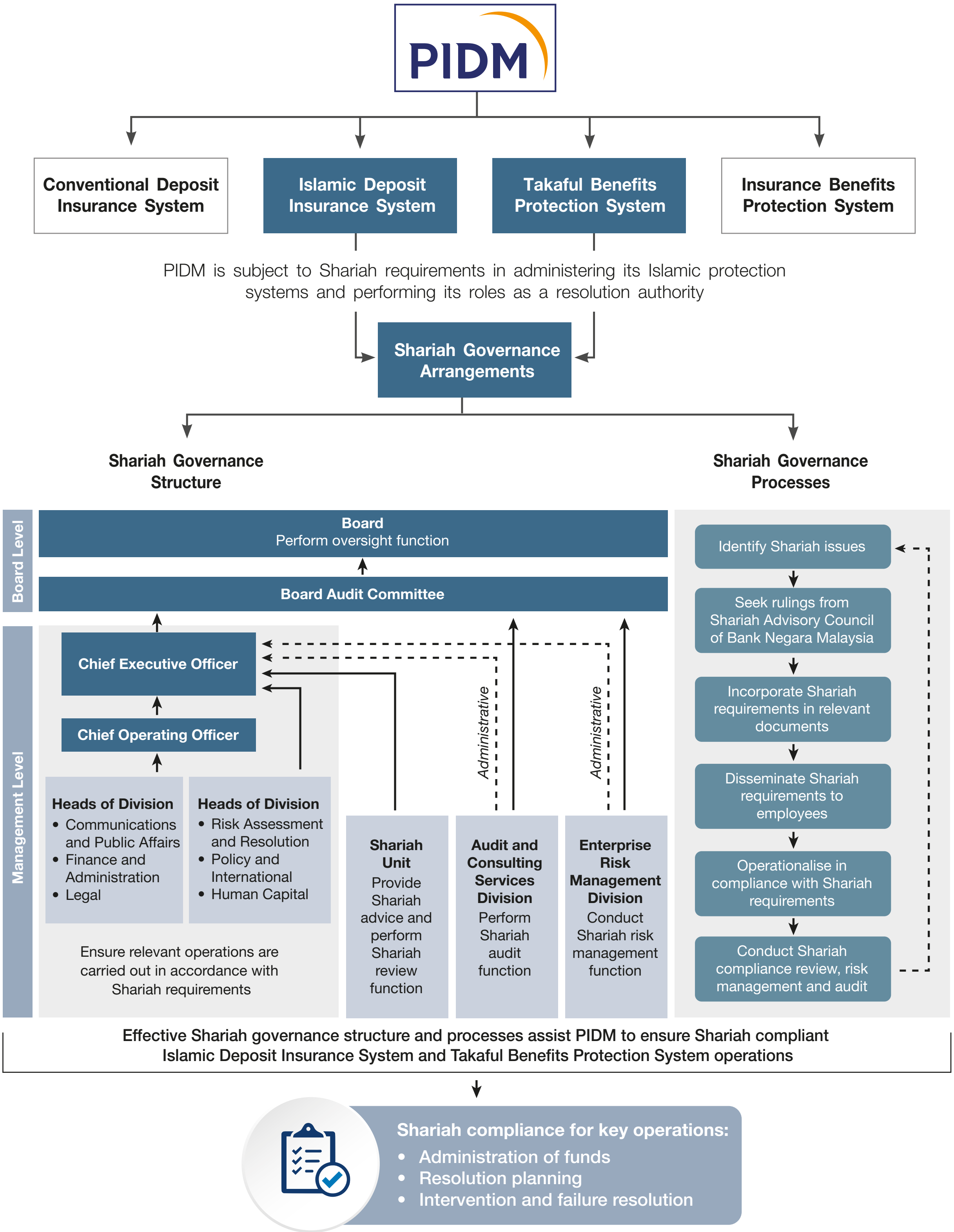
Since establishment, the Board has focused on ensuring adherence to high standards in governance and ensuring regular monitoring of corporate governance developments. Aside from building important social and intellectual capital, PIDM's focus on adhering to best practices in governance will stand us in good stead during an intervention and failure resolution.

The Board also approves all disclosures in our annual report. Transparency on progress towards achieving PIDM's strategic priorities is to enable key stakeholders to make an informed assessment of PIDM's performance and its ability to meet its statutory obligations.

PIDM also publishes its governance practices for its stakeholders' information. These practices and our Statement on Governance are found at www.pidm.gov.my.

SHARIAH GOVERNANCE ARRANGEMENTS

PIDM is subject to Shariah requirements when performing its functions and discharging its duties with respect to the Islamic Deposit Insurance System and the Takaful Benefits Protection System. PIDM is also responsible for the implementation of prompt intervention and failure resolution actions for Islamic member institutions. To ensure compliance with the Shariah requirements when managing and operating those systems, PIDM is guided by the rulings of BNM's Shariah Advisory Council (SAC). The Shariah governance arrangements are depicted in the following diagram.



PIDM's Shariah governance framework includes arrangements and processes to support a robust internal environment for Shariah compliance. The SAC's rulings are sought when relevant. In addition, as and when needed, PIDM also consults external Shariah experts.

BOARD OF DIRECTORS – MEMBERS AND PROFILES

TAN SRI DR. RAHAMAT BIVI YUSOFF
Chairman

Appointed to the Board: January 2012
Appointed as Chairman of the Board: August 2017

Membership of Board Committees
- Chairman of PIDM Board of Directors
- Member of Governance Committee

Qualifications
- PhD, Australian National University, Australia
- Masters of Economics, Western Michigan University, United States
- Bachelor of Social Sciences (Economics) (Honours), Universiti Sains Malaysia, Malaysia

Area of Expertise
- Economics

Current Appointment
- Chairperson, Board of Governors, Multimedia University, Malaysia
- Member, Board of Trustees, Yayasan Peneraju Pendidikan Bumiputera

Directorships
- Chairman, Malaysia Nuclear Power Corporation
- Co-Chairperson, Malaysia-Thailand Joint Authority
- Independent Non-Executive Director, Bank Pembangunan Malaysia Berhad
- Independent Non-Executive Director, Ekuiti Nasional Berhad
- Independent Non-Executive Director, IOI Corporation Berhad

Past Experience
- Director General, Economic Planning Unit
- Deputy Secretary General of Treasury, Ministry of Finance, in charge of the Systems and Controls Division

DATUK NOR SHAMSIAH MOHD YUNUS
Ex Officio Director

Appointed to the Board: July 2018

Membership of Board Committees
- Nil

Qualifications
- Bachelor of Arts in Accountancy, University of South Australia, Australia

Professional Membership
- CPA Australia
- Malaysian Institute of Accountants

Area of Expertise
- Accounting and finance, regulation of banking and financial services, crisis management, insurance, human resource management

Current Appointment
- Governor, Bank Negara Malaysia

Directorships
- Chairman, South East Asian Central Banks (SEACEN)
- Chairman, International Centre for Education in Islamic Finance (INCEIF)

Past Experience
- Assistant Director, Monetary and Capital Markets Division, International Monetary Fund
- Deputy Governor, Bank Negara Malaysia

Detailed profiles of our Board members can be found at www.pidm.gov.my.

BOARD OF DIRECTORS – MEMBERS AND PROFILES

TAN SRI AHMAD BADRI MOHD ZAHIR
Ex Officio Director

Appointed to the Board: September 2018

Membership of Board Committees
- Nil

Qualifications
- Master in Business Administration, University of Hull, United Kingdom
- Degree in Land and Property Management, Universiti Teknologi MARA, Malaysia
- Diploma in Public Administration, National Institute of Public Administration, Malaysia

Area of Expertise
- Economics, finance

Current Appointment
- Secretary General of Treasury, Ministry of Finance
- Member, Corporate Debt Restructuring Committee
- Member, Investment Panel, Employees Provident Fund

Directorships
- Chairman, Retirement Fund (Incorporated)
- Chairman, Inland Revenue Board of Malaysia
- Chairman, Lembaga Pembiayaan Perumahan Sektor Awam
- Chairman, Cyberview Sdn. Bhd.
- Director, Bank Negara Malaysia
- Director, DanaInfra Nasional Berhad
- Director, Permodalan Nasional Berhad
- Director, Lembaga Tabung Haji
- Independent Non-Executive Director, Tenaga Nasional Berhad
- Director, Malaysian Development Holdings Sdn. Bhd.

Past Experience
- Deputy Secretary General (Management) of Treasury, Ministry of Finance
- Director of National Budget Office, Ministry of Finance

DATUK DR. YACOB MUSTAFA
Public Sector Director

Appointed to the Board: November 2019

Membership of Board Committees
- Member of Audit Committee (w.e.f. 1 January 2020)

Qualifications
- PhD in Economics, Universiti Kebangsaan Malaysia
- Master of Business Administration, Universiti Kebangsaan Malaysia
- Bachelor of Accounting, University of Malaya, Malaysia

Professional Membership
- CPA Australia
- The Chartered Institute of Public Finance and Accountancy, United Kingdom
- Malaysian Institute of Accountant

Area of Expertise
- Economics, accounting

Current Appointment
- Accountant General of Malaysia

Directorships
- Director, Lembaga Pembiayaan Perumahan Sektor Awam
- Director, DanaInfra Nasional Berhad
- Director, Malaysian Accounting Standards Board
- Director, Inland Revenue Board of Malaysia

Past Experience
- Deputy Accountant General of Malaysia, Accountant General's Department

Detailed profiles of our Board members can be found at www.pidm.gov.my.

BOARD OF DIRECTORS – MEMBERS AND PROFILES

MR. ALEX FOONG SOO HAH
Private Sector Director

Appointed to the Board: August 2011

Membership of Board Committees
- Chairman of Remuneration Committee
- Member of Audit Committee

Qualifications
- Master of Actuarial Science, Northeastern University, United States
- Bachelor of Science (Honours) in Mathematics, University of Malaya, Malaysia

Professional Membership
- Fellow, Society of Actuaries, United States
- Registered Financial Planner, Malaysian Financial Planning Council

Area of Expertise
- Insurance, actuarial science, human resource management, risk management, regulation of banking and financial services, finance and accounting

Directorships
- Independent Non-Executive Director, MRCB Quill Management Sdn. Bhd.
- Independent Non-Executive Director, Aviva Ltd. Singapore
- Non-Public Interest Director, Private Pension Administrator Malaysia

Past Experience
- Director and Chief Executive Officer, Great Eastern Life Assurance (Malaysia) Berhad
- Chief Executive Officer, British American Life Insurance Berhad (currently known as Manulife Insurance Berhad)
- President, Life Insurance Association Malaysia
- President, Actuarial Society of Malaysia

DATO DR. NIK RAMLAH MAHMOOD
Private Sector Director

Appointed to the Board: August 2016

Membership of Board Committees
- Chairman of Governance Committee

Qualifications
- PhD, University of London, United Kingdom
- Master of Laws, University of London, United Kingdom
- Bachelor of Laws (First Class Honours), University of Malaya, Malaysia

Area of Expertise
- Legal, capital market and financial services regulation, corporate governance

Directorships
- Director, Securities Industry Development Corporation
- Director, Institute Capital Market Research
- Director, International Centre for Education in Islamic Finance (INCEIF)
- Director, Permodalan Nasional Berhad
- Director, Amanah Saham Nasional Berhad
- Independent Non-Executive Director, Axiata Group Berhad
- Independent Non-Executive Director, United Malacca Berhad

Past Experience
- Deputy Chief Executive, Securities Commission Malaysia
- Associate Professor, Faculty of Law, University of Malaya, Malaysia

Detailed profiles of our Board members can be found at www.pidm.gov.my.

BOARD OF DIRECTORS – MEMBERS AND PROFILES

DATO' DR. GAN WEE BENG
Private Sector Director

Appointed to the Board: August 2016

Membership of Board Committees
- Member of Remuneration Committee
- Member of Audit Committee

Qualifications
- PhD in Economics, Wharton School, University of Pennsylvania, United States
- Master of Economics, University of Malaya, Malaysia
- Bachelor of Economics, University of Malaya, Malaysia

Area of Expertise
- Economics, risk management, commercial banking

Current Appointment
- Member, Bank Negara Monetary Policy Committee

Past Experience
- Advisor, CIMB Group
- Deputy Chief Executive Officer, CIMB Group
- Executive Director, CIMB Bank
- Senior Advisor, Economics Department, Monetary Authority of Singapore
- Consultant to the World Bank, International Labour Organisation and Bank Negara Malaysia
- Chairman, KWEST Sdn Bhd
- Director, Retirement Fund (Incorporated)

MS. GLORIA GOH EWE GIM
Private Sector Director

Appointed to the Board: February 2017

Membership of Board Committees
- Chairman of Audit Committee
- Member of Governance Committee

Qualifications
- Bachelor of Commerce (Honours), University of Melbourne, Australia

Professional Membership
- Fellow, CPA Australia
- Malaysian Institute of Certified Public Accountants
- Malaysian Institute of Accountants

Area of Expertise
- Audit, finance and accounting, risk management, economics, financial services including commercial banking, life and general insurance

Current Appointment
- Member, Advisory Board, Faculty of Business and Economics, University of Melbourne, Australia

Directorships
- Nil

Past Experience
- Partner, Ernst & Young, Malaysia
- Council Member, Malaysian Institute of Accountants
- Council Member, ASEAN Federation of Accountants
- President, Information Systems Audit and Control Association Malaysia Chapter

Detailed profiles of our Board members can be found at www.pidm.gov.my.

BOARD OF DIRECTORS – MEMBERS AND PROFILES

TAN SRI DR. ISMAIL HAJI BAKAR
Public Sector Director

Appointed to the Board: February 2019*

Membership of Board Committees
- Nil

Qualifications
- PhD, University of Hull, United Kingdom
- Master of Business Administration, University of Hull, United Kingdom
- Bachelor of Economics in Applied Economics, University of Malaya, Malaysia

Area of Expertise
- Economics

Current Appointment
- Nil

Directorships
- Nil

Past Experience
- Chief Secretary, Government of Malaysia
- Secretary General of Treasury, Ministry of Finance
- Secretary General, Ministry of Agriculture and Agro-Based Industry
- Secretary General, Ministry of Transport
- Director of National Budget, National Budget Office, Treasury, Ministry of Finance
- Director in the National Strategic Unit, Ministry of Finance
- Deputy Secretary General (Policy), Ministry of Defence
- Executive Director (SEA Group), World Bank

* Retired in January 2020

DATUK SAAT ESA
Public Sector Director

Appointed to the Board: February 2019*

Membership of Board Committees
- Member of Audit Committee

Qualifications
- Master of Business Administration, Universiti Putra Malaysia
- Master of Business Administration, Aix-Marseille University, France
- Bachelor with Honours Degree in Accounting, Universiti Kebangsaan Malaysia

Professional Membership
- Malaysian Institute of Accountants

Area of Expertise
- Accounting

Current Appointment
- Nil

Directorships
- Nil

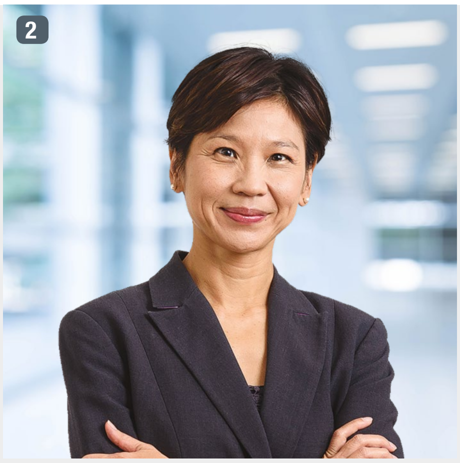
Past Experience
- Accountant General of Malaysia

* Retired in October 2019

Detailed profiles of our Board members can be found at www.pidm.gov.my.

EXECUTIVE MANAGEMENT COMMITTEE

PIDM's Executive Management Committee executes strategies, drives performance and organisational synergies. It also supports the Board in fulfilling its governance responsibilities.



1 **Rafiz Azuan Abdullah**
Chief Executive Officer

2 **Lim Yam Poh**
Chief Operating Officer and General Counsel

5 **Wan Ahmad Ikram Wan Ahmad Lotfi**
Chief Financial Officer and General Manager, Finance and Administration

6 **Jazimin Izzat Wan Zoolkifli**
Chief Internal Auditor and General Manager, Audit and Consulting Services

9 **Helena Prema John**
General Manager, Human Capital

10 **Lim Kong Kuan**
General Manager, Membership and Reimbursement

Detailed profiles of our Executive Management Committee members can be found at www.pidm.gov.my.

3 **Lee Yee Ming**
Senior General Manager,
Risk Assessment and Resolution

4 **Lim Lee Na**
Corporate Secretary

7 **Zufar Suleiman Abu Bakar**
Chief Risk Officer and
General Manager,
Enterprise Risk Management

8 **Afiza Abdullah**
General Manager,
Policy and International

11 **Lim Tai Ching**
General Manager, Legal

12 **Yogendra Thavakumar**
General Manager,
Communications and Public Affairs

RISKS

OUR ENTERPRISE RISK MANAGEMENT FRAMEWORK

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 Enterprise Risk Management Framework is embedded into its culture, processes and structures.

PIDM's Enterprise Risk Management 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 those risks on a regular basis.

Enterprise Risk Management Framework

OUR KEY RISKS

HUMAN CAPITAL
– People Risk

Risk rating: ●

PIDM's business and affairs are unique in Malaysia. PIDM's strategic priority involves the resolution planning initiative to achieve a high state of readiness in respect of all member institutions, small or big. Given this, the skills and experience required for continuing success are not readily found in the Malaysian employment market. Key risks include:

- current demographics (age and seniority) of employees;
- limited opportunities for career growth and the attrition of key talents; and
- difficulty matching employees' career and growth aspirations with the opportunities available within PIDM.

There is a need:

- for employees to expand their existing competencies and capabilities, and to adapt to changing circumstances;
- to consider how to support retention through identifying opportunities for employees' growth within current constraints; and
- for transfer of knowledge and continuous engagement.

Mitigation measures
- Continuous development for employees
- Leadership and bench strength development, especially for engagement, talent growth, and retention
- Regular training and simulations in specialist areas, i.e. resolution planning
- Implement a tacit knowledge management plan

CYBER THREATS AND VULNERABILITIES
– Operational Risk

Risk rating: ●

The increasing incidences of cyber breaches and information leaks is a potential threat. In 2019, PIDM began hosting our website internally and launched the industry portal for member institutions. These changes have increased potential vulnerabilities.

Mitigation measures
- Controls to mitigate potential cyber breaches including creating awareness among employees
- Continued vigilance for potential threats
- Cybersecurity assessments

READINESS TO PERFORM OUR MANDATE
– Insurance Risk

Risk rating: ●

PIDM must always be ready to act quickly in an intervention and failure resolution. To do so, we need appropriate legislative tools. For prompt and effective responses, PIDM also needs to establish the protocols and arrangements with the other financial safety net players, where appropriate, including for prompt access to liquidity funding.

Mitigation measures
- Continue to carry out simulations on a regular basis to test and improve our systems, infrastructure, processes and people
- Continue to work on the necessary arrangements, protocols and processes to ensure prompt and timely access to funds from external sources if the need arises

DAMAGE TO IMAGE AND REPUTATION
– Reputation Risk

Risk rating: ●

PIDM's credibility as a statutory body means that it needs the trust and confidence of a diverse group of stakeholders, especially during an intervention and failure resolution. Sufficient support from key stakeholders is also important for PIDM.

Mitigation measures

- Continue to implement measures to build long-term trust and confidence through various initiatives
- Implement plans to improve key stakeholders' understanding of the value that PIDM delivers to maintaining the stability of the financial system
- Continue to ensure readiness for any communications crises and conduct regular simulations to enhance our preparedness

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.

MATERIAL MATTERS

MATERIAL MATTERS

PIDM identifies and prioritises material matters. These material matters are those issues that could substantively affect or have the potential to substantively affect our strategy, business model, or one or more of the capitals (i.e. human capital, social and relationship capital, financial capital, intellectual capital, and manufactured capital) over the short, medium or long term. They are also matters that are the subject of continuing discussions at Board level.

OUR MANDATE AND BOUNDARIES

Our Mandate and Our Statutory Objects	• Protect depositors, takaful beneficiaries and policyholders against member institution failure • Administer DIS and TIPS • Provide incentives for sound risk management • Promote or contribute to financial system stability
Preamble to the PIDM Act	*"Whereas the stability of the financial system is a key determinant of the economic growth and prosperity of Malaysia:* *Whereas the purpose of the deposit insurance system and the takaful and insurance benefits protection system is to protect financial consumers... in the event of failure of a member institution and PIDM is to carry out its mandated functions* ***with speed and efficiency****; ... and promote sound risk management in the financial system and enhance financial consumer protection"*
Value Drivers	• Clear legislative mandate and wide powers • Corporate governance (accountability) • Talents (competence and agility) • Stakeholder engagement
Reporting Boundaries	As permitted under the PIDM Act, and for readiness, PIDM has incorporated bridge institutions and asset management companies that will however not be operational unless there is an intervention and failure resolution. Refer to the Financial Statements on our financial reporting practices with regard to these subsidiaries.

DETERMINING MATERIALITY

Material matters are considered from the perspectives of value drivers, stakeholder interests, external and internal factors, current performance, and PIDM's ability to create value over the short to long term. In 2019, the list of material matters were considered by the Audit Committee prior to the matters being brought to the Board. This list included matters that had the greatest potential to impact the success and sustainability of PIDM and that were the subject of ongoing concern to the Board. As highlighted below, these material matters include concerns that may correspond with some of the risks in the Risks Section. The material matters are discussed in order of priority, taking into account the impact of the matter on PIDM's ability to perform its statutory functions or the likelihood of occurrence.

Complete contingency plan testing including liquidity funding for operational readiness

For PIDM to carry out its functions effectively, there must be confidence in its contingency plans to promptly protect relevant financial consumers, and intervene or resolve a member institution should the need arise. Aside from systems and processes, going forward, we believe that PIDM must test the remaining aspects of its crisis management plans for intervention and failure resolution, including its liquidity funding and the management of communications during a crisis.

Strategic Priority	Opportunities	Risks	Impact on: Stakeholders, Value Drivers or Capitals (as applicable)
Effective resolution regime – Operational readiness Strategy: Ensure protocols and arrangements are established among safety net players as part of the contingency plans for intervention and failure resolution.	To work closely with other financial safety net players during business-as-usual to establish and test crisis preparedness, including liquidity funding and communication protocols for an effective intervention and failure resolution. An effective intervention and failure resolution will support the mitigation of risks, reduction of costs, and the promotion of financial system stability.	Failure to achieve a high level of operational readiness will impact the effectiveness or efficiency of an intervention and failure resolution.	**Stakeholders impacted** • Government • BNM • Public • Strategic partners **Capitals** • Financial capital • Social and relationship capital • Human capital

Resolution planning for all member institutions

Pilot exercises for the resolution planning project commenced in 2019, after the pilot banks had completed their recovery plans. Material matters include the need to work with and manage stakeholders, so that PIDM can obtain the information it needs to prepare the resolution plans. The pilot exercises with these member banks are also being carried out so that PIDM can fine-tune its resolution planning requirements before the roll-out to the rest of industry. Policy decisions will be made to achieve some of the key elements for an effective resolution regime.[1]

Strategic Priority	Opportunities	Risks	Impact on: Stakeholders, Value Drivers or Capitals (as applicable)
Effective resolution regime – Resolution planning Strategy: Early education and buy-in from relevant stakeholders.	The resolution planning initiative will help the resolution authority to: • obtain relevant and timely information for an effective intervention and failure resolution, reducing costs to the financial system; and • establish cross-border coordination and cooperation for entities with cross-border linkages. It will also help: • safety net players to plan better for, and address, failure of a member institution, in particular, those that may have systemic consequences; and • provide them with better options to deal with failures in the financial system as a whole.	Industry and other key stakeholders do not buy into the need to provide information for resolution planning. Lack of clarity with regard to the roles of other safety net players which could potentially lead to chaotic interventions, uninformed decisions, delay and reputational damage. Legislative amendments not forthcoming to support the key attributes for an effective resolution regime. Lack of cross-border resolution, coordination and cooperation could lead to haphazard responses to failures and increased costs to the financial system.	**Stakeholders impacted** • Parliament • Government • BNM • Industry • Depositors, takaful beneficiaries and insurance policy owners • Employees • Shareholders and creditors of member institutions • Foreign counterparts with financial institutions related to domestic member institutions **Capitals** • Human capital • Intellectual capital • Financial capital • Social and relationship capital • Manufactured capital **Value drivers** Need to review legislation to support policy decisions in relation to an effective resolution regime.

[1] *Financial Stability Board's 'Key Attributes of Effective Resolution Regimes for Financial Institutions', available at https://www.fsb.org/up-content/uploads/r_111104cc.pdf*

Keeping employees engaged with a conducive work environment and opportunities for growth and learning

PIDM's unique organisational structure, employees' qualifications and demographics make it more difficult over the long term to keep employee engagement at a high level. At the same time, PIDM invests considerably in training and developing employees in the unique area of deposit insurance and financial consumer protection systems, and must work at retaining talent.

Strategic Priority	Opportunities	Risks	Impact on: Stakeholders, Value Drivers or Capitals (as applicable)
Human capital management Strategy: A conducive working environment for sustainable employee engagement and retention of key talents.	–	Attrition and loss of investments in talents would be detrimental to PIDM's success.	**Capitals** • Human capital • Financial capital

Governance, in particular, strategy focus and stewardship

Strategic Priority	Opportunities	Risks	Impact on: Stakeholders, Value Drivers or Capitals (as applicable)
Corporate governance (accountability and strategic management) and sound management practices	**Adopt best practice management** • Organised data and knowledge. **Strategy focus** • Other opportunities for value creation including in partnership with others.	Failure to recognise potential changes in the operating environment impacting our mandate, business model or the manner, we carry out our mandate will affect PIDM's effectiveness. Failure to address stakeholder expectations may hamper efficiency and effectiveness of achievement of PIDM's objectives.	**Capitals** • Human capital • Social and relationship capital • Intellectual capital • Financial capital • Manufactured capital (IT systems)

Trust and confidence in PIDM

Public awareness and trust in institutions are critical especially during times of uncertainty. The Northern Rock collapse through a bank run in the United Kingdom in 2007, has, for example, generally been attributed to the lack of awareness about the deposit insurer and a lack of trust in the circumstances.[2] PIDM's goal is to progress from achieving 'awareness' about PIDM to the attainment of the more sustainable 'trust and confidence' in PIDM over the long term.

Strategic Priority	Opportunities	Risks	Impact on: Stakeholders, Value Drivers or Capitals (as applicable)
 **Stakeholder engagement** Strategy: Build trust and confidence of financial consumers and key stakeholders in the financial system and PIDM through building our reputation.	To leverage on other media channels (other than traditional channels) to maintain awareness about PIDM, e.g. through social media. To develop financial literacy content to relay messages that are valuable and relevant on a day-to-day basis to the public, incidentally promoting awareness and trust in PIDM. To continue to promote best practices in governance in the public sector.	Lack of awareness and education about PIDM leading to financial consumers being susceptible to scams or misinformation, or having wrong expectations of PIDM. Lack of trust and confidence in PIDM leading to panic before or during an intervention and failure resolution.	**Capitals** • Human capital • Social and relationship capital • Financial capital • Intellectual capital

Commence hiring for future talent

The ability of PIDM's people to build diverse, flexible and versatile teams for the future is critical for future success. While continuing to build on the current team's effectiveness, PIDM's recruitment and talent development strategies must be ready for the workplace of the future.

Strategic Priority	Opportunities	Risks	Impact on: Stakeholders, Value Drivers or Capitals (as applicable)
 **Human capital management** Strategy: Build and retain internal capabilities for short, medium and long-term needs and build strategic partnerships.	For future needs: • review PIDM's human capital philosophy and model; • develop young talents; and • continue to ensure PIDM-related knowledge is built, captured and transferred for the future.	Possible lack of young talent with potential and willing to join PIDM, and gaps in the succession pipeline. Failure to capture existing significant knowledge or build adequate succession pipelines in certain areas, could result in inefficiencies over the long term.	**Capitals** • Human capital • Financial capital • Intellectual capital

[2] *https://www.irishtimes.com/news/when-the-cash-and-the-trust-ran-out-1.964812*

STRATEGY

STRATEGY

VISION

To promote confidence by being a best practice financial consumer protection and resolution authority

MISSION

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

STRATEGY

We will fulfil our vision and mission through the strategy articulated in our corporate plans.

Following the establishment of PIDM in 2005, we focused on building strong foundations for deposit insurance. Our expanded mandate, at the end of 2010, effected protection for takaful and insurance benefits under our purview. In 2016, we commenced on our journey towards achieving an effective resolution regime for Malaysia. Achieving an effective resolution regime is a long-term journey. Our human capital and other strategies will be revisited on an ongoing basis to ensure continued alignment with this goal.

2005 FOUNDATION	2010 RECOGNITION	2016 onwards EVOLUTION
Deposit Insurance Built strong foundations through the establishment of sound corporate governance practices, processes and systems, in administering DIS	**Takaful and Insurance Benefits** Expanded mandate to administer TIPS. Assessed to be broadly compliant with international standards for effective deposit insurance systems	**Long-Term Strategic Direction** Enhancing our role as a resolution authority

Over the planning period 2019 - 2021, we will continue working towards the following five objectives.

Strategic Priorities	Objective Statements
Effective Resolution Regime To enable all member institutions to be resolved in an orderly manner, without systemic disruption, and in a manner that minimises loss to the financial system	1. Maintain operational readiness to take prompt intervention and resolution actions in the event of a member institution failure 2. Resolution planning for member institutions
Stakeholder Engagement To engage with key stakeholders and engender trust and confidence in PIDM, including through the promotion of best practices in corporate governance	3. Continue to strengthen relationships with key stakeholders
Human Capital Management To maintain a conducive work environment that promotes excellence, focusing on active human capital management and continuous learning	4. Effectively manage and maximise the use of PIDM's human capital
Governance and Management	**Objective Statement**
Operational Excellence To ensure sound operational management and to display high standards of excellence and operate at a high degree of efficiency	5. Continue to work on operational excellence and adopt best practices

EFFECTIVE RESOLUTION REGIME

FOUNDATION
2005 - 2010

RECOGNITION
2011 - 2015

Developed a comprehensive intervention and failure resolution framework and built the foundation for an effective resolution regime

- Enactment of the PIDM Act by Parliament with extensive resolution powers for us to deal with non-viable member institutions, so as to minimise loss to the financial system.
- Developed a comprehensive intervention and failure resolution framework setting out our approaches in applying our resolution tools.
- Amended the PIDM Act to include bridge institution powers, and powers in respect of insurer members.
- Developed and implemented a payout system for prompt reimbursements to insured depositors.
- Required member institutions to ensure their processes and systems are ready to provide complete, timely, and accurate information to facilitate prompt reimbursements.
- Conducted simulations to test our resolution approaches and enhance overall readiness of our employees.

EVOLUTION
2016

Established the effective resolution regime as a strategic priority

- Established the strategic priority to achieve an effective resolution regime for Malaysia, in line with international recommendations.
- Engaged with relevant authorities, domestically and internationally, for cooperation, information exchange and coordination in respect of resolution planning.
- Together with BNM, developed the draft Recovery and Resolution Planning framework.
- Developed the draft resolution planning framework, resolution planning guidelines and information package for the purpose of planned pilot exercises with selected banks.

Operational readiness

Simulations and continuous improvements

2017	2018	2019	2020 onwards
Establishing readiness and engagement with the industry	**Enhancing readiness and continuing engagement with the industry**	**Test and consult**	**Roll out resolution planning to the industry in phases**
• Organised a joint industry seminar with BNM on recovery and resolution planning to articulate the importance of recovery and resolution planning and set regulatory expectations. Highlighted the strategic roadmap for implementation in Malaysia, which included pilot exercises and industry consultations.	• Commenced a programme and simulation for the end-to-end resolution planning process, to test the resolution-related frameworks and guidelines. • Developed internal capabilities for resolution planning through training and development. • Continued collaboration with other relevant authorities in relation to resolution planning, crisis management and resolution actions during crisis. • Commenced work to ensure that external stakeholders are ready for resolution planning guidelines, which will be rolled out in phases.	• Commenced resolution planning pilot exercises and enhanced the draft resolution planning guidelines based on feedback from pilot banks. • Developed policies and supporting legislation, as needed. • Continued engagement with key stakeholders, in particular, safety net players and industry as well as international counterparts. *Refer to the Performance Section on pages 62 and 63 for details*	• Complete resolution planning pilot exercises and identify the preferred resolution strategies for pilot banks. • Finalise resolution planning guidelines and information pack for consultation with industry in 2021. • Carry out phased industry roll-out in 2022. Work with each member institution on individual resolution plans. • Develop any other policies and supporting legislation, as needed.

Inter-agency simulation

STAKEHOLDER ENGAGEMENT

FOUNDATION 2006 - 2010	RECOGNITION 2011 - 2017	EVOLUTION 2018

Build public awareness and engagement with key stakeholders (2006 - 2017)

- Implemented advertising campaigns – television, radio and print advertisements for public awareness about PIDM, DIS and TIPS.
- Conducted annual dialogues for the launch of annual reports and public consultations on various regulations and guidelines.
- Conducted corporate outreach programmes to different states outside the Klang Valley as part of public awareness initiatives.
- Participated in international associations for knowledge sharing and networking.
- Implemented the school education programme, PIDM Project MoneySmart, to enhance financial awareness among the younger generation.

Build foundations towards trust and confidence (2018)

- Commenced on-ground activities in Kuala Lumpur Sentral, followed by the Northern States of Kedah, Perak and Pulau Pinang.
- Engaged with industry on our initiatives, including the resolution planning initiative.
- Participated in international and other fora for knowledge sharing.
- Conducted an assessment of stakeholder perception.
- Tested our crisis communications.

Best practices in corporate governance
Refer to the Corporate Governance Overview Section on page 23 for details

- **Simulation for crisis communications**
- **Operational self-sufficiency**

Refer to the Performance Section on page 76

2019 - 2021	2021 onwards
Establishing trust and confidence	**Enhance and sustain trust and confidence**
• Continue awareness initiatives. • Diversify channels of communication, including the digital and social media space. • Continue stakeholder engagement with industry including on resolution planning. • Implement plans for aspirations towards enhancing PIDM's reputation and image.	• Continue to review and enhance trust and confidence programmes, based on the targeted audience. • Continue to aspire towards cementing PIDM's reputation and image. • Continue stakeholder engagement.
Refer to the Performance Section on pages 65 to 67 for details	

for details

HUMAN CAPITAL MANAGEMENT

FOUNDATION 2005 - 2010

Designed and established the human capital model, philosophy and key policies

Deposit Insurance System

- Recruited key talents, leveraging on expertise and support from BNM.
- Established human capital model, compensation and benefits philosophy, other key human capital policies and processes.
- Worked on building competencies in the field of deposit insurance, including through knowledge sharing from other deposit insurers.
- Developed competency model and framework.

RECOGNITION 2010

Takaful and Insurance Benefits Protection System

- Conducted second wave of recruitment of employees.

2011 - 2015

Employee and leadership development and succession planning

- Built competencies for TIPS.
- Commenced succession planning for senior leadership positions.
- Focused on talent management and leadership development.
- Reviewed the human capital model, philosophy and key policies, and developed the Human Capital Strategic Plan for alignment with strategic direction.

2016

Towards a learning organisation

- Commenced implementation of the learning organisation framework.

Conducive work environment

Complete establishment of key

EVOLUTION

2017	2018	2019 onwards
Realigned human capital in line with strategic priorities	**Leadership, communication and culture**	**Further realignment of human capital to meet future demands of PIDM**
• Restructured selected divisions and units and trained employees in preparation for the roll-out of the resolution planning initiative. • Implemented CEO succession planning. • Determined the unique leadership behavioural competencies for senior management.	• Commenced leadership behavioural competencies training for senior management. • Involved senior leadership in active human capital management. • Established the Risk Assessment and Resolution Division. • Implemented intensive training for the resolution planning initiative. • Carried out frequent engagements with all employees and across divisions. • Implemented the knowledge management framework (as one of the learning organisation initiatives).	• Complete talent review exercise and maximise the use of our human capital. • Continue to develop leadership coaching skills and commence coaching. • Build bench strength for leadership and technical capabilities. *Refer to the Performance Section on pages 68 to 72 for details*

pillars of a learning organisation

Reinforce a culture of communication and teamwork

PERFORMANCE

Performance Review
Financial Review

OUR STRATEGIC PRIORITIES AND CORPORATE SCORECARD

Our objective statements in our Corporate Plan 2019 - 2021 are as follows.

Strategic Priorities	Objective Statements
Effective Resolution Regime	1. Maintain operational readiness to take prompt intervention and resolution actions in the event of a member institution failure 2. Resolution planning for member institutions
Stakeholder Engagement	3. Continue to strengthen relationships with key stakeholders
Human Capital Management	4. Effectively manage and maximise the use of PIDM's human capital
Governance and Management	**Objective Statement**
Operational Excellence	5. Continue to work on operational excellence and to adopt best practices in governance

Refer to Strategy Section for more details.

2019 CORPORATE SCORECARD

In 2019, we completed the planned initiatives as scheduled within the approved financial plan. Our report against set targets for 2019 is summarised in the Corporate Scorecard below.

A Target achieved, initiative completed

P Progressing as scheduled; and / or within budget

F Not yet initiated / future date

N Target not achieved, slippage – time to completion; and / or below target

Corporate Objectives	No.	Corporate Initiatives	Target 2019	Results Dec 2018[1]	Results Dec 2019
Effective Resolution Regime (refer to pages 59 to 64 for details)					
	Operational Readiness				
	1.	**Deposit Insurance System:**			
		a. Inter-agency simulation	Develop and align the processes between agencies, which includes the process for intervention and resolution	A	P[2]
		b. Simulation exercise – member banks	Commence simulation exercise focusing on intervention and resolution lifecycle of an Islamic bank	–[3]	A
		c. Seamless reimbursement	Engage with the relevant stakeholders to develop the concept for the seamless reimbursement of insured deposits	P	A
	2.	**Takaful and Insurance Benefits Protection System:**			
		a. Simulation exercise – insurer members	Conduct simulation exercise focusing on: • execution of transfer of business for a life insurance company • run-off for general insurance company Tabletop review for takaful operators	P	P[4]
Robust risk assessment, monitoring, intervention and resolution capabilities		b. Policy Holders Support Management System	Develop system requirements	A	A
		c. Protected benefits regulations and order	Finalise the enhanced regulations and order for gazetting	P	A
		d. TIPS information regulations	Finalise regulations for gazetting	P	A
	Resolution Planning				
	3.	**Resolution planning for financial institutions:**			
		a. Pilot exercises	Commence resolution planning pilot exercises and review the draft resolution planning guidelines and reporting templates based on feedback obtained from pilot banks	P	P[5]
		b. Industry roll-out	–	F	F[6]
		c. Industry engagement, briefing and dialogue sessions	Conduct effective engagement sessions with the industry	A	A
	4.	Target fund framework	Continue the review of target fund methodology	P	A

Corporate Objectives	No.	Corporate Initiatives	Target 2019	Results Dec 2018[1]	Results Dec 2019
Corporate Governance (refer to pages 73 and 74 for details)					
Well-governed and well-managed organisation	5.	a. Best practices of governance adopted and maintained	Compliance	A	A
		b. Laws and significant corporate policies and practices kept current and relevant, and complied with	Full compliance and updated	A	A
		c. Quality of management support to the Board	High satisfaction	A	A
		d. Shariah governance arrangements	Formalise the Shariah governance arrangements	P	A
	6.	**Reporting through:**			
		a. Annual Report	Complete	A	A
		b. Corporate Plan	Complete	A	A
	7.	Internal controls and risk management compliance	Strong	A	A
	8.	PIDM industry portal – Self-service facility for secure online data and information submission	Roll out to member institutions	P	A
Stakeholder Engagement (refer to pages 65 to 67 for details)					
Educated and informed stakeholders	9.	General awareness of PIDM	65%	N 63%	N 62%[7]
	10.	Social media communications plan (Facebook)	Achieve 30% growth within the PIDM Facebook community	-[3]	A
	11.	Thought leadership in relevant topics including intervention and failure resolution	Develop content for publication Publish quarterly feature articles	-[3]	A
Effective engagement	12.	**PIDM's relationship with key stakeholders:**			
		a. Financial safety net players	Maintain strong working relationship	A	A
		b. Member institutions and their industry associations	Maintain satisfactory working relationship	A	A
		c. Ministries and other Government regulatory agencies	Maintain strong working relationship	A	A
		d. Media	Maintain strong working relationship	A	A

Corporate Objectives	No.	Corporate Initiatives	Target 2019	Results Dec 2018[1]	Results Dec 2019
Human Capital Management (refer to pages 68 to 72 for details)					
Competent and knowledgeable workforce	13.	**Strategic human capital plan:**			
		a. Talent review	Complete talent review exercise and identify talent pool and bench strength development	P	A
		b. Structured leadership development programme	Develop a leadership programme for the identified talent pool Implement leadership programme for existing leaders based on PIDM's leadership competencies	P	A
		c. Technical development programme for resolution planning, intervention and failure resolution	Continue to develop technical modules based on the required capabilities Develop specific programmes for bench strength	P	A
		d. PIDM curriculum – core module, leadership module, advanced module (technical topics)	Roll out core module and test employees Develop and roll out leadership module	P	A
		e. Learning organisation	Achieve Median level* for the "Learning Environment and Learning Processes Building Blocks"** Achieve Third Quartile level for the "Leadership that Reinforces Learning Building Block"**	A	N[8] Second Quartile
Conducive corporate environment	14.	Sustainable Engagement Index (the survey is conducted once every two years)	Achieve a sustainable engagement index of 80%	F	A

[1] Against 2018 set targets
[2] We will continue to work closely with BNM and MOF to establish crisis communications protocols for each agency and subsequently the communications governance process between agencies in 2020
[3] New initiative in 2019
[4] The tabletop review exercise for takaful operators will commence in 2020
[5] We will continue to engage with the pilot banks to obtain feedback in 2020 and make necessary refinements to the resolution planning-related requirements in preparation for the industry consultation in 2021
[6] The industry roll-out by phases will commence in 2022
[7] Refer to page 66 for further details
[8] Refer to page 71 for further details

* *The range for Harvard's Learning Organization Survey (LOS), Garvin, Edmondson & Gino, 2008 benchmarking scores are as follows: Lowest Quartile => Second Quartile => Median => Third Quartile => Top Quartile*

** *Building blocks of a learning organisation:*
- *Learning environment – an environment that supports psychological safety, appreciation of differences, openness to ideas, and time for reflection*
- *Learning processes – involves the generation, collection, interpretation, and dissemination of information*
- *Leadership that reinforces learning – behaviour of leaders that encourages learning through, among others, active questioning and listening*

2019 KEY ACHIEVEMENTS AND PLANS MOVING FORWARD

The following reports on our progress in 2019 against our five objective statements.

Strategic Priority:
Effective Resolution Regime

Objective Statement 1:
Maintain operational readiness to take prompt intervention and resolution action in the event of a member institution failure

Internal simulations to test and refine all phases of intervention and failure resolution arrangements

- Conventional insurer members – completed in 2019
- Islamic bank – commenced in 2019
- Takaful operators – to commence in 2020

Inter-agency simulation to practise and refine coordination arrangements

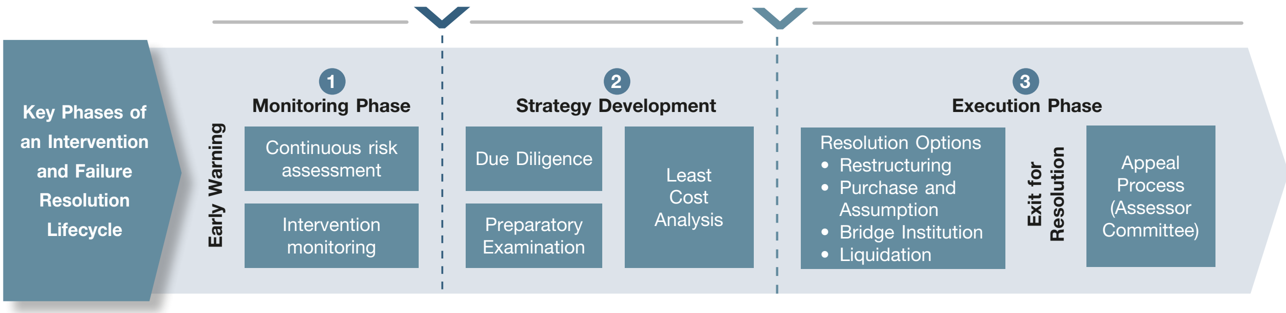
- Commenced engagements to establish crisis communications and other protocols in preparation for simulation
- Planned simulation with all agencies in 2021 and 2022

Seamless reimbursement option for depositors in bank liquidation

- Continued engagement with the service provider in 2019 and identified its retail payment platform as likely solution
- Identify solutions after costs-benefits analyses of various possible reimbursement options from 2020 onwards

Internal simulation exercises

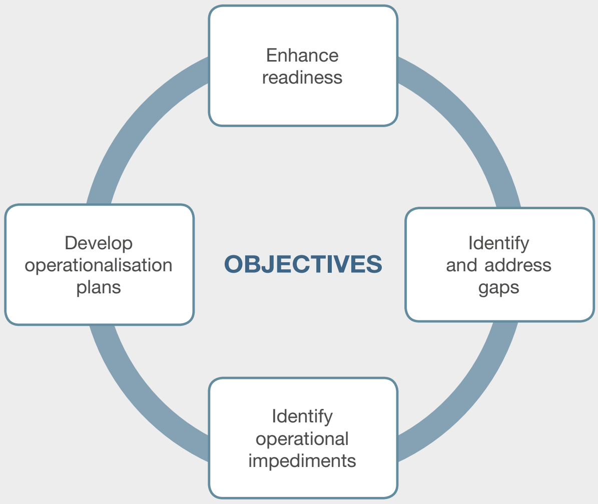
We continue to conduct simulation exercises to test and refine various aspects of our intervention and failure resolution arrangements.



Intervention and Failure Resolution Lifecycle

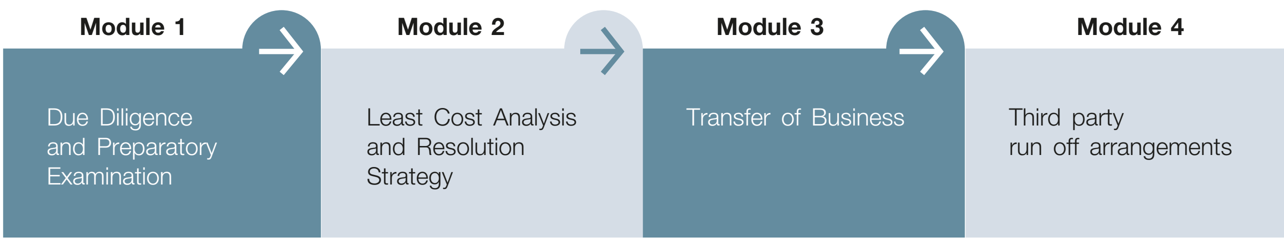
Since 2010, we have been conducting simulation exercises to test various arrangements across the phases of the intervention and failure resolution lifecycle. Simulation exercises are aimed at achieving the following objectives:

- enhancing intervention and failure resolution readiness;
- refining the relevant intervention and failure resolution policies and procedures;
- identifying operational impediments and challenges; and
- developing detailed plans to operationalise the various intervention and resolution options.



From 2018 onwards, we designed simulation plans that would test our employees through the entire resolution lifecycle for a member institution. Planned simulations were broken into modules. Thus far, simulation exercises have been based on scenarios of an idiosyncratic member institution failure, and not of a systemic crisis.

Simulation for insurer members



In July 2019, we completed all of the planned modules in respect of a life insurer member and a general insurer member. For the simulation exercise, we had focused on the following aspects of an intervention and failure resolution:

- the determination of an early intervention trigger (the trigger for a due diligence examination to be carried out on the member);
- the due diligence (to determine the extent of the problem and to formulate the resolution options based on least cost analysis); and
- the execution of the preferred resolution strategy (transfer of business and third party run off arrangement).

Simulation for member banks

In 2019, we carried out a simulation exercise in relation to an Islamic bank, completing two out of four of the planned modules. We conducted knowledge sharing and training sessions with respect to an intervention and failure resolution of an Islamic bank. We also tested the process for determining the early intervention trigger with the view of carrying out the least cost analysis and executing the resolution strategy in the next module.

Module 1	Module 2	Module 3	Module 4
Knowledge sharing / training	Early Intervention Triggers and Due Diligence	Least Cost Analysis and Resolution Strategy	Purchase and Assumption and Liquidation

Moving Forward

- Insurer members: We will carry out a resolution tabletop review in respect of takaful operators.
- Member banks: We will complete the simulation exercise in respect of an Islamic bank, focusing on the valuation of financing portfolios, and the transfer of assets and liabilities.

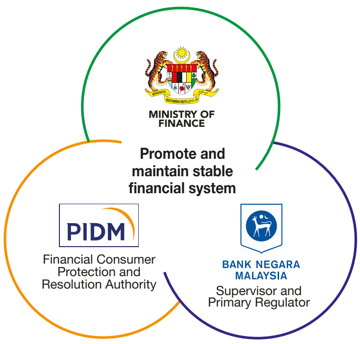
Inter-agency simulation

Financial safety net players must have coherent contingency plans for an intervention and failure resolution. To ensure effective intervention and failure resolution responses, we seek to:

- clarify our respective roles and responsibilities;
- establish protocols and arrangements that will ensure a high level of consultation, coordination and cooperation;
- ensure coordination for consistent external communications; and
- take into consideration the roles of other stakeholders (regulators, external auditors, the courts, credit rating agencies, and the shareholders), whose decisions may have an impact on any of our measures to safeguard financial system stability.

Our Corporate Plan 2019 - 2021 contemplates the execution of an inter-agency simulation of an intervention and failure resolution, with the view to allowing the financial safety net players to practise and refine the intervention and failure resolution-response arrangements.

In 2019, we commenced engagements with the other safety net players in respect of our intervention and failure resolution response arrangements. This is to prepare the relevant personnel as well as to develop the detailed plans for the simulation exercise. The World Bank Group, with its considerable experience in delivering crisis simulation exercises, also facilitated one session.



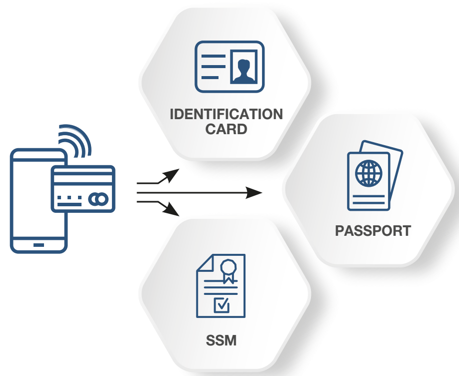
Moving Forward

- We will finalise the crisis communications protocols between agencies in 2020 and conduct the actual simulation exercises with all key safety net players in 2021 and 2022.

Seamless reimbursement

A seamless reimbursement contemplates electronic deposit reimbursements in the event of a bank liquidation without requiring active involvement of the depositor in the transaction. This means that a depositor need not do anything during the intervention and failure resolution before receiving payment. For example, they need not open up a new account at another bank, enter PIDM's microsite, or bank in a cheque. They will, however, need to have a pre-existing alternative account into which the electronic payment may be made.

In 2019, we worked on the possibility of leveraging on payment platforms for seamless reimbursements to depositors in a liquidation. We have commenced work on identifying the practical and technological options.



Moving Forward

- We will develop the neccessary solutions and infrastructure to give effect to this objective.
- For TIPS, we will leverage on the same infrastructure for claims reimbursement.

Strategic Priority:
Effective Resolution Regime

Objective Statement 2:
Resolution planning for member institutions

2019	2020 - 2022	2022 onwards
Commenced testing of resolution planning guidelines and reporting templates with pilot banks Commenced review of target fund methodology	Complete resolution planning pilot exercises and refine requirements Industry consultation on resolution planning requirements Finalise resolution planning requirements Finalise proposal for the revised target fund framework	Roll out resolution planning to the industry in phases

Resolution planning pilot exercises commenced in 2019. These exercises are to test our resolution planning requirements and refinements will be made to the requirements based on feedback from the pilot exercises, followed by industry consultation, targeted in 2021. Our review of the target fund methodology in 2019 considered, among others, the potential implications of resolution planning in determining the target levels for our funds.

Resolution planning pilot exercises

A resolution plan must have a comprehensive description of a bank (and related entities that are part of its group). It must also contain credible and feasible resolution actions for a resolution of the bank. Hence, in carrying out resolution planning, we will need a considerable amount of information and analyses. Much of the information and analyses will be required from banks themselves, as they would be best placed to provide information on their own structures and how they operate. This planning is an ongoing process and over time resolution plans will be more detailed. This also means that there may be a need to address any impediments to resolvability. This exercise is new to our member institutions. As such, it is important for us to clarify our information needs, and explain their objectives. In 2019, in conjunction with the issuance of our draft resolution planning guidelines and reporting templates to pilot banks, we engaged with pilot banks at various levels, to provide clarification and ensure consistent understanding of the resolution planning requirements.

As we interact with them, the pilot banks continue to gain clarity about resolution planning. By 2020, we expect all of the three pilot banks would have submitted the information required under the guidelines and reporting templates, and provided feedback on the practicality and clarity of PIDM's information requirements.

Briefings

In 2019, some of the engagement activities included the following:

- Prior to the commencement of the pilot exercises, our CEO and the team briefed the senior management of all pilot banks to introduce the key elements of the draft resolution planning guidelines.
- Customised workshops were held for individual pilot banks, to provide guidance on information requirements to ensure quality submission and thorough understanding of the resolution planning guidelines.

Other Stakeholder Engagements related to Resolution Planning

In 2019, we continued to carry out engagements for the effective implementation of resolution planning.

Engagements

ICLIF's Financial Institutions Directors' Education (FIDE) Programme. In 2019, recovery and resolution planning was incorporated into the core module for financial institution directors' training.

Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Focused Meeting on Resolution. We continue to participate actively at regional level discussions with other foreign resolution authorities. This is to foster close collaboration and understanding in the area of resolution planning and cross-border resolution.

Islamic Financial Services Board (IFSB). PIDM is part of the Working Group (a new taskforce initiated by IFSB) to develop a Technical Note on Recovery and Resolution Plan of Institutions Offering Islamic Financial Services. On an ongoing basis, we share our experience on the subject matter and provide updates on the supervisory and market practices in Malaysia.

Crisis Management Group (CMG) meetings. In 2019, we participated in CMG meetings for one foreign based member bank and one foreign based insurer member as well as cross-border resolution group meetings held in conjunction with the supervisory colleges meeting for two foreign based member banks.

Moving Forward

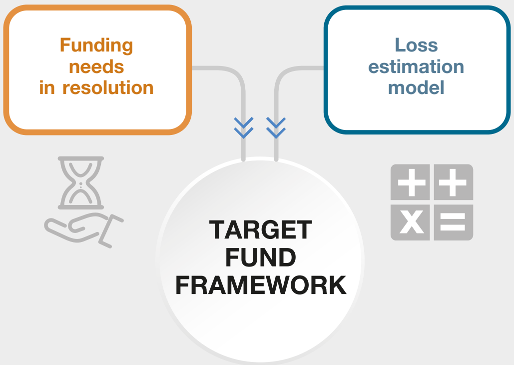
- In 2020, we expect to complete the resolution planning pilot exercises and identify the preliminary preferred resolution strategies for the pilot banks.
- We plan to refine the draft resolution planning guidelines and data template based on feedback from the pilot banks, and undertake a consultation with industry in general on the resolution planning requirements which is expected in 2021.

Target fund methodology

In 2019, we completed the review of our target fund methodology. This holistic review was to:

- re-assess the existing net loss concept that is currently applied; and
- consider fund sufficiency for an intervention and failure resolution in view of our ongoing resolution planning initiative.

The review also included benchmarking of PIDM's target fund ratio with other jurisdictions as well as simulations based on various scenarios and assumptions.



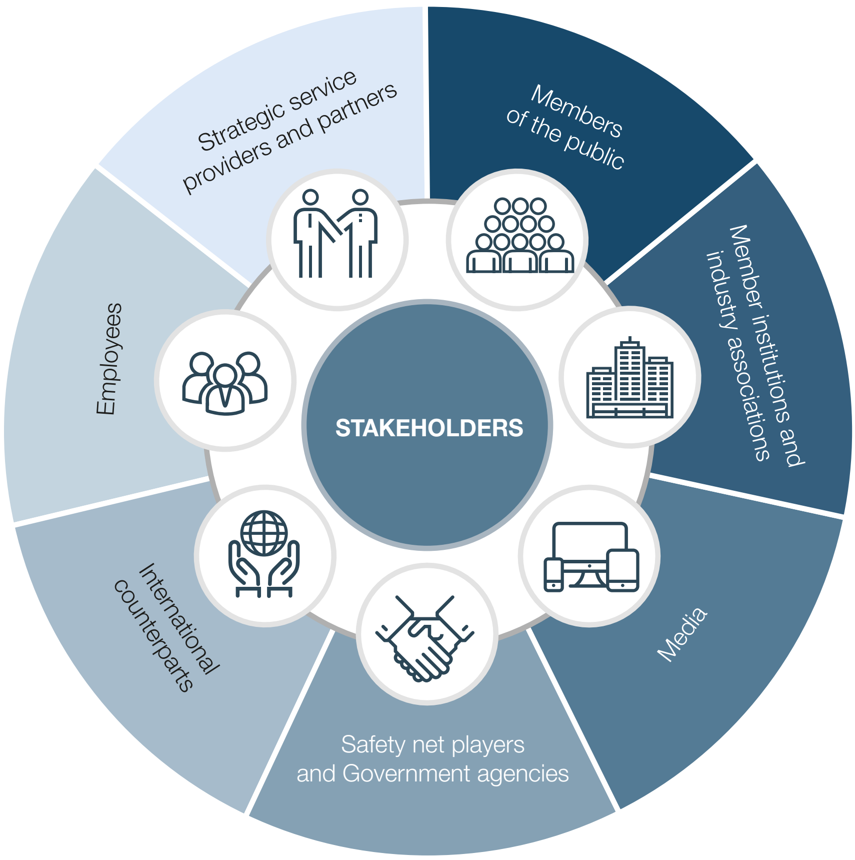
Moving Forward

- We will finalise our proposals for the revised target fund framework.

Strategic Priority:
Stakeholder Engagement

Objective Statement 3:
Continue to strengthen relationships with key stakeholders

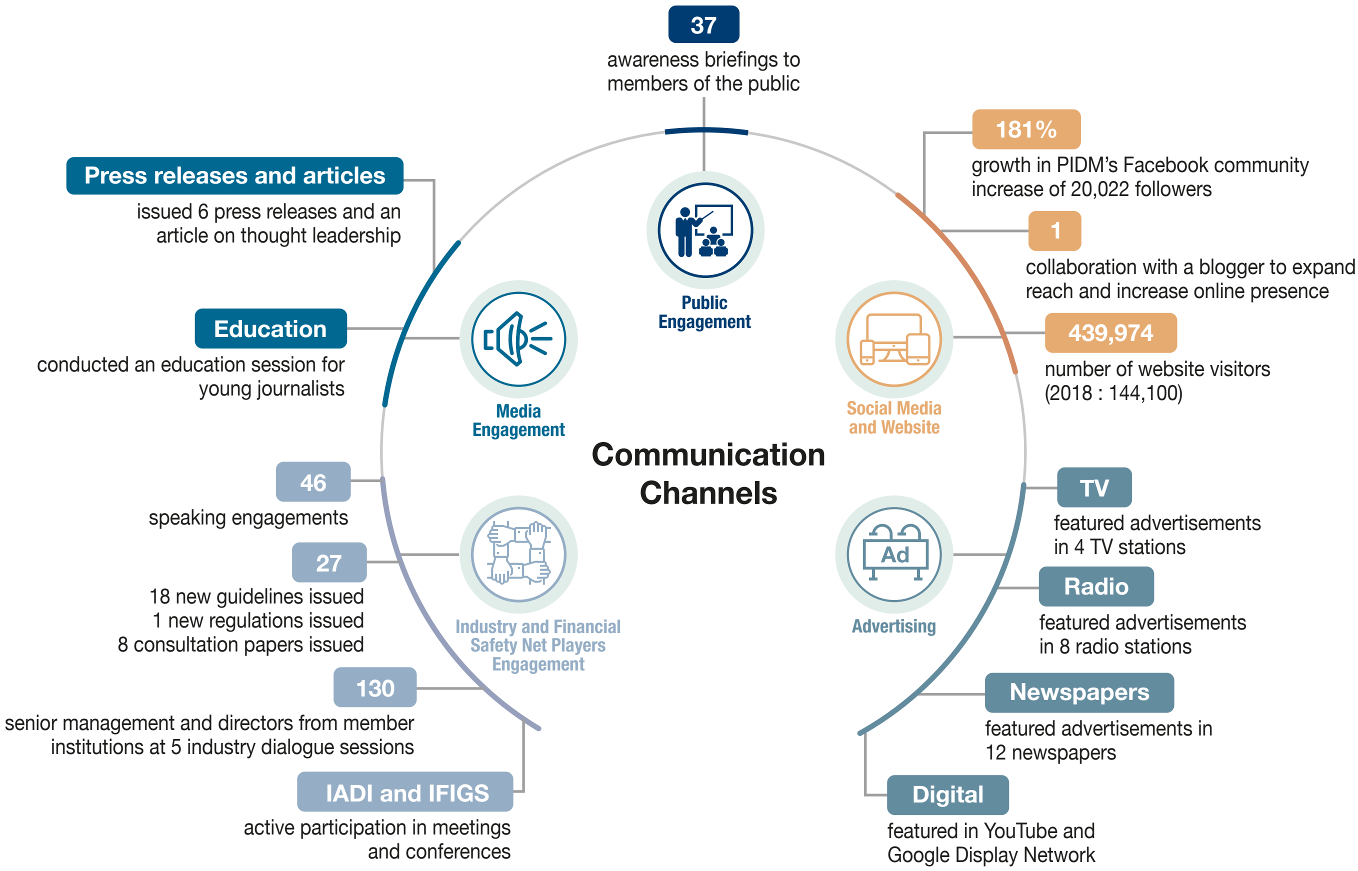
Our work with the public in 2019 continued with the objectives of (a) creating or maintaining awareness; and (b) building trust and confidence. These objectives are aligned with our statutory object, and require us to promote or contribute to the stability of the financial system. In creating awareness and building trust, we also mitigate the risks of bank runs and financial scams. Given the resolution planning roll-out to pilot banks, several engagements were carried out with a focus on familiarising the industry with resolution planning.



Stakeholders we engage

Refer to Stakeholders Section on page 13 which sets out the diverse stakeholder interests.

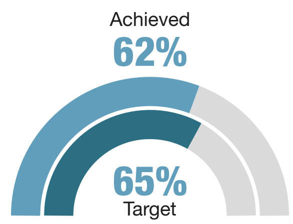
Promote confidence and effective achievement of corporate objectives



Public awareness levels

To gauge the level of awareness among the public on PIDM and the consumer protection systems we administer, we carry out an annual nationwide public awareness survey through an independent research agency. This also enables us to review and enhance our communications approaches and initiatives yearly.

PIDM's awareness continues to remain constant despite a significantly reduced advertising spend in traditional media in 2019. We expect that the awareness level will continue to stabilise within this range in the near term. Going forward, our plans are to continue to leverage on social media and relationship-building activities to promote trust and confidence in PIDM for the longer term.



Public awareness index of PIDM

Engagements

PIDM series of dialogues with the financial services industry

The CEO also led a series of dialogues with the financial industry (a) to promote understanding of PIDM's mandate and value creation at a strategic level among senior management and directors of member institutions and industry associations; and (b) to maintain an effective and collaborative working relationship with industry.

Senior management and directors who attended the dialogues provided constructive feedback and showed interest in understanding more about the resolution planning exercise. Refer to Objective Statement 2 for engagement sessions on resolution planning.

Corporate Social Responsibility

Scholarship programme

2019 marked the 10th anniversary of the PIDM Undergraduate Scholarship Programme. Since its implementation, PIDM has supported, mentored and coached 144 scholars nationwide. 73 have since graduated and are now working with established organisations.

In 2019, we awarded scholarships to 20 eligible students in need of financial assistance.

20
scholars for 2019

144
total number of scholars

Moving Forward

We will continue to:

- aim for a minimum of 65% for public awareness of PIDM;
- implement our financial literacy campaigns and leverage on partnership opportunities; and
- build PIDM's reputation and image.

Strategic Priority:
Human Capital Management

Objective Statement 4:
Effectively manage and maximise the use of PIDM's human capital

Organisation review (immediate term)	Talent review (medium to long term)	Leadership development (medium to long term)	Learning organisation (long term)
Assessed whether overall skills and experience continued to meet organisation needs	Reviewed and identified talent	Continued leadership development through formal training, as well as on-the-job Focused on developing PIDM's unique leadership competencies	Rolled out PIDM curriculum (core and leadership) Completed tacit knowledge management plan

Ongoing: Employee Engagement Activities
(Employee Voice Survey results 2019: 81%)

Organisation review

Similiar to 2015 when we first prepared our Human Capital roadmap, we again, in 2019, carried out a review of our employees' skills, experiences and strengths against the needs of PIDM over the long term, and our responsiveness to changes in the operating environment.

Human capital checklist and assessment

Questions		2019 assessment
Learning and Development – This assessment related to workplace planning and considered whether the workforce is future-ready to implement strategies		
Expertise needed to accomplish our strategic direction	Need to address	Generally, yes. Few vacancies remained to be filled. Some positions to be created, e.g. to address data management needs.
Sufficient clarity and consistency about the critical competencies we are looking for throughout our human capital strategies	In place	In 2018, unique leadership competencies were defined. These have been incorporated into other human capital strategies, such as recruitment, performance management and development for senior management.
Learning, retention and transfer of knowledge	Need to address	Implementing learning organisation initiatives. Refer to the report on page 71.
Adaptability and application of knowledge within PIDM	Need to address	Implementing learning organisation initiatives. Refer to the report on page 71.
Leadership – The ability to cope with the changing economic and other situations while executing PIDM's strategy		
Clear leadership expectations	In place	Leaders are being trained in unique leadership competencies. In 2019, a 360-degree survey was carried out to assess their level of competencies.
Credibility of leadership	Need to address	In progress. Refer to the report on page 71.
Attraction, engagement and retention of the type of desired talent	Need to address	We envision challenges especially as the resolution planning initiative progresses and as the industry may compete for similar competencies.
Shortage of the desired future talent	Need to address	We need to monitor our ability to attract and retain the right talent.
Significant attrition of talent	In place	In 2019, our attrition rate, at 7.7%, was higher than in 2018. A number of resignations were at middle management level, which were motivated by career opportunities, better remuneration or the desire to obtain private sector experiences in specific areas of practice.
Need to obtain skills and competencies	Need to address	Yes.
Culture and Values Index – The ability to demonstrate the brand value of the company to attract and retain talent		
Employee buy-in to the employee value proposition	In place	Achieved 81% of sustainable engagement index.
Management of poor performers or non-contributors	In place	A process is in place to manage and address poor performers.
Governance – Sustainability of human capital		
Need to modify our existing policies and practices to achieve our desired results	In place	Human capital philosophies, policies and key practices are reviewed and considered by the Board through the Remuneration Committee on a regular basis.
Keeping current with industry developments and marketplace changes	In place	We monitor these through our risk assessment, audit and strategic planning processes.
Sufficient integration of human capital strategies with business objectives	In place	This is also reviewed when key strategies change or new strategies are developed. Human Capital Division also works closely with Heads of Division to ensure integration.
Proper deployment of talents internally	In place	From 2018 to 2019, we carried out reviews to assess if the skills and experiences of employees continue to match the needs of the functions, the divisions and PIDM as a whole. We informed our employees about any new vacancies before we conducted an external search. This was with the view of deploying talents where they can best add value.

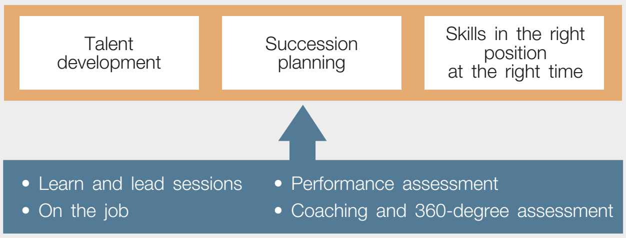
In place   Need to address

Most of the work of PIDM involves human capital that cannot be substituted for other forms of capital. Certain work can only be done by key people. While technology might be a useful tool, the particular attributes, skills and experience of such people are essential components for achieving our corporate objectives and mandate. Since people are not readily replaceable, PIDM has established a mix of policies and practices to retain key human resource capability. PIDM is also working on transitioning to an environment where the weightage on modes of learning will lean towards less formal training and more on-the-job learning. We are also working on providing an environment where employees are expected to continually upskill and adapt. Refer to learning organisation on page 71.

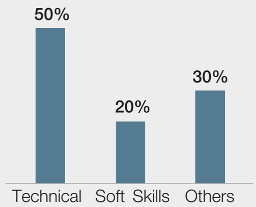
In 2019, a key focus of our assessment of human capital capability was to determine if our human capital was being deployed efficiently over the medium to long term to meet PIDM's key objectives and mandate. Restructuring as needed took place. Individual development plans were established to upskill or reskill where this was needed.

Talent review and development

"Succession planning and leadership development are natural allies because they share a vital and fundamental goal: getting the right skills in the right place."[1]



Average training days per employee



Types of training attended by employees

In 2019, we completed our talent review exercise to ensure there would be adequate leadership and technical bench strength for the sustainability of PIDM over the long term. A talent matrix tool was deployed in consultation with relevant supervisors to assess the potential and performance of employees.

Moving Forward

- We will develop the identified talent pool following the talent review exercise conducted.
- By 2020, we will implement a leadership programme for the identified talent pool.
- We will review the effectiveness of the leadership programme for existing leaders in 2021.

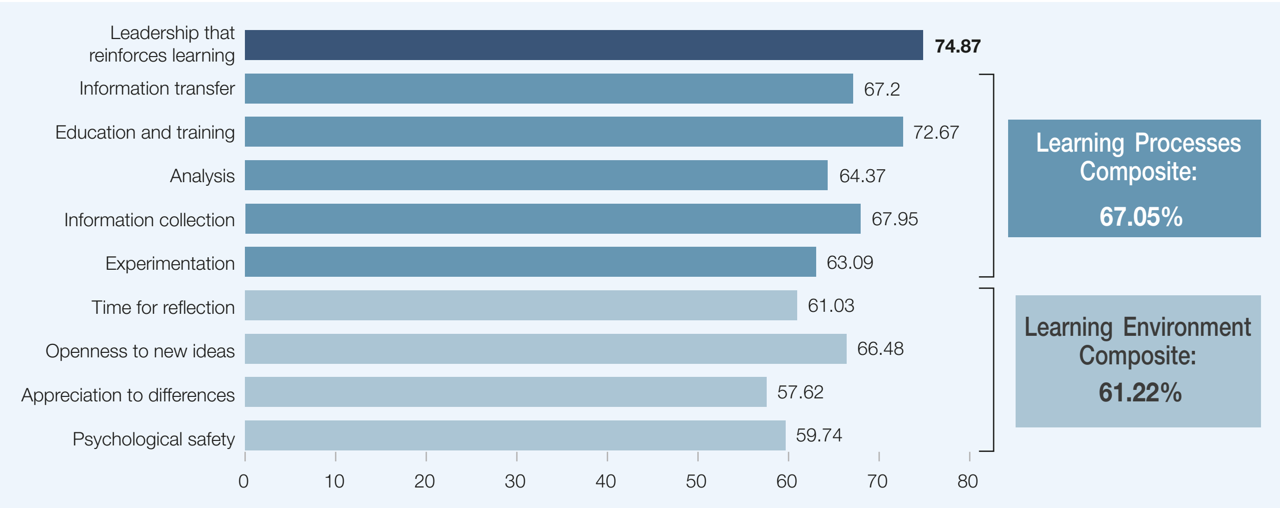
[1] *"SUCCESSION PLANNING - Developing Your Leadership Pipeline", by Jay A. Conger, Robert M. Fulmer; December 2003 Issue Harvard Business Review. https://hbr.org/2003/12/developing-your-leadership-pipeline*

Learning organisation

Over the long term, we see corporate learning, incorporated into an environment that supports rapid on-the-job learning, to be the most effective way of ensuring the sustainability and success of PIDM. This means that we emphasise structured informal learning over formalised informal learning. These are programmes such as coaching, performance support tools, and after-action reviews. In other words, we plan to put in place content and programmes to help employees quickly learn on the job. Training is thus being developed in small, easy-to-use blocks of content, and made easy to find as needed. To achieve this, there needs to be leadership support for the learning organisation, an environment that encourages employees to speak up, as well as established processes to allow for capturing, acquiring and transferring knowledge.

In November 2019, we conducted a learning organisation survey based on Harvard's Learning Organization Survey (Harvard LO Survey).[2] The objective of the survey was to gauge our employees' perception as to what extent the Corporation is functioning as a learning organisation, based on three building blocks: (a) a supportive learning environment; (b) concrete learning processes and practices; and (c) leadership that reinforces learning.

A snapshot of the survey results is depicted below:



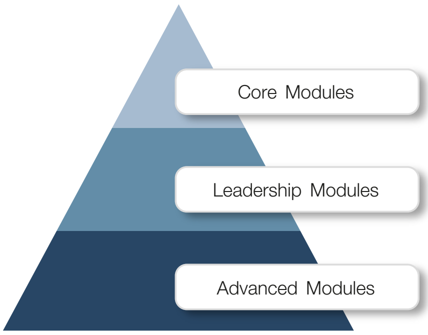
PIDM learning organisation survey results 2019

We have benchmarked our survey results against the Harvard LO Survey benchmarking,[3] and the results of the survey indicate the following:

- The lowest scoring Building Block is the '**Learning Environment Composite**', which scored an average of **61.22%**. This falls between the Lowest Quartile and the Second Quartile and falls below our target of Median (71%).
- The '**Learning Processes Composite**' obtained a score of **67.05%** and falls within the Second Quartile, which is below our target of Median (74%).
- The highest scoring Building Block is '**Leadership that Reinforces Learning**' at **74.87%**. This falls within the higher range of the Second Quartile but still falls below our target of Third Quartile (77% - 82%).

[2] *Garvin, D. Edmondson, A., and Gino, F. (2008)*
[3] *The range for the Harvard LO Survey benchmarking scores are as follows:*
Lowest Quartile => Second Quartile => Median => Third Quartile => Top Quartile

From the perspective of creating, acquiring and transferring knowledge, we made progress as follows:



PIDM curriculum

Core modules

The PIDM core modules were completed and rolled out. All employees participated in this course (classroom training and e-learning). The core modules are intended to ensure that all employees have adequate understanding about PIDM, the design features of its systems, and how PIDM contributes to the stability of the financial system. Topics included in the core modules were on PIDM, DIS, TIPS as well as risk assessment and resolution. In 2019, 100% of employees passed the assessment test on the core modules. The core modules will be incorporated into our induction process for all new employees.

Leadership modules

The leadership modules were rolled out to the senior management in December 2019.

Tacit knowledge management plan

We have also finalised the tacit knowledge management plan.

Expertise locator

The expertise locator is a system or database that enables the identification of experts on relevant subjects to encourage cross-collaboration and maximise the use of talents and skills within PIDM. This was completed in 2019.

Moving Forward

- We will commence development of the advanced module (technical topics) by 2020.
- We will review our learning organisation survey results and work on initiatives to reinforce a learning culture.

Governance and Management: Operational Excellence

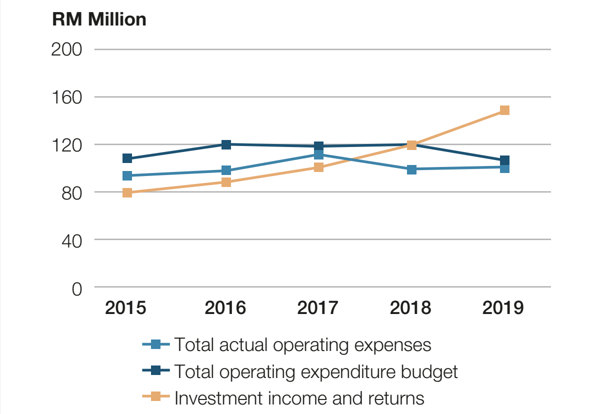
Objective Statement 5:
Continue to work on operational excellence and to adopt best practices in governance

Financial stewardship

In 2019, our investment income and returns continued to cover our operating expenses, which were on a stable trend. Our operating expenses continued to remain stable as our key operational infrastructures had been developed.

Refer to Financial Review on pages 75 to 88.

Total operating expenditure budget vs actual and investment income



Moving Forward

- We will continue to exercise prudent financial management.

Industry portal

The industry portal, a self-service facility for secure online data and information submission was rolled out to all member institutions on 1 April 2019. Prior to the launch of the industry portal, member institutions had provided their submissions in hard copies.

In 2019, member institutions submitted the following annual information via the industry portal:

- Member banks: Differential Premium Systems, Return on Total Insured Deposits, and Deposit Information Systems and Submission.
- Insurer members: Differential Levy Systems or Differential Levy Systems for Takaful Operators, and Return on Calculation of Levies.

Moving Forward

- We will enhance the features and functionalities of the industry portal.

Shariah governance

In 2019, we formalised our Shariah governance arrangements.

We ensured there was sufficient expertise within our internal audit function for oversight of Shariah compliance. To reinforce the Shariah compliance functions, we have established our internal Shariah review and audit requirements.

We are also developing Shariah expertise to ensure that Shariah-compliance risks and key issues in respect of resolution planning are identified and addressed.

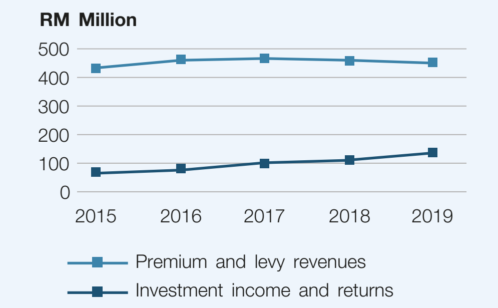
Moving Forward

- We will review the effectiveness of the Shariah governance arrangements in 2021.

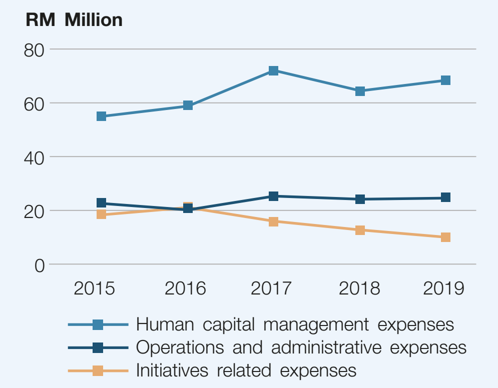
OPERATING RESULTS

	2019 *Actual* RM'000	2019 *Budget* RM'000	2018 *Actual* RM'000	Variance *Actual* %
Premium and levy revenues	458,443	496,000	468,179	(2)
Investment income and returns	148,394	144,800	120,292	23
Other income	47	–	–	–
Total income	**606,884**	**640,800**	**588,471**	**3**
Human capital management expenses	68,537	68,800	64,544	(6)
Operations and administrative expenses	24,054	25,460	23,637	(2)
Initiatives related expenses	9,277	12,740	12,037	23
Total expenses	**101,868**	**107,000**	**100,218**	**(2)**
Net surplus for the year	**505,016**	**533,800**	**488,253**	**3**
Other comprehensive income:				
Remeasurements of Long Term Retirement Plan	(273)	–	113	(342)
Total comprehensive income for the year	**504,743**	**533,800**	**488,366**	**3**

Income trends



Operating expenses trends

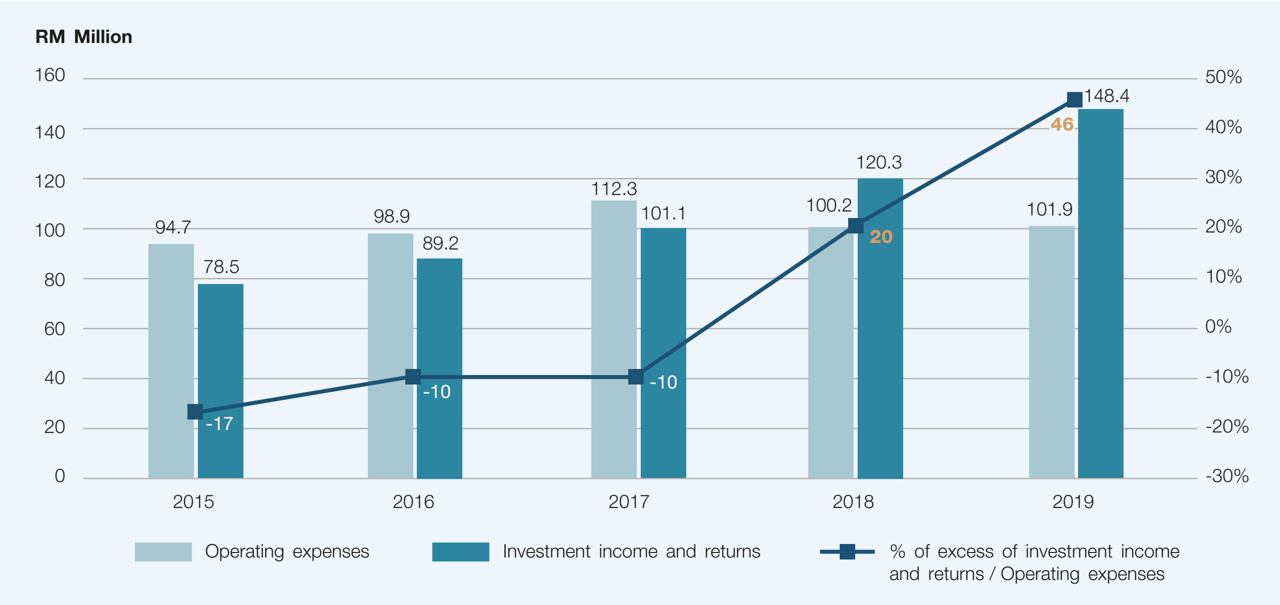


CAPITAL EXPENDITURES

	2019 *Actual* RM'000	2019 *Budget* RM'000	2018 *Actual* RM'000	Variance *Actual* %
Furniture, fittings and office refurbishment	105	300	95	(11)
Office equipment and computer systems	2,678	3,700	2,594	(3)
Motor vehicle	–	–	188	100
Total capital expenditures	**2,783**	**4,000**	**2,877**	**3**

2019 FINANCIAL PERFORMANCE

Self-sufficiency (investment income and returns against operating expenses)



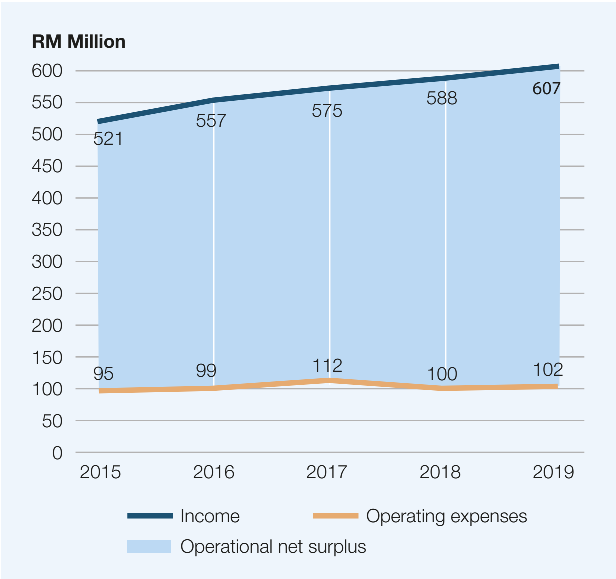
In 2019, our investment income and returns continued to cover our operational expenses, which was on a stable trend.

Since 2018, all premiums and levies collected from member institutions contributed directly towards the accumulation of the Protection Funds. We expect this to continue over our three-year planning period. Our operational expenses continued to remain stable as our key operational infrastructures had been developed, and we continued to effectively manage and control our ongoing day-to-day operating expenses.

Our total income amounted to RM606.9 million, an increase of RM18.4 million or 3.1% compared to the previous year. Meanwhile, operating expenses totalled RM101.9 million, a slight increase of RM1.7 million or 1.7% from 2018 and RM5.1 million or 4.8% lower than budget. We continued to practise prudent financial management in carrying out our operations and key initiatives.

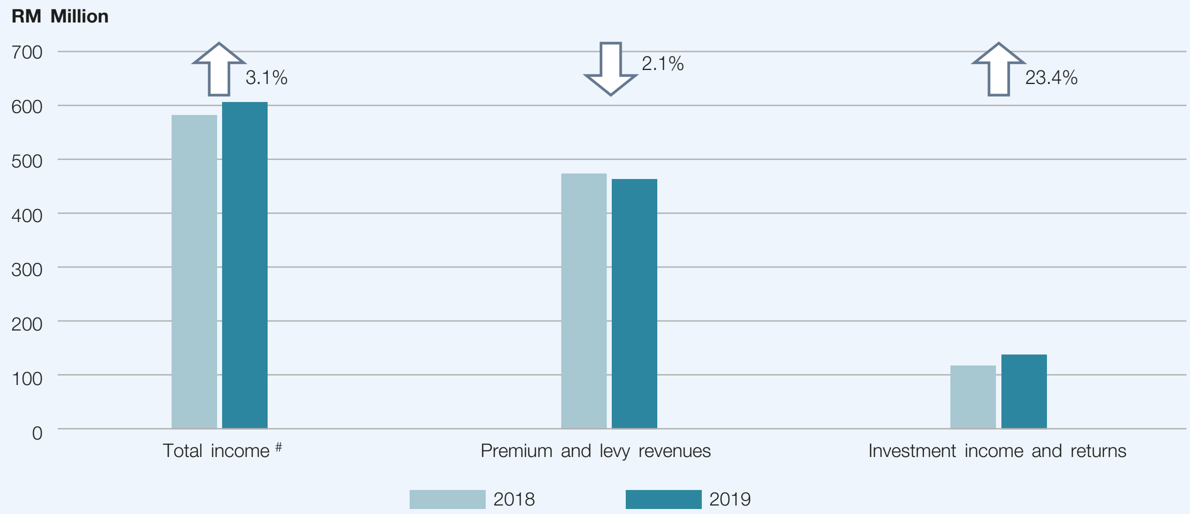
In 2019, our net surplus had been growing steadily at approximately RM0.5 billion. Going forward, we expect the level of fund growth to increase on the back of a steady rise in investment income and returns, and a stable trend in operating expenses.

Key financial trends



TOTAL INCOME – SUSTAINABLE INCOME GROWTH

Total income



Includes Other Income of RM47,000

We recorded a total income of RM606.9 million for the financial year ended 31 December 2019, an increase of RM18.4 million or 3.1% compared to the previous year. The increase was primarily driven by a higher investment income and returns, which was attributed to the higher yield from the instruments invested as well as the larger base of funds available for investment. These were offset by the lower premiums received from member banks.

Income analysis

Premiums and levies – incentives for sound risk management

Our mandate includes providing incentives to member banks and insurer members for sound risk management. We achieve this through, among others, the Differential Premium Systems framework for member banks as well as the Differential Levy Systems framework for insurer members. Both frameworks provide incentives for member institutions to enhance their risk management practices and minimise excessive risk-taking. Member institutions with lower risk profiles will pay lower premiums or levies than those with higher risk profiles. The Differential Premium Systems and Differential Levy Systems also ensure more fairness than a flat-rate system. We review the Differential Premium Systems and Differential Levy Systems periodically to ensure that they remain current and relevant.

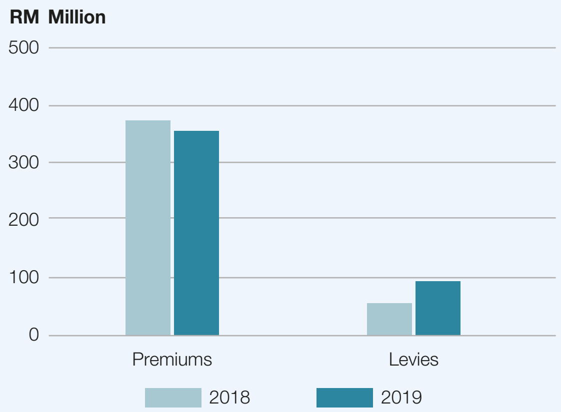
Premiums

- Conventional
- Islamic

Levies

- General Insurance
- Life Insurance
- General Takaful
- Family Takaful

Premiums and levies



Premiums collected in 2019 were slightly lower than the prior year due to an improvement in the Differential Premium Systems categorisation of several member banks on the back of a steady growth of the Total Insured Deposits.

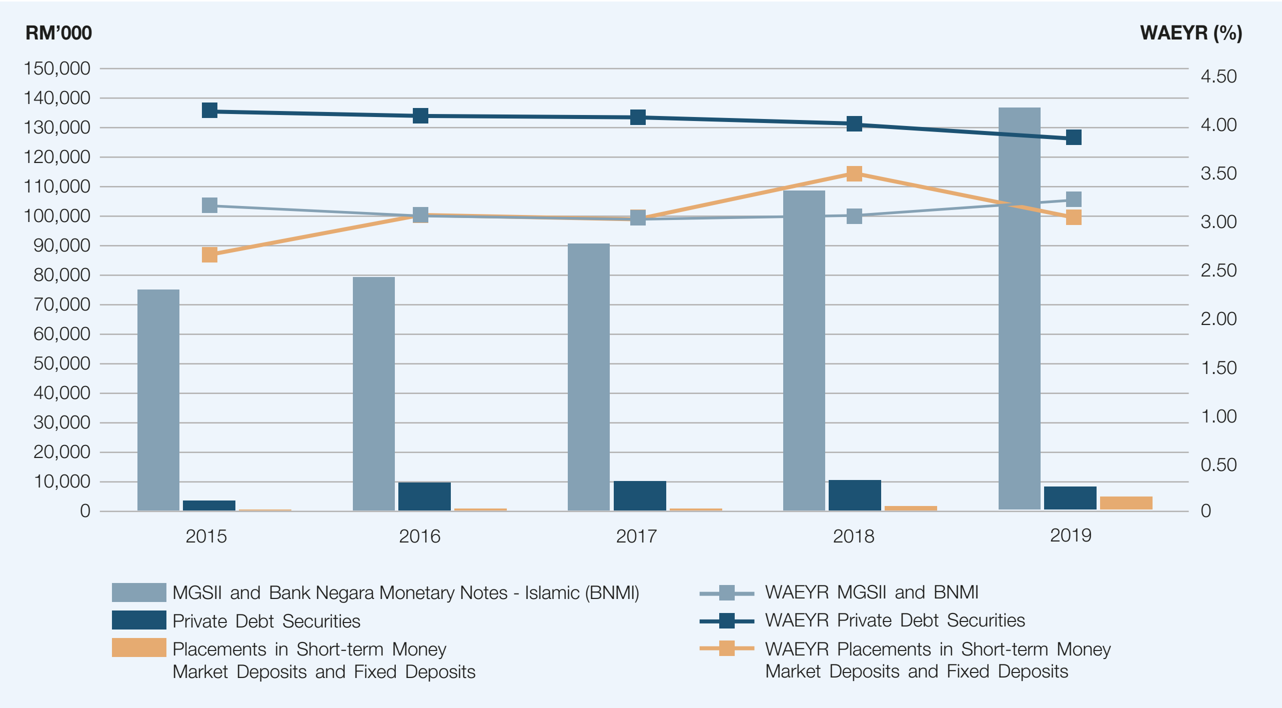
Levies collected from insurer members were higher than the previous year due to a deterioration in levy categories of several insurer members, on the back of a consistent growth trend in actuarial valuation liability and net premiums and contributions. This was offset by the lower levies collected from family takaful members, which were attributed to the improvement in levy categories of several takaful members.

Investment income and returns – well guarded and preserved

Our investment philosophy continues to be conservative, with the view to preserving capital and maintaining sufficient liquid financial assets to meet our financial obligations as and when they arise. Our investment objectives are not driven by a return on investment, but rather on the availability of conservative and highly secure investment instruments that fulfil our investment requirements. As suitable investment instruments may not always be readily available, we proactively manage excess funds through placements in the short-term money market and fixed deposits to minimise idle funds and generate reasonable returns until appropriate investment instruments become available.

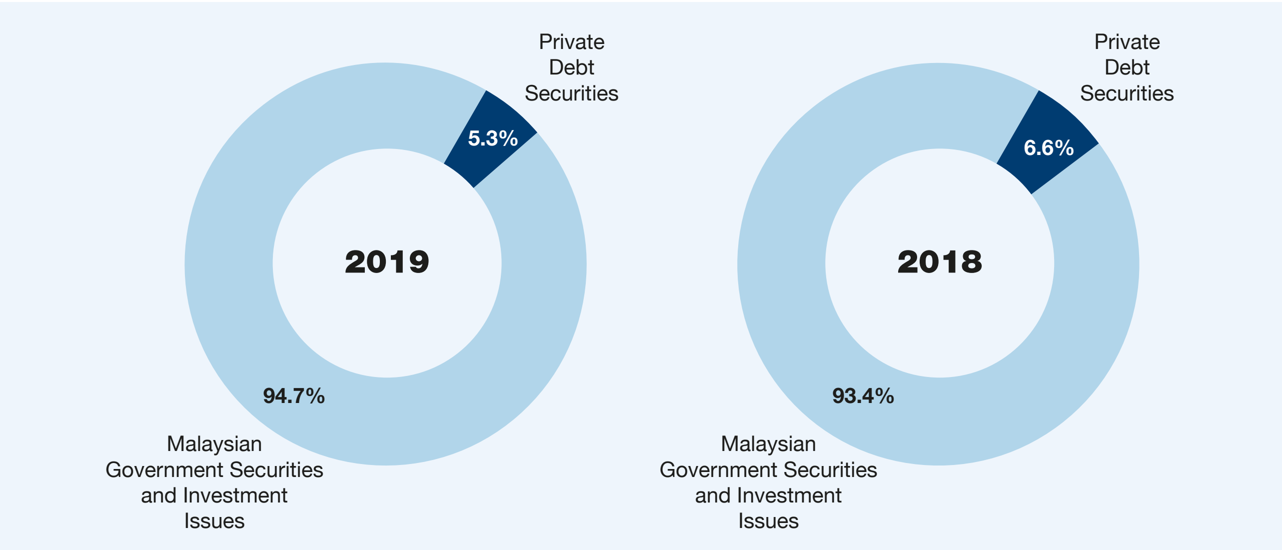
The main source of our investment income and returns come from Malaysian Government Securities and Investment Issues (MGSII). However, as the funds available for investment increased, the availability of suitable investment instruments that meet our investment objectives became limited. Therefore, over the past few years, in accordance with our approved investment policy, we invested in Private Debt Securities (PDS) of AAA rating issued by a Government-related entity. We continuously monitor and proactively manage our investment portfolio to ensure our investment objectives are met.

Investment income and returns and weighted average effective yield rate (WAEYR) trends (by type of instruments)



Investment income and returns – well guarded and preserved (continued)

Investment composition as at 31 December 2019 and 2018



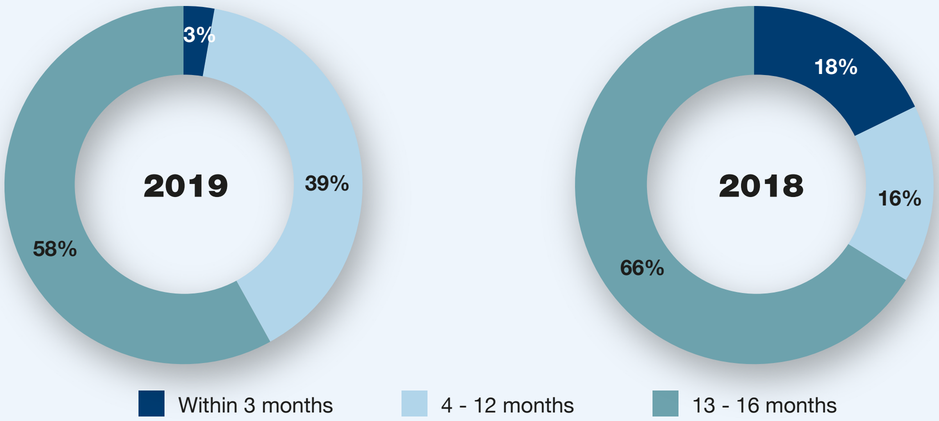
Whilst the composition of the investment assets is expected to remain the same, we expect our investment income and returns to continue to grow steadily with the increase in the fund size that is available for investment.

Despite the volatility in the capital market, our investments were able to maintain their weighted average effective yields due to our investment strategy. This investment strategy was implemented since 2018 and took a longer-term position and optimised placements in longer tenured investments, within the parameters of the approved investment policy. This was in anticipation of a possible lowering of the Overnight Policy Rate.

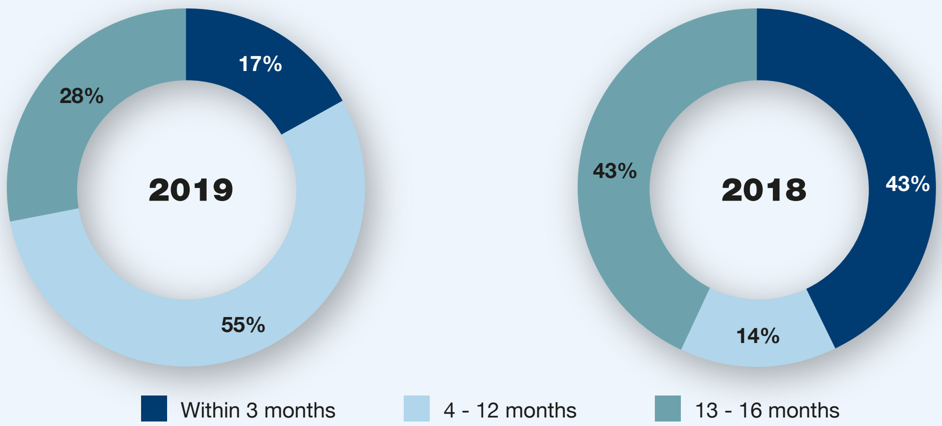
The maturity profiles of our investments are described in the following page.

Maturity profiles as at 31 December 2019

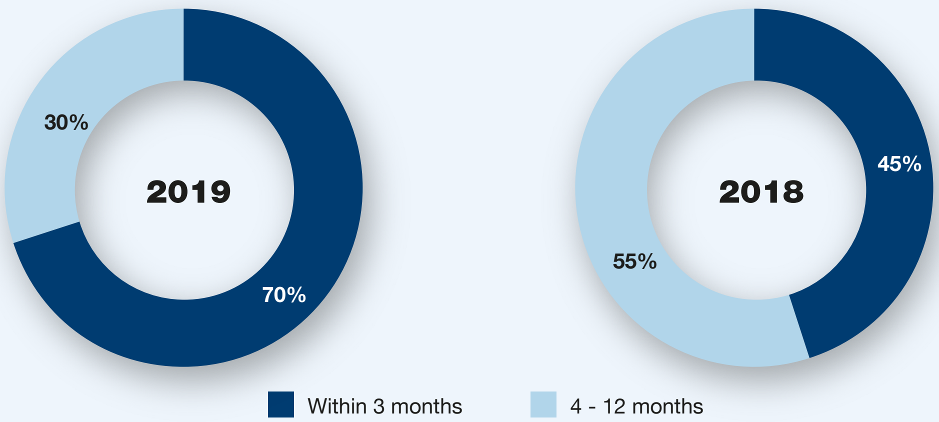
Malaysian Government Securities and Investment Issues



Private Debt Securities



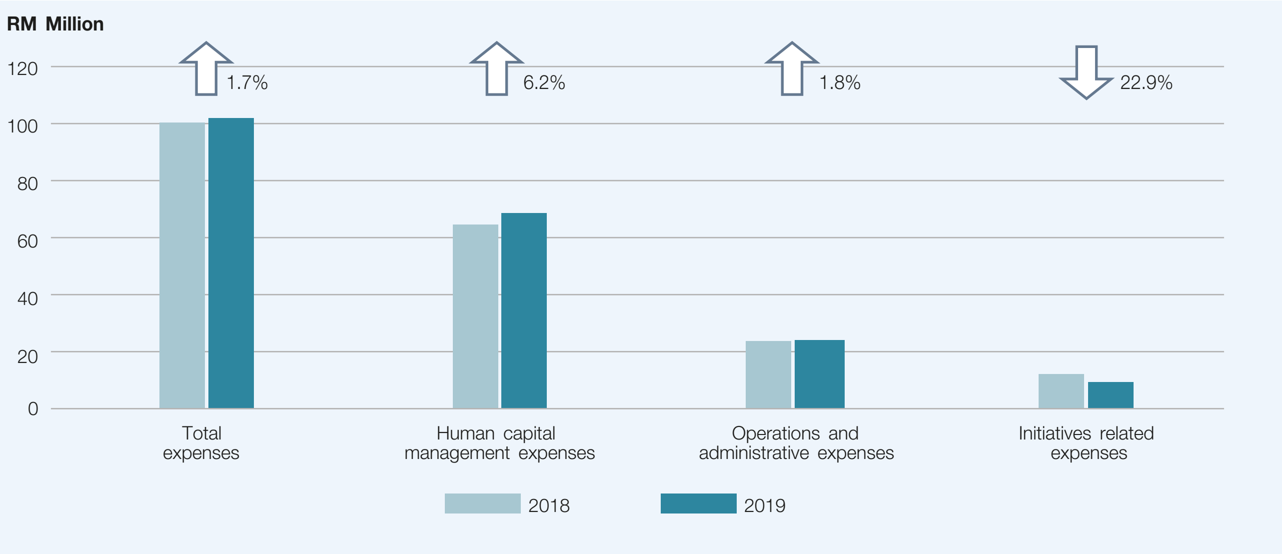
Placements in Short-term Money Market and Fixed Deposits



OPERATING EXPENSES - CONTINUED PRUDENT FINANCIAL MANAGEMENT

Operating expenses for 2019 totalled RM101.9 million, a slight increase of RM1.7 million or 1.7% from RM100.2 million in 2018. This is RM5.1 million or 4.8% lower than budget.

Total operating expenses

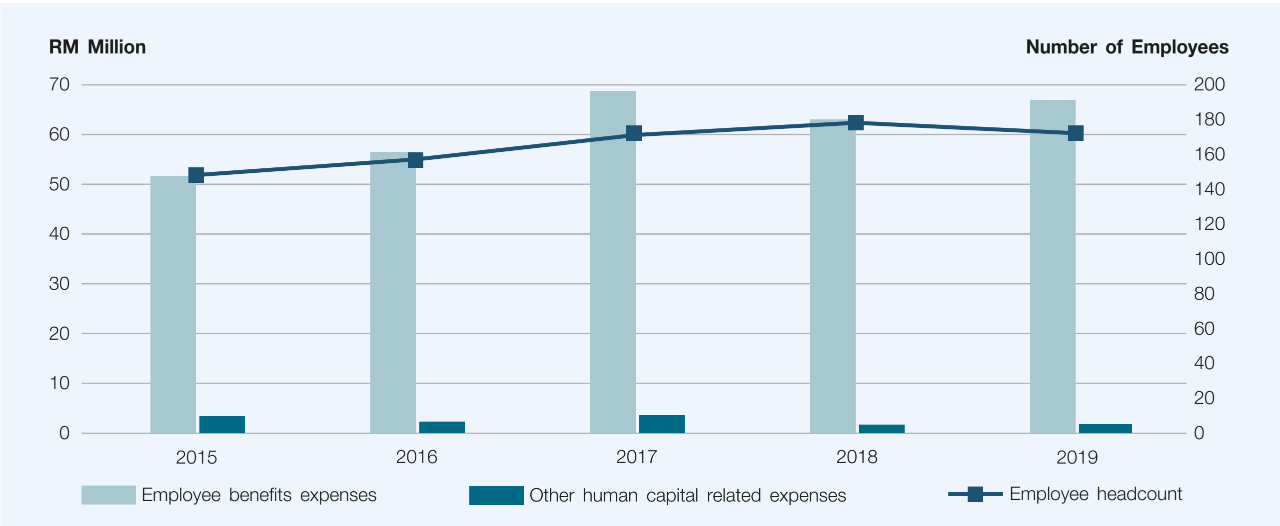


There was a slight increase in human capital management expenses, mainly due to the full impact of costs of new hires in 2018 and the increase in insurance and medical costs. Operations and administrative expenses also recorded a slight increase that was mainly attributable to IT-related expenses as well as higher depreciation expenses for property and equipment. We continued to practise prudent financial management, and optimised the use of our resources in carrying out our day-to-day operations. On the other hand, initiatives related expenses recorded a decrease due to a more cost effective approach adopted for certain initiatives, and the reprioritisation of certain initiatives.

Human capital management expenses

Given the nature of our business, costs relating to human capital continued to be the most significant expense item, representing approximately 67% of our total operating expenses.

In line with the 'Human Capital Management' strategic priority, we continued to build human capital capacity for operational readiness and long-term sustainability, particularly in the areas of risk assessment and resolution. This was reflected in the 2019 results of our human capital-related expenses, where the increase of RM4.0 million or 6.2% in human capital-related costs compared to the previous year was mainly attributable to the full-year impact of costs of new hires in 2018. In addition, the increase in employee benefits costs was also due to the increase in insurance and medical costs. Despite the increase in the overall human capital management expenses, our average benefits costs per employee remained stable.



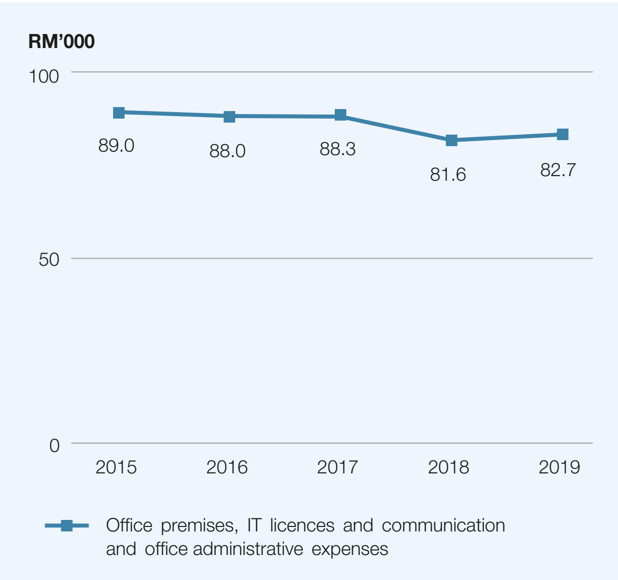
FINANCIAL REVIEW

Operations and administrative expenses

Our operations and administrative expenses are expenses incurred to support our day-to-day operations. It increased slightly by RM0.3 million or 1.5% compared to previous year, as we instituted measures to enhance the effectiveness of operations, particularly in the areas of technology and telecommunications. There was also a slight increase in depreciation expenses compared to previous year.

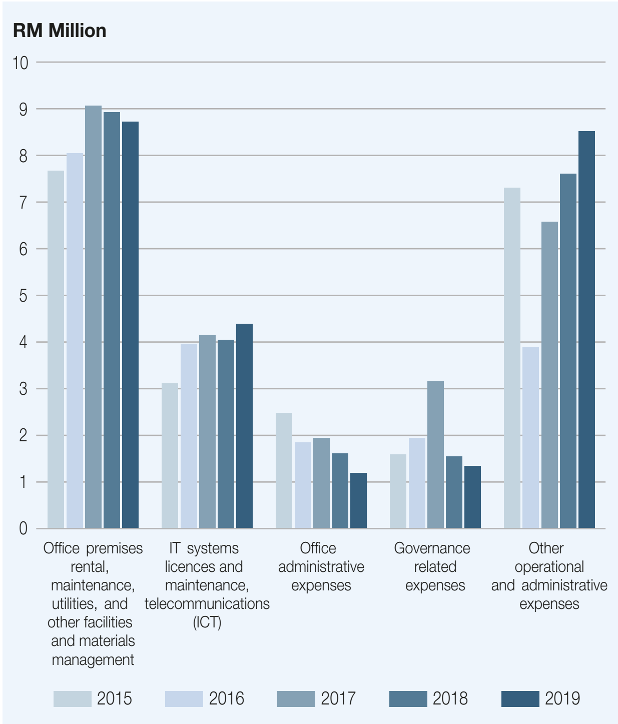
Nevertheless, our operations and administrative expenses were RM1.5 million or 5.8% below budget, as we continued to practise prudent financial management, and optimised the use of our resources in carrying out our day-to-day operations.

Average operations and administrative cost per employee



An analysis of operations and administrative expenses against a key cost driver, namely the number of employees, showed that it was still within a stable trend. This substantiated our continuous improvements in operational efficiency and stable management of expenses. In other words, we were able to maintain the level of relevant operational expenses by optimising existing available resources as well as by improving processes to enhance operational effectiveness and efficiency.

Trends of operations and administrative expenses



Commentary

- Office premises and equipment rental as well as maintenance costs remained stable, with a slight reduction in 2019 as we instituted tighter measures on management of expenses.
- ICT-related expenses increased slightly in 2019, mainly due to higher costs for renewal of Microsoft licensing and support fee, which was affected by the movement in exchange rates. This was also due to a slight increase in telecommunications costs relating to a wider internet bandwidth to support the implementation of the industry portal.
- Office administrative expenses primarily related to items, such as subscriptions, periodicals, printing, stationery and operational professional consultancy fee. The slight decrease was mainly due to postage, printing and stationery expenses and lower professional and consultancy expenses incurred during the year.
- The increase in other operational and administrative expenses was mainly attributable to depreciation expense.

Initiatives related expenses

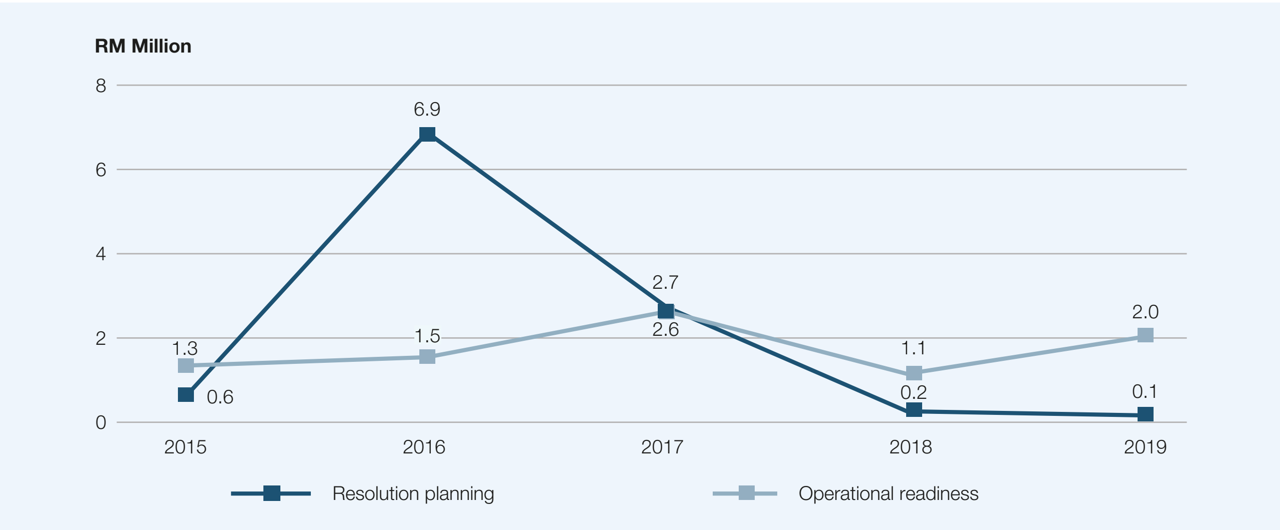
Initiatives related expenses are costs (apart from human capital-related expenses) that are specifically attributable to the initiatives planned for 2019 in the Corporate Plan. The expenses are sub-categorised into two strategic priorities, namely 'Effective Resolution Regime' and 'Stakeholder Engagement' (which include communications-related activities such as advertising and public relations).

We continued to review the approaches in carrying out these initiatives with a focus on optimising resources to achieve the best outcome. This led to a lower spend on certain key initiatives during the year compared with previous years as well as against budget.

The analyses of expenses for the two strategic priorities are detailed below.

Effective Resolution Regime

Trends of operational readiness and resolution planning expenses



Commentary

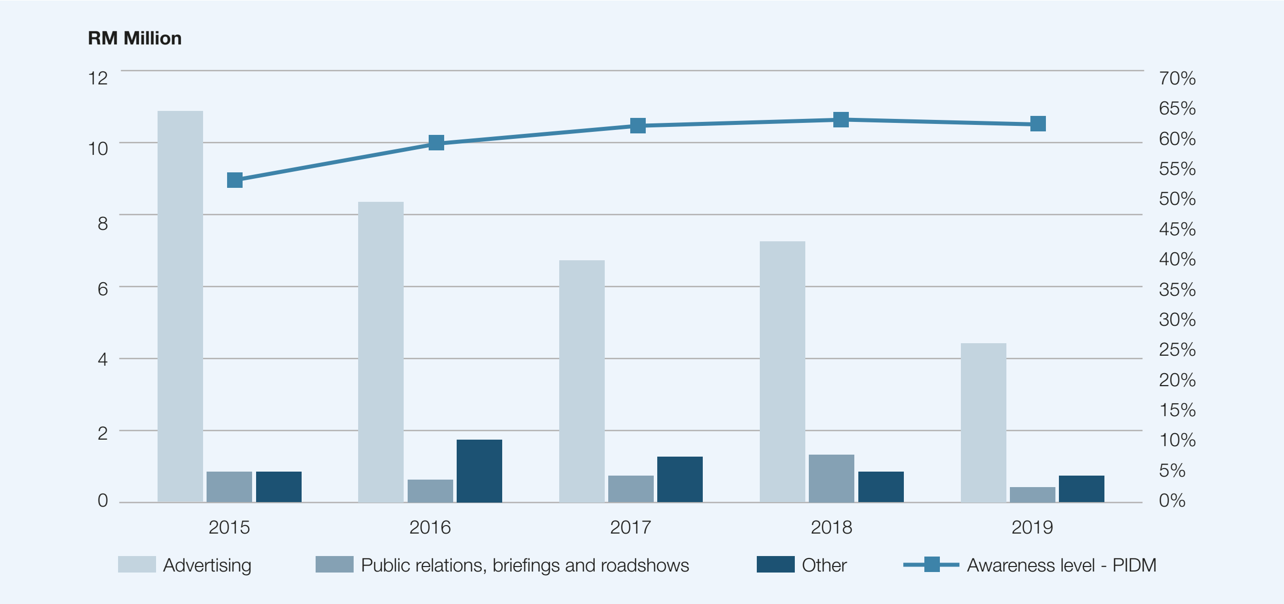
- In 2016, we commenced the ground work on resolution planning, with the development of the draft framework and guidelines on Recovery and Resolution Planning. Subject matter experts were engaged to ensure the framework was developed and benchmarked against best practices. The next major phase of the resolution planning work was in 2019 with the roll out of the pilot exercises with selected banks. The slightly lower expenses in 2019 compared to 2018 were due to the slight delay in the roll out to the pilot banks, i.e., a quarter later than planned.

- On operational readiness, the expenses incurred in 2019 primarily related to simulation exercises with a focus on the testing of PIDM's intervention and failure resolution readiness of member institutions. The increase of expenses in 2019 was aligned to the focus in the 2019 - 2021 Corporate Plan, namely simulation exercises were conducted on different areas of the intervention and failure resolution lifecycle and on different resolution options.

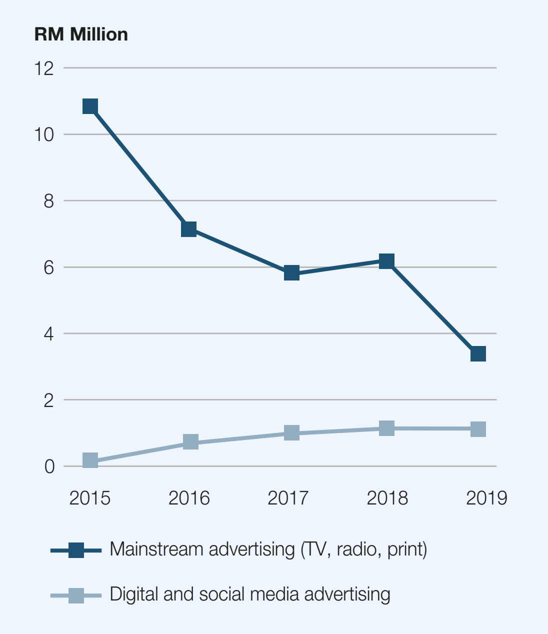
Stakeholder Engagement

We continued to engage our key stakeholders in 2019. Our work with the public continued with the objectives of (a) creating or maintaining awareness; and (b) building trust and confidence. In view of the roll out of the resolution planning pilot exercises to selected banks, a number of engagements were also carried out with a focus of familiarising the industry with resolution planning. Communications-related expenses made up the majority of the expenses under stakeholder engagement. This is explained below.

Trends of communications expenses



Trends of advertising expenses



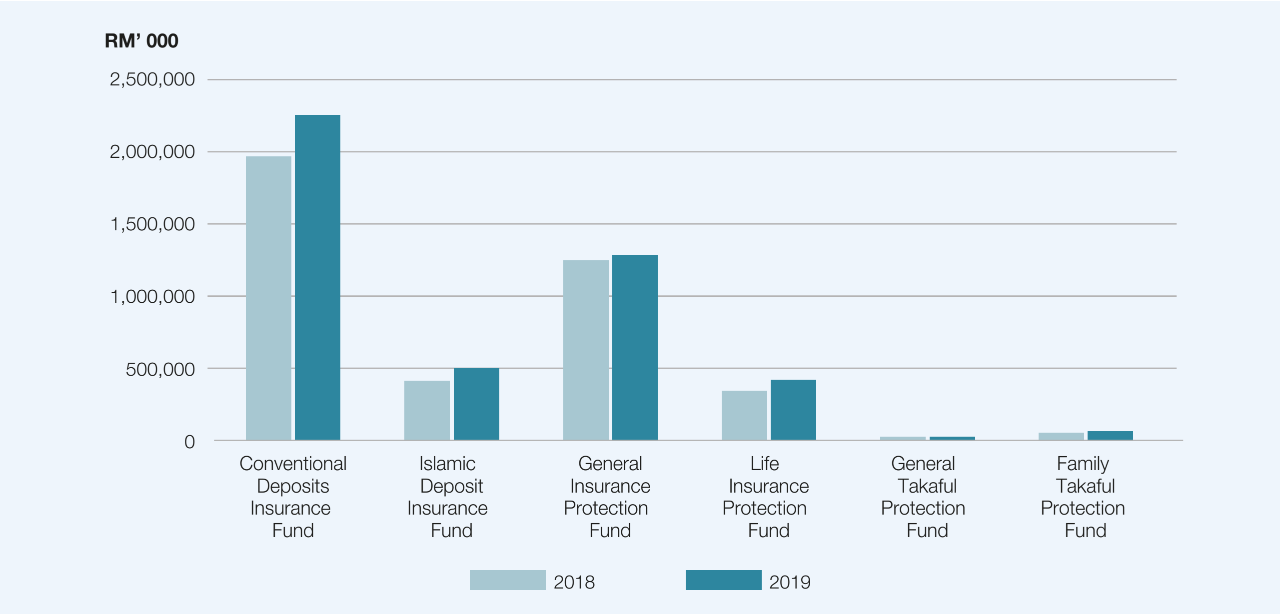
Commentary

- Advertising expenses were generally on a downtrend as we reviewed and enhanced our approaches in promoting public awareness. The changes included taking a targeted approach for specific target segments and using more digital and social media channels. Advertising expenses decreased in 2019, mainly due to lower spend in advertising in the mainstream channels, such as television, radio and print. The ratio between the mainstream advertising channels and digital and social media advertising has changed from 85:15 to 76:24. Despite the downtrend on advertising expenses, our public awareness level continued to increase since 2015 and is likely to be reaching a plateau.

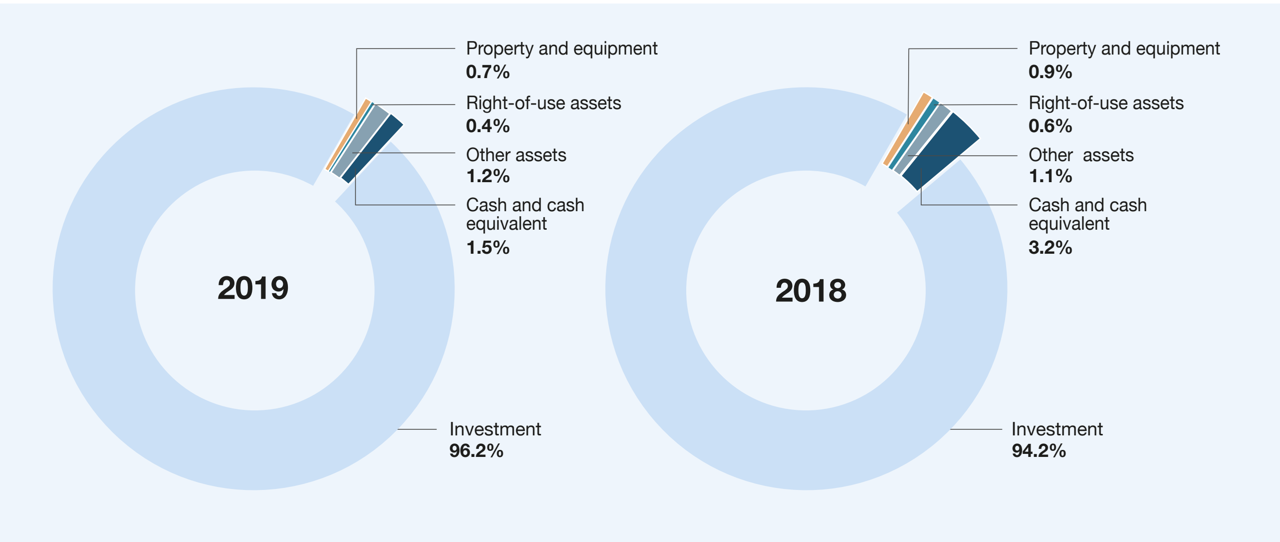
- Public relations expenses was lower than expected as the originally planned on-ground activities were reconsidered after further research and were reprioritised to the following year.

FINANCIAL POSITION

Protection Funds

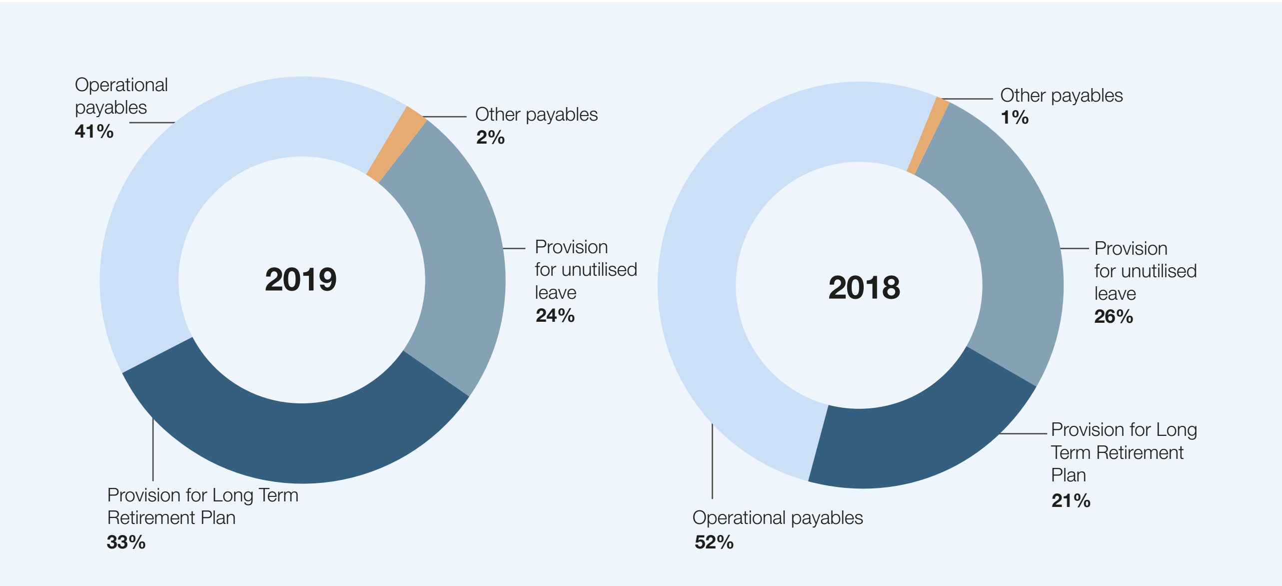


Total Protection Funds as at 31 December 2019 amounted to RM4.58 billion, on the back of total assets of RM4.61 billion and net of liabilities of RM0.03 billion.



Our assets remained liquid with financial assets comprising cash, cash equivalents, investments and investment income and returns receivables. These stood at RM4.56 billion, representing 98.8% of our total assets as at 31 December 2019. The remaining non-financial assets related to property and equipment, which amounted to RM0.03 billion as well as RM0.02 billion of 'right-of-use assets' for the lease of the office premises. The property and equipment as at the end of 2019 mainly comprised IT systems.

Liabilities, on the other hand, encompassed payables and lease liabilities. Payables primarily comprised operational payables as well as the provision for unutilised leave and the provision for the Long Term Retirement Plan.



Details of the items within the Statement of Financial Position are described in the Notes to the Financial Statements.

OVERVIEW OF MEMBERSHIP

OVERVIEW OF MEMBERSHIP

MEMBER BANKS

A. Profile

42 **Member Banks**

26 Conventional

RM447 billion
Total Insured Deposits

16 Islamic

RM122 billion
Total Insured Deposits

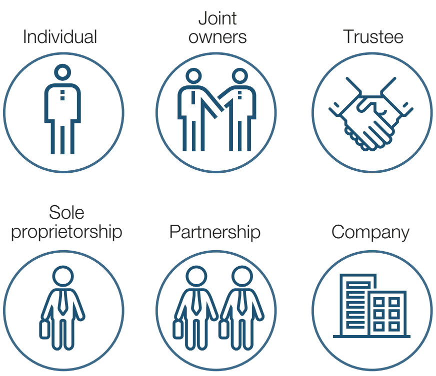
B. Coverage of PIDM's protection on deposits

The current scope of deposit coverage remains adequate and is in line with IADI's Core Principles for Effective Deposit Insurance Systems.

Deposit Insurance System

up to **RM250,000**
per depositor per member bank

Separate protection for Conventional and Islamic deposits held by

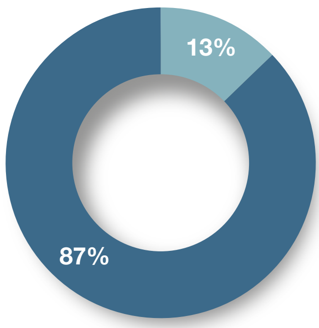


97%
depositors protected in full

Number of depositors

87%
total deposits insurable

28%
deposits insured in full



Total deposits

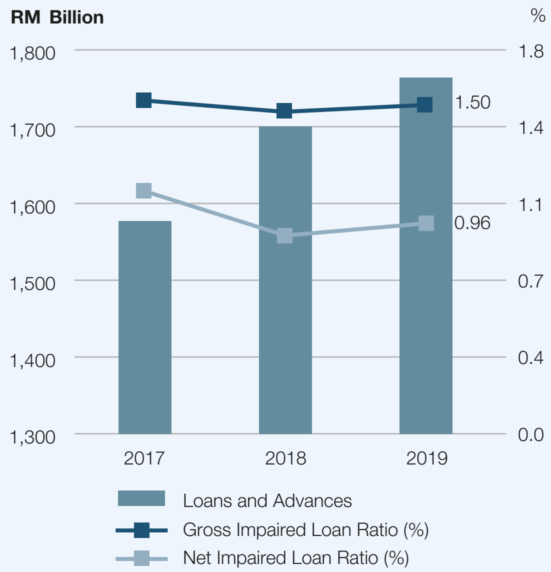
Source: PIDM

Note: Non-insurable deposits refers to products that are not eligible for protection

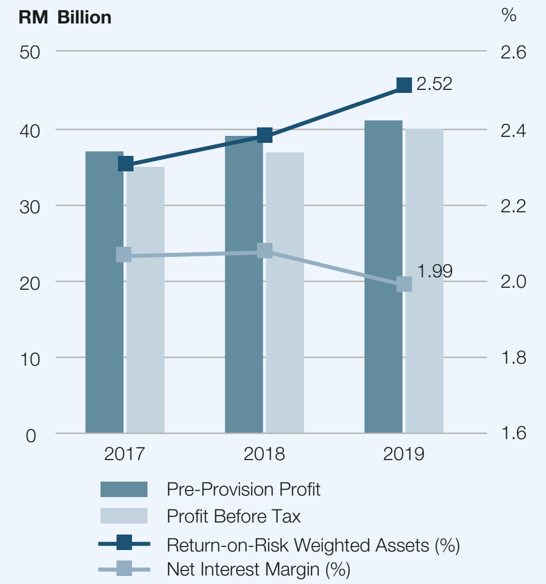
C. Assessment on safety and soundness

Member banks' fundamentals remain strong.

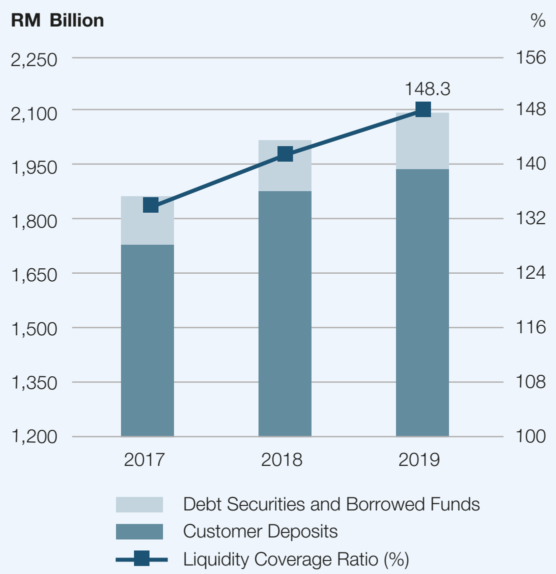
Asset quality remained intact, as demonstrated by low impairment ratios and good provisioning levels. Loan growth trended lower in line with softer loan demand.



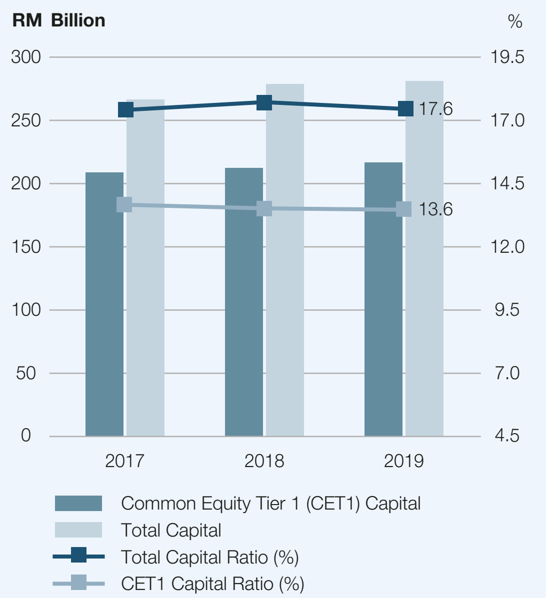
Profitability held up well despite pressure on margins. Core earnings indicators showed a favourable trend.



Healthy funding position, despite a moderation in deposit growth. Comfortable liquidity position.



Strong capital position, with ample buffers to withstand potential adverse shocks.



Source: PIDM, BNM

Note: Beginning 2018, aggregated data for member banks includes data from a merged entity consisting a member bank and a non-member bank

D. Incentives for sound risk management

Periodic enhancements of the Differential Premium Systems framework to incentivise sound risk management practices and minimise excessive risk-taking.

2008
Implementation of Differential Premium Systems

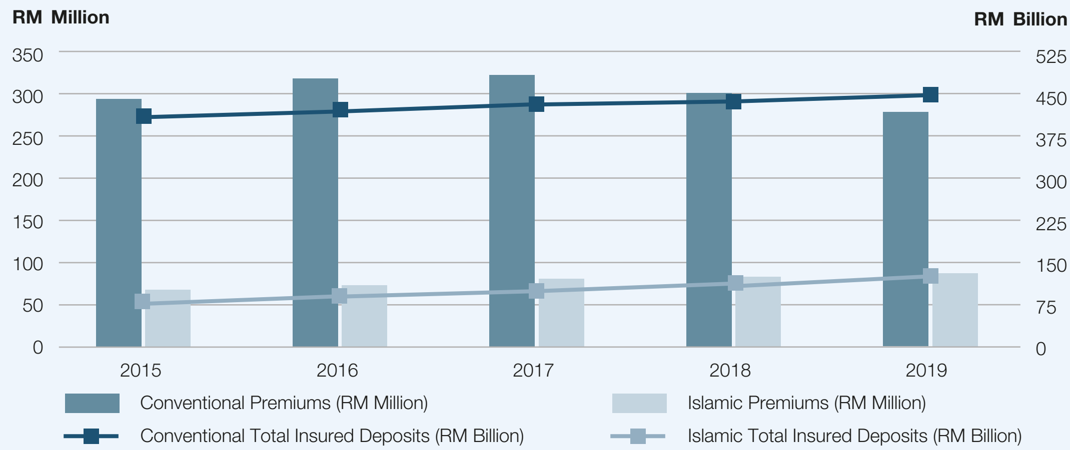
2011
Revisions made to Asset Quality and Asset Concentration Criterion and removal of Efficiency Criterion

2015
Adoption of Matrix Approach

2018
Revised Differential Premium Systems framework to reflect enhancement to the Funding Profile Criterion

E. PIDM's ex-ante funding

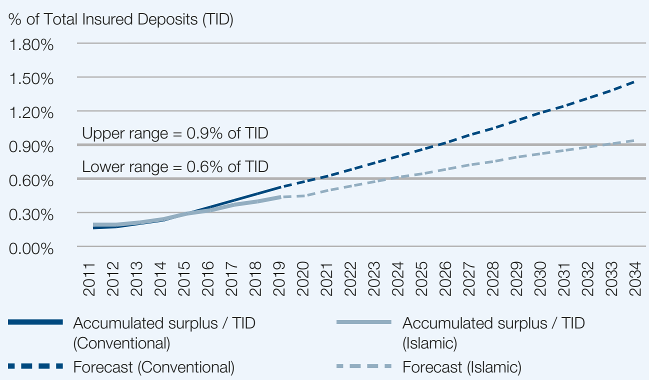
Lower premiums collected, reflecting improvement in risk profiles of member banks in Assessment Year (AY) 2019 (end-2018 position). There was no increase in premium rates for AY 2019.



Source: PIDM

PIDM remains on track to meet the lower range of the current Deposit Insurance Funds' target fund level.

Trend of Deposit Insurance Funds



0.6% to 0.9%
of Total Insured Deposits

Target fund range

3 to 7 years

Time-to-fund

Source: PIDM

Refer to the Technical Reference on Target Fund on page 175.

F. Looking ahead

Member banks to remain resilient, with ample buffers to weather potential challenges.

Industry developments

- Impairment pressures will likely surface in certain loan segments, potentially pushing up credit costs. The overall impact on member banks will remain manageable.
- Re-emergence of competition for funding, challenges in loan growth and the recent policy rate cuts could place pressure on member banks' margins.
- Impending digital banks are expected to add dynamism to the current banking landscape.

External environment

- We are aware of the downside risks to the domestic economy, and will continuously assess their implications on member banks.
- We are watchful of the performance and potential asset quality pressures of member banks' subsidiaries and branches in some slowing Asian economies.

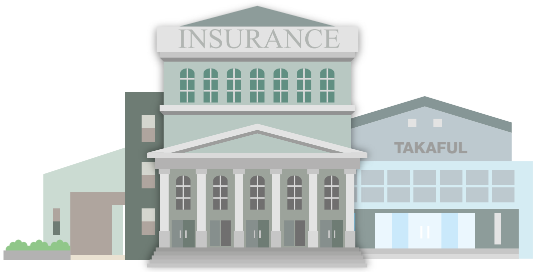
Regulatory developments

- The implementation of Basel III Net Stable Funding Ratio on 1 July 2020 encourages banks to maintain a stable funding profile to support their assets and off-balance sheet activities.
- The recently released Domestic Systemically Important Banks (D-SIB) framework, with additional capital buffers required for the identified D-SIB from 31 January 2021, contributes towards increasing loss-absorbing capacity and reducing the impact of 'too-big-to-fail' banks.

INSURER MEMBERS

A. Profile

50 **Insurer Members**



21 General Insurers

RM17.2 billion
Insurance Liabilities

14 Life Insurers

RM136.6 billion
Actuarial Valuation Liabilities

4 General Takaful Operators

RM2.4 billion
Takaful Liabilities

11 Family Takaful Operators

RM18.9 billion
Actuarial Valuation Liabilities

B. Coverage of PIDM's protection on insurance benefits

The current scope of insurance and takaful coverage is sufficient to cover a large majority of insurance policy owners in full.

Takaful and Insurance Benefits Protection System

up to **RM500,000**
for eligible insurance benefits per insurer member

Separate protection for
Conventional policies and
Takaful certificates
held by

Individual

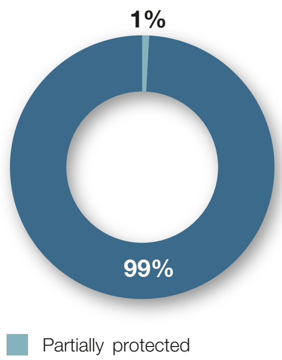
Group

and claims for

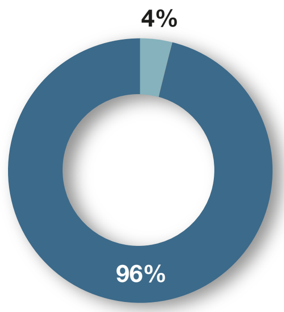
Own damage

Third party

99%
takaful certificate and insurance policy owners protected in full



Life insurance and family takaful



96%
takaful certificate and insurance policy owners protected in full

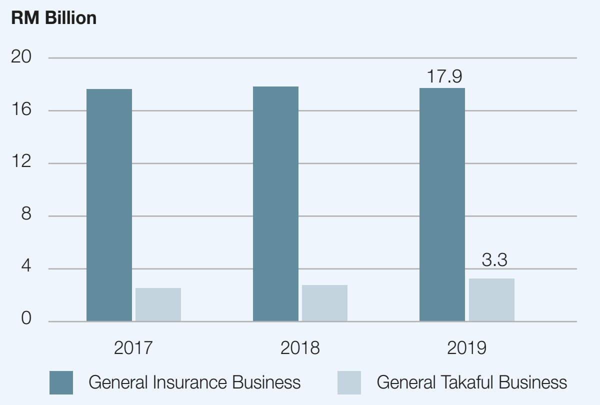
General insurance and general takaful

Source: PIDM survey

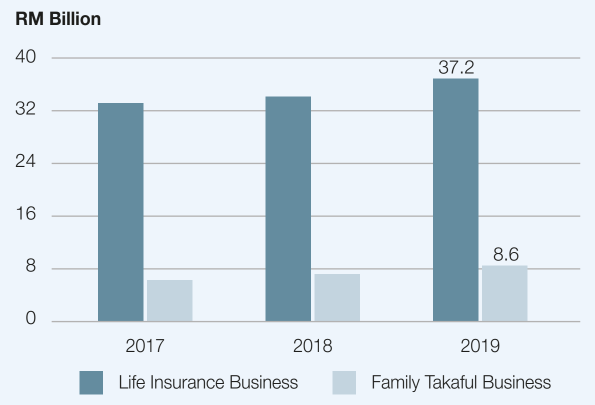
C. Assessment on safety and soundness

Insurer members demonstrated resilience throughout 2019 despite a challenging operating environment.

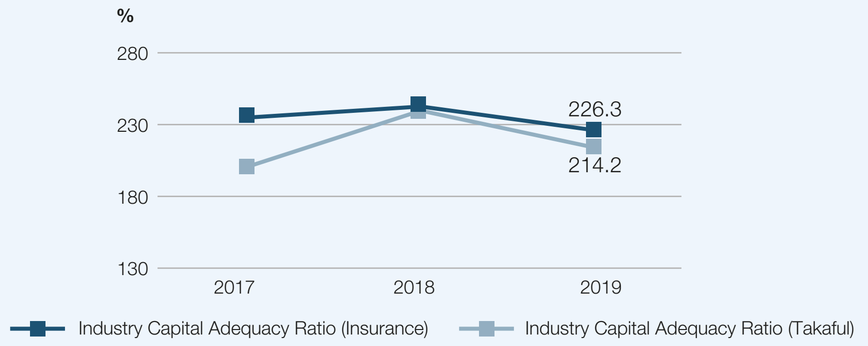
Stable gross premiums or contributions trend with signs of recovery in certain business classes



Healthy net premiums or contributions growth in line with improved new businesses



Capital position remained adequate to sustain new business and withstand potential shocks



Source: PIDM, BNM

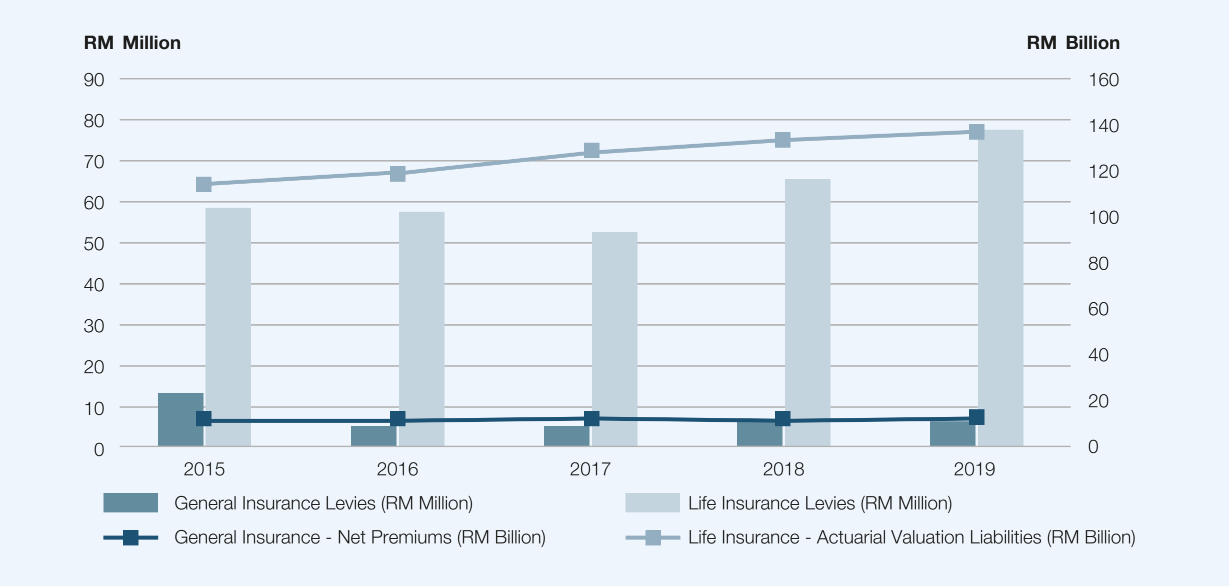
D. Incentives for sound risk management

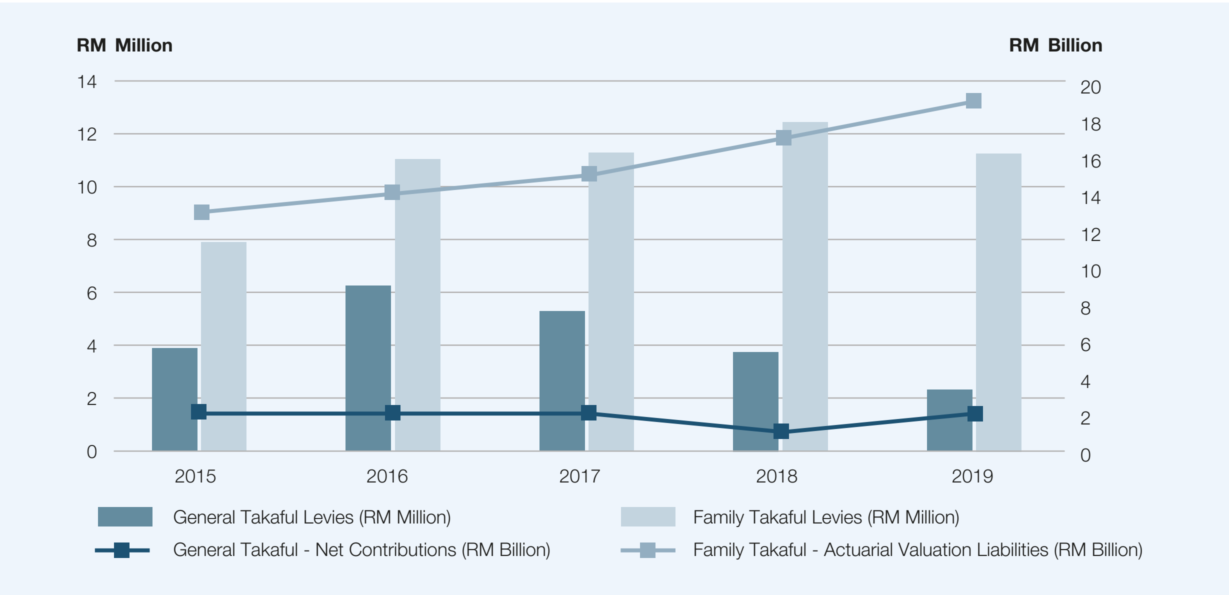
Periodic reviews of the Differential Levy Systems framework to incentivise sound risk management practices and minimise excessive risk taking.

2011	2013	2016	2018	2019
Levy based on flat-rate	Implementation of Differential Levy Systems framework	Implementation of Differential Levy Systems framework for Takaful Operators 1st enhancement to Differential Levy Systems framework • Revised indicators • Revision in general insurance levy rate	2nd enhancement to Differential Levy Systems framework and Differential Levy Systems for Takaful Operators framework	Completed consultation on Differential Levy Systems framework (expected to implement in AY 2020) Consultation on Differential Levy Systems for Takaful Operators framework (ongoing)

E. PIDM's ex-ante funding

Levies growth was in line with premiums or contributions and liabilities growth in AY 2019. There was no increase in levy rates for AY 2019.





With sound overall performance of insurer members in AY 2019, we remain on track to meet the lower range of the current target fund level for Life Insurance Protection Fund, General Takaful Protection Fund and Family Takaful Protection Fund.

Implemented	Takaful and Insurance Protection Funds	Target Fund Level	Current Level	Time-to-Fund
2015	General Insurance Protection Fund	80% - 100% of Total Net Expected Loss	Met	–
2016	Life Insurance Protection Fund	0.4% - 0.6% of Total Actuarial Valuation Liabilities	0.31%	3 - 6 years
2018	General Takaful Protection Fund	2.8% - 3.3% of Total General Takaful Liabilities	1.29%	8 - 9 years
	Family Takaful Protection Fund	1.0% - 1.5% of Total Family Takaful Liabilities	0.35%	10 - 13 years

Refer to the Technical Reference of Target Fund on page 175.

F. Looking ahead

Insurer members to continue improving their operational efficiencies and propel innovations on the back of rising competition in an evolving operating environment.

Regulatory developments

- Ongoing initiatives under the Life Insurance and Family Takaful framework with more focus on providing better product accessibility and affordability.
- Enhancement to valuation of insurance and takaful liabilities requirement as part of the overall review on capital adequacy framework.
- A multi-stakeholder study to develop proposals for the next phase of motor and fire insurance liberalisation, by BNM together with the industry associations.

Industry developments

- New technological innovations, from digitalisation to artificial intelligence will continue to change the industry landscape and require the transformation of business models, new partnerships and the enhancement of human capital.

OUTLOOK

In 2020, the balance of risks to global economic growth remains skewed to the downside. The uncertainties remain from events such as trade negotiations, the outbreak of COVID-19 and geopolitical risks which would have significant impact on financial market volatility. Some of these events, including recent domestic developments which are ongoing and the global outbreak of COVID-19 still pose significant challenges to the Malaysian economic outlook unless they are resolved quickly. Ultimately, the economic impact that could arise would depend on multiple factors, which include but are not restricted to, the duration of COVID-19 outbreak and its containment as well as the outcome of the current domestic developments.

Nevertheless, economic growth will be supported by continued private sector spending, while member institutions have ample buffers to weather potential challenges. We will continue to assess these potential downside risks and the conditions of member institutions.

In 2020 - 2022, we will continue to enhance our operational readiness to take prompt intervention and failure resolution actions in the event of a member institution failure, supporting one of our strategic priorities, namely, to achieve an Effective Resolution Regime for Malaysia. Refer to the Strategy Section and the Summary of the Corporate Plan at www.pidm.gov.my for details on our corporate initiatives.

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 2019.

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 protection coverage for:

i. Islamic and conventional deposits; and

ii. protected benefits in relation to general insurance, life insurance, general takaful and family takaful.

To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Protection Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Protection 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 Protection Funds.

FINANCIAL RESULTS

	2019 RM'000	2018 RM'000
Total Comprehensive Income for the financial year:		
Deposit Insurance Funds	**373,803**	373,163
Takaful and Insurance Benefits Protection Funds	**130,940**	115,203
	504,743	488,366

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

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

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

	2019 RM'000	2018 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	**2,267,355**	1,978,991
Islamic Deposit Insurance Fund	**503,437**	417,998
Total Deposit Insurance Funds	**2,770,792**	2,396,989
Takaful and Insurance Benefits Protection Funds:		
General Insurance Protection Fund	**1,294,811**	1,253,455
Life Insurance Protection Fund	**422,698**	346,341
General Takaful Protection Fund	**28,233**	25,761
Family Takaful Protection Fund	**67,042**	56,287
Total Takaful and Insurance Benefits Protection Funds	**1,812,784**	1,681,844

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2019 were:

- Tan Sri Dr. Rahamat Bivi binti Yusoff (Chairman)
- Tan Sri Ahmad Badri bin Mohd Zahir
- Datuk Nor Shamsiah binti Mohd Yunus
- Tan Sri Dr. Ismail bin Bakar
- Dato Dr. Nik Ramlah binti Nik Mahmood
- Dato' Dr. Gan Wee Beng
- Alex Foong Soo Hah
- Gloria Goh Ewe Gim
- Datuk Dr. Yacob bin Mustafa (appointed on 1 November 2019)
- Datuk Saat bin Esa (retired on 30 October 2019)

Tan Sri Ahmad Badri bin Mohd Zahir and Datuk Nor Shamsiah binti Mohd Yunus 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 16 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.

IMPAIRMENT AND VALUATION METHODS

Before the Statement of Profit or Loss and Other Comprehensive Income as well as the Statement 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 significant impairment 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 for any impairment 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 methods used in the 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 significant 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.

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 cost to the financial system.

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

Accumulated surpluses are held in each of the Protection Fund to cover net losses when respective obligations arise. As discussed in Note 12(a) and (b) to the financial statements, PIDM has established Target Fund frameworks for DIFs and TIPFs to determine the level of funds sufficient to cover the net expected losses from intervention or failure resolution activities.

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

Operational exposure

In 2018, the main contractor responsible for the construction of PIDM's disaster recovery centre made a claim against PIDM in an arbitration proceeding. PIDM filed a defence and counterclaim in response to the main contractor's claim. The exposure of the claim to PIDM is approximately RM1.2 million. During the financial year 2019, the arbitration proceedings concluded, the results of which as at 31 December 2019 were pending. After taking into consideration appropriate legal advice, whilst it is possible for the claim to succeed, the likelihood is still low. Therefore, no provisions have been made during the financial year ended 31 December 2019.

Other contingent liabilities

Based on the representation made by Management, the Directors are of the opinion that other than the matters 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 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 intervention or failure resolution activities. The basis of accounting as well as details of the subsidiaries are further described in Note 2.2(b), 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 2019, 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 Dr. Rahamat Bivi binti Yusoff
Chairman of the Board of Directors

Ms. Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
28 February 2020

STATEMENT BY DIRECTORS

We, Tan Sri Dr. Rahamat Bivi binti Yusoff and Gloria Goh Ewe Gim, 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 2019, 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 Dr. Rahamat Bivi binti Yusoff
Chairman of the Board of Directors

Ms. Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
28 February 2020

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 2019, 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 28 February 2020.

We, Rafiz Azuan bin Abdullah and Wan Ahmad Ikram bin Wan Ahmad Lotfi, 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 28 February 2020

Rafiz Azuan bin Abdullah
Chief Executive Officer

Wan Ahmad Ikram bin Wan Ahmad Lotfi
Chief Financial Officer

Before me,
Commissioner for Oaths

PESURUHJAYA SUMPAH
W 502
HAJI ABDUL AZIZNI
BIN ABU BAKAR
01.07.2018 - 31.12.2020
MALAYSIA

G1-1-2, Ground Floor, Menara 1 Dutamas,
Solaris Dutamas, No. 1, Jalan Dutamas 1.

**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
PERBADANAN INSURANS DEPOSIT MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2019**

Certificate on the Audit of the Financial Statements

Opinion

The financial statements of Perbadanan Insurans Deposit Malaysia have been audited by my representative which comprise the Statement of Financial Position as at 31 December 2019 and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Funds and Reserves and Statement of Cash Flows for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages 1 to 101.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Perbadanan Insurans Deposit Malaysia as at 31 December 2019 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia and Malaysia Deposit Insurance Corporation Act 2011 (Act 720).

Basis for Opinion

The audit was conducted in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my certificate. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Independence and Other Ethical Responsibilities

I am independent of the Perbadanan Insurans Deposit Malaysia and I have fulfilled the other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

Information Other than the Financial Statements and Auditor's Certificate Thereon

The Directors of the Perbadanan Insurans Deposit Malaysia is responsible for the other information in the Annual Certificate. My opinion on the financial statements of the Perbadanan Insurans Deposit Malaysia does not cover the information other than the financial statements and auditor's certificate thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Directors for the Financial Statements

The Directors is responsible for the preparation of financial statements of the Perbadanan Insurans Deposit Malaysia that give a true and fair view in accordance with approved financial reporting standards in Malaysia and Malaysia Deposit Insurance Corporation Act 2011 (Act 720). The Directors are also responsible for such internal control as it determines is necessary to enable the preparation of the financial statements of Perbadanan Insurans Deposit Malaysia that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Perbadanan Insurans Deposit Malaysia, the Directors is responsible for assessing of the Perbadanan Insurans Deposit Malaysia's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements of the Perbadanan Insurans Deposit Malaysia as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's certificate that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

a. Identify and assess the risks of material misstatement of the financial statements of the Perbadanan Insurans Deposit Malaysia, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Perbadanan Insurans Deposit Malaysia's internal control.

c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

d. Conclude on the appropriateness of the Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Perbadanan Insurans Deposit Malaysia's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my auditor's certificate to the related disclosures in the financial statements of the Perbadanan Insurans Deposit Malaysia if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of auditor's certificate.

e. Evaluate the overall presentation of the financial statements of the Perbadanan Insurans Deposit Malaysia including the disclosures that achieve fair presentation.

Certificate on Other Legal and Regulatory Requirements

In accordance with the requirements of Malaysia Deposit Insurance Corporation Act 2011 (Act 720), I also report that in my opinion, the accounting and other records required by the Act to be kept by Perbadanan Insurans Deposit Malaysia have been properly kept in accordance with the provision of the Act.

AUDITOR GENERAL CERTIFICATION

Other Matters

This certificate is made solely to the Directors and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.

(DR. MASIAH BINTI AHMAD)
ON BEHALF OF AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
6 MARCH 2020

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

	Note	**2019 RM'000**	2018 RM'000
ASSETS			
Cash and cash equivalents	4a	**72,179**	133,123
Investments	5	**4,437,178**	3,873,567
Other assets	6	**54,026**	44,710
Investment in subsidiaries	7	**–***	–*
Property and equipment	8	**30,179**	36,100
Right-of-use assets	9	**19,037**	23,924
Total Assets		**4,612,599**	4,111,424
LIABILITIES			
Payables	11	**8,605**	7,856
Lease liabilities	10	**20,418**	24,735
Total Liabilities		**29,023**	32,591
FUNDS AND RESERVES			
Deposit Insurance Funds			
Accumulated surpluses	12a	**2,770,792**	2,396,989
Takaful and Insurance Benefits Protection Funds			
Accumulated surpluses	12b	**1,812,784**	1,681,844
Total Funds and Reserves		**4,583,576**	4,078,833
Total Liabilities, Funds and Reserves		**4,612,599**	4,111,424

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

The accompanying notes form an integral part of the financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

	Note	**2019 RM'000**	2018 RM'000
Premium and levy revenues	13	**458,443**	468,179
Investment income and returns from cash equivalents and investment securities	14	**148,394**	120,292
Other income	8	**47**	–
Total income		**606,884**	588,471
Human capital management expenses	15	**68,537**	64,544
Operations and administrative expenses	16	**24,054**	23,637
Initiatives related expenses	17	**9,277**	12,037
Total expenses		**101,868**	100,218
Net surplus for the year		**505,016**	488,253
Other comprehensive income			
Remeasurement of Long Term Retirement Plan	11ii	**(273)**	113
Total comprehensive income for the year	21	**504,743**	488,366

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN FUNDS AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER

DEPOSIT INSURANCE FUNDS

	Note	Conventional Deposit Insurance Fund RM'000	Islamic Deposit Insurance Fund RM'000	Total Funds and Reserves RM'000
<u>Accumulated Surpluses</u>				
As at 1 January 2018	12a	1,684,676	339,150	2,023,826
Total comprehensive income for the year		294,315	78,848	373,163
As at 31 December 2018	12a	1,978,991	417,998	2,396,989
As at 1 January 2019	12a	**1,978,991**	**417,998**	**2,396,989**
Total comprehensive income for the year		**288,364**	**85,439**	**373,803**
As at 31 December 2019	12a	**2,267,355**	**503,437**	**2,770,792**

TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS

	Note	General Insurance Protection Fund RM'000	Life Insurance Protection Fund RM'000	General Takaful Protection Fund RM'000	Family Takaful Protection Fund RM'000	Total Funds and Reserves RM'000
<u>Accumulated Surpluses</u>						
As at 1 January 2018	12b	1,216,735	283,073	22,307	44,526	1,566,641
Total comprehensive income for the year		36,720	63,268	3,454	11,761	115,203
As at 31 December 2018	12b	1,253,455	346,341	25,761	56,287	1,681,844
As at 1 January 2019	12b	**1,253,455**	**346,341**	**25,761**	**56,287**	**1,681,844**
Total comprehensive income for the year		**41,356**	**76,357**	**2,472**	**10,755**	**130,940**
As at 31 December 2019	12b	**1,294,811**	**422,698**	**28,233**	**67,042**	**1,812,784**

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Note	2019 RM'000	2018 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums and levies received from member institutions		**458,443**	468,179
Payments in the course of operations to suppliers and employees		**(87,315)**	(89,953)
Payment of lease finance cost	9	**(1,254)**	(1,487)
Receipts of investment income and returns		**175,330**	168,191
Net cash flows generated from operating activities		**545,204**	544,930
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		**1,450,596**	4,639,207
Purchase of investment securities		**(2,049,966)**	(5,067,377)
Proceeds from disposal of property and equipment	8	**47**	–
Purchase of property and equipment		**(2,406)**	(5,673)
Net cash flows used in investing activities		**(601,729)**	(433,843)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	9	**(4,419)**	(4,127)
Net cash flows used in financing activities		**(4,419)**	(4,127)
Net (decrease) / increase in cash and cash equivalents		**(60,944)**	106,960
Cash and cash equivalents at beginning of year		**133,123**	26,163
Cash and cash equivalents at end of year	4a	**72,179**	133,123

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 (as described in Note 5) and investment income and returns receivables (as described in Note 6). Refer to Note 22 (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 2019

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 protection coverage for:

i. Islamic and conventional deposits; and

ii. protected benefits in relation to general insurance, life insurance, general takaful and family takaful.

To ensure proper governance and compliance with Shariah requirements, PIDM maintains and administers two separate Protection Funds for Islamic and conventional deposits known as the Deposit Insurance Funds (DIFs) as well as four separate Protection Funds for each business segments within TIPS known as the Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Protection 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 28 February 2020.

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

The measurement bases used, and accounting policies applied in the preparation of the financial statements are described in Note 2.2. The main accounting judgements and estimates are described in Note 3.

The financial statements incorporate those activities relating to the administration of both DIFs and TIPFs of PIDM. The Islamic Protection 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.

2.2 Summary of significant accounting policies

(a) Financial instruments

Financial instruments are recognised in the Statement of Financial Position when PIDM becomes a party to the contractual provisions of the instrument.

Measurement methods

Amortised cost and effective interest rate or rate of return

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate or rate of return method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Measurement methods (continued)

Amortised cost and effective interest rate or rate of return (continued)

The effective interest rate or rate of return method is a method of calculating the amortised cost of a debt instrument and of allocating interest income or returns over the relevant period. The effective interest rate or rate of return is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability at initial recognition. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate or rate of return, such as origination fees. For purchased or originated credit-impaired (POCI) financial assets, which are financial assets that are credit-impaired at initial recognition, PIDM calculates the credit-adjusted effective interest rate or rate of return, which is based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of the expected credit losses in the estimated future cash flows.

Interest income or returns earned

Interest income or returns earned is calculated by applying the effective interest rate or rate of return to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate or rate of return is applied to the amortised cost of the financial asset; or

- Financial assets that are not 'POCI' but have subsequently become credit-impaired [or known as 'Stage 3' (refer to ***Impairment of financial assets***)], for which interest income or returns earned is calculated by applying the effective interest rate or rate of return to their amortised cost (i.e. net of the expected credit loss allowance).

Fair value of financial instruments

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial 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 financial asset or transfer the financial liability takes place either:

- In the principal market for the financial asset or financial liability; or

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

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

The fair value of a financial asset or a financial liability is measured using the assumptions that market participants would use when pricing the financial asset or financial 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 financial assets and financial 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 financial assets or financial 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.

PIDM provides fair value information on its investments for disclosure purposes.

For financial assets and financial 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.

Initial recognition and measurement

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

***Initial recognition and measurement* (continued)**

All regular way purchases or sales of financial assets are recognised and derecognised on trade date basis, the date on which PIDM commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Classification and subsequent measurement

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

All recognised financial liabilities are classified and measured subsequently at amortised cost, except when otherwise indicated.

In determining the classification of financial assets, PIDM considers the following conditions:

- PIDM's business model for managing the financial asset; and
- The cash flow characteristics of the financial asset.

Business model

The business model reflects how PIDM manages its financial assets in order to generate cash flows. That is, whether PIDM's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), the financial assets are classified as part of 'other' business model and measured at fair value through profit or loss. PIDM's business model is not assessed on an instrument-by-instrument basis, but at a higher level or aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to PIDM's key management personnel; and
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenario into account. If cash flows after initial recognition are realised in a way that is different from the original expectations, PIDM does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the reporting period.

The 'solely payments of principal and interest or return' (SPPI) test

As the second step of its classification process, PIDM assesses the contractual terms of the financial assets to identify whether it meets the SPPI test.

'Principal' for the purpose of this test is defined as fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortisation of the premium or discount).

In making this assessment, PIDM considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest or returns includes only consideration for time value for money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest or returns.

Details of the classification and measurement of PIDM's financial assets and financial liabilities are described below.

Financial assets

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on demand and fixed deposits with banks, as well as short-term, highly liquid financial instruments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value. This includes placements in short term money market instruments as well as short-term investments with maturities of less than 90 days from the date of acquisition. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Financial assets (continued)

(i) Cash and cash equivalents (continued)

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.

(ii) Investment securities

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest or return (i.e. passes the 'SPPI test') on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest or return on the principal amount outstanding.

PIDM's investment securities comprise marketable Malaysian Government Securities and Investment Issues and Private Debt Securities. PIDM invests in short-term and medium-term Ringgit Malaysia denominated securities which are held-to-maturity in order to collect contractual cash flows and are not traded. The contractual cash flows of the investment securities represent solely payments of principal and interest or return on the principal amount outstanding. As such, these investment securities are measured at amortised cost.

(iii) Other receivables

Other receivables comprise financial assets which are held with the objective of collecting contractual cash flows and its contractual cash flows represent solely payments of principal and interest or return on the principal amount outstanding, hence are carried at amortised cost in the Statement of Financial Position.

(iv) Payables

Except when otherwise indicated, PIDM measures its financial liabilities at amortised cost, which is the fair value of consideration to be paid in the future for goods and services rendered.

Derecognition

(i) Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- 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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the profit or loss. In addition, on derecognition of an investment in debt instrument classified as FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Derecognition (continued)

(ii) 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 amount of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

PIDM recognises a loss allowance for expected credit losses (ECL) on its financial assets that are measured at amortised cost (including cash and cash equivalents) or at FVTOCI. The amount of the expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the debt instruments.

For all financial instruments that are subjected to impairment requirements, PIDM recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, PIDM measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month ECL	Lifetime ECL	Lifetime ECL

(i) Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, PIDM compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, PIDM considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The forward looking information considered includes those obtained from economic expert reports, financial analysts, governmental bodies as well as consideration of various external sources of actual and forecast economic information.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external credit rating or credit assessment by accredited rating agencies;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. significant increase in the credit spread, the credit default swap prices for the counterparty, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast changes in business, financial or economic conditions that are expected to cause significant decrease in the counterparty's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the counterparty;
- significant increases in credit risk on other financial instruments of the same counterparty;
- an actual or expected forbearance or restructuring;
- an actual or expected significant adverse change in the regulatory, economic, or operating environment of the counterparty that results in significant decrease in the counterparty's ability to meet its debt obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

Irrespective of the outcome of the above assessment, PIDM presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless PIDM has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, PIDM assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at reporting date. A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the counterparty has strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the counterparty to fulfill its contractual cash flow obligations.

PIDM considers a financial asset to have low credit risk when the asset has external credit rating of ‘investment grade’ in accordance with the globally understood definition or where an external rating is not available, the asset has an internal rating of ‘performing’. Performing means that the counterparty has a strong financial position and there are no past due amounts.

PIDM regularly monitors the effectiveness of the criteria used to identify whether there has been significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

PIDM considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the counterparty is unlikely to pay its creditors, including PIDM, in full (without taking into account any collateral held by PIDM).

Irrespective of the above analysis, PIDM considers that default has occurred when a financial asset is more than 90 days past due unless PIDM has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the counterparty;
- a breach of contract, such as a default or significant past due event;
- the lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty’s financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-offs

PIDM writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under PIDM’s recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of expected credit losses

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default, as described below:

- PD The *Probability of Default* is an estimate of the likelihood of entity defaulting on its financial obligations / repayments within a stated future horizon (i.e. over 12-month or over the lifetime of the financial instrument).
- EAD The *Exposure at Default* is an estimate of the exposure at future default date, taking into account expected changes in the exposure after reporting date, including repayments of principal and interest, whether scheduled contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD The *Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from realisation of any collateral or recovery of assets. It is usually expressed as a percentage of EAD.

The assessment of the PD and LGD is based on historical data adjusted by forward-looking information as described above, in particular macroeconomic inputs such as Gross Domestic Product (GDP) growth measure, which has been assessed to have the highest correlation to credit ratings.

When estimating the ECL, in particular debt instruments, PIDM considers several scenarios where each of these scenarios is associated with different PDs being applied in measuring the ECL. The scenarios to be considered for a reporting period and the scenario weightings are determined based on statistical analysis and expert judgement, taking into account the range of possible outcomes each chosen scenario is representative of, as well as the condition of the operating environment at reporting date. At least two (2) scenarios will be considered in estimating the ECL at any point in time. The list of scenarios and its key assumptions, that may be considered by PIDM are as follows:

Scenario	Description – Domestic Economic Scenario
Baseline	Economic conditions and / or growth are expected to be similar to historical conditions and growth rates. Malaysia's GDP growth of between 3% and 8%
Mildly Negative	Economic conditions and / or growth are expected to be weaker than the long-term norm. Malaysia's GDP growth of between 0% and 3%
Recession	Economic conditions and / or growth are expected to be stagnant or negative. Malaysia's GDP growth between 0% and -6%

If PIDM has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting period date that the conditions for lifetime ECL are no longer met, PIDM measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

PIDM recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the Statement of Financial Position.

(b) 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 Protection Fund to which that member institution relates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(b) Investment in subsidiaries (continued)

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 Protection Fund(s). This is discussed in further detail in Note 3.1(a).

(c) Property and equipment, and depreciation

All items of property and equipment are initially recorded at cost. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to PIDM and the cost of the item can be measured reliably. The carrying amount of parts or components of an asset that are replaced is derecognised. All other repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred.

Subsequent to initial recognition, property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided for on a straight-line basis to reduce the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

Building on freehold land	50 years
Furniture and fittings	20.00%
Motor vehicles	20.00%
Office refurbishments	20.00%
Office equipment and computer systems	33.33%

Freehold land has an unlimited useful life and therefore is not depreciated. PIDM capitalises its land and the amount of land capitalised at initial recognition is the purchase price along with any further costs incurred in bringing the land to its present condition.

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

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.

(d) Impairment of 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 in the asset revaluation reserve. 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(e) Recognition of income and expenses

All income and expenses pertaining to DIS and TIPS are recognised on an accrual basis. The PIDM Act empowers PIDM to credit all direct operating income to, and charge all expenses against the relevant Protection Fund or Funds.

1. Income

Premium and levy revenues are recognised in a financial year in respect of the premium and levy assessed during that particular financial period.

Investment income and returns 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.

2. Expenses

Expenses that are directly attributable to a specific Protection Fund or Funds are charged to those relevant Protection Fund or Funds.

Expenses that cannot be charged directly to the relevant Protection Fund or Funds will be allocated based on the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) (Amendment) Order 2017.

The expenses that cannot be charged directly to a specific Protection Fund or Funds are categorised into either of the following two (2) categories:

(i) *Expenses that can be attributed to either DIS or TIPS but are common or indirect expenses for the respective systems*. The allocation of this category of expenses are based on the proportion of total income earned for the respective systems in the financial year prior to the year in which such expenses, costs or losses are allocated. For the 2019 financial year, expenses of this category were allocated based on the proportion of total income earned for the respective systems in the financial year ended 31 December 2018. The allocation rates used during the year are as follows:

	DIS		TIPS			
Year	**Conventional**	**Islamic**	**General Insurance**	**Life Insurance**	**General Takaful**	**Family Takaful**
2019	**79.20%**	**20.80%**	**32.26%**	**54.17%**	**3.33%**	**10.24%**
	100%		**100%**			
2018	80.66%	19.34%	35.01%	49.56%	4.96%	10.47%
	100%		100%			

(ii) *Expenses which are common or indirect costs of administering both DIS and TIPS*. Expenses that cannot be specifically attributed to either DIS or TIPS, are allocated based on the proportion of total income earned for the respective Protection Funds in DIS and TIPS in the financial year prior to the year in which such expenses, costs or losses are allocated. For the 2019 financial year, these expenses were allocated to the respective Protection Funds based on the proportion of total income earned for each of the Protection Funds during the financial year ended 31 December 2018. The apportionment basis used is as follows:

		DIS		TIPS			
Year	**Total**	**Conventional**	**Islamic**	**General Insurance**	**Life Insurance**	**General Takaful**	**Family Takaful**
2019	**100%**	**60.57%**	**15.91%**	**7.59%**	**12.74%**	**0.78%**	**2.41%**
2018	100%	63.88%	15.32%	7.28%	10.31%	1.03%	2.18%

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(f) Employee benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

1. Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which PIDM pays fixed contributions into a separate entity or fund. PIDM will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current or preceding financial years. Such contributions are recognised as an expense in the Statement of Profit or Loss as incurred. As required by law, PIDM makes contributions to the statutory national pension scheme, Kumpulan Wang Simpanan Pekerja (also known as the 'Employee Provident Fund'), as well as Pertubuhan Keselamatan Sosial (also known as the 'Social Security Organisation').

2. Defined benefit plan

PIDM operates an unfunded defined benefit plan referred to as Long Term Retirement Plan (LTRP) which was implemented effective 1 January 2016. The LTRP provides benefits to employees in the form of a guaranteed level of a one lump sum retirement payment based on the employee's final drawn salary. The LTRP payment depends on employee's length of service and their salary in the final year leading up to retirement.

The provision for LTRP recognised in the Statement of Financial Position is the present value of the LTRP obligation at the end of the reporting period, together with adjustments for actuarial gains / losses and any unrecognised past service cost.

PIDM determines the interest expense on the provision for LTRP for the period by applying the discount rate used to measure the LTRP obligation at the beginning of the annual period to the then provision for LTRP. Interest expense and other expenses relating to the LTRP are recognised in Statement of Profit or Loss.

(g) Currencies

(i) Functional and presentation currency

The financial statements of PIDM are presented in Ringgit Malaysia (RM), which is the currency of the primary economic environment in which PIDM operates (functional currency).

(ii) Foreign currency transactions

In preparing the financial statements of PIDM, transactions in foreign currencies other than PIDM's functional currency are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each Statement of Financial Position date, monetary items denominated in foreign currencies are translated at the rates prevailing on the Statement of Financial Position date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences arising from the settlement of monetary items, and on the translation of monetary items, are included in the Statement of Profit or Loss for the period. Exchange differences arising from the translation of non-monetary items carried at fair value are included in the Statement of Profit or Loss for the period except for the differences arising from the translation of non-monetary items in respect of which gains and losses are recognised directly in the Funds and Reserves. Exchange differences arising from such non-monetary items are also recognised directly in the Funds and Reserves.

(h) PIDM as lessee

PIDM assesses whether a contract is or contains a lease, at the inception of a contract. PIDM recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, PIDM recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Summary of significant accounting policies (continued)

(h) PIDM as lessee (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If the rate cannot be readily determined, PIDM uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate or rate of return method) and by reducing the carrying amount to reflect the lease payments made.

PIDM remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the change in the lease payments is due to a change in a floating interest rate or rate of return, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

PIDM did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever PIDM incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*. The costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that PIDM expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the Statement of Financial Position.

PIDM applies MFRS 136 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 2.2(e).

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "operations and administrative expenses" in the Statement of Profit or Loss.

As a practical expedient, MFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. PIDM has used this practical expedient.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Adoption of new and revised MFRS Standards, Interpretations and Amendments

New and revised MFRS Standards, Interpretations and Amendments

The accounting policies adopted are consistent with those of the previous financial year.

The following pronouncements that have been issued by the Malaysian Accounting Standards Board became effective in the current financial reporting period and have been adopted by PIDM in these financial statements:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2019:

- MFRS 16 *Leases*
- Amendments to MFRS 9 *Prepayment Features with Negative Compensation*
- Amendments to MFRS 119 *Employee Benefits Plan Amendment, Curtailment or Settlement*

MFRS 16 *Leases*

Effective 1 January 2018, PIDM has early adopted and applied MFRS 16 using the retrospective approach with the cumulative effect of initially applying the Standard recognised at the date of initial application with no restatement of the comparative information ("modified retrospective approach").

For the purposes of applying the modified retrospective approach to its leases, PIDM elects to measure all its right-of-use asset as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of initial application.

Amendments to MFRS 119 *Employee Benefits Plan Amendment, Curtailment or Settlement*

The amendment specifies how entities determine pension expenses when changes to a defined benefit pension plan occur.

When a change to a plan-an amendment, curtailment or settlement-takes place, MFRS 119 requires the entity to remeasure its net defined benefit liability or asset. The amendments require entities to:

- calculate past service cost or gain or loss on settlement by measuring defined benefit liability (asset) using updated assumptions. Entities are to ignore effect of asset ceiling.

- calculate current service cost and net interest on the net defined benefit liability (asset) to be determined using updated assumptions.

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to MFRS 119 are first applied. The amendments to MFRS 119 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The application of these amendments do not have any impact on PIDM's financial statements.

Amendments to MFRS 9 *Prepayment Features with Negative Compensation*

The amendments to MFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of MFRS 9.

The application of these amendments do not have any impact on PIDM's financial statements.

The following pronouncements that have been issued by the MASB became effective in the current financial reporting period but are currently not applicable to PIDM's operations:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2019:

- Amendments to MFRS 3 *Business Combinations (Annual Improvements 2015-2017 Cycle)*
- Amendments to MFRS 11 *Joint Arrangements (Annual Improvements 2015-2017 Cycle)*
- Amendments to MFRS 112 *Income Taxes (Annual Improvements 2015-2017 Cycle)*
- Amendments to MFRS 123 *Borrowing Costs (Annual Improvements 2015-2017 Cycle)*
- Amendments to MFRS 128 *Long-term Interests in Associates and Joint Ventures*
- IC Interpretation 23 *Uncertainty over Income Tax Treatments*

New and revised MFRS Standards, Interpretations and Amendments in issue but not yet effective

The following are accounting standards, amendments and interpretations to the MFRS Framework that have been issued by MASB and will become effective in future financial reporting period but are currently not applicable to PIDM's operations:

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Adoption of new and revised MFRS Standards, Interpretations and Amendments (continued)

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2020:

- Amendments to MFRS 3 *Definition of a Business*

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2021:

- MFRS 17 *Insurance Contracts*

The following pronouncements that have been issued by the MASB will become effective in future financial reporting period and have not been adopted by PIDM in these financial statements:

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2020:

- Amendments to MFRS 101 *Definition of Material*
- Amendments to MFRS 108 *Definition of Material*
- The Conceptual Framework for Financial Reporting ("Conceptual Framework")
- Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139 and MFRS 7)

Amendments to MFRS 101 and MFRS 108 *Definition of Material*

The amendment replaced the definition of material by including concept of 'obscuring' material information with immaterial information as part of the new definition. The threshold for materiality influencing users also has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in MFRS 108 has been replaced by a reference to the definition of material in MFRS 101. The amendment is not intended to alter the underlying concept of materiality in MFRS Standards.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The Conceptual Framework for Financial Reporting ("Conceptual Framework")

The Conceptual Framework was revised with the primary purpose to assist the IASB to develop IFRS that are based on consistent concepts and enable preparers to develop consistent accounting policies where an issue is not addressed by an MFRS. The Conceptual Framework is not an MFRS, and does not override any MFRSs.

Key changes to the Conceptual Framework are as follows:

- Objective of general purpose financial reporting - clarification that the objective of financial reporting is to provide useful information to the users of financial statements for resource allocation decisions and assessment of management's financial stewardship.

- Qualitative characteristics of useful financial information - reinstatement of the concepts of prudence when making judgement of uncertain conditions and "substance over form" concept to ensure faithful representation of economic conditions.

- Clarification on reporting entity for financial reporting - introduction of new definition of a reporting entity, which might be a legal entity or a portion of a legal entity.

- Elements of financial statements - the definitions of an asset and a liability have been refined. Guidance in determining unit of account for assets and liabilities have been added, by considering the nature of executory contracts and substance of contracts.

- Recognition and derecognition - the probability threshold for asset or liability recognition has been removed. New guidance on derecognition of asset and liability have been added.

- Measurement - explanation of factors to consider when selecting a measurement basis have been provided.

- Presentation and disclosure - clarification that statement of profit or loss ('P&L') is the primary source of information about an entity's financial performance for a reporting period. In principle, recycling of income or expense included in other comprehensive income to P&L is required if this results in more relevant information or a more faithful representation of P&L.

Amendments to References to the Conceptual Framework in MFRS Standards:

The MASB also issued Amendments to References to the Conceptual Framework in MFRS Standards ('Amendments'), to update references and quotations to fourteen Standards so as to clarify the version of Conceptual Framework these Standards refer to, for which the effective date above applies. The amendments should be applied retrospectively in accordance with MFRS 108 unless retrospective application would be impracticable or involve undue cost or effort.

PIDM is in the midst of assessing the impact of the above amendments and the adoption of the Conceptual Framework, but does not expect its impact to be material.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Adoption of new and revised MFRS Standards, Interpretations and Amendments (continued)

The changes in ***Interest Rate Benchmark Reform (Amendments to MFRS 9, MFRS 139 and MFRS 7)*** are as follows:

- Modify specific hedge accounting requirements so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform.
- Are mandatory for all hedging relationships that are directly affected by the interest rate benchmark reform.
- Are not intended to provide relief from any other consequences arising from interest rate benchmark reform (if a hedging relationship no longer meets the requirements for hedge accounting for reasons other than those specified by the amendments, discontinuation of hedge accounting is required).
- Require specific disclosures about the extent to which the entities' hedging relationships are affected by the amendments.

The application of these amendments do not have any impact on PIDM's financial statements.

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:

(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 powers. The subsidiaries were incorporated to act as vehicles for PIDM to carry out any intervention and failure resolution activities rather than for investment purposes. Any returns from the subsidiaries are meant for the benefit of the respective Protection Funds, which are to be used for future intervention or failure resolution 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 Protection Fund(s). Although PIDM has rights to use monies in the Protection 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) Classification of financial assets – business model assessment

Classification and measurement of financial assets depends on the results of the business model assessment and the SPPI test (refer Note 2.2(a)). PIDM determines the business model at a level that reflects how its financial assets are managed to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured as well as how the risks associated with those assets are managed. PIDM continuously monitor the appropriateness of the business model applied to these assets and whether there has been a change in business model and thus a prospective change to the classification of those assets. No such changes were required during the reporting period presented.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

3.1 Judgements made in applying accounting policies (continued)

(c) 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 a 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 losses on financial assets

The measurement of impairment losses under MFRS 9 across all categories of financial assets requires judgement. In particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

PIDM's ECL calculations are outputs of complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL model that are considered accounting judgements and estimates include:

- Determining criteria for significant increase in credit risk;
- Development of the ECL model, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenario and economic inputs relevant to the class of financial assets, such as GDP, and the effect on PDs, EADs and LGDs;
- The segmentation of financial assets when their ECL is assessed on collective basis; and
- Establishing the number and relative weightings of forward-looking scenarios, to derive the estimation of the ECL.

When measuring ECL, PIDM uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of GDP.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that PIDM would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Note 22(e) sets out key sensitivities of the ECL to changes in key inputs and assumptions.

Defined benefit plan - LTRP

The LTRP obligation, calculated using the projected unit credit method, is determined by a qualified actuary. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, turnover rate, mortality rate and disability rate. All assumptions are reviewed at each reporting date.

Right-of-use assets and lease liabilities

PIDM's right-of-use assets and lease liability positions depends on management's current assessment on the total lease payments on the expected lease term and based on its assumption of the appropriate incremental borrowing rate used as the discount rate.

The uncertainty of these carrying amounts relate principally to the management's assessment on its reasonable certainty of exercising an extension to its renewable lease contracts. Due to this uncertainty, there is a possibility that, on conclusion of the non-cancellable term of the lease contract at a future date, the final outcome may differ pursuant to actual decision of extension. Management has assessed that they are reasonably certain that the extension for renewal would be exercised and has reflected that assumption in the measurement of the right-of-use assets and lease liability. The assumptions are reviewed at minimal, at each reporting date or when there are indicators which may result in a change of assumption.

4. CASH AND CASH EQUIVALENTS

a. Balances as at the end of the financial year

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Operational banking accounts	**1,162**	**1,091**	**71**
Placements in short-term money market and fixed deposits	**71,017**	**44,790**	**26,227**
Total cash and cash equivalents	**72,179**	**45,881**	**26,298**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Operational banking accounts	1,088	566	522
Placements in short-term money market and fixed deposits	132,035	113,630	18,405
Total cash and cash equivalents	133,123	114,196	18,927

4. CASH AND CASH EQUIVALENTS (CONTINUED)

b. Statement of Cash Flows (indirect method)

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	504,743	373,803	130,940
Adjustments for:			
Depreciation of property and equipment	8,019	5,382	2,637
Depreciation of right-of-use assets	4,989	3,950	1,039
Remeasurement of Long Term Retirement Plan	273	209	64
Adjusted net surplus before changes in working capital	518,024	383,344	134,680
Change in payables	749	330	419
Change in other assets	(472)	(327)	(145)
Payment of lease finance cost	(1,254)	(993)	(261)
Cash generated from operations	517,047	382,354	134,693
Net accretion / amortisation for investment securities	37,001	22,054	14,947
Change in investment income and returns receivables	(8,844)	(6,351)	(2,493)
Net cash flows generated from operating activities	545,204	398,057	147,147
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	1,450,596	773,146	677,450
Purchase of investment securities	(2,049,966)	(1,234,251)	(815,715)
Proceeds from disposal of property and equipment	47	47	–
Purchase of property and equipment	(2,406)	(1,815)	(591)
Net cash flows used in investing activities	(601,729)	(462,873)	(138,856)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	(4,419)	(3,499)	(920)
Net cash flows used in financing activities	(4,419)	(3,499)	(920)
Net (decrease) / increase in cash and cash equivalents	(60,944)	(68,315)	7,371
Cash and cash equivalents at beginning of year	133,123	114,196	18,927
Cash and cash equivalents at end of year	72,179	45,881	26,298

4. CASH AND CASH EQUIVALENTS (CONTINUED)

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

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	488,366	373,163	115,203
Adjustments for:			
Depreciation of property and equipment	7,445	5,147	2,298
Depreciation of right-of-use assets	4,938	3,911	1,027
Remeasurement of Long Term Retirement Plan	(113)	(89)	(24)
Adjusted net surplus before changes in working capital	500,636	382,132	118,504
Change in payables	(4,288)	(3,177)	(1,111)
Change in other assets	165	279	(114)
Payment of lease finance cost	(1,487)	(1,178)	(309)
Cash generated from operations	495,026	378,056	116,970
Net accretion / amortisation for investment securities	55,189	32,848	22,341
Change in investment income and returns receivables	(5,285)	(4,773)	(512)
Net cash flows generated from operating activities	544,930	406,131	138,799
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	4,639,207	2,695,679	1,943,528
Purchase of investment securities	(5,067,377)	(2,999,433)	(2,067,944)
Proceeds from disposal of property and equipment	–	–	–
Purchase of property and equipment	(5,673)	(3,849)	(1,824)
Net cash flows used in investing activities	(433,843)	(307,603)	(126,240)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	(4,127)	(3,268)	(859)
Net cash flows used in financing activities	(4,127)	(3,268)	(859)
Net increase in cash and cash equivalents	106,960	95,260	11,700
Cash and cash equivalents at beginning of year	26,163	18,936	7,227
Cash and cash equivalents at end of year	133,123	114,196	18,927

5. INVESTMENTS

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Malaysian Government Securities and Investment Issues	**4,213,246**	**2,528,997**	**1,684,249**
Private Debt Securities	**235,012**	**153,962**	**81,050**
	4,448,258	**2,682,959**	**1,765,299**
Add : Accretion of discounts net of amortisation of premiums	**(11,080)**	**(7,406)**	**(3,674)**
Total investments at amortised cost	**4,437,178**	**2,675,553**	**1,761,625**
Less : Allowance for expected credit losses	**–**	**–**	**–**
Total net investments	**4,437,178**	**2,675,553**	**1,761,625**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	3,627,444	2,096,036	1,531,408
Private Debt Securities	255,658	143,424	112,234
	3,883,102	2,239,460	1,643,642
Add : Accretion of discounts net of amortisation of premiums	(9,535)	(3,948)	(5,587)
Total investments at amortised cost	3,873,567	2,235,512	1,638,055
Less : Allowance for expected credit losses	–	–	–
Total net investments	3,873,567	2,235,512	1,638,055

Investments are denominated in Ringgit Malaysia and are recognised at amortised cost.

Impairment of investments

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

Arising from the reassessment carried out, no allowance for expected credit losses was recognised during the year for PIDM's investments recognised at amortised cost, due to its insignificant impact.

Note 22(e) details the gross carrying amount, loss allowance as well as the measurement basis of expected credit losses for each of these financial assets by credit risk rating grades.

6. OTHER ASSETS

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
a. Financial assets			
Investment income and returns receivables	**48,209**	**29,944**	**18,265**
Deposits	**2,434**	**2,242**	**192**
Other receivables	**315**	**247**	**68**
Sub-total financial assets	**50,958**	**32,433**	**18,525**
b. Non-financial assets			
Prepayment	**2,855**	**1,898**	**957**
Other non-financial assets	**213**	**154**	**59**
Sub-total non-financial assets	**3,068**	**2,052**	**1,016**
Total other assets	**54,026**	**34,485**	**19,541**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial assets			
Investment income and returns receivables	39,365	23,593	15,772
Deposits	2,274	2,120	154
Other receivables	131	94	37
Sub-total financial assets	41,770	25,807	15,963
b. Non-financial assets			
Prepayment	2,727	1,846	881
Other non-financial assets	213	154	59
Sub-total non-financial assets	2,940	2,000	940
Total other assets	44,710	27,807	16,903

Included in other receivables are inter-fund balances of RM0.2 million (2018: RM0.03 million) for day-to-day operational activities.

Impairment of other financial assets

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for these financial assets.

Arising from the reassessment carried out, no allowance for expected credit losses was recognised during the year for financial assets recognised at amortised cost, due to its insignificant impact.

Note 22(e) details the gross carrying amount, loss allowance as well as the measurement basis of expected credit losses for each of these financial assets by credit risk rating grades.

7. INVESTMENT IN SUBSIDIARIES

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
At cost Unquoted shares	–*	–	–
Total investment in subsidiaries	–*	–	–

	2018		
	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.

7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The names of all Directors for all the subsidiaries in office during the financial year ended 31 December 2019 were:

- Encik Rafiz Azuan Abdullah, Chief Executive Officer, PIDM
- Ms Lim Yam Poh, Chief Operating Officer, PIDM

The subsidiaries were incorporated as part of PIDM's efforts to ensure operational readiness to carry out any intervention or failure resolution 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 intervention or failure resolution activities.

The specific objective and purpose of these subsidiaries are as follows:

<table>
<tr><th>Name of subsidiary</th><th>Objects / Purpose</th></tr>
<tr><td>The Federal Asset Management Agency of Malaysia Berhad</td><td>The AMC was established to carry on the business of an asset management company and has the authority to acquire, assume control, manage, dispose off, sell, deal with, transact and operate as a going concern or otherwise, the assets, liabilities, business, undertakings and affairs of a member institution as defined in the PIDM Act, whether by way of an arrangement, agreement, instrument or otherwise in accordance with the PIDM Act and any other applicable laws.</td></tr>
<tr><td colspan="2">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.</td></tr>
<tr><td>The Federal Commercial Bank of Malaysia Berhad</td><td>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.</td></tr>
<tr><td>The Federal Islamic Bank of Malaysia Berhad</td><td>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.</td></tr>
<tr><td>The National PIDM Insurance Corporation of Malaysia Berhad</td><td>This subsidiary, upon activation, will operate as a licensed insurance company to carry on or transact all insurance, assurance, guarantee and indemnity businesses as defined in the Financial Services Act 2013.</td></tr>
<tr><td>The Federal Takaful Corporation of Malaysia Berhad</td><td>This subsidiary, upon activation, will operate as a licensed takaful operator to carry on or transact every kind of takaful and re-takaful businesses under the Islamic Financial Services Act 2013.</td></tr>
</table>

7. INVESTMENT IN SUBSIDIARIES (CONTINUED)

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

Further details are represented in Note 3.1(a).

Whilst these subsidiaries remain dormant, its administrative expenses will be borned directly by PIDM at the corporate level. Details of the administrative expenses of the subsidiaries are as follows:

	2019 **RM**	2018 RM
Expense description		
Audit fees	**19,610**	16,960
Secretarial fees	**14,756**	13,605
Total subsidiaries expenses	**34,366**	30,565

The administrative expenses for subsidiaries are included in the operations and administrative expenses disclosed in Note 16 within professional and consultancy fees.

8. PROPERTY AND EQUIPMENT

	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
	2019							
Cost								
Balance as at 1 January 2019	**4,718**	**17,281**	**49,635**	**4,138**	**1,170**	**10,304**	**1,435**	**88,681**
Additions	**–**	**–**	**161**	**–**	**–**	**98**	**2,116**	**2,375**
Reclassifications / Adjustments	**–**	**–**	**2,726**	**–**	**–**	**–**	**(2,731)**	**(5)**
Disposals	**–**	**–**	**–**	**–**	**(240)**	**–**	**–**	**(240)**
Retirement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Write-off	**–**	**–**	**(272)**	**–**	**–**	**–**	**–**	**(272)**
Balance as at 31 December 2019	**4,718**	**17,281**	**52,250**	**4,138**	**930**	**10,402**	**820**	**90,539**
Accumulated depreciation								
Balance as at 1 January 2019	**–**	**691**	**38,587**	**3,380**	**758**	**9,165**	**–**	**52,581**
Charge for the year	**–**	**346**	**6,848**	**152**	**186**	**487**	**–**	**8,019**
Reclassifications / Adjustments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**(240)**	**–**	**–**	**(240)**
Retirement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Write-off	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**–**	**1,037**	**45,435**	**3,532**	**704**	**9,652**	**–**	**60,360**
Net carrying amount as at 31 December 2019	**4,718**	**16,244**	**6,815**	**606**	**226**	**750**	**820**	**30,179**
	2018							
Cost								
Balance as at 1 January 2018	4,718	17,281	43,418	4,042	983	10,304	2,721	83,467
Additions	–	–	641	96	190	–	4,348	5,275
Reclassifications / Adjustments	–	–	5,629	–	–	–	(5,634)	(5)
Disposals	–	–	(23)	–	(3)	–	–	(26)
Retirement	–	–	(30)	–	–	–	–	(30)
Write-off	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	4,718	17,281	49,635	4,138	1,170	10,304	1,435	88,681
Accumulated depreciation								
Balance as at 1 January 2018	–	345	32,429	3,230	586	8,602	–	45,192
Charge for the year	–	346	6,211	150	175	563	–	7,445
Reclassifications / Adjustments	–	–	–	–	–	–	–	–
Disposals	–	–	(23)	–	(3)	–	–	(26)
Retirement	–	–	(30)	–	–	–	–	(30)
Write-off	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	–	691	38,587	3,380	758	9,165	–	52,581
Net carrying amount as at 31 December 2018	4,718	16,590	11,048	758	412	1,139	1,435	36,100

8. PROPERTY AND EQUIPMENT (CONTINUED)

During the year, PIDM sold a motor vehicle, which has fully depreciated for RM46,618. Gains from the sale of this asset is disclosed as other income in the Statement of Profit or Loss and Other Comprehensive Income.

* Assets under construction amounting to RM819,662 (2018: RM1,434,996) consist of:

	2019 RM	2018 RM
Risk Assessment System (RAS) version 2	**80,465**	714,011
Industry Portal System	**57,505**	318,310
Other Information Technology (IT) systems	**681,692**	402,675
Total	**819,662**	1,434,996

Subsequent to initial recognition, the freehold land is stated at cost. As at 31 December 2019, the fair value of the freehold land is RM9,700,000 based on the professional valuation carried out in April 2019 by Jabatan Penilaian dan Perkhidmatan Harta. The fair value of the freehold land was determined using both cost approach and comparison approach method concurrently. This means that the valuation performed by the valuer is based on active market prices, significantly adjusted for marketability restrictions and other relevant conditions applicable to the freehold land. In 2018, the fair value of the freehold land was based on the professional valuation carried out by a registered independent valuer, on the same valuation basis as noted above.

PIDM will assess the value of the freehold land periodically for the purposes of ensuring that its carrying amount in the financial statements remains relevant and that there is no impairment. PIDM will exercise its judgement to ensure that the valuation methods and estimates carried in the first year are reflective of current market conditions.

Significant unobservable valuation input:

	2019 RM	2018 RM
Price per square metre	**1,500 – 1,800**	1,300 – 1,700

Significant increases / (decreases) in estimated price per square metre in isolation would result in a significantly higher / (lower) fair value.

Fair value – Level 3

	2019 RM'000	2018 RM'000
Cost as at 1 January	**4,718**	4,718
Cost as at 31 December	**4,718**	4,718
Fair value as at 31 December	**9,700**	8,200

8. PROPERTY AND EQUIPMENT (CONTINUED)

a. Deposit Insurance Funds

	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
				2019				
Cost								
Balance as at 1 January 2019	**3,155**	**14,046**	**39,604**	**3,905**	**974**	**9,234**	**1,282**	**72,200**
Additions	**–**	**–**	**126**	**–**	**–**	**75**	**1,574**	**1,775**
Reclassifications / Adjustments	**–**	**–**	**2,291**	**–**	**–**	**–**	**(2,295)**	**(4)**
Disposals	**–**	**–**	**–**	**–**	**(240)**	**–**	**–**	**(240)**
Retirement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Write-off	**–**	**–**	**(208)**	**–**	**–**	**–**	**–**	**(208)**
Balance as at 31 December 2019	**3,155**	**14,046**	**41,813**	**3,905**	**734**	**9,309**	**561**	**73,523**
Accumulated depreciation								
Balance as at 1 January 2019	**–**	**561**	**33,092**	**3,293**	**646**	**8,324**	**–**	**45,916**
Charge for the year	**–**	**281**	**4,446**	**122**	**147**	**386**	**–**	**5,382**
Reclassifications / Adjustments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**(240)**	**–**	**–**	**(240)**
Retirement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Write-off	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**–**	**842**	**37,538**	**3,415**	**553**	**8,710**	**–**	**51,058**
Net carrying amount as at 31 December 2019	**3,155**	**13,204**	**4,275**	**490**	**181**	**599**	**561**	**22,465**
				2018				
Cost								
Balance as at 1 January 2018	3,155	14,046	35,701	3,829	824	9,234	1,912	68,701
Additions	–	–	505	76	150	–	2,821	3,552
Reclassifications / Adjustments	–	–	3,451	–	–	–	(3,451)	–
Disposals	–	–	(23)	–	–	–	–	(23)
Retirement	–	–	(30)	–	–	–	–	(30)
Write-off	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	3,155	14,046	39,604	3,905	974	9,234	1,282	72,200
Accumulated depreciation								
Balance as at 1 January 2018	–	280	28,971	3,173	509	7,889	–	40,822
Charge for the year	–	281	4,174	120	137	435	–	5,147
Reclassifications / Adjustments	–	–	–	–	–	–	–	–
Disposals	–	–	(23)	–	–	–	–	(23)
Retirement	–	–	(30)	–	–	–	–	(30)
Write-off	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	–	561	33,092	3,293	646	8,324	–	45,916
Net carrying amount as at 31 December 2018	3,155	13,485	6,512	612	328	910	1,282	26,284

8. PROPERTY AND EQUIPMENT (CONTINUED)

b. Takaful and Insurance Benefits Protection Funds

	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
	2019							
Cost								
Balance as at 1 January 2019	**1,563**	**3,235**	**10,031**	**233**	**196**	**1,070**	**153**	**16,481**
Additions	**–**	**–**	**35**	**–**	**–**	**23**	**542**	**600**
Reclassifications / Adjustments	**–**	**–**	**435**	**–**	**–**	**–**	**(436)**	**(1)**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Retirement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Write-off	**–**	**–**	**(64)**	**–**	**–**	**–**	**–**	**(64)**
Balance as at 31 December 2019	**1,563**	**3,235**	**10,437**	**233**	**196**	**1,093**	**259**	**17,016**
Accumulated depreciation								
Balance as at 1 January 2019	**–**	**130**	**5,495**	**87**	**112**	**841**	**–**	**6,665**
Charge for the year	**–**	**65**	**2,402**	**30**	**39**	**101**	**–**	**2,637**
Reclassifications / Adjustments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Retirement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Write-off	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance as at 31 December 2019	**–**	**195**	**7,897**	**117**	**151**	**942**	**–**	**9,302**
Net carrying amount as at 31 December 2019	**1,563**	**3,040**	**2,540**	**116**	**45**	**151**	**259**	**7,714**
	2018							
Cost								
Balance as at 1 January 2018	1,563	3,235	7,717	213	159	1,070	809	14,766
Additions	–	–	136	20	40	–	1,527	1,723
Reclassifications / Adjustments	–	–	2,178	–	–	–	(2,183)	(5)
Disposals	–	–	–	–	(3)	–	–	(3)
Retirement	–	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	1,563	3,235	10,031	233	196	1,070	153	16,481
Accumulated depreciation								
Balance as at 1 January 2018	–	65	3,458	57	77	713	–	4,370
Charge for the year	–	65	2,037	30	38	128	–	2,298
Reclassifications / Adjustments	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	(3)	–	–	(3)
Retirement	–	–	–	–	–	–	–	–
Write-off	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	–	130	5,495	87	112	841	–	6,665
Net carrying amount as at 31 December 2018	1,563	3,105	4,536	146	84	229	153	9,816

9. RIGHT-OF-USE ASSETS

PIDM leases several assets including building and office equipment.

PIDM has tenancy contract for the use of office space at Levels 11, 12, 13, 15 and 16, Axiata Tower, Kuala Lumpur Sentral. PIDM has renewed its tenancy agreement commencing on 1 January 2018 and expiring on 31 December 2021 with the option to renew for another 2 years (Third Term) at prevailing market rental rate, subject to maximum increase of 10%. 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 also entered into leases for various office equipment under non-cancellable 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 types of lease terms, there are no purchase options or escalation clauses included in the lease contracts.

a. Right-of-use assets

		2019			
	Note	**Building RM'000**	**Parking RM'000**	**Office Equipment RM'000**	**Total RM'000**
Balance as at 1 January 2019		**22,952**	**500**	**472**	**23,924**
Additions		**–**	**–**	**102**	**102**
Depreciation of right-of-use assets	16	**(4,591)**	**(100)**	**(298)**	**(4,989)**
Net carrying amount		**18,361**	**400**	**276**	**19,037**

		2018			
	Note	Building RM'000	Parking RM'000	Office Equipment RM'000	Total RM'000
Amount restated as at initial recognition		27,543	600	719	28,862
Depreciation of right-of-use assets	16	(4,591)	(100)	(247)	(4,938)
Net carrying amount		22,952	500	472	23,924

b. Lease related expenses charged to Profit or Loss

		2019		
	Note	**Total RM'000**	**DIFs RM'000**	**TIPFs RM'000**
Depreciation of right-of-use assets	16	**4,989**	**3,950**	**1,039**
Lease finance costs	16	**1,254**	**993**	**261**
Expense relating to leases of low value assets*		**13**	**10**	**3**
Total lease related expenses		**6,256**	**4,953**	**1,303**

9. RIGHT-OF-USE ASSETS (CONTINUED)

b. Lease related expenses charged to Profit or Loss (continued)

		2018		
	Note	Total RM'000	DIFs RM'000	TIPFs RM'000
Depreciation of right-of-use assets	16	4,938	3,911	1,027
Lease finance costs	16	1,487	1,178	309
Expense relating to leases of low value assets*		8	6	2
Total lease related expenses		6,433	5,095	1,338

* Expense relating to leases of low values assets is included in office maintenance as disclosed in Note 16.

The total cash outflow for leases amounted to RM5.7 million (2018: RM5.6 million), comprising payment of lease finance costs of RM1.3 million (2018: RM1.5 million) and principal repayment of lease liabilities of RM4.4 million (2018: RM4.1 million). Refer to the Statement of Cash Flows.

10. LEASE LIABILITIES

		2019		
	Note	**Total RM'000**	**DIFs RM'000**	**TIPFs RM'000**
Balance as at 1 January		**24,735**	**19,590**	**5,145**
Additions		**102**	**78**	**24**
Principal repayment of lease liabilities	9	**(4,419)**	**(3,499)**	**(920)**
Balance as at 31 December		**20,418**	**16,169**	**4,249**

		2018		
	Note	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January		28,862	22,859	6,003
Additions		–	–	–
Principal repayment of lease liabilities	9	(4,127)	(3,269)	(858)
Balance as at 31 December		24,735	19,590	5,145

	2019 RM'000	2018 RM'000
Maturity analysis		
Not later than 1 year	**4,649**	4,370
Later than 1 year and not later than 5 years	**15,769**	20,365
	20,418	24,735

PIDM does not face a significant liquidity risk with regard to its lease liabilities. PIDM had put in place a set of internal control procedures and contingency plans to manage liquidity risk arising from its lease liabilities.

11. PAYABLES

	Note	2019		
		Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
a. Financial liabilities				
Operational payable		**3,492**	**2,648**	**844**
Other payables		**204**	**53**	**151**
Sub-total financial liabilities		**3,696**	**2,701**	**995**
b. Non-financial liabilities				
Provision for unutilised leave	i	**2,060**	**1,578**	**482**
Provision for Long Term Retirement Plan	ii	**2,849**	**2,220**	**629**
Sub-total non-financial liabilities		**4,909**	**3,798**	**1,111**
Total payables		**8,605**	**6,499**	**2,106**

	Note	2018		
		Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial liabilities				
Operational payable		4,178	3,258	920
Other payables		40	30	10
Sub-total financial liabilities		4,218	3,288	930
b. Non-financial liabilities				
Provision for unutilised leave	i	2,023	1,605	418
Provision for Long Term Retirement Plan	ii	1,615	1,276	339
Sub-total non-financial liabilities		3,638	2,881	757
Total payables		7,856	6,169	1,687

Included in other payables are inter-fund balances of RM0.2 million (2018: RM0.03 million) for day-to-day operational activities.

11. PAYABLES (CONTINUED)

i. Provision for unutilised leave

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Balance as at 1 January	**2,023**	**1,605**	**418**
Addition for the year	**139**	**53**	**86**
Payment	**(102)**	**(80)**	**(22)**
Balance as at 31 December	**2,060**	**1,578**	**482**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January	1,879	1,470	409
Addition for the year	304	262	42
Payment	(160)	(127)	(33)
Balance as at 31 December	2,023	1,605	418

Provision for unutilised leave relates to the amount payable to employees on the annual leave carried forward from the preceding year that are not utilised before the current year's entitlement, calculated based on the employee's basic salary that was earned at the time the leave was accrued.

ii. Provision for Long Term Retirement Plan

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Total provision for Long Term Retirement Plan	**2,849**	**2,220**	**629**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Total provision for Long Term Retirement Plan	1,615	1,276	339

PIDM operates an unfunded defined benefit plan referred to as LTRP which was implemented effective 1 January 2016. The LTRP provides benefits to employees in the form of a guaranteed level of a one lump sum retirement payment based on the employee's final drawn salary. The LTRP payment depends on employee's length of service and their salary in the final year leading up to retirement. As at reporting date, the balance of the provision for LTRP represents accrued but not vested benefits.

11. PAYABLES (CONTINUED)

ii. Provision for Long Term Retirement Plan (continued)

The following table shows a reconciliation from the opening balance to the closing balance for the provision for LTRP and its components:

	Total		DIFs		TIPFs	
	2019 RM'000	2018 RM'000	**2019 RM'000**	2018 RM'000	**2019 RM'000**	2018 RM'000
Balance as at 1 January	**1,615**	894	**1,276**	705	**339**	189
Included in profit or loss						
Current service cost	**874**	786	**668**	622	**206**	164
Interest / Financing cost	**87**	48	**67**	38	**20**	10
Included in other comprehensive income						
*Remeasurements	**273**	(113)	**209**	(89)	**64**	(24)
Balance as at 31 December	**2,849**	1,615	**2,220**	1,276	**629**	339

* Remeasurements of LTRP arises from the changes in the financial assumptions and adjustments for experience of the LTRP during the inter-valuation period as assessed by the qualified actuary. Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) include the discount rate, future salary increases, turnover rate, mortality rate and disability rate. The mortality rate is based on the latest published Malaysian Ordinary Life Table (M1115) that is used in the insurance industry. The disability rate used is 10% of the mortality rate.

The net liability disclosed above relates to unfunded plan as follows:

	2019 RM'000	2018 RM'000
Fair value of plan assets		
Present value of unfunded obligations	**2,849**	1,615

12. FUNDS AND RESERVES

a. Deposit Insurance Funds

Accumulated surpluses

	2019		
	Total RM'000	**Conventional Deposit Insurance RM'000**	**Islamic Deposit Insurance RM'000**
Balance as at 1 January	**2,396,989**	**1,978,991**	**417,998**
Net surplus	**373,803**	**288,364**	**85,439**
Balance as at 31 December	**2,770,792**	**2,267,355**	**503,437**

12. FUNDS AND RESERVES (CONTINUED)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

	2018		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	2,023,826	1,684,676	339,150
Net surplus	373,163	294,315	78,848
Balance as at 31 December	2,396,989	1,978,991	417,998

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 and returns earned net of total expenses incurred allocated based on the proportion of total income earned for each Protection Fund in 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 intervention or failure resolution 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 DIF. Based on the level of TID as at 31 December 2018, the range in RM absolute terms is between RM2.7 billion and RM4.0 billion for the Conventional DIF and between RM0.7 billion and RM1.1 billion for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

The current balance of DIFs as at 31 December 2019 as a percentage of TID compared to the Target Fund range are described in the following table:

			Target Fund	
Deposit Insurance Funds	**2019 Actual RM Million/%**	2018 Actual RM Million/%	**Lower Range RM Million/%**	**Upper Range RM Million/%**
Conventional Deposit Insurance Fund				
Balance	**2,267**	1,979	**2,668**	**4,001**
Percentage of Total Insured Deposits	**0.51%**	0.45%	**0.60%**	**0.90%**
Islamic Deposit Insurance Fund				
Balance	**503**	418	**737**	**1,105**
Percentage of Total Insured Deposits	**0.41%**	0.38%	**0.60%**	**0.90%**

In order to achieve the Target Fund levels at the range of 0.6% to 0.9% of TID within a reasonable time frame, the premium rates to be assessed on member banks are described in Note 13(a).

Based on the current level of accumulated surpluses and premium rates, the lower range of the Target Fund (0.6% of TID) is expected to be achieved within the next 3 to 7 years.

12. FUNDS AND RESERVES (CONTINUED)

b. Takaful and Insurance Benefits Protection Funds

Accumulated surpluses

	2019				
	Total RM'000	**General Insurance RM'000**	**Life Insurance RM'000**	**General Takaful RM'000**	**Family Takaful RM'000**
Balance as at 1 January	**1,681,844**	**1,253,455**	**346,341**	**25,761**	**56,287**
Net surplus	**130,940**	**41,356**	**76,357**	**2,472**	**10,755**
Balance as at 31 December	**1,812,784**	**1,294,811**	**422,698**	**28,233**	**67,042**

	2018				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Balance as at 1 January	1,566,641	1,216,735	283,073	22,307	44,526
Net surplus	115,203	36,720	63,268	3,454	11,761
Balance as at 31 December	1,681,844	1,253,455	346,341	25,761	56,287

The TIPFs are the accumulated reserves (ex-ante funds) to cover the net expected losses arising from guaranteeing protected benefits to insurance and takaful policy owners. In accordance with the PIDM Act, PIDM maintains four separate Protection Funds for each business segment within TIPS. TIPFs are accumulated from annual net surpluses, which are the levy revenue and investment income and returns earned net of total expenses incurred allocated based on the proportion of total income earned for each Protection Fund in a particular year.

The Target Fund framework for General Insurance Protection Fund (GIPF) has adopted the Target Fund levels at the range of 80% to 100% of the maximum expected loss level. As at 31 December 2019, the Target Fund range in RM million are as follows:

	Target Fund			
	2019 Actual RM Million	2018 Actual RM Million	**Lower Range RM Million**	**Upper Range RM Million**
General Insurance Protection Fund				
Balance	**1,295**	1,253	**184**	**230**

Based on the above GIPF balance as at 31 December 2019, the current fund position has exceeded the upper range of the Target Fund. In this regard, PIDM has established the Fund Administration Framework, which incorporates the revision of levy rates or rebate of levy. In assessment year 2016, PIDM has revised the levy rates to be assessed on general insurer members for the assessment year 2016 onwards. Refer to Note 13(b)(i) for the details on the levy rates payable by insurer members.

12. FUNDS AND RESERVES (CONTINUED)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

PIDM implemented the Target Fund framework for the Life Insurance Protection Fund (LIPF) in 2016, which adopted the Target Fund levels at the range of 0.4% to 0.6% of the total Actuarial Valuation Liabilities (AVL) of the life insurer members. The Target Fund range as at 31 December 2019 in RM million are as follows:

			Target Fund	
	2019 Actual RM Million	2018 Actual RM Million	**Lower Range RM Million**	**Upper Range RM Million**
Life Insurance Protection Fund				
Balance	**423**	346	**546**	**819**

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the insurance industry, the lower range of the Target Fund is expected to be achieved within the next 3 to 6 years.

In 2018, PIDM implemented the Target Fund framework for General Takaful Protection Fund (GTPF) and Family Takaful Protection Fund (FTPF). The Target Fund framework for GTPF has adopted the target fund levels at the range of 2.8% to 3.3% of the total general takaful liabilities[1]. The Target Fund range as at 31 December 2019 in RM million are as follows:

			Target Fund	
	2019 Actual RM Million	2018 Actual RM Million	**Lower Range RM Million**	**Upper Range RM Million**
General Takaful Protection Fund				
Balance	**28**	26	**67**	**79**

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the takaful industry, the lower range of the Target Fund is expected to be achieved within the next 8 to 9 years.

The target fund framework for FTPF has adopted the Target Fund levels at the range of 1.0% to 1.5% of the total family takaful liabilities[2]. The Target Fund range as at 31 December 2019 in RM million are as follows:

			Target Fund	
	2019 Actual RM Million	2018 Actual RM Million	**Lower Range RM Million**	**Upper Range RM Million**
Family Takaful Protection Fund				
Balance	**67**	56	**226**	**339**

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the takaful industry, the lower range of the Target Fund is expected to be achieved within the next 10 to 13 years.

[1] *General takaful liabilities consist of claims liabilities and contribution liabilities of the general takaful fund.*
[2] *Family takaful liabilities consist of actuarial valuation liabilities of the participants' risk fund and the net asset value of participants' investment fund, excluding investment-linked funds' net asset value.*

13. PREMIUM AND LEVY REVENUES

a. Premium revenues from member banks

	2019		
	Total RM'000	**Conventional Deposit Insurance RM'000**	**Islamic Deposit Insurance RM'000**
Annual premiums	**361,758**	**275,801**	**85,957**
Total premium revenues from member banks	**361,758**	**275,801**	**85,957**

	2018		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Annual premiums	380,877	299,179	81,698
Total premium revenues from member banks	380,877	299,179	81,698

Premium rates applicable to the member banks are in accordance with the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) Order 2011[3] (Premium Order – Member Banks).

i. Rates for annual premium under the Differential Premium Systems

PREMIUM CATEGORY	PREMIUM RATE ASSESSMENT YEAR 2015 ONWARDS	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
1	0.06%	100,000
2	0.12%	200,000
3	0.24%	400,000
4	0.48%	800,000

Where a member bank is classified in different premium categories with respect to its Islamic insured deposits and its conventional insured deposits, the respective premium rates will be applied to the Islamic insured deposits and the conventional insured deposits.

ii. Rates for first premium

In respect of a new member bank [as defined in the Malaysia Deposit Insurance Corporation (Differential Premium Systems 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.

[3] *As amended by the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2012 which took effect from assessment year 2013.*

13. PREMIUM AND LEVY REVENUES (CONTINUED)

b. Levy revenues from insurer members

	2019				
	Total RM'000	**General Insurance RM'000**	**Life Insurance RM'000**	**General Takaful RM'000**	**Family Takaful RM'000**
First levies	**250**	**–**	**–**	**250**	**–**
Annual levies	**96,435**	**6,110**	**76,938**	**2,209**	**11,178**
Total levy revenues from insurer members	**96,685**	**6,110**	**76,938**	**2,459**	**11,178**

	2018				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
First levies	2,781	500	1,531	750	–
Annual levies	84,521	5,442	63,437	3,088	12,554
Total levy revenues from insurer members	87,302	5,942	64,968	3,838	12,554

i. Levy rates under the Differential Levy Systems for insurer members

All insurer members are assessed based on the Malaysia Deposit Insurance Corporation (Differential Premium[4] Systems in respect of Insurer Members) Regulations 2012[5] (DPS Regulations – Insurer Members). The levy rates applicable to an insurer member is determined in accordance with the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium in respect of Insurer Members) Order 2016 (Premium Order – Insurer Members) based on the levy category for which that insurer member is classified. The levy rates assessed on the insurer members, as specified in the Premium Order – Insurer Members, are as follows:

LEVY CATEGORY	ASSESSMENT YEAR 2016 ONWARDS			
	INSURANCE		TAKAFUL	
	GENERAL	LIFE	GENERAL	FAMILY
1	0.025%	0.025%	0.1%	0.025%
2	0.05%	0.05%	0.2%	0.05%
3	0.1%	0.1%	0.4%	0.1%
4	0.2%	0.2%	0.8%	0.2%

4 *Pursuant to the Malaysia Deposit Insurance Corporation (Amendment) Act 2016, all references to "premium" paid or payable by insurer members to the Corporation in any written law shall be construed as references to "levy".*

5 *As amended from time to time, including by the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Insurer Members) (Amendment) Regulations 2016 which took effect from the assessment year 2016.*

13. PREMIUM AND LEVY REVENUES (CONTINUED)

b. Levy revenues from insurer members (continued)

ii. Minimum annual levy under the Differential Levy Systems for insurer members

The annual levies payable for 2019 were subject to minimum levies based on their levy category as follows:

<table>
<tr><th rowspan="4">LEVY CATEGORY</th><th colspan="4">ASSESSMENT YEAR 2016 ONWARDS</th></tr>
<tr><th colspan="4">MINIMUM ANNUAL LEVY AMOUNT (RM)</th></tr>
<tr><th colspan="2">INSURANCE</th><th colspan="2">TAKAFUL</th></tr>
<tr><th>GENERAL</th><th>LIFE</th><th>GENERAL</th><th>FAMILY</th></tr>
<tr><td>1</td><td rowspan="4">25,000</td><td colspan="3">75,000</td></tr>
<tr><td>2</td><td colspan="3">150,000</td></tr>
<tr><td>3</td><td colspan="3">300,000</td></tr>
<tr><td>4</td><td colspan="3">600,000</td></tr>
</table>

iii. Rates for first levy payable

Levy payable by an insurer member for the assessment year in which it becomes a member institution will be based on the higher of RM250,000 or levy rate for category 1.

14. INVESTMENT INCOME AND RETURNS FROM CASH EQUIVALENTS AND INVESTMENT SECURITIES

a. Investment income according to asset class

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Malaysian Government Securities and Investment Issues	**136,301**	**80,635**	**55,666**
Private Debt Securities	**7,760**	**4,566**	**3,194**
Sub-total of investment income from investment securities	**144,061**	**85,201**	**58,860**
Placements in short-term money market and fixed deposits	**4,333**	**3,405**	**928**
Total investment income and returns from cash equivalents and investment securities	**148,394**	**88,606**	**59,788**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	108,577	62,051	46,526
Private Debt Securities	10,346	6,174	4,172
Sub-total of investment income from investment securities	118,923	68,225	50,698
Placements in short-term money market and fixed deposits	1,369	996	373
Total investment income and returns from cash equivalents and investment securities	120,292	69,221	51,071

14. INVESTMENT INCOME AND RETURNS FROM CASH EQUIVALENTS AND INVESTMENT SECURITIES (CONTINUED)

b. Investment income and returns according to nature of income

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Coupon and profit rate from investment securities	**157,842**	**93,951**	**63,891**
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	**(13,781)**	**(8,750)**	**(5,031)**
Sub-total of investment income from investment securities	**144,061**	**85,201**	**58,860**
Returns from placements in short-term money market and fixed deposits	**4,333**	**3,405**	**928**
Total investment income and returns from cash equivalents and investment securities	**148,394**	**88,606**	**59,788**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon and profit rate from investment securities	123,770	71,127	52,643
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(4,847)	(2,902)	(1,945)
Sub-total of investment income from investment securities	118,923	68,225	50,698
Returns from placements in short-term money market and fixed deposits	1,369	996	373
Total investment income and returns from cash equivalents and investment securities	120,292	69,221	51,071

14. INVESTMENT INCOME AND RETURNS FROM CASH EQUIVALENTS AND INVESTMENT SECURITIES (CONTINUED)

c. Weighted Average Effective Yield Rates (WAEYR)

The WAEYR in relation to investment income and returns that were effective during the financial year are as follows:

Year	Type of Portfolio	DIFs		TIPFs			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2019	**Investments securities**						
	MGSII	**3.37%**	**3.41%**	**3.34%**	**3.36%**	**3.39%**	**3.42%**
	Private Debt Securities	**3.74%**	**3.88%**	**3.77%**	**3.90%**	**3.95%**	**3.95%**
	Sub-total	**3.40%**		**3.37%**			
	Placements in short-term money market and fixed deposits	**2.97%**	**3.04%**	**2.96%**	**2.93%**	**2.94%**	**3.00%**
	Sub-total	**2.98%**		**2.95%**			
	Overall	**3.30%**		**3.32%**			
2018	Investments securities						
	MGSII	3.18%	3.23%	3.18%	3.16%	3.28%	3.28%
	Private Debt Securities	4.01%	3.88%	3.97%	4.02%	3.81%	3.84%
	Sub-total	3.22%		3.22%			
	Placements in short-term money market and fixed deposits	3.43%	3.42%	3.45%	3.44%	3.46%	3.43%
	Sub-total	3.43%		3.45%			
	Overall	3.24%		3.23%			

The WAEYR presented above are based on the weighted average yield for each portfolio for the whole of the financial year 2019 and 2018.

15. HUMAN CAPITAL MANAGEMENT EXPENSES

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
a. Employee benefits			
Wages and salaries	**52,756**	**40,242**	**12,514**
Contributions to defined contribution plan	**8,651**	**6,601**	**2,050**
Provision for unutilised leave	**139**	**53**	**86**
Provision for LTRP	**874**	**668**	**206**
Interest / financing cost of the LTRP	**87**	**67**	**20**
Other benefits	**4,294**	**3,286**	**1,008**
Sub-total – employee benefits	**66,801**	**50,917**	**15,884**
b. Other human capital related expenses			
Learning and development	**1,516**	**1,215**	**301**
Miscellaneous human capital related expenses	**220**	**168**	**52**
Sub-total – other human capital related expenses	**1,736**	**1,383**	**353**
Total human capital management expenses	**68,537**	**52,300**	**16,237**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
a. Employee benefits			
Wages and salaries	49,613	38,831	10,782
Contributions to defined contribution plan	8,138	6,372	1,766
Provision for unutilised leave	304	262	42
Provision for LTRP	786	622	164
Interest / financing cost of the LTRP	48	38	10
Other benefits	4,012	3,094	918
Sub-total – employee benefits	62,901	49,219	13,682
b. Other human capital related expenses			
Learning and development	1,385	1,121	264
Miscellaneous human capital related expenses	258	204	54
Sub-total – other human capital related expenses	1,643	1,325	318
Total human capital management expenses	64,544	50,544	14,000

The number of employees at the end of the financial year was 172 (2018: 178).

16. OPERATIONS AND ADMINISTRATIVE EXPENSES

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Depreciation of property and equipment	**8,019**	**5,382**	**2,637**
Depreciation of right-of-use assets	**4,989**	**3,950**	**1,039**
Telecommunication and computer systems	**4,360**	**3,098**	**1,262**
Utilities, office and vehicle maintenance and general insurance	**1,891**	**1,448**	**443**
Lease finance costs	**1,254**	**993**	**261**
Directors' fees and remuneration*	**910**	**721**	**189**
Subscriptions and memberships	**726**	**598**	**128**
Parking space rental	**582**	**445**	**137**
Publications and corporate collaterals	**519**	**398**	**121**
Professional and consultancy fees	**300**	**224**	**76**
Property and equipment written-off	**272**	**208**	**64**
Postage, printing and stationery	**147**	**112**	**35**
Audit fees	**45**	**33**	**12**
Miscellaneous	**40**	**30**	**10**
Total operations and administrative expenses	**24,054**	**17,640**	**6,414**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Depreciation of property and equipment	7,445	5,147	2,298
Depreciation of right-of-use assets	4,938	3,911	1,027
Telecommunication and computer systems	4,022	3,191	831
Utilities, office and vehicle maintenance and general insurance	1,777	1,407	370
Lease finance costs	1,487	1,178	309
Directors' fees and remuneration*	940	745	195
Subscriptions and memberships	700	593	107
Parking space rental	551	436	115
Publications and corporate collaterals	573	454	119
Professional and consultancy fees	471	368	103
Property and equipment written-off	–	–	–
Postage, printing and stationery	198	157	41
Audit fees	40	32	8
Miscellaneous	495	402	93
Total operations and administrative expenses	23,637	18,021	5,616

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

17. INITIATIVES RELATED EXPENSES

	2019		
	Total RM'000	**DIFs RM'000**	**TIPFs RM'000**
Effective resolution regime			
Operational readiness for intervention and failure resolution	**2,076**	**1,354**	**722**
Resolution planning	**66**	**66**	**-**
Sub-total effective resolution regime	**2,142**	**1,420**	**722**
Stakeholder engagement and corporate social responsibilities			
Advertising	**4,389**	**3,001**	**1,388**
Public relations	**391**	**175**	**216**
Scholarship programme	**994**	**760**	**234**
Others	**1,283**	**1,043**	**240**
Sub-total for stakeholder engagement and corporate social responsibilities	**7,057**	**4,979**	**2,078**
Other initiatives related expenses	**78**	**60**	**18**
Total initiatives related expenses	**9,277**	**6,459**	**2,818**

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Effective resolution regime			
Operational readiness for intervention and failure resolution	1,089	20	1,069
Resolution planning	176	172	4
Sub-total effective resolution regime	1,265	192	1,073
Stakeholder engagement and corporate social responsibilities			
Advertising	7,224	5,597	1,627
Public relations	1,259	997	262
Scholarship programme	924	732	192
Others	1,199	809	390
Sub-total for stakeholder engagement and corporate social responsibilities	10,606	8,135	2,471
Other initiatives related expenses	166	132	34
Total initiatives related expenses	12,037	8,459	3,578

17. INITIATIVES RELATED EXPENSES (CONTINUED)

The above initiative related expenses are expenses directly attributable to specific initiatives, but excluding human capital management expenses which are disclosed in Note 15.

As part of its key initiative, PIDM also supports the operations of FIDE FORUM[6], through the secondment of employees as well as office space and other office administrative services. Total expenses attributable to FIDE FORUM in 2019 is RM2,445,787 (2018: RM1,741,250).

18. TAXATION

PIDM is exempted from income tax.

19. CAPITAL COMMITMENTS

	2019 RM'000	2018 RM'000
Approved and contracted for: Office equipment and computer systems	**1,225**	1,614
Total capital commitments	**1,225**	1,614

The capital commitment balance for office equipment and computer systems mainly includes the development of key IT systems, enhancement of IT infrastructures, security facilities and systems.

20. RELATED PARTY DISCLOSURES

a. Transactions with related parties

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 as well as investments. All these transactions were transacted at commercial arm's length basis. The significant related party transactions transacted during the year were as follows:

i. PIDM makes contributions to the statutory national pension scheme, the Kumpulan Wang Simpanan Pekerja (also known as the 'Employee Provident Fund') and the Pertubuhan Keselamatan Sosial (also known as the 'Social Security Organisation') as disclosed in Note 15.

ii. In accordance with the PIDM Act and PIDM's investment policy, PIDM invests only in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia investment securities, and securities of high investment grade issued by Government related entities, which are government guaranteed or with a minimum rating of AAA. Details of the investment assets as at year-end and the investment income receivables are described in Notes 5 and 6 respectively, whilst details of the investment income are described in Note 14. PIDM's financial risk management policy and relevant disclosures are described in Note 22.

iii. PIDM supports FIDE FORUM's operational and administrative expenses as part of the engagement and commitment to ensure that they are able to enhance and promote high standards of boardroom governance and develop directors for financial institutions in Malaysia. Details of the expenses are disclosed in Note 17.

[6] *FIDE FORUM is a non-profit association that was set up to promote corporate governance excellence among the board of directors of financial institutions.*

20. RELATED PARTY DISCLOSURES (CONTINUED)

b. Remuneration of key management personnel

	2019 RM'000	2018 RM'000
Short-term benefits	**9,589**	9,713
Post-employment benefits:		
Contributions to defined contribution plan	**1,642**	1,660
Total remuneration of key management personnel	**11,231**	11,373

The remuneration of key management personnel includes the remuneration of the Chief Executive Officer and all members of the Executive Management Committee. The amount above does not include the remuneration of Directors, which is disclosed separately in Note 16. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 15.

21. SEGMENT INFORMATION

The PIDM Act provides separate coverage for each of the following Funds:

i. Conventional Deposit Insurance Fund;
ii. Islamic Deposit Insurance Fund;
iii. General Insurance Protection Fund;
iv. Life Insurance Protection Fund;
v. General Takaful Protection Fund; and
vi. Family Takaful Protection Fund.

Hence, PIDM has reportable segments based on the above Protection Funds' categories. No operating segments have been aggregated to form the above reportable operating segments.

21. SEGMENT INFORMATION (CONTINUED)

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
ASSETS								
Cash and cash equivalents	4a	72,179	30,311	15,570	8,854	13,801	1,474	2,169
Investments	5	4,437,178	2,195,648	479,905	1,270,974	400,750	26,211	63,690
Other assets	6	54,026	29,050	5,435	13,857	4,736	276	672
Investment in subsidiaries	7	–*	–*	–*	–*	–*	–*	–*
Property and equipment	8	30,179	18,284	4,181	1,814	4,796	363	741
Right-of-use assets	9	19,037	12,159	2,917	1,386	1,964	196	415
Total Assets		4,612,599	2,285,452	508,008	1,296,885	426,047	28,520	67,687
LIABILITIES								
Payables	11	8,605	5,056	1,443	587	1,242	77	200
Lease liabilities	10	20,418	13,041	3,128	1,487	2,107	210	445
Total Liabilities		29,023	18,097	4,571	2,074	3,349	287	645
FUNDS AND RESERVES								
Accumulated surpluses	12	4,583,576	2,267,355	503,437	1,294,811	422,698	28,233	67,042
Total Funds and Reserves		4,583,576	2,267,355	503,437	1,294,811	422,698	28,233	67,042
Total Liabilities, Funds and Reserves		4,612,599	2,285,452	508,008	1,296,885	426,047	28,520	67,687

* The amount is significantly below the rounding threshold.

21. SEGMENT INFORMATION (CONTINUED)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
ASSETS								
Cash and cash equivalents	4a	133,123	103,534	10,662	7,046	5,921	2,362	3,598
Investments	5	3,873,567	1,836,062	399,450	1,231,603	332,133	22,834	51,485
Other assets	6	44,710	23,461	4,346	12,995	3,284	178	446
Investment in subsidiaries	7	–*	–*	–*	–*	–*	–*	–*
Property and equipment	8	36,100	21,444	4,840	2,405	5,984	479	948
Right-of-use assets	9	23,924	15,284	3,665	1,742	2,466	246	521
Total Assets		4,111,424	1,999,785	422,963	1,255,791	349,788	26,099	56,998
LIABILITIES								
Payables	11	7,856	4,993	1,176	535	897	83	172
Lease liabilities	10	24,735	15,801	3,789	1,801	2,550	255	539
Total Liabilities		32,591	20,794	4,965	2,336	3,447	338	711
FUNDS AND RESERVES								
Accumulated surpluses	12	4,078,833	1,978,991	417,998	1,253,455	346,341	25,761	56,287
Total Funds and Reserves		4,078,833	1,978,991	417,998	1,253,455	346,341	25,761	56,287
Total Liabilities, Funds and Reserves		4,111,424	1,999,785	422,963	1,255,791	349,788	26,099	56,998

* The amount is significantly below the rounding threshold.

21. SEGMENT INFORMATION (CONTINUED)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Premium and levy revenues	13	458,443	275,801	85,957	6,110	76,938	2,459	11,178
Investment income and returns from cash equivalents and investment securities	14	148,394	72,480	16,126	43,467	13,235	925	2,161
Other income	8	47	43	4	–	–	–	–
Total income		606,884	348,324	102,087	49,577	90,173	3,384	13,339
Human capital management expenses	15	68,537	41,666	10,634	5,259	8,837	518	1,623
Operations and administrative expenses	16	24,054	14,118	3,522	2,037	3,425	294	658
Initiatives related expenses	17	9,277	4,010	2,449	905	1,519	97	297
Total expenses		101,868	59,794	16,605	8,201	13,781	909	2,578
Net surplus for the year		505,016	288,530	85,482	41,376	76,392	2,475	10,761
Other comprehensive income								
Remeasurements of Long Term Retirement Plan	11ii	(273)	(166)	(43)	(20)	(35)	(3)	(6)
Total comprehensive income for the year		504,743	288,364	85,439	41,356	76,357	2,472	10,755

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Premium and levy revenues	13	468,179	299,179	81,698	5,942	64,968	3,838	12,554
Investment income and returns from cash equivalents and investment securities	14	120,292	57,313	11,908	38,698	10,001	763	1,609
Other income	8	–	–	–	–	–	–	–
Total income		588,471	356,492	93,606	44,640	74,969	4,601	14,163
Human capital management expenses	15	64,544	40,887	9,657	4,913	6,949	685	1,453
Operations and administrative expenses	16	23,637	14,539	3,482	1,765	2,991	285	575
Initiatives related expenses	17	12,037	6,823	1,636	1,250	1,773	179	376
Total expenses		100,218	62,249	14,775	7,928	11,713	1,149	2,404
Net surplus for the year		488,253	294,243	78,831	36,712	63,256	3,452	11,759
Other comprehensive income								
Remeasurements of Long Term Retirement Plan	11ii	113	72	17	8	12	2	2
Total comprehensive income for the year		488,366	294,315	78,848	36,720	63,268	3,454	11,761

21. SEGMENT INFORMATION (CONTINUED)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums and levies received from member institutions		458,443	275,801	85,957	6,110	76,938	2,459	11,178
Payments in the course of operations to suppliers and employees		(87,315)	(51,549)	(14,497)	(6,949)	(11,438)	(711)	(2,171)
Payment of lease finance costs		(1,254)	(801)	(192)	(91)	(130)	(13)	(27)
Receipts of investment income and returns		175,330	85,075	18,263	52,177	16,297	1,097	2,421
Net cash flows generated from operating activities		545,204	308,526	89,531	51,247	81,667	2,832	11,401
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		1,450,596	608,229	164,917	486,799	163,250	10,438	16,963
Purchase of investment securities		(2,049,966)	(985,749)	(248,502)	(535,719)	(236,270)	(14,088)	(29,638)
Proceeds from disposal of property and equipment		47	43	4	–	–	–	–
Purchase of property and equipment		(2,406)	(1,450)	(365)	(197)	(311)	(23)	(60)
Net cash flows used in investing activities		(601,729)	(378,927)	(83,946)	(49,117)	(73,331)	(3,673)	(12,735)
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal repayment of lease liabilities		(4,419)	(2,822)	(677)	(322)	(456)	(46)	(96)
Net cash flow used in financing activities		(4,419)	(2,822)	(677)	(322)	(456)	(46)	(96)
Net (decrease) / increase in cash and cash equivalents		(60,944)	(73,223)	4,908	1,808	7,880	(887)	(1,430)
Cash and cash equivalents at beginning of year		133,123	103,534	10,662	7,046	5,921	2,361	3,599
Cash and cash equivalents at end of year	4a	72,179	30,311	15,570	8,854	13,801	1,474	2,169

21. SEGMENT INFORMATION (CONTINUED)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
CASH FLOWS FROM OPERATING ACTIVITIES								
Premiums and levies received from member institutions		468,179	299,179	81,698	5,942	64,968	3,838	12,554
Payments in the course of operations to suppliers and employees		(89,953)	(56,085)	(13,213)	(7,664)	(9,854)	(1,016)	(2,121)
Payment of lease finance costs		(1,487)	(951)	(228)	(108)	(153)	(15)	(32)
Receipts of investment income and returns		168,191	79,096	16,635	54,627	14,424	1,105	2,304
Net cash flows generated from operating activities		544,930	321,239	84,892	52,797	69,385	3,912	12,705
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		4,639,207	2,150,525	545,154	1,334,654	478,286	42,055	88,533
Purchase of investment securities		(5,067,377)	(2,377,842)	(621,591)	(1,379,963)	(541,379)	(46,532)	(100,070)
Proceeds from disposal of property and equipment		–	–	–	–	–	–	–
Purchase of property and equipment		(5,673)	(3,130)	(719)	(621)	(925)	(94)	(184)
Net cash flows used in investing activities		(433,843)	(230,447)	(77,156)	(45,930)	(64,018)	(4,571)	(11,721)
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal repayment of lease liabilities		(4,127)	(2,636)	(632)	(300)	(426)	(43)	(90)
Net cash flow used in financing activities		(4,127)	(2,636)	(632)	(300)	(426)	(43)	(90)
Net increase / (decrease) in cash and cash equivalents		106,960	88,156	7,104	6,567	4,941	(702)	894
Cash and cash equivalents at beginning of year		26,163	15,378	3,558	479	980	3,063	2,705
Cash and cash equivalents at end of year	4a	133,123	103,534	10,662	7,046	5,921	2,361	3,599

22. FINANCIAL RISK

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, and 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 Private Debt Securities (PDS) and will be held until its maturities.

a. Foreign currency risk

PIDM is currently not materially exposed to any currency risk as most of the 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. 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 minimise the impact of any fluctuations in market interest rate or rate of return on the market value of these securities.

There has been no change to PIDM's exposure to interest rate risk and rate of return risk or the manner in which these risks are managed and measured.

PIDM currently does not carry any liabilities that are exposed to interest rate and rate of return risk.

22. FINANCIAL RISKS (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) of financial instruments as at the Statement of Financial Position date and its remaining maturities that are exposed to interest rate risk and rate of return risk.

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	Total RM'000
Conventional Deposit Insurance Fund						
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	**3.35**	**25,511**	**4,800**	**–**	**30,311**
Investments	5	**3.42**	**78,018**	**1,037,115**	**1,080,515**	**2,195,648**
31 December 2018						
Fixed rate						
Cash and cash equivalents	4a	3.44	49,454	54,080	–	103,534
Investments	5	3.84	262,079	268,950	1,305,033	1,836,062
Islamic Deposit Insurance Fund						
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	**3.08**	**15,570**	**–**	**–**	**15,570**
Investments	5	**3.48**	**–**	**106,512**	**373,393**	**479,905**
31 December 2018						
Fixed rate						
Cash and cash equivalents	4a	3.49	2,562	8,100	–	10,662
Investments	5	3.90	6,378	155,220	237,852	399,450

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	Total RM'000
General Insurance Protection Fund						
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	**3.45**	**3,554**	**5,300**	**–**	**8,854**
Investments	5	**3.45**	**78,750**	**501,393**	**690,831**	**1,270,974**
31 December 2018						
Fixed rate						
Cash and cash equivalents	4a	3.36	3,646	3,400	–	7,046
Investments	5	3.80	348,606	131,630	751,367	1,231,603
Life Insurance Protection Fund						
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	**3.48**	**5,101**	**8,700**	**–**	**13,801**
Investments	5	**3.45**	**13,556**	**108,872**	**278,322**	**400,750**
31 December 2018						
Fixed rate						
Cash and cash equivalents	4a	3.41	2,771	3,150	–	5,921
Investments	5	3.80	112,931	49,516	169,686	332,133

22. FINANCIAL RISKS (CONTINUED)

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

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 - 36 months RM'000	Total RM'000
General Takaful Protection Fund						
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	**3.46**	**774**	**700**	**–**	**1,474**
Investments	5	**3.48**	**–**	**7,220**	**18,991**	**26,211**
31 December 2018						
Fixed rate						
Cash and cash equivalents	4a	3.47	741	1,620	–	2,361
Investments	5	3.80	4,704	3,942	14,188	22,834
Family Takaful Protection Fund						
31 December 2019						
Fixed rate						
Cash and cash equivalents	4a	**3.44**	**369**	**1,800**	**–**	**2,169**
Investments	5	**3.49**	**–**	**15,352**	**48,338**	**63,690**
31 December 2018						
Fixed rate						
Cash and cash equivalents	4a	3.50	749	2,850	–	3,599
Investments	5	3.85	6,438	9,176	35,871	51,485

Based on PIDM's investment portfolio as at 31 December 2019, 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 Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
50 basis points increase							
– 31 December 2019	**21,957**	**10,715**	**2,358**	**6,473**	**1,954**	**138**	**319**
– 31 December 2018	18,681	8,918	1,831	6,008	1,566	115	243
50 basis points decrease							
– 31 December 2019	**(21,957)**	**(10,715)**	**(2,358)**	**(6,473)**	**(1,954)**	**(138)**	**(319)**
– 31 December 2018	(18,681)	(8,918)	(1,831)	(6,008)	(1,566)	(115)	(243)

22. FINANCIAL RISKS (CONTINUED)

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 to obtain required funding to meet its liquidity needs. A significant amount of funds available for investment were invested in short-term Government securities, which are highly liquid marketable assets. PIDM also 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 following table sets the values of these investments by the maturity profiles.

		2019					
	Note	**Less Than 30 Days RM'000**	**31 – 60 Days RM'000**	**60 – 90 Days RM'000**	**90 Days But Less Than 36 Months RM'000**	**More Than 36 Months* RM'000**	**Total RM'000**
Cash and cash equivalents	**4a**	**27,752**	**8,500**	**14,627**	**21,300**	**–**	**72,179**
Investments	**5**	**–**	**–**	**39,989**	**4,397,189**	**–**	**4,437,178**
Other assets	**6a**	**11,167**	**16,330**	**4,706**	**16,321**	**2,434**	**50,958**
Payables	**11a**	**(1,089)**	**(888)**	**–**	**(1,719)**	**–**	**(3,696)**
Net short-term assets		**37,830**	**23,942**	**59,322**	**4,433,091**	**2,434**	**4,556,619**

		2018					
	Note	Less Than 30 Days RM'000	31 – 60 Days RM'000	60 – 90 Days RM'000	90 Days But Less Than 36 Months RM'000	More Than 36 Months* RM'000	Total RM'000
Cash and cash equivalents	4a	32,623	15,000	12,300	73,200		133,123
Investments	5	31,253	274,035	435,849	3,132,430	–	3,873,567
Other assets	6a	5,941	16,820	6,861	9,875	2,273	41,770
Payables	11a	(680)	(2,172)	–	(1,366)	–	(4,218)
Net short-term assets		69,137	303,683	455,010	3,214,139	2,273	4,044,242

PIDM also has a funding framework to deal with funding requirements relating to intervention and failure resolution 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 expenses. The annual net surplus is credited into the respective Protection 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 borrowing 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.

There has been no change to PIDM's exposure to liquidity risks or the manner in which these risks are managed and measured.

22. FINANCIAL RISKS (CONTINUED)

d. Market risk

PIDM's market risk relates to the risk of loss resulting from adverse changes in the value of its asset holdings arising from movements in market rates or prices. Market risk in PIDM includes investment-related risks. The market risk exposure of PIDM may vary during normal operations or as a result of intervention or failure resolution 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.

There has been no change to PIDM's exposure to market risks or the manner in which these risks are managed and measured.

e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investment Issues, 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, PIDM holds investments in PDS, 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.

	FORMER IGSF	
2019 **Investment in PDS** **- Principal value (RM'000)**	**–**	**10,000**
2018 Investment in PDS - Principal value (RM'000)	20,000	10,000
PDS rating	**AAA**	**Non-rated**

Apart from the IGSF portfolio, PIDM also holds other PDS issued by government-related entities in accordance with its Investment Policy. As at 31 December 2019, the principal value of these PDS amounted to RM226 million.

PIDM continuously monitors the credit standing of the issuers of the PDS for any potential downgrade in the credit ratings.

In determining the expected credit losses for these assets, PIDM have taken into account the historical default experience, the financial position of the counterparties, as well as the future prospects of the industries in which the issuers of the securities and notes operate. These information were obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

The credit rating information is supplied by independent rating agencies where available and, if not available, PIDM uses other publicly available financial information and PIDM's own records to rate its major counterparties.

22. FINANCIAL RISKS (CONTINUED)

e. Credit risk (continued)

PIDM's current credit risk grading framework comprises the following categories:

Category	Description	Basis for recognising expected credit losses
Performing	The counterparty has a low risk of default and does not have any past-due amounts	12-month ECL
Doubtful	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit-impaired
In default	Amount is >90 days past due or there is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and PIDM has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of PIDM's financial assets as well as PIDM's maximum exposure to credit risk by credit risk rating grades for the financial year ended 31 December 2019 and 31 December 2018.

	Note	External credit rating	Internal credit rating	12-month or lifetime ECL
Malaysian Government Securities and Investment Issues	5	Sovereign	Performing	12-month ECL
Private Debt Securities	5	AAA	Performing	12-month ECL
Investment income and returns receivables	6	Sovereign & AAA	Performing	12-month ECL
Other assets and receivables	6	Non Applicable	Performing	12-month ECL

Sensitivity analysis

The basis and general description of the key inputs and assumptions in determining and measuring ECL are described in Notes 2.2 (a) (i) to (v) under ***Impairment of financial assets***. As highlighted in Note 3.2 on key sources of estimation uncertainties, the ECL calculations are the output of complex model with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies, and therefore is sensitive to changes in these key assumptions and variable inputs.

Given that PIDM's financial assets are primarily made up of investment related assets including investment income and returns receivables, the most significant assumptions affecting the ECL allowance are those affecting the PD and LGD of these assets.

PIDM's investment assets are primarily low risk assets comprising Malaysian Government Securities and Investment Issues. The only category of investments assets which may be more exposed to the credit risk related impairments are on PDS held by PIDM which are of minimum AAA rated. As such, for the purpose of carrying out the sensitivity analysis, the only scenario assumed is a one-level downgrade in credit rating, i.e. from AAA to AA1, of which affects the corresponding PD. However, the one-level downgrade does not constitute significant credit impairment which require lifetime ECL allowance.

In respect of LGD, for the purpose of carrying out the sensitivity analysis, two scenarios are assumed which are the increase and decrease of LGD by 10% respectively.

22. FINANCIAL RISKS (CONTINUED)

e. Credit risk (continued)

Impact on PIDM's profit or loss arising from the assumed movements in PD and LGD as noted above are as follows:

PD assumption – on the basis of credit rating movement from AAA to AA1, but remains in Stage 1 (12-months ECL).

31 December 2019	**Note**	**LGD increased 10% RM'000**	**LGD decreased 10% RM'000**
Malaysian Government Securities and Investment Issues	5	**–**	**–**
Private Debt Securities	5	**(47)**	**(9)**
Investment income and returns receivables	6	**(1)**	**–****
Other assets and receivables	6	**–***	**–***
Increase / (decrease) in net surplus		**(48)**	**(9)**

31 December 2018	Note	LGD increased 10% RM'000	LGD decreased 10% RM'000
Malaysian Government Securities and Investment Issues	5	–	–
Private Debt Securities	5	(110)	(18)
Investment income and returns receivables	6	(2)	–**
Other assets and receivables	6	–*	–*
Increase / (decrease) in net surplus		(112)	(18)

* Impact of the movements in PD and LGD on the calculation for ECL for these financial assets class remains insignificant.
** The amount is significantly below the rounding threshold.

23. FAIR VALUES

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.

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.

Classes and categories of financial instruments and their fair values

The following table combines information about:
- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments; and
- fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

23. FAIR VALUES (CONTINUED)

Classes and categories of financial instruments and their fair values (continued)

31 December 2019

	Carrying value	**Fair value**		
		Level		
		1	**2**	**3**
	RM'000	**RM'000**	**RM'000**	**RM'000**
Financial assets – amortised cost				
Investments (Note 5)	**4,437,178**	**–**	**4,458,160**	**–**
Cash and cash equivalents (Note 4)	**72,179**	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Other financial assets (Note 6a)	**50,958**			
Total financial assets	**4,560,315**			
Financial liabilities – amortised cost				
Other financial liabilities (Note 11a)	**3,696**	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Lease liabilities (Note 10)	**20,418**	**–**	**–**	**–**
Total financial liabilities	**24,114**			

31 December 2018

	Carrying value	Fair value		
		Level		
		1	2	3
	RM'000	RM'000	RM'000	RM'000
Financial assets – amortised cost				
Investments (Note 5)	3,873,567	–	3,870,969	–
Cash and cash equivalents (Note 4)	133,123	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Other financial assets (Note 6a)	41,770			
Total financial assets	4,048,460			
Financial liabilities – amortised cost				
Other financial liabilities (Note 11a)	4,218	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Lease liabilities (Note 10)	24,735	–	–	–
Total financial liabilities	28,953			

23. FAIR VALUES (CONTINUED)

Classes and categories of financial instruments and their fair values (continued)

The fair value of investments are slightly higher than their carrying amount due to the sensitivity of the price of these securities arising from the interest rate and rate of return movements. As these investments are held to maturity, the risk exposure arising from interest rate and rate of return movements does not have material impact to the financial statements. Refer to Note 22 (b) on the disclosure of the management of interest rate risk and rate of return risk.

Fair value of financial assets and financial liabilities that are not measured at fair value (but fair value disclosures are required)

The fair values of financial instruments classified as Level 2 above were determined using observable inputs. In particular, for investments at amortised cost, the fair values disclosed are indicate of their market values as at the end of the financial year and were determined by reference to indicative market prices obtained from a bond pricing agency.

24. 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 significant 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.

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 Protection Funds through the accumulation of annual net surpluses arising from its operations.

Accumulated surpluses are held in each Fund to cover net losses when respective obligations arise. As discussed in Note 12 to the financial statements, PIDM has established Target Fund frameworks to determine the level of funds sufficient to cover the net expected losses from intervention or failure resolution activities.

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

Operational exposure

In 2018, the main contractor responsible for the construction of PIDM's disaster recovery centre made a claim against PIDM in an arbitration proceeding. PIDM filed a defence and counterclaim in response to the main contractor's claim. The exposure of the claim to PIDM is approximately RM1.2 million. During the financial year 2019, the arbitration proceedings concluded, the results of which as at 31 December 2019 are pending. After taking into consideration appropriate legal advice, whilst it is possible for the claim to succeed, the likelihood is still low. Therefore, no provisions have been made during the financial year ended 31 December 2019.

GLOSSARY OF TERMS

Common Equity Tier 1 (CET1) Capital Ratio

The Common Equity Tier 1 Capital Ratio is computed as a percentage of a member bank's CET1 capital to its risk-weighted assets in accordance to Bank Negara Malaysia's Capital Adequacy Framework. CET1 capital is the highest quality of capital for a member bank, whereas risk-weighted assets are calculated based on the aggregation of the bank's assets weighted by factors relating to its riskiness. The minimum regulatory requirement for CET1 Capital Ratio is 4.5%.

Conventional Deposit Insurance Fund

All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the cost of operating the conventional Deposit Insurance System.

Deposit Insurance Funds

Refers to the Conventional Deposit Insurance Fund and Islamic Deposit Insurance Fund.

Deposit Insurance System

A system established by PIDM to protect depositors against the loss of their insured deposits placed with member banks and to resolve member banks, in the unlikely event of a member bank failure.

Differential Levy Systems

A system where insurer members are charged levies at differential rates, based on their risk profiles.

Differential Levy Systems for Takaful Operators

A system where takaful operators are charged levies at differential rates, based on their risk profiles

Differential Premium Systems

A system where member banks are charged premiums at differential rates, based on their risk profiles.

Enterprise risk management

The framework applied on an organisation-wide basis to ensure and demonstrate that an entity's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

Family Takaful Protection Fund

All levies received by PIDM from insurer members conducting family takaful business and returns made minus the costs of operating the Takaful and Insurance Benefits Protection System.

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 levies received by PIDM from insurer members conducting general insurance business and interest earned minus the costs of operating the Takaful and Insurance Benefits Protection System.

General Takaful Protection Fund

All levies received by PIDM from insurer members conducting general takaful business and returns made minus the costs of operating the Takaful and Insurance Benefits Protection System.

Impairment

Impairment refers to loss allowance for expected credit losses (ECL) on loan or financing assets in accordance to Malaysian Financial Reporting Standards (MFRS) 9. Prior to 1 January 2018, impairment for loan or financing assets is measured in accordance to MFRS 139.

Insurance benefits

The amounts paid under the coverage of a policy for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

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 Bank Negara Malaysia 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 costs of operating the Islamic Deposit Insurance System.

Islamic Protection Funds

Refers to the Islamic Deposit Insurance Fund, General Takaful Protection Fund, and Family Takaful Protection Fund.

Life Insurance Protection Fund

All levies received by PIDM from insurer members conducting life insurance business and interest earned minus the costs of operating the Takaful and Insurance Benefits Protection System.

GLOSSARY OF TERMS

Member institutions

Members of PIDM comprising member banks and insurer members.

Insurer members

All insurance companies licensed under the Financial Services Act 2013 to conduct life or general insurance business in Malaysia, as well as takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family or general takaful business in Malaysia. Membership is compulsory under the PIDM Act. A full list of insurer members is available on PIDM's website.

Member banks

All commercial banks 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 member banks is available on PIDM's website.

Policy Holders Support Management System

An internal PIDM system used to maintain the details of owners of takaful certificates and insurance policies in the event of a reimbursement.

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.

Protection Funds

Refers to the Conventional Deposit Insurance Fund, Islamic Deposit Insurance Fund, General Insurance Protection Fund, Life Insurance Protection Fund, General Takaful Protection Fund, and Family Takaful Protection Fund.

Reimbursement

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.

Risk Assessment System

An Internal PIDM System used to evaluate the member institutions' risk levels and controls and provides both a current (aggregate risk) and a prospective (direction of risk) view of the member institutions' risk. This is so that emerging risks can be identified and action is taken in a timely manner, before such risks materialise.

Shariah

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).

Sustainable Engagement Index

Intensity of employees' connection to their organisation based on commitment towards achieving work goals, being empowered and work experience that promotes well-being.

Takaful and Insurance Benefits Protection System

A system established by PIDM to protect owners of takaful certificates and insurance policies from the loss of their eligible takaful or insurance benefits and to resolve insurer members, in the unlikely event of an insurer member failure.

Takaful benefits

The amount paid under the coverage of a takaful certificate for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Takaful 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.

Takaful Protection Funds

Takaful Protection Funds refer to General Takaful Protection Fund; and Family Takaful Protection Fund.

Target fund

A target fund, in general, is the level of accumulated funds required to adequately cover expected losses arising from intervention and failure resolution activities.

Total Insured Deposits

The sum of deposits insured by PIDM.

SOURCES OF FUND AND FINANCIAL ABILITIES

Funding Framework

As a statutory body, sources of funding and the ability to meet liabilities and commitments as they arise are established in the PIDM Act. It is imperative for us to have adequate financial resources in order to effectively administer and operate a robust and sound Deposit Insurance System (DIS) as well as Takaful and Insurance Benefits Protection System (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 us to record a specific provision in our financial statements in accordance with Malaysian Financial Reporting Standards (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 its funding framework are to:

(a) ensure the availability of sufficient financial resources to enable us to fund our 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 players as well as our legislative powers relating to sources of funding, also provide clear objectives for internal and external sources of funding.

Internal Funding

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

Target Fund Objectives and Guiding Principles

The term target fund or target reserve ratio generally refers to the level of internal funds we aim to accumulate over the long run to meet its objectives and fulfil its mandate. The target funds are established to cover the expected net losses arising from any intervention and failure resolution activities. 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 respective Funds.

The target fund frameworks for the Deposit Insurance Funds (DIFs), the General Insurance Protection Fund (GIPF) and the Life Insurance Protection Fund (LIPF) were established in 2011, 2015 and 2016 respectively. The target fund frameworks for the Takaful Protection Funds, for both the General Takaful Protection Fund (GTPF) and the Family Takaful Protection Fund (FTPF) were completed and implemented in 2018.

The development of the target fund frameworks for the DIFs, GIPF, LIPF, GTPF and the FTPF was based on the same set guiding principles, as follows:

(a) **First Principle**: The target fund should be established to address idiosyncratic failures and not systemic failures.

(b) **Second Principle**: The target fund should be sufficient to cover the expected net losses that we might incur arising from intervention and failure resolution activities.

(c) **Third Principle**: Optimally, the determination of the target fund level should be balanced against the impact on stakeholders, both in terms of the target fund size and time frame for achieving the set target.

(d) **Fourth Principle**: The target fund level should be specified as a “range” rather than an absolute amount.

Target Fund Modelling Approach

In developing the target funds, we have adopted both the statistical modelling as well as a discretionary approach in determining the range of its target fund:

(a) Statistical modelling approach

We have adopted the Value-at-Risk (VaR) statistical model in developing the target fund framework. Under this statistical modelling approach, VaR is determined to assess our 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. To determine the sufficient level of funds to cover the net losses, given a specified confidence level, we leveraged on the Monte Carlo simulation used in the VaR statistical model. Simulations using a significant number of loss scenarios to build up a statistical loss distribution were run from the model to ascertain the target fund level that will be able to cover losses or to meet the costs of insolvency in a specified time horizon with a specified confidence level.

(b) Discretionary approach

In determining the target fund range, we also took into consideration other qualitative factors such as our mandate and legislative powers, the banking and insurance industry'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.

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 1: 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 within certain ranges than previously required. Nevertheless, the operating environment will be reviewed and validated against the model annually.
Mandate and powers The mandate and powers are set out in the PIDM Act, which, among others, enable us 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 therefore the estimation of the target fund level. However, no significant changes to its mandate and powers in the near future are expected.

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.

Key Input Variables for the Statistical Model

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

Table 2: Key Input Variables and Assumptions for the Target Fund Modelling

Key Input Variables	Funds				
	DIFs	GIPF	LIPF	GTPF	FTPF
Probability of Default (PD)	We use average failure rates as reported by External Credit Assessment Institutions in their annual default study. The average failure rates are then benchmarked against the most conservative risk rating between the member institutions' supervisory risk ratings and our internal rating assessments.				
Loss Given Default (LGD)	Considers the potential recoveries on the assumption of liquidation of a member institution after taking into account exposures on relevant risks, in particular credit and market risks during the recoveries of assets.				
Exposure At Default (EAD)	We consider the two broad approaches to intervention namely, a liquidation or a going-concern resolution approach. The Total Insured Deposits (TID) (at the limit of RM250,000 per depositor per member bank) and the potential re-capitalisation of member banks are applied as proxies for the EAD.	We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposure to us 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 operational risk exposures and potential costs involved in the event of liquidation of a general insurer member.	We consider the Actuarial Valuation Liability (AVL) of the life insurer members as the proxy in determining the EAD, regardless of the insurance benefits protected by PIDM. The EAD reflects the life insurer members' risk of any underestimation of the insurance liabilities and adverse claims experience, over and above the amount of reserves already provided.	We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposures to PIDM in the event of any takaful member's failure. The proxy for EAD aims to minimise takaful members' risk of any underestimation of the takaful liabilities and adverse claims experience, over and above the amount of reserves already provided. The EAD also considers the operational risks exposures and potential cost involved in the event of liquidation of a takaful member.	

Key Input Variables	Funds				
	DIFs	GIPF	LIPF	GTPF	FTPF
Exposure At Default (EAD) (continued)				The EAD considers the sum of liabilities of the participants' general takaful fund and operator's fund expense liabilities. With regard to the general takaful fund liabilities, this include claim liabilities and contribution liabilities of the Participant Risk Fund (PRF) as adopted in the Risk-Based Capital Framework for Takaful Operators	We consider the sum of the liabilities of the participants' family takaful fund and operator's fund expense liabilities as the proxy in determining the EAD, regardless of the insurance benefits protected by us. The exposures calculated with regard to the participants' family takaful fund comprise AVL of the PRF and accumulated value in the Participant Investment Fund (PIF) (for certificates other than investment-linked).

Management of Funds upon Reaching Target Fund Level

Upon reaching the upper target fund level, we may consider a reduction in the premium or levy rates or a rebate of the premiums or levies, based on among others, an assessment of the economic environment and industry conditions. In the management of the accumulation of the Funds, it is important for us to ensure that the Differential Premium Systems framework for member banks or the Differential Levy Systems framework for insurer members, continue to incentivise member institutions to improve their risk profiles and that the new entrants will pay premiums or levies on the deposits or benefits that are protected by us.

External Funding

We may raise external funds through either borrowing from the Government, capital markets or such other sources as deemed necessary and appropriate. The PIDM Act empowers the Minister of Finance to provide loans to us to meet our 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 us, is also an option when the environment or market is conducive to do so.

PERBADANAN INSURANS DEPOSIT MALAYSIA

Level 12, Axiata Tower, No. 9, Jalan Stesen Sentral 5,
Kuala Lumpur Sentral, 50470 Kuala Lumpur

Tel: 603 2173 7436 / 2265 6565 Fax: 603 2173 7527 / 2260 7432
Toll Free: 1-800-88-1266 Email: info@pidm.gov.my

www.pidm.gov.my