



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

▶ stakeholder management and corporate governance

Continuing

FINANCIAL STABILITY
ANNUAL REPORT 2017

▶ strategic human capital management ▶ effective resolution regime





Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia



MANDATE

Administer 2 financial consumer protection systems:

- Deposit Insurance System (DIS)
- Takaful and Insurance Benefits Protection System (TIPS)

Provide protection against the loss of:

- Deposits in member banks
- Takaful or insurance benefits in respect of insurer members

Provide incentives to member institutions for sound risk management in the financial system

Promote or contribute to the stability of the financial system



VISION

To be a best practice financial consumer protection and resolution authority



MISSION

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

FINANCIAL HIGHLIGHTS 2017



Income

RM575
million



Operating Expenditures

RM112
million



Capital Expenditures

RM6
million



Deposit Insurance Funds

RM2.0
billion



Takaful and Insurance Benefits Protection Funds

RM1.6
billion

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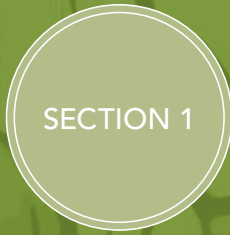
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SECTION 1

OVERVIEW

- Corporate Profile
- Highlights of 2017 Accomplishments
- Financial Summary: 5-Year Performance
- The Year Ahead

CORPORATE PROFILE

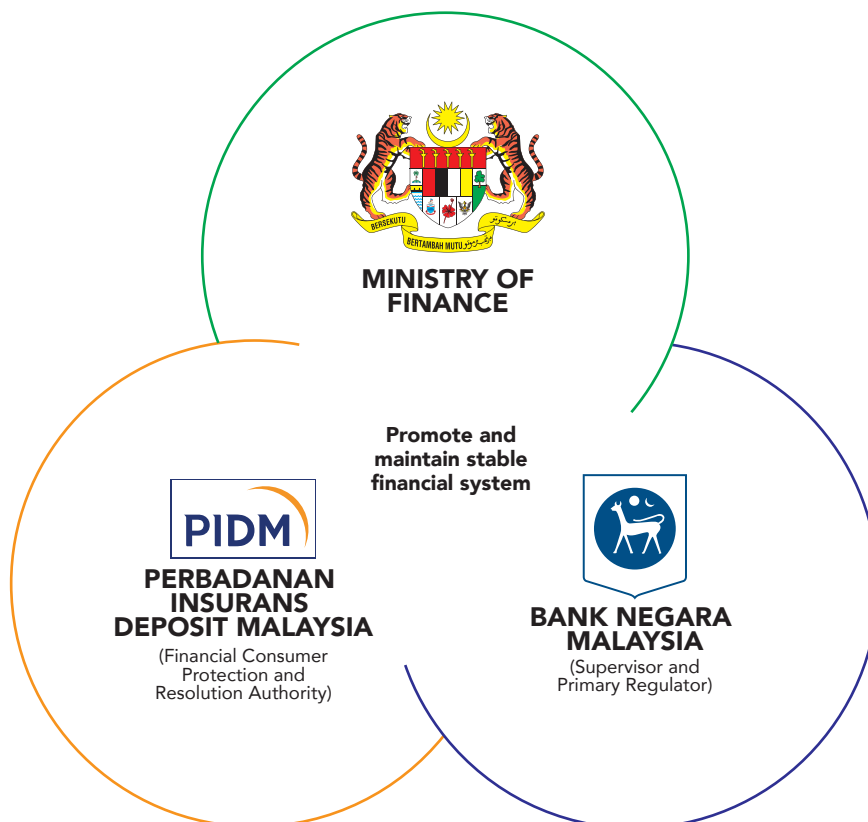
WHO WE ARE

Perbadanan Insurans Deposit Malaysia (PIDM) is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act (PIDM Act) 2005.¹ PIDM reports to Parliament through the Minister of Finance and is governed by a Board of Directors, drawn from the public and private sectors who are appointed by the Minister of Finance.

WHAT WE DO

An integral part of the financial safety net system, PIDM's statutory objects are to:

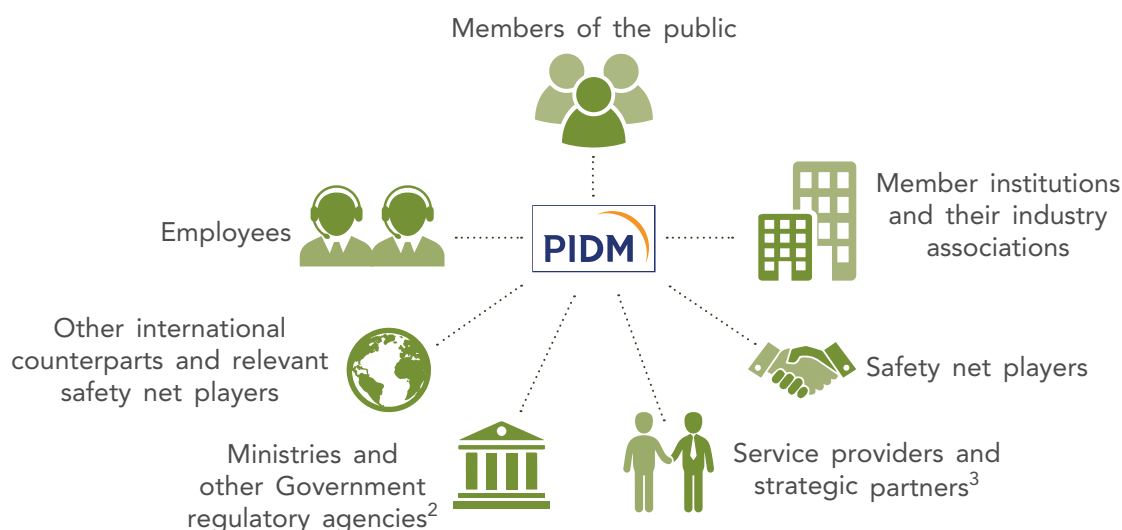
- administer 2 financial consumer protection systems – Deposit Insurance System (DIS) and Takaful and Insurance Benefits Protection System (TIPS);
- provide protection against the loss of deposits in member banks; and takaful or insurance benefits in respect of insurer members;
- provide incentives to our member institutions for sound risk management in the financial system; and
- promote or contribute to the stability of the financial system.



As a resolution authority and in promoting the stability of the nation's financial system, PIDM works with its member institutions to establish feasible and credible resolution plans so that any failure will not have adverse consequences on the rest of the financial system and the economy at large.

¹ Amended in 2010 and 2016

OUR STAKEHOLDERS



OUR MEMBER INSTITUTIONS

Our members are institutions licensed under the Financial Services Act 2013 or Islamic Financial Services Act 2013⁴ (including subsidiaries of foreign entities):

- commercial banks
- Islamic banks
- insurance companies
- takaful operators

As at 5 January 2018, there are 89 member institutions (43 member banks and 46 insurer members).

FUNDS WE ADMINISTER

PIDM administers the following 6 separate and distinct funds:

- Conventional Deposit Insurance Fund
- Islamic Deposit Insurance Fund
- General Insurance Protection Fund
- Life Insurance Protection Fund
- General Takaful Protection Fund
- Family Takaful Protection Fund

The Islamic Deposit Insurance Fund, General Takaful Protection Fund and Family Takaful Protection Fund are managed and administered in accordance with Shariah principles.

The funds as at 31 December 2017 are as follows:

RM **2.0** billion
DEPOSIT INSURANCE FUNDS

RM **1.6** billion
TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS

² Refers to the National Audit Department, Treasury (Ministry of Finance), Attorney General's Chambers of Malaysia and related Government departments and agencies

³ Refers to third parties or outsourced suppliers or organisations that provide or share expertise, resources or competencies in achievement of PIDM's objectives

⁴ Previously commercial banks licensed under the Banking and Financial Institutions Act 1989; Islamic banks licensed under the Islamic Banking Act 1983; insurance companies licensed under the Insurance Act 1996; and takaful operators licensed under the Takaful Act 1984

HOW WE HAVE MET OUR STATUTORY OBJECTS

Building foundations – corporate governance, people, systems

2005	2006	2007	2008	2009	2010	2011
<p>Established under the PIDM Act</p> <ul style="list-style-type: none"> ▶ DIS established 	<ul style="list-style-type: none"> ▶ Executed a Strategic Alliance Agreement (SAA) with Bank Negara Malaysia 	<ul style="list-style-type: none"> ▶ Commenced implementation of integrated communications plan 	<ul style="list-style-type: none"> ▶ Administered Government Deposit Guarantee (GDG) 		<ul style="list-style-type: none"> ▶ Facilitated the smooth exit from GDG 	<ul style="list-style-type: none"> ▶ Implemented the Provision of Information on Deposit Insurance Regulations 2011
			<ul style="list-style-type: none"> ▶ Administered stabilisation coverage 		<ul style="list-style-type: none"> ▶ Increased coverage limit for DIS to RM250,000 	<ul style="list-style-type: none"> ▶ Established the target fund framework for Deposit Insurance Funds
			<ul style="list-style-type: none"> ▶ Implemented differential premium systems framework for DIS 		<ul style="list-style-type: none"> ▶ Expanded scope of coverage to include foreign currency 	
			<ul style="list-style-type: none"> ▶ Jointly with Bank Negara Malaysia, initiated the Financial Institutions Directors' Education (FIDE) Programme⁵ 		<ul style="list-style-type: none"> ▶ TIPS established – expanded protection to takaful certificate and insurance policy owners 	
					<ul style="list-style-type: none"> ▶ Launched the PIDM Project MoneySmart education programme 	

Operational

- ▶ Implemented Risk Assessment System for DIS
- ▶ Implemented Deposit Liability Information Management System and Depositor Support Management System of the payout system
- ▶ Conducted first simulation exercise of an intervention and failure resolution of a bank
- ▶ Conducted 2 mini simulations and a 2.5-day simulation exercise of an intervention and failure resolution of a bank
- ▶ Completed the integration between the payout system modules

PIDM's statutory objects	<ul style="list-style-type: none"> ▶ Administer the DIS and TIPS 	<ul style="list-style-type: none"> ▶ Provide protection against the loss of deposits in member banks; and takaful or insurance benefits in respect of insurer members 	<ul style="list-style-type: none"> ▶ Provide incentives for sound risk management 	<ul style="list-style-type: none"> ▶ Promote public confidence in the stability of the financial system
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Effective resolution regime, people, stakeholder management

2012	2013	2014	2015	2016	2017
<ul style="list-style-type: none"> Executed the revised SAA with Bank Negara Malaysia Supported the establishment of FIDE FORUM⁶ 	<ul style="list-style-type: none"> Implemented differential levy systems framework for insurance companies 		<ul style="list-style-type: none"> Acquired share transfer powers to address non-viable member institutions promptly and effectively Partnered with the famous cartoonist, Lat, on a new advertising campaign Established the target fund framework for General Insurance Protection Fund 	<ul style="list-style-type: none"> Implemented differential levy systems framework for takaful operators Established the target fund framework for Life Insurance Protection Fund 	<ul style="list-style-type: none"> Jointly with Bank Negara Malaysia, formally introduced to the industry, the recovery and resolution planning initiative Participated in the Financial Education Network for the formulation of a national strategy for financial literacy

Readiness

- Conducted first simulation exercise of an intervention and failure resolution of an insurance company
- Conducted a simulation exercise on the failure of an insurance company
- Conducted a walkthrough of the payout process and system in the event of an intervention and failure resolution
- Conducted a simulation exercise on the failure of a bank
- Conducted a simulation exercise to effect a 3-day payout for a hypothetical mid-sized member bank
- Conducted a full scope payout simulation exercise including post-payment adjustment, communications and funding aspects of a hypothetical member bank
- Implemented Risk Assessment System for TIPS

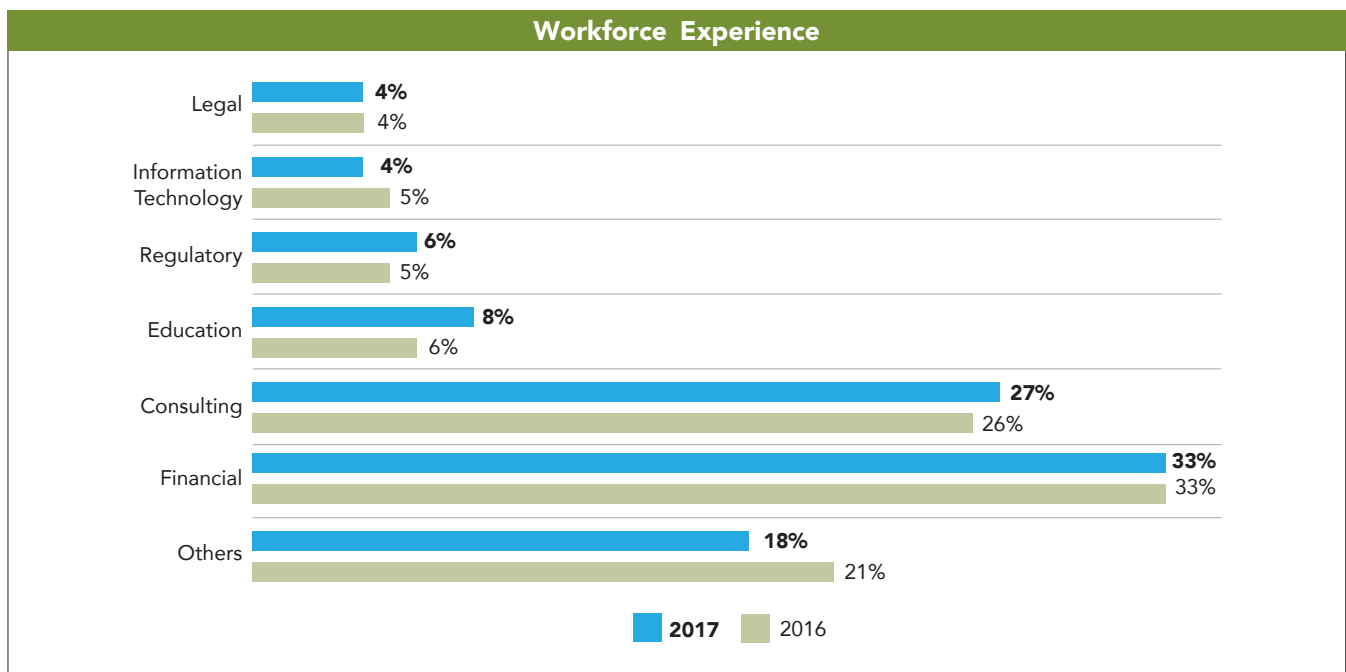
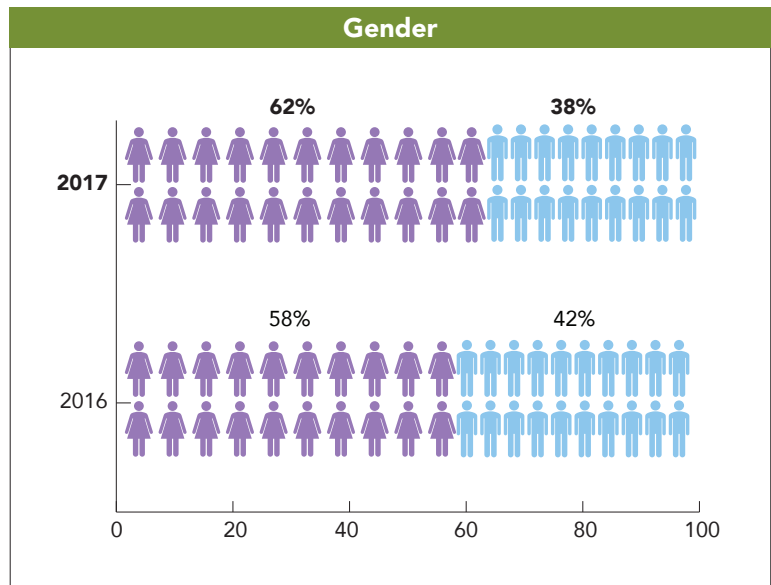
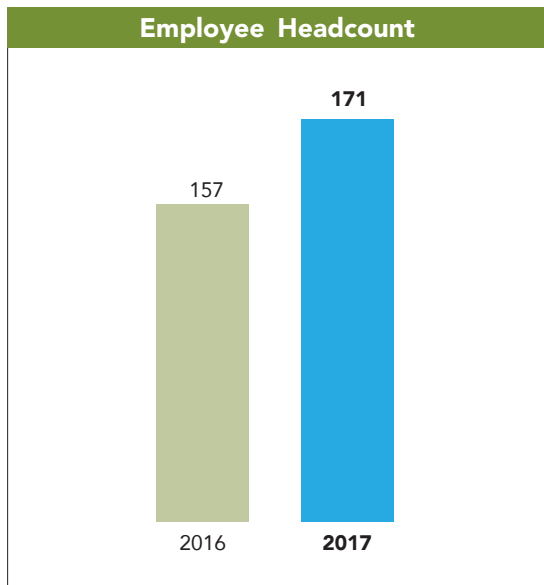
⁵ A programme administered by The Iclif Leadership and Governance Centre that aims to enhance boardroom governance within the financial sector

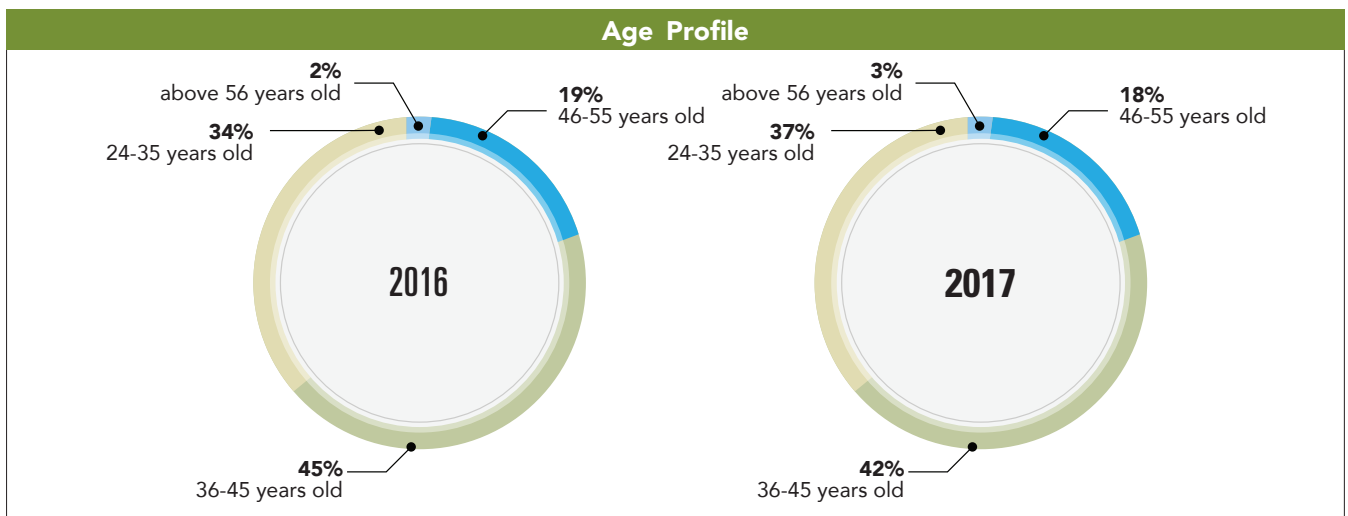
⁶ The Financial Institutions Directors' Education Programme alumni

CORPORATE PROFILE

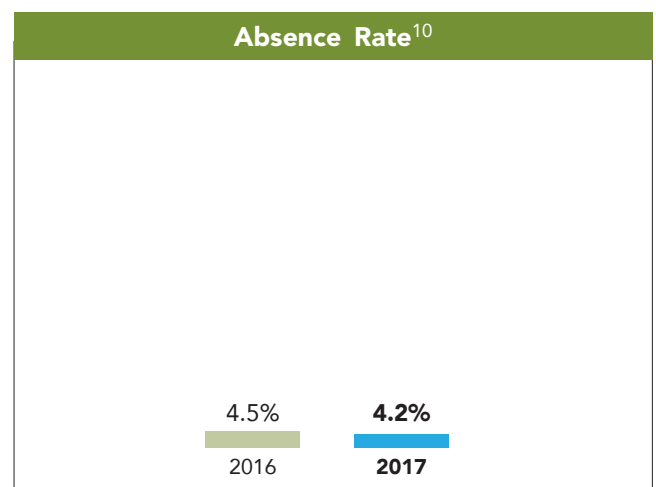
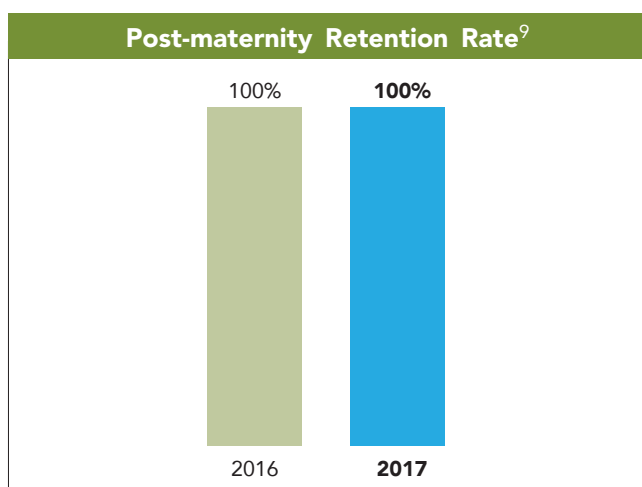
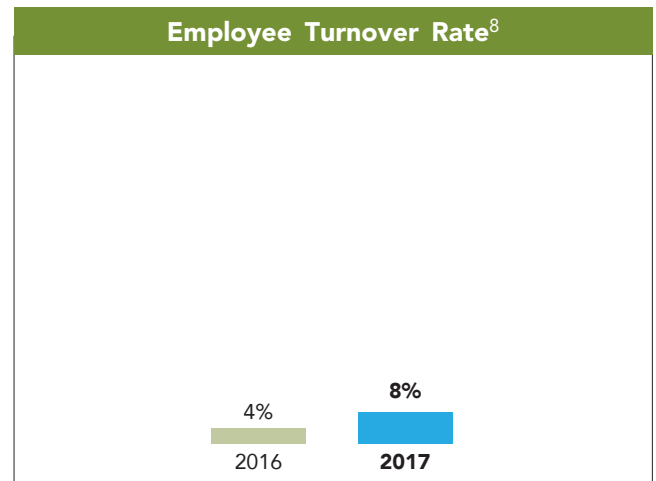
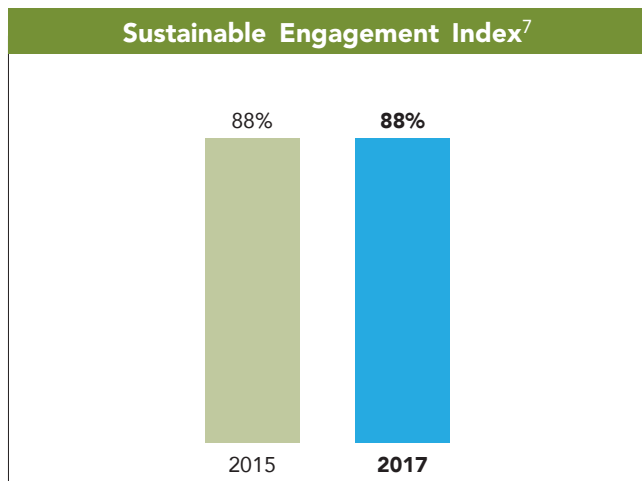
OUR PEOPLE

PIDM recognises diversity in its workforce as a source of strength. As stated in its Code of Business Conduct and Ethics, employees are expected to respect and value the different cultures, genders and experiences.





A highly engaged workforce is essential to meet our vision and mission, and to effectively carry out our mandate.



⁷ Intensity of employees' connection to their organisation based on commitment towards achieving work goals, being empowered and work experience that promotes well-being. The survey is conducted once every 2 years

⁸ The rate at which permanent employees left PIDM on a voluntary basis

⁹ The rate of employees who resumed to work after maternity leave

¹⁰ The percentage of work time, expressed as workdays that an employee is absent during the year. Absenteeism means absence that are beyond PIDM's control, including medical leave, hospitalisation leave, compassionate leave, hajj leave, parental (maternity and paternity) leave, study leave and marriage leave

OUR EXTERNAL RECOGNITION

2007

- Received the National Annual Corporate Report Awards (NACRA) Certificate of Merit for the Annual Report 2006.
- Received the Financial Management Excellence Award in the Federal Statutory Category from the National Audit Department.

2008

- Received the NACRA Certificate of Merit for the Annual Report 2007.

2009

- Received the NACRA Best Annual Report of Non-Listed Organisations for the Annual Report 2008.

2010

- Received the NACRA Best Annual Report of Non-Listed Organisations for the Annual Report 2009.

2011

- Received the 2011 Deposit Insurance Organisation of the Year award from the International Association of Deposit Insurers (IADI).
- Received the NACRA Best Annual Report of Non-Listed Organisations for the Annual Report 2010.
- Recognised by the Institute of Internal Auditors Malaysia to be in conformity with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

2012

- Received the NACRA Best Annual Report of Non-Listed Organisations for the Annual Report 2011.
- Received the Best Brand Building Campaign (Bronze) award, presented by Promotion Marketing Awards Asia (PMAA).
- The DIS framework was assessed under the International Monetary Fund-World Bank Financial Sector Assessment Programme (FSAP) to be overall in conformance with IADI's Core Principles for Effective Deposit Insurance Systems.

2013

- Received the NACRA Best Annual Report of Non-Listed Organisations for the Annual Report 2012.
- Received the Best Brand Building Campaign (Order of Merit) award, presented by PMAA.
- Received a "good" rating for the 2013 Accountability Index Audit conducted by the National Audit Department.

2014

- Received the NACRA Certificate of Merit, the highest award presented in the non-listed organisations category for the Annual Report 2013.
- Recognised as a Partner in Co-curriculum by the Ministry of Education.

2015

- Recognised as a Partner in Co-curriculum by the Ministry of Education.

2016

- Received 2 awards at the Marketing Excellence Awards 2016 – Excellence in Government Sector Marketing (Silver) and Excellence in Marketing Communications / Public Relations (Bronze).

2017

- Received a silver award, presented by the Australasian Reporting Awards, for disclosure of information for the Annual Report 2015.
- Received an "excellent" rating for the 2016 Accountability Index Audit conducted by the National Audit Department.

HIGHLIGHTS OF 2017 ACCOMPLISHMENTS

Effective Resolution Regime¹¹

RESOLUTION PLANNING

- Organised a joint industry seminar with Bank Negara Malaysia on recovery and resolution planning (RRP) for directors and senior management of banking groups to emphasise the importance of RRP, regulatory expectations and the strategic roadmap for implementation in Malaysia, including pilot exercises and industry consultations.
- Engaged with pilot banks, together with Bank Negara Malaysia, to ensure effective implementation of the pilot RRP exercises.

RESOLVABILITY RATING

- Commenced research on a resolvability rating framework and methodology.

FUNDING

- Developed a funding and liquidity adequacy framework to ensure holistic planning of liquidity funding arrangements at resolution.

PAYOUT SIMULATION

- Conducted a payout simulation exercise for the end-to-end process of a 3-day payout, including post-payment adjustment activities, communications and funding aspects of a hypothetical member bank.

INFORMATION TECHNOLOGY SYSTEM

- Developed 2 TIPS-related systems to support the payment process for protected benefits and reimbursement of premiums in the event of a winding-up of an insurer member.

REGULATIONS

- Enhanced 2 regulations in relation to the terms and conditions of membership as well as the differential premium systems framework.

¹¹ Refer to pages 29 to 31 for further details

HIGHLIGHTS OF 2017 ACCOMPLISHMENTS

Strategic Human Capital Management¹²

COMPETENCY MODEL

- Completed the review of PIDM's competency model, to cater for changing needs and expectations:
 - introduced a leadership and talent assessment tool with updated leadership competencies; and
 - updated or developed divisional competencies definitions.

CAREER MANAGEMENT

- Completed the development of a career programme for 3 divisions, to provide opportunities for career development, progression and retention of key talents.

LEARNING ORGANISATION

- Completed PIDM's corporate e-book to preserve knowledge and corporate memory.
- Developed a knowledge management strategic plan.

Stakeholder Management and Corporate Governance¹³

PUBLIC AWARENESS

- Conducted a total of 69 briefing sessions to various stakeholders to elevate public awareness about PIDM, DIS and TIPS.
- Achieved awareness levels of 62% for PIDM, 49% for DIS and 37% for TIPS.

CONSUMER BEHAVIOURAL STUDY

- Carried out a financial consumer behavioural study to analyse the likely behaviour of financial consumers in situations of uncertainty, as well as the link between their reaction and deposit insurance awareness, as input for future communications strategies.

STAKEHOLDER ENGAGEMENT

- Enhanced our relationships among our stakeholders and strategic partners including Bank Negara Malaysia, Ministry of Finance, National Audit Department and industry associations.

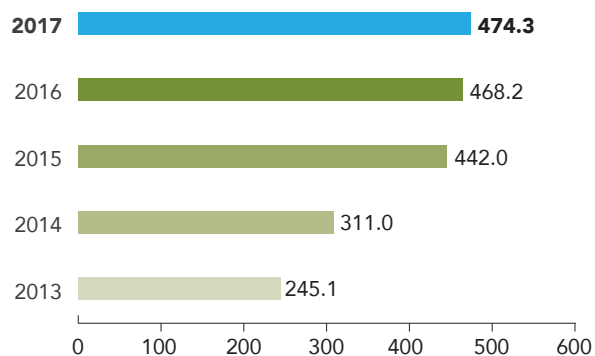
¹² Refer to pages 32 to 35 for further details

¹³ Refer to pages 36 to 39 for further details

FINANCIAL SUMMARY: 5-YEAR PERFORMANCE

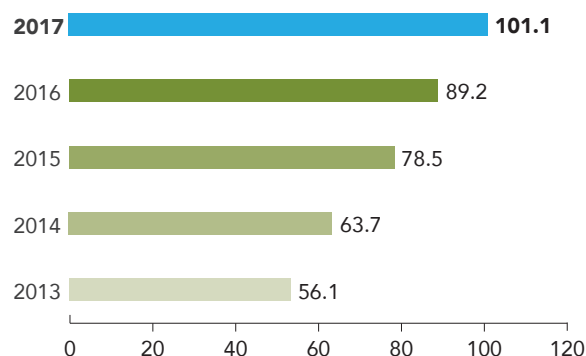
Premium and Levy Revenues

(Amount denoted in RM Million)



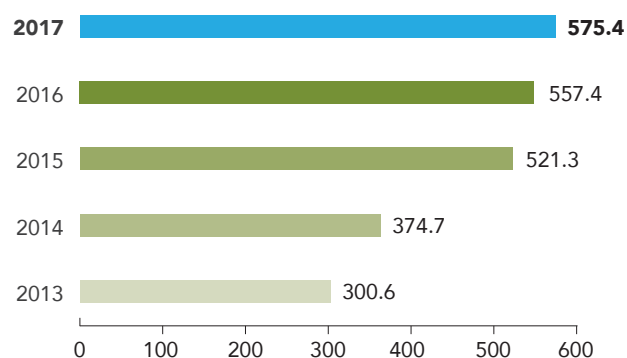
Investment Income

(Amount denoted in RM Million)



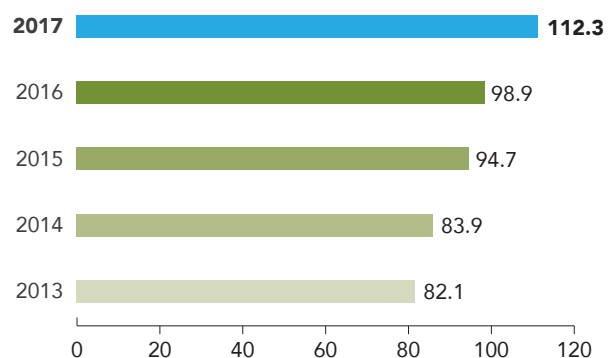
Total Income

(Amount denoted in RM Million)



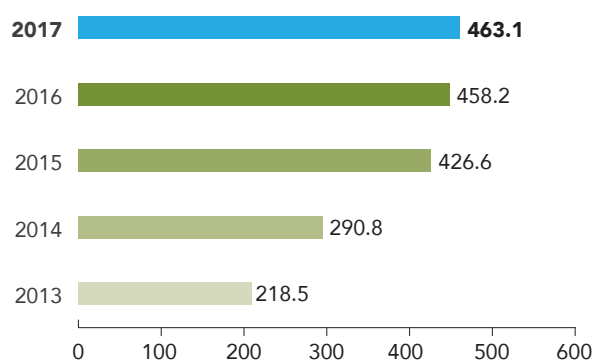
Total Expenses

(Amount denoted in RM Million)



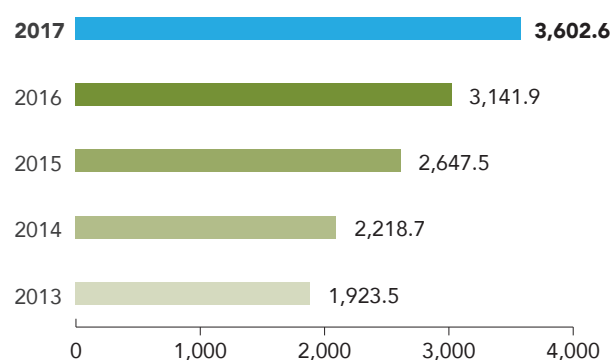
Operational Net Surplus

(Amount denoted in RM Million)



Total Assets

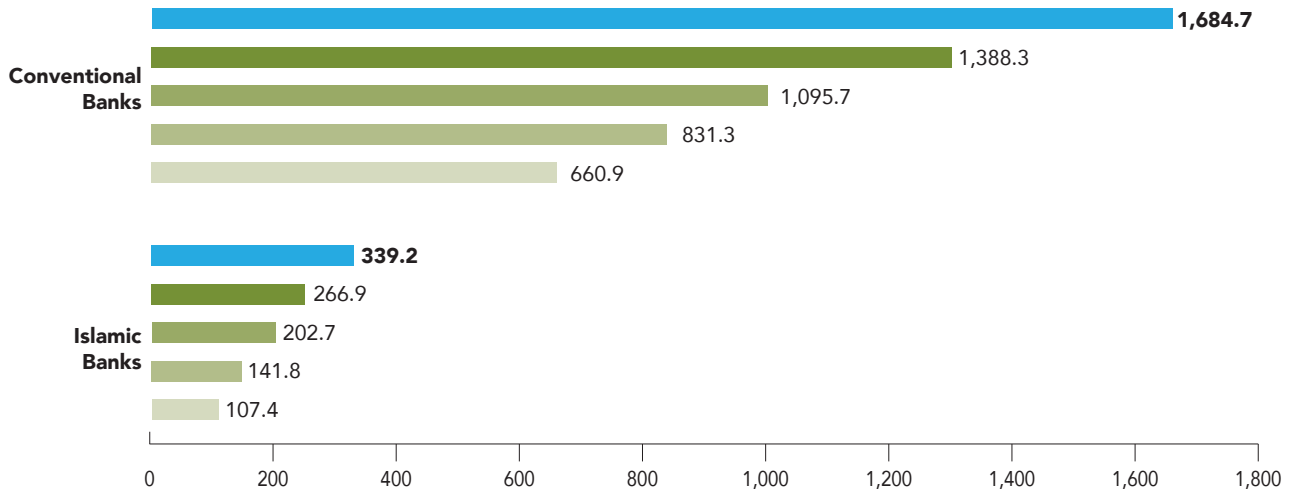
(Amount denoted in RM Million)



FINANCIAL SUMMARY: 5-YEAR PERFORMANCE

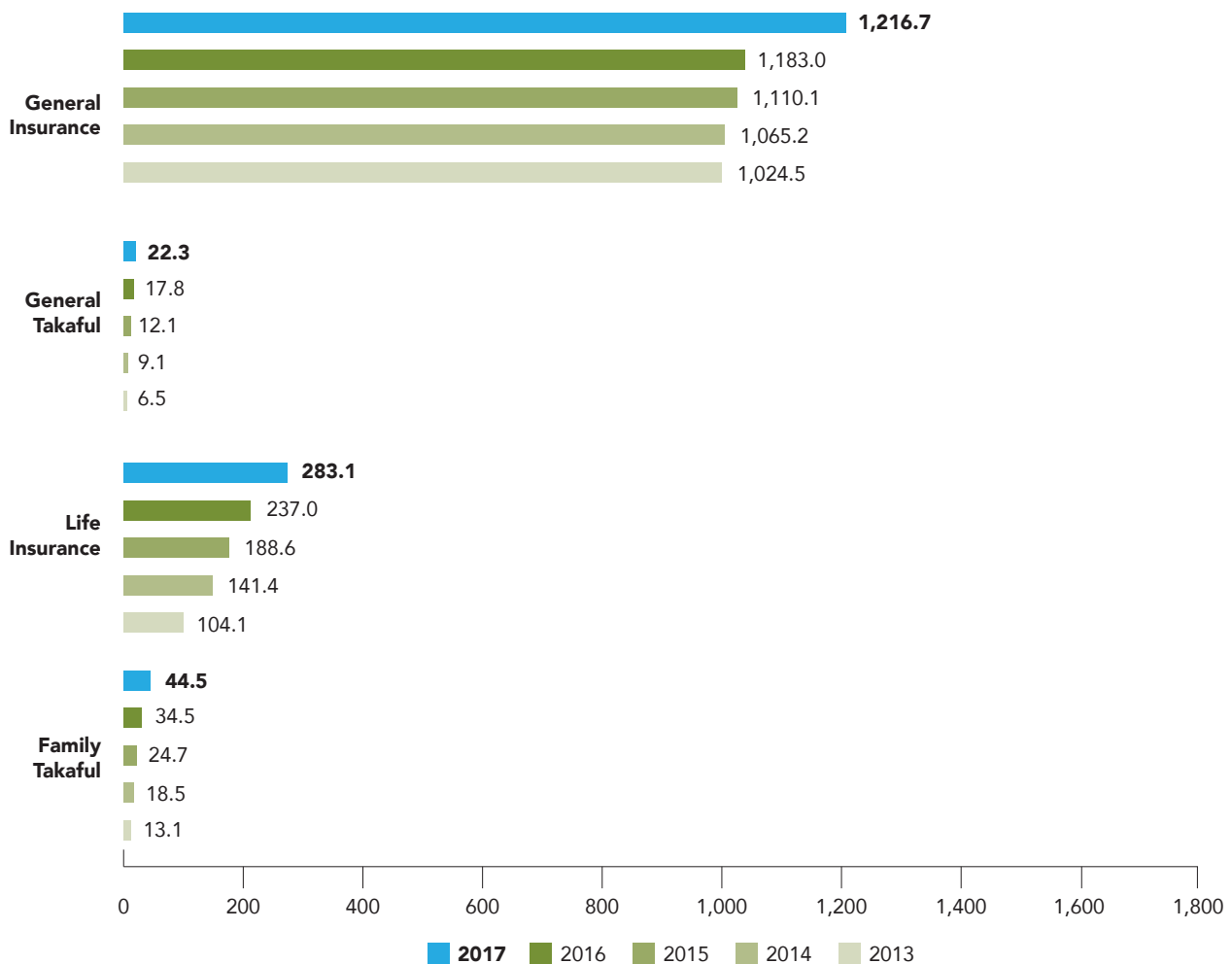
Deposit Insurance Funds

(Amount denoted in RM Million)



Takaful And Insurance Benefits Protection Funds

(Amount denoted in RM Million)



FINANCIAL SUMMARY: 5-YEAR PERFORMANCE

	2017	2016	2015	2014	2013
	RM Million				
SELECTED ITEMS FROM THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER					
Premium and Levy Revenues	474.3	468.2	442.0	311.0	245.1
Deposit Insurance Funds	400.0	388.4	359.2	239.7	180.3
Takaful and Insurance Benefits Protection Funds	74.3	79.8	82.8	71.3	64.8
Investment Income	101.1	89.2	78.5	63.7	56.1
Deposit Insurance Funds	55.7	46.1	36.7	26.2	20.5
Takaful and Insurance Benefits Protection Funds	45.4	43.1	41.8	37.5	35.6
Miscellaneous Income	-	-	0.8	-	-
Realised losses from divestment of investment securities	-	-	-	-	(0.6)
Deposit Insurance Funds	-	-	-	-	-
Takaful and Insurance Benefits Protection Funds	-	-	-	-	(0.6)
Total Income	575.4	557.4	521.3	374.7	300.6
Total Expenses	112.3	98.9	94.7	83.9	82.1
Operational Net Surplus for the Year	463.1	458.5	426.6	290.8	218.5
Remeasurement of Long Term Retirement Plan Liability	(0.1)	-	-	-	-
Net gains on available-for-sale investments	-	-	-	-	0.2
Moneys received from Insurance Guarantee Scheme Funds	-	35.0	-	-	-
Net Surplus for the Year Representing Total Comprehensive Income for the Year	463.0	493.5	426.6	290.8	218.7

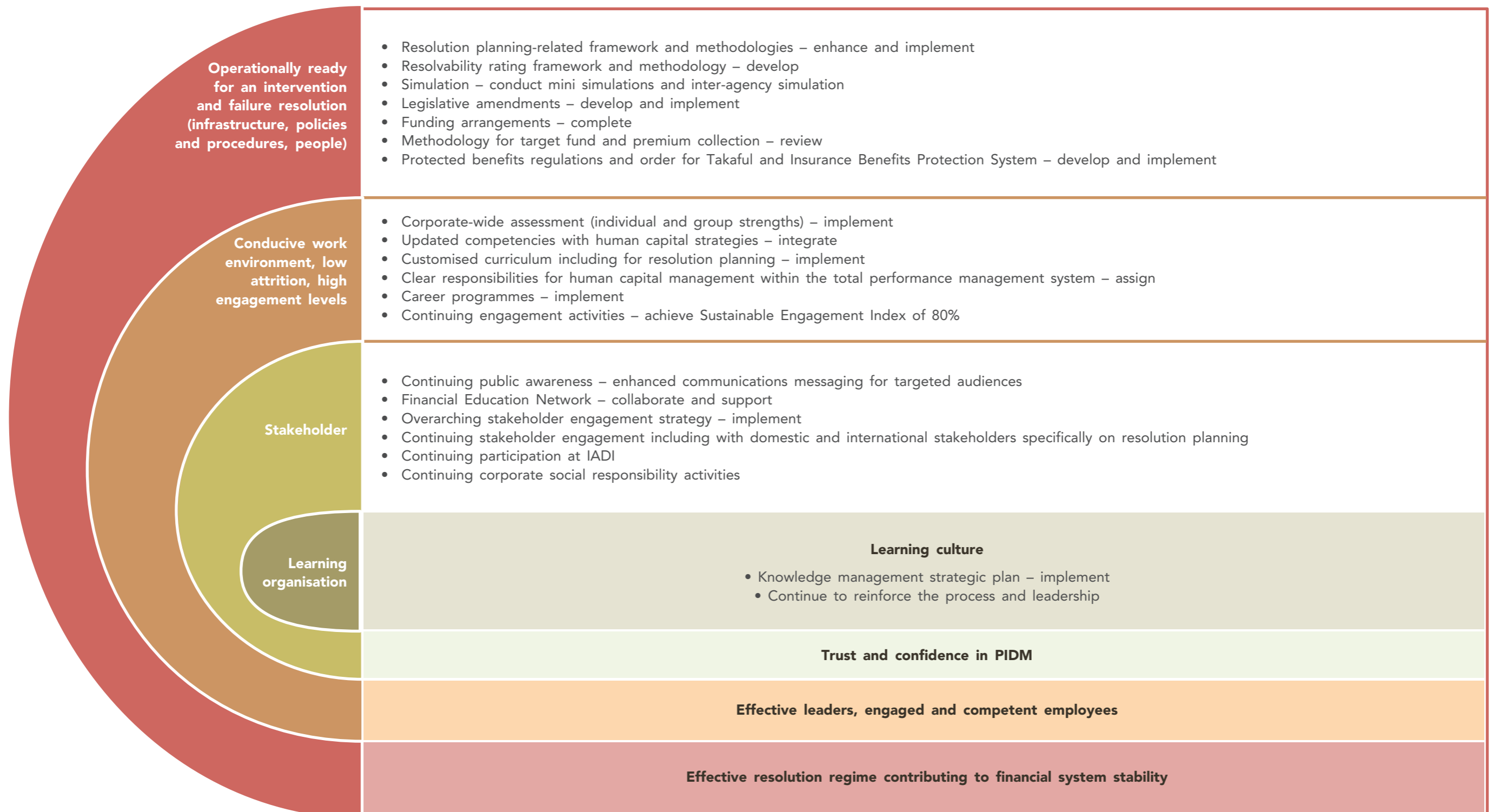
FINANCIAL SUMMARY: 5-YEAR PERFORMANCE

	2017	2016	2015	2014	2013
	RM Million				
SELECTED ITEMS FROM THE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER					
Total Assets	3,602.6	3,141.9	2,647.5	2,218.7	1,923.5
Total Liabilities	12.1	14.4	13.6	11.4	7.0
Funds and Reserves	3,590.5	3,127.5	2,633.9	2,207.3	1,916.5
Deposit Insurance Funds	2,023.9	1,655.2	1,298.4	973.1	768.3
Conventional Deposit Insurance Fund	1,684.7	1,388.3	1,095.7	831.3	660.9
Islamic Deposit Insurance Fund	339.2	266.9	202.7	141.8	107.4
Takaful and Insurance Benefits Protection Funds	1,566.6	1,472.3	1,335.5	1,234.2	1,148.2
General Insurance Protection Fund	1,216.7	1,183.0	1,110.1	1,065.2	1,024.5
Life Insurance Protection Fund	283.1	237.0	188.6	141.4	104.1
General Takaful Protection Fund	22.3	17.8	12.1	9.1	6.5
Family Takaful Protection Fund	44.5	34.5	24.7	18.5	13.1
Total Liabilities, Funds and Reserves	3,602.6	3,141.9	2,647.5	2,218.7	1,923.5

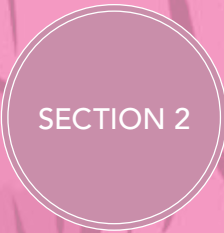
THE YEAR AHEAD

The diagram below depicts the broad overview of PIDM's plans moving forward.

2018 - 2020*



* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details



SECTION 2

MESSAGES

Message from the Chairman

Message from the Chief Executive Officer

MESSAGE FROM THE CHAIRMAN

TAN SRI DR. RAHAMAT BIVI YUSOFF



In 2017, the Board of PIDM focussed on 3 areas: Board effectiveness; a smooth leadership transition; and achieving a state of readiness.

BOARD EFFECTIVENESS

First, Board effectiveness. During the year, 2 new Directors were appointed. I am pleased to welcome Encik Johan Mahmood Merican and Ms. Gloria Goh. Their extensive professional experiences and expertise will bring new and insightful perspectives to the Board. I would also like to take this opportunity to thank Mr. George Anthony David Dass who retired in 2017 and to Encik Mohamad Abdul Halim Ahmad, who retired more recently, for their invaluable contributions.

An essential initiative for Board effectiveness is through education. As part of the Board education programme, several meetings were held in 2017 to deepen the Board Members' understanding of PIDM's business and affairs. Board Members were invited to all FIDE FORUM-related events and to participate in relevant international seminars and conferences. New Directors were oriented to bring them quickly up to speed.

The external evaluation on the effectiveness of the Board conducted in 2017 rated the Board of PIDM as "strong". The report noted that the Board demonstrates strong capabilities across the majority of the critical elements of Board effectiveness.

SMOOTH LEADERSHIP TRANSITION

The Board, supported by the Succession Planning Committee, ensured a smooth leadership transition at Management level. Encik Rafiz Azuan Abdullah was appointed as Chief Executive Officer (CEO) with effect from 28 August 2017 by the Minister of Finance.

ACHIEVING A STATE OF READINESS

A significant strategic priority for PIDM relates to resolution planning, also known as writing “living wills” for financial institutions. This plan will ensure that all financial institutions, regardless of size, can be resolved in an orderly manner, without disrupting the continuity of critical financial services.

Even for most people, the business of being alive takes up quite a lot of their time and thinking about writing a will for their deaths may well languish at the bottom of their “to do” list for a long time. Yet for the overall financial system if we think about the turmoil and costs that come with being unprepared for failures, and the potential damage to the financial system, the economy, and the general public, we must accept that this initiative is inevitable. For PIDM, it is in fact our duty to make sure that these are done, for sustainable and long-term financial system stability of our nation. The key is to make sure it is done in the most effective and least burdensome way we can, while fulfilling our duties.

PIDM aims to formulate credible resolution plans and preferred resolution strategies that are both realistic and implementable in times of crisis for each financial institution. PIDM will regularly engage with member institutions throughout the resolution planning process. We will also continue to work closely with Bank Negara Malaysia to ensure consistency in our requirements, and to minimise unproductive overlapping of work and resources.

LOOKING FORWARD

Despite the favourable economic prospects, it is prudent for us to continue with our risk surveillance. We also understand the need to enhance our readiness to ensure that PIDM is always ready to respond to a crisis.

Meanwhile, the Board will continue to focus on fulfilling its oversight responsibilities, acting independently and in the best interests of PIDM. The Board will also continue to uphold the high degree of operational independence of PIDM. Having the will and the power to act without interference is critical when managing a failure or a systemic financial crisis.

CONCLUSION

It is an honour to be appointed by the Minister of Finance as the third Chair of the Board of PIDM, with effect from 15 August 2017. Having served as a Board Member for 6 years previously, I look forward to continue working with my fellow Board Members in our ongoing efforts to achieve PIDM’s vision.

On behalf of our Board, I would like to take this opportunity to thank Tan Sri Datuk Dr. Abdul Samad Haji Alias, our former Chairman, for his invaluable leadership and immense contribution to ensure a robust and effective Board. I would also like to thank Mr. Jean Pierre Sabourin, our former CEO for his extraordinary leadership in taking PIDM to where it is today. His passion and devotion to the cause of advancing the importance of deposit insurance in promoting financial system stability are unsurpassed. On behalf of us all, I record our deep gratitude to both of them. We thank them for their service to the nation.

I am also grateful for the support of my fellow Members of the Board. Their contributions are much valued. I wish to especially thank our ex officio Directors, Governor Muhammad bin Ibrahim of Bank Negara Malaysia and Tan Sri Dr. Mohd Irwan Serigar Abdullah, the Secretary General of Treasury, Ministry of Finance for their support and guidance.

Last but not least, the Board sincerely appreciates the efforts, commitment and contributions of our new CEO, Encik Rafiz Azuan Abdullah, the Management team and all of our employees.



Tan Sri Dr. Rahamat Bivi Yusoff

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

RAFIZ AZUAN ABDULLAH



The Edelman Trust Barometer labelled its 2017 global report "Trust in Crisis". Its 2018 global report concludes, "No Recovery in Trust".

The good news is this. Today, it would seem that trust is what distinguishes the regulated financial services industry from fintech companies in this age of tech-dominated change. For now, at least, the financial services industry still has the 3 trust elements to their advantage – customers' trust, experience complying with regulations, and capital.¹ How the industry incorporates digital strategies to leverage on this opportunity and service customer needs will help determine its future survival.

Studies also reveal lower consumer trust levels in countries that have suffered financial crises than those which have not.² The conclusion? Working with regulators towards financial system stability – which includes containing, as far as possible, financial crises – works in the interests of both the financial services industry and the consumer. This foundation of trust fosters growing public confidence in institutions that protect their welfare and interest.

For PIDM, contributing to financial system stability as part of the nation's financial safety net is an explicit objective, as set out in the PIDM Act.

¹ The Economist Intelligence Unit Report "Symbiosis - Your bank has your trust. Can fintech make you love it?", Sponsored by Temenos, the software specialist for banking and finance

² E.g. Raija Anneli Järvinen, (2014), "Consumer trust in banking relationships in Europe", International Journal of Bank Marketing, Vol. 32 Iss 6 pp. 551 - 566, https://www.researchgate.net/profile/Raija_Jaervinen/publication/265969491_Consumer_trust_in_banking_relationships_in_Europe/links/5549daec0cf205bce7ac42bf.pdf

YEAR OF CHANGE FOR PIDM

For PIDM, 2017 signified internal change. In August 2017, Tan Sri Datuk Dr. Abdul Samad Haji Alias retired as the Chairman of the Board. At Management level, Mr. Jean Pierre Sabourin, the founding CEO, also retired as our CEO.

What remained unchanged were PIDM's foundations – good corporate governance in public service and the value of excellence.

As I experienced this transition, once again I came to appreciate the value of those foundations; matters that the Board and our former CEO worked hard at establishing. Despite the challenges of change, we are always prepared with a clear perspective of our duties in relation to PIDM's mandate and objectives.

2017 AND GOING FORWARD

Our membership as a whole continues to be robust and profitable. Nevertheless, PIDM continues to remain vigilant and work on strengthening operational readiness, and financial system stability.

Together with Bank Negara Malaysia, in July 2017 we formally introduced the recovery and resolution planning initiative to our member institutions. Pilot banks have been identified to test our current resolution planning framework during the conduct of the pilot exercises. The framework will eventually be refined to ensure that PIDM's resolution planning requirements for all other member institutions are effective and practicable. Over time, the development of these plans will reflect the risks of the institutions, and set out actions and timelines to address impediments to resolvability.

In 2017, we carried out yet another payout simulation. Using external observers, we tested all aspects of our payout preparedness. This included post-payment adjustment, communications and funding, and possible interactions with a hypothetical member bank. Looking forward, we will continue to carry out simulations including to test inter-agency communications. We also plan to look into the feasibility of more innovative ways of managing payments to depositors.

We have also developed a holistic stakeholder engagement strategy, so that our efforts are more concerted and better aligned internally. As always, we recognise that the challenge of financial system stability is one that confronts several authorities. We need collaboration among a wide range of stakeholders. Hence our plan involves meaningful consultations and communications, in particular for resolution planning. We look forward to working even more effectively with our key stakeholders – who we consider our strategic partners – towards the common objective of supporting financial system stability.

We also continued our efforts to ensure public awareness about PIDM and our protection systems. We observe that the levels of public awareness show signs of reaching saturation, given similar resource commitments. Following our consumer survey and behavioural study reports, we have reviewed our communications plan to take a more long-term perspective so that we may achieve greater sustainability in terms of public awareness and understanding.

ALWAYS ROOM FOR IMPROVEMENT

The tenet, among us in PIDM, is that there is always room for improvement.

In 2017, PIDM received a silver award from the Australasian Reporting Awards for its Annual Report 2015. In the past, we have received several awards at the National Annual Corporate Report Awards (NACRA).

This notwithstanding, we strive to continuously improve on our reports. In this report, we have aimed to make our report more readable and more holistic. We aimed for a more concise yet relevant narrative, and clear away the clutter. This is because we want our stakeholders to have a clear understanding about what it is that PIDM has been doing, and why, and how PIDM adds value to financial system stability.

We are keenly aware that we are accountable to the public and to our stakeholders. We will continue striving to achieve our mandate in the best way that we can.

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

RAFIZ AZUAN ABDULLAH

Looking for greater operational efficiencies while keeping our eye on our objectives is also the major theme for how we carry out our work in the next few years.

For us, too, the trust of our key stakeholders is critical to our ability to effectively meet our mandate.

APPRECIATION

In early 2017, we saw the retirement of Mr. George Anthony David Dass and the valuable additions of Encik Johan Mahmood Merican and Ms. Gloria Goh. Tan Sri Datuk Dr. Abdul Samad Haji Alias and Mr. Jean Pierre Sabourin, who both retired in August 2017, are well missed. I credit the seamless adaptation to change to the foundations that these individuals have laid for PIDM, and of course to the support of all of our Board Members, including our former Audit Committee and Remuneration Committee Chairman, Encik Mohamad Abdul Halim Ahmad, who retired in January 2018.

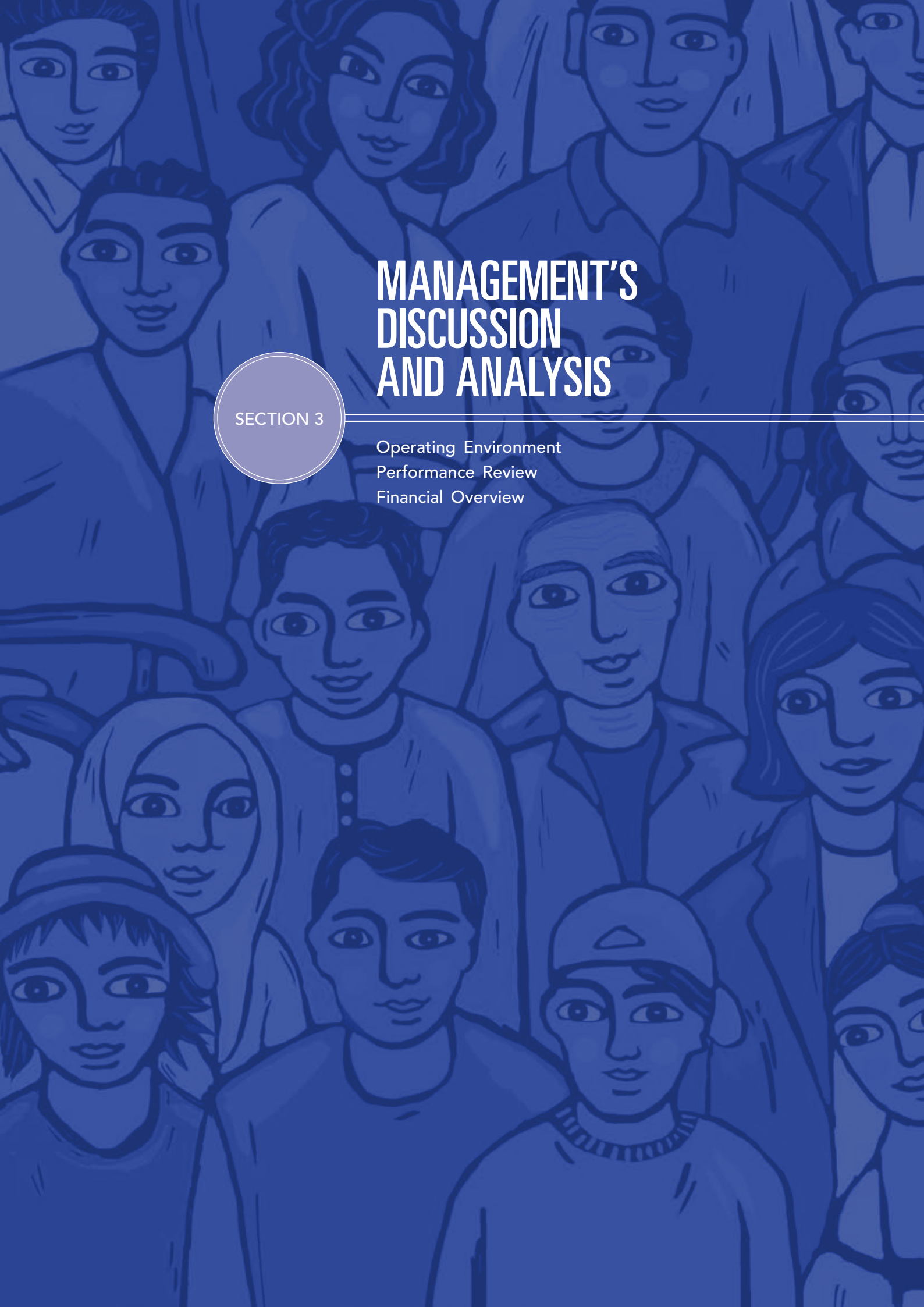
I am delighted to extend a warm welcome to Tan Sri Dr. Rahamat Bivi Yusoff, with her considerable leadership experience, once again on our Board, this time as our new Chair.

Finally, I would like to recognise PIDM's Management team and employees for their enormous support. PIDM's most recent employee survey results in December 2017 shows a high level of engagement, at 88%. In 2017, despite our small size, many of our employees volunteered to participate in inter-agency games and related activities as part of our stakeholder engagement activities. I am impressed by the display of teamwork and willingness to go beyond the call of duty. I believe that this reflects how we do our work at PIDM, and I thank them for their dedication.

I am enthusiastic about the future. With the support of our Board and this team, I look forward to another year of challenge and change.



Rafiz Azuan Abdullah



MANAGEMENT'S DISCUSSION AND ANALYSIS

SECTION 3

Operating Environment
Performance Review
Financial Overview

OPERATING ENVIRONMENT

PIDM regularly identifies and assesses the significant risks that must be managed for PIDM to achieve its objectives (refer page 87 for a more detailed discussion on PIDM's risks). PIDM also develops action plans to address the identified risks. These action plans are incorporated as part of PIDM's key initiatives and are found in its publicly available corporate plans.

For 2017, and going forward, PIDM's key initiatives continue to be aligned with the following 3 long-term strategic priorities, identified since 2016:



Outlook for economic conditions and member institutions. PIDM monitors the economic conditions and the performance of its member institutions on an ongoing basis. An assessment of the conditions for member institutions and their prospects and risks going forward is found in Section 4 – Overview of Membership (on page 66). For 2018, member institutions are expected to continue to maintain solid fundamentals, supported by robust risk management practices, and sound capital and liquidity positions.

SIGNIFICANT RISKS

PIDM conducted a "significance" assessment with senior management. Arising from this exercise, PIDM identified 3 main areas that are significant to the organisation, which would also have an impact on its key stakeholders.

Based on the assessment, PIDM has developed strategic priorities, which are (a) working towards an effective resolution regime for Malaysia, (b) dealing with human capital needs for sustainability and future success, and (c) enhancing stakeholder engagement and sustaining good governance.

Risks to the Stability of the Financial System

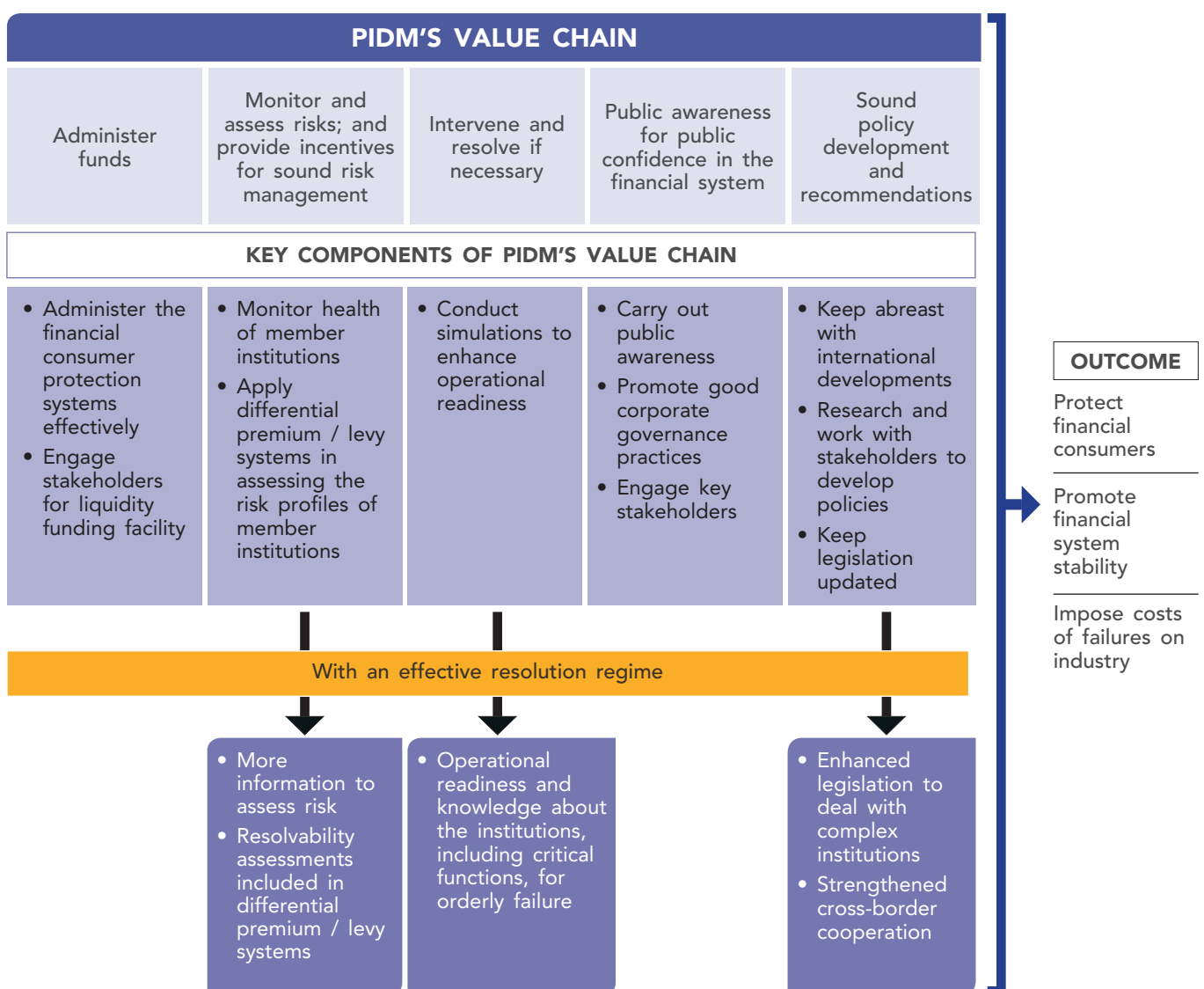
Ensuring financial stability. Risks to the financial system are never known with any certainty, and financial crises do continue to occur from time to time. Today, it is well accepted that crisis preparedness must be an integral aspect of any financial stability system design. A well-thought through resolution regime – that can properly support authorities to deal with non-viable institutions without severe impact on financial stability – is part of that crisis preparedness.

PIDM already has a range of resolution tools in its legislation. Nevertheless, there are important aspects of Malaysia's current resolution regime that should be enhanced in order to mitigate the multitude of risks and issues related to a financial crisis. The lack of sufficient information about the potential impact of a failure of a complex financial institution on the stability of the financial system during a crisis is only one of these issues.

Effective resolution regime. In view of its financial stability mandate and the risks associated with financial crises, PIDM is responsible to work towards an effective resolution regime for Malaysia. Financial safety net players, including PIDM, must address gaps in legislation or other impediments to ensure that the resolution of member institutions can take place in an orderly manner.

Resolution planning for member institutions. A key initiative for PIDM is to ensure that there is a resolution plan for each member institution (the resolution planning initiative). The resolution planning initiative will also provide member institutions with opportunities to review and assess their organisation structures and operations, improve operational efficiency, as well as reduce risks.

The following diagram depicts how PIDM creates value, and the key components of its value chain.



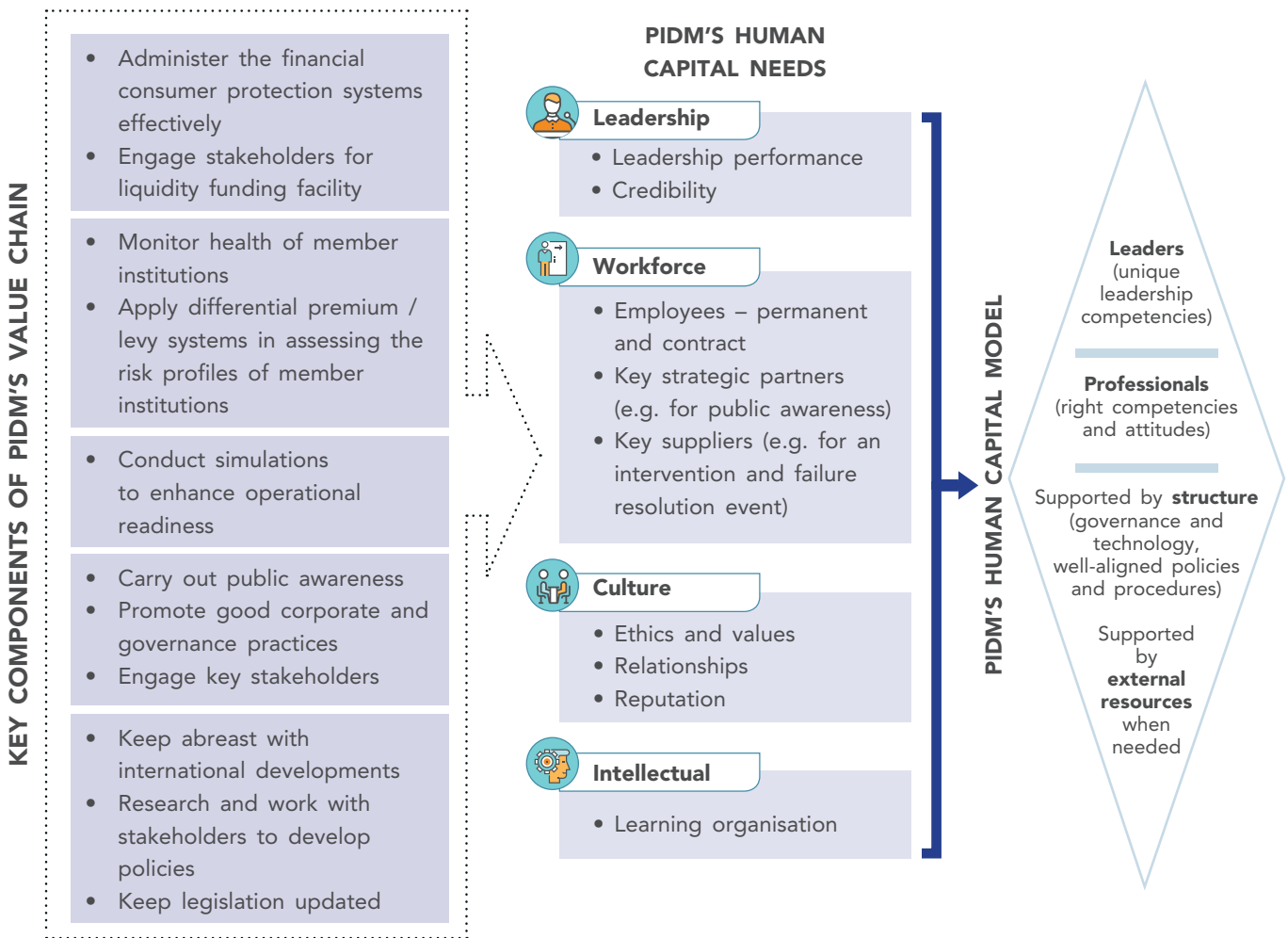
Filling in the gaps to achieve a truly effective resolution regime is critical to be able to address the types of resolution issues seen in the past, including the most recent global financial crisis. This will help mitigate the risks of widespread and systemic failure of the financial system.

OPERATING ENVIRONMENT

Human Capital

PIDM's Human Capital Model

"The resolution authority should have adequate resources the expertise, resources and the operational capacity to implement resolution measures with respect to large and complex firms."
 Clause 2.5 of the Financial Stability Board's Key Attributes of Effective Resolution Regimes for Financial Institutions.



Business model challenges. PIDM’s business model calls for a workforce that is heavy with professionals who are experts in their field. Should the need arise, external resources will be employed. PIDM must ensure that its people have the behavioural and technical competencies needed to address its long-term strategic priorities, vision and mission. Some of the more immediate challenges are as follows:

- (a) Given its uniqueness, PIDM has invested heavily on training and development of its people. Because of the relatively flat structure, which limits the potential for upward career movement, a key risk has been identified in recent years, which relates to the attraction, engagement and retention of its talents.
- (b) “People” risk is rated “increasing”, partly because of PIDM’s resolution planning initiative. This calls for the acquisition of skilled resources and intensive training for employees in a new field.

Alignment with long-term strategic plan. PIDM’s Strategic Human Capital Plan 2015 - 2020 was developed to support PIDM’s corporate strategy and growth. Among its key strategies is to make human capital management a shared responsibility between the Human Capital Division and its people managers. Over the long term, investing in human and intellectual capital and establishing a clear employee value proposition remain high on PIDM’s priority.

People excellence. PIDM has embarked on its journey as a learning organisation, where people are skilled at creating, acquiring and transferring knowledge. The building blocks recommended for the success of such an aspiration are: (a) a supportive learning environment, (b) concrete learning processes, and (c) leaders that reinforce the learning culture of the organisation. The establishment of a learning organisation is also part of PIDM’s human capital strategy for the sustainability of PIDM.

Stakeholder Engagement and Good Governance

*“Achieving good regulatory outcomes is almost always a co-operative effort: by the government, amongst regulators, the regulated, and the broader community”*¹ The Organisation for Economic Co-operation and Development’s Best Practice for Regulatory Policy – The Governance of Regulators, 29 July 2014.

Our stakeholders. Over the years, PIDM has carried out a variety of engagements with its various stakeholders, including the public, member institutions and relevant authorities. To achieve sufficient understanding about the industry and the impact of its proposed policies or regulations, PIDM communicates with the industry to seek feedback and to address concerns. Given the priority of an effective resolution regime, close engagement and communications with member institutions and key decision-makers will be crucial going forward.

¹ Page 15

OPERATING ENVIRONMENT

The following depicts PIDM's key stakeholder management programmes:

Stakeholder Group	Engagement Platforms
<i>Internal</i>	
Employees	<ul style="list-style-type: none"> • Engagement activities and programmes • Training programmes • Policies and procedures • Multi-channel communications e.g. townhall sessions, email communications, internal bulletin and intranet • Surveys
<i>External</i>	
Ministries and regulatory agencies	<ul style="list-style-type: none"> • Agreements e.g. the Strategic Alliance Agreement with Bank Negara Malaysia • Meetings • Consultations
Member institutions and their industry associations	<ul style="list-style-type: none"> • Meetings / briefings • Consultations • Website
Deposit insurers and insurance guarantee schemes	<ul style="list-style-type: none"> • Memoranda of understanding • Meetings • Seminars / conferences • Website
Key suppliers and strategic partners	<ul style="list-style-type: none"> • Meetings
Public / communities	<ul style="list-style-type: none"> • Surveys • Briefings • Exhibitions / roadshows • Advertisements • Education programme • Website

Public confidence. Public awareness and confidence in PIDM is important in order for PIDM to achieve its mandate, which includes promoting and contributing towards the stability of the financial system. Hence, PIDM continues to implement a variety of initiatives to maintain a good level of awareness and to enhance the public's understanding of its role in the financial system in Malaysia.

PERFORMANCE REVIEW

The following section provides an overview of PIDM's key achievements, its financial performance and plans for 2018 - 2020, against PIDM's 3 strategic priorities.

Overall, PIDM has achieved its 2017 initiatives in line with the Corporate Plan 2017 - 2019, except for 1 information technology (IT) system initiative that has been reprioritised pending proposed changes in regulations on which the initiative is dependent (refer note 5 on page 42). The 3 public awareness target levels were marginally missed as explained on page 36 and 37. PIDM has also achieved these initiatives within the 2017 Board-approved financial plan.

STRATEGIC PRIORITY – EFFECTIVE RESOLUTION REGIME

Resolution planning is an important aspect of establishing an effective resolution regime. An effective resolution regime allows financial institutions to be resolved without severe systemic disruption, while protecting public funds, maintaining confidence in the financial system, and limiting moral hazard. An aspect of this regime is the development of recovery and resolution plans for all member institutions. In 2017, PIDM and Bank Negara Malaysia established a policy framework to implement recovery and resolution planning (RRP) for financial institutions in Malaysia. This joint initiative ensures an integrated and effective approach towards implementing RRP in Malaysia. The first phase of RRP involved the launch of the recovery planning pilot exercise by Bank Negara Malaysia in July 2017 for selected pilot banks.

A description of progress against plans in 2017, and plans towards the roll-out of the final resolution planning-related guidelines for member institutions in this area in the next 3 years are outlined in the table below.

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
Resolution planning	<ul style="list-style-type: none"> Organised a joint industry seminar with Bank Negara Malaysia on RRP for directors and senior management of banking groups in July 2017 to articulate the importance of RRP, regulatory expectations and the strategic roadmap for implementation in Malaysia, including pilot exercises and industry consultations. Engaged with pilot banks, together with Bank Negara Malaysia, to ensure effective implementation of the pilot RRP exercise. Continued to engage with the relevant authorities, domestically and internationally, for cooperation, information exchange and coordination during the resolution planning for the relevant entity, as well as to establish the relevant protocols during a resolution. 	<ul style="list-style-type: none"> Conduct resolution planning pilot exercises. Based on the findings of the pilot exercises and the industry consultation, PIDM will enhance resolution planning-related frameworks and methodologies. Develop policy proposals and recommend legislative amendments needed for resolution planning.
Resolvability rating	<ul style="list-style-type: none"> Commenced research on a resolvability rating framework and methodology. 	<ul style="list-style-type: none"> Develop a resolvability rating framework and methodology.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

PERFORMANCE REVIEW

“The deposit insurer participates in regular contingency planning and simulation exercises related to system-wide crisis preparedness and management involving all safety-net participants.”
Essential Criteria 4, Principle 6 of the Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers.

PIDM works to ensure a high level of operational readiness. Ensuring operational readiness for any intervention or resolution of a member institution will always remain part of PIDM’s plans. PIDM will continually seek ways to ensure that resolutions, including reimbursements, if any, will be prompt and effective, and to meet the needs of those it protects as best as it can. During the year, PIDM continued to work to ensure it has updated and tested all systems and infrastructure for such purposes. In particular, PIDM carried out a simulation for the end-to-end process of a 3-day payout exercise, including post-payment adjustment, communications and funding. The payout simulation met its key objective, which is a successful execution of a 3-day payout of a hypothetical member bank. The exercise also allowed PIDM to identify potential operational and practical issues, and provided hands-on training for participating employees.



The following outlines PIDM’s key achievements in 2017 in respect of readiness, and PIDM’s plans going forward.

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
<p>Intervention and failure resolution</p>	<ul style="list-style-type: none"> • Conducted a simulation of a hypothetical member bank, for the end-to-end process of a 3-day payout exercise, including post-payment adjustment, communications and funding. • Developed an evaluation model for prompt and effective assessment of the quantitative costs of resolving a member institution. The evaluation model facilitates PIDM’s determination of the quantitative “least cost resolution” option. • Developed the Premium Reimbursement Information Management System for the purpose of determining the reimbursement of unearned premiums for owners of takaful certificates and insurance policies in the event of a payout and the Claims Management System for the purpose of monitoring the claims progress and amount payable to owners of takaful certificates and insurance policies in the event of a payout. • Issued the Malaysia Deposit Insurance Corporation (Terms and Conditions of Membership) (Amendment) Regulations 2017 to member institutions to ensure the terms remain current and relevant, and to incorporate insurance specific requirements to reflect the unique characteristics of the industry. • Issued the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Deposit-Taking Members) (Amendment) Regulations 2017 to member banks to enhance the funding indicators to better reflect the assessment of a member bank’s funding profile. 	<ul style="list-style-type: none"> • Conduct mini-simulations, and 1 inter-agency simulation exercise. • Complete the development of the Policy Holders Support Management System, to manage the details of the owners of takaful certificates and insurance policies in the event of a payout, and the Payment Management System to process payments to owners of takaful certificates and insurance policies in the event of a payout.
<p>Funding</p>	<ul style="list-style-type: none"> • Developed the target fund for takaful funds, i.e. the funds required to adequately cover the expected net losses arising from any intervention or failure resolution activity. • Developed a funding and liquidity adequacy framework to ensure holistic planning in respect of liquidity funding arrangements at resolution. 	<ul style="list-style-type: none"> • Finalise the identified or planned liquidity funding arrangement(s). • Review the basis and methodology for target fund and premium assessment in line with the resolution planning framework.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

PERFORMANCE REVIEW

The Year Ahead

The resolution planning pilot exercises for relevant member banks will commence in 2018 following the completion of the recovery planning pilot exercises. In the process, pilot banks will have the opportunity to provide feedback in relation to the resolution planning requirements before the requirements are rolled out on an industry-wide basis.

PIDM will engage with member institutions and financial safety net players throughout the process of resolution planning. Member institutions – which have in-depth knowledge of their businesses and operations – play a critical role in the resolution planning process. Through regular engagements, PIDM will collaborate with member institutions to develop their resolution plans, to ensure that the plans are feasible and credible, and that impediments to resolvability can be addressed. PIDM will also continue to strengthen the awareness of key stakeholders about resolution planning through multiple channels, including the Financial Institutions Directors' Education Programme by The Iclif Leadership and Governance Centre.

At the same time, PIDM will continue to work on enhancing operational readiness. Mini-simulations to test other aspects of readiness for intervention and resolution will also be carried out in 2018. PIDM will also look into preparations for an inter-agency simulation exercise. PIDM is also exploring the feasibility of a seamless payout using electronic payment platforms and depositor verification methods to allow for even more effective ways of payments to insured depositors.

STRATEGIC PRIORITY – STRATEGIC HUMAN CAPITAL MANAGEMENT

PIDM is making good progress against the goals of the strategic human capital plan. PIDM's Strategic Human Capital Plan 2015 - 2020 provides a high-level roadmap for continuous improvement and the direction to address its long-term human capital needs, trends and challenges. The key goals include:

- (a) keeping its people engaged;
- (b) ensuring that PIDM is always in control of human capital matters; and
- (c) working towards a learning organisation.

At PIDM, human capital management including talent engagement and retention is a shared responsibility between PIDM's Human Capital Division and its people managers.

Successful leadership transition at the top. In 2017, PIDM focussed on implementing the Board-led Chief Executive Officer (CEO) succession plan. In August 2017, a seamless and successful leadership transition took place, with the Minister of Finance appointing an internal CEO candidate from within PIDM.

Unique and updated leadership competencies have been developed. PIDM reviewed and updated its competency model and competencies, as the basis for PIDM to align its other human capital strategies. In particular, PIDM has identified unique leadership competencies that are aimed at ensuring that PIDM develops leaders in line with PIDM's changing needs. Heads of Division continued to engage with the Human Capital Division to ensure that their teams' human capital needs are properly met and their teams are properly engaged and motivated.

PIDM continues to work on aspects of its engagement strategy. PIDM encourages employees to actively self-manage their careers and identify internal career opportunities. PIDM also strives to provide opportunities for movement within PIDM and help interested employees learn more about other areas. With the resolution planning initiative, employees also have opportunities to develop their expertise in a new area. In 2017, PIDM developed a structured path with opportunities for employees to manage their careers (career programme) for resolution planning.

The following outlines PIDM’s key achievements in 2017 in respect of human capital management, and PIDM’s plans going forward.

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
<p>Employee competencies, leadership and development</p>	<ul style="list-style-type: none"> • Completed the review of PIDM’s competency model, which supports PIDM’s employee attraction, development and engagement strategies: <ul style="list-style-type: none"> – introduced a leadership and talent assessment tool with updated leadership competencies that reflect PIDM’s changing needs and expectations. – updated or developed divisional competencies definitions that reflect PIDM’s changing needs and expectations. • Continued the development of employees with professional, technical, soft skills and on-the-job training: <ul style="list-style-type: none"> – the average training days per employee in 2017 totalled 10.8 days. – 29% of the total training provided was related to technical training, 44% and 27% were related to soft skills and others, such as safety and health, respectively. 	<ul style="list-style-type: none"> • Implement a corporate-wide assessment of individual employee and group strengths with the objective of optimising talents. • Integrate the enhanced competency model with other relevant human capital strategies, including talent management. • Develop and implement a customised curriculum for PIDM. This includes a comprehensive training curriculum for resolution planning.
<p>Employee engagement</p>	<ul style="list-style-type: none"> • Achieved Sustainable Engagement Index of 88%, against the target of 80%. <ul style="list-style-type: none"> – continued to encourage active engagement of employees through various platforms. Activities in 2017 included quarterly townhall sessions, festive-cum-birthday gatherings, teambuilding and wellness activities. – annual health screening programmes offered to employees and regular communications on safety and health matters to all employees. – a recreation club, known as the Kelab Sukan, Rekreasi dan Kebajikan PIDM, was formed for employees to participate in various activities which include sports events with other stakeholders and among each other. 	<ul style="list-style-type: none"> • Assign clear responsibilities for human capital management (including engagement and talent management) within the total performance management system. • Continue to carry out initiatives to achieve a Sustainable Engagement Index of 80% in the next employee voice survey.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

PERFORMANCE REVIEW

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
Employee engagement	<ul style="list-style-type: none"> - the Toastmasters Club was also formed to enable employees to improve their presentation and speaking skills. - presented recognition and reward awards to 9 individuals. - circulated 3 issues of the internal newsletters to communicate with employees. • Implemented the following corporate social responsibility initiatives and activities: <ul style="list-style-type: none"> - collection drive for Lovely Nursing Home. - financial literacy programme for the deaf. - celebration of major festivals with the underprivileged. - participated in the annual Bursa Bull Charge Run to raise funds for Yayasan Bursa Malaysia, for distribution to charitable organisations helping the disabled, youths, underprivileged and single mothers. - sponsored gifts for the Paediatric Day organised by the Hospital Rehabilitasi Cheras. - volunteered at the annual Women's Aid Organisation Year End Party 2017, hosted for former and current residents of the shelter. 	
Employee engagement through career programme	<ul style="list-style-type: none"> • Completed the development of a career programme for 3 divisions, to provide opportunities for career development and progression as well as retention of key talents. 	<ul style="list-style-type: none"> • Complete implementation of career programme.
Learning organisation	<ul style="list-style-type: none"> • Implemented strategies to develop a learning organisation, focussing on (a) creating a supportive learning environment, (b) embedding learning in PIDM's processes, and (c) reinforcement from leaders: <p>Culture</p> <ul style="list-style-type: none"> - established a learning organisation taskforce to champion learning organisation initiatives. - implemented an ideas-generating project for organisational improvements. 	<ul style="list-style-type: none"> • Implement the knowledge management strategic plan that was developed in 2017. The plan guides the effective acquisition and transfer of knowledge among employees within PIDM.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
Learning organisation	<p>Processes</p> <ul style="list-style-type: none"> – trained employees as facilitators for after action reviews, which are now instituted as a matter of practice for key projects. – completed PIDM’s corporate e-book to preserve knowledge and corporate memory. – developed a knowledge management strategic plan, which guides the effective acquisition, capturing and transfer of knowledge by employees within PIDM. 	<ul style="list-style-type: none"> • Continue to reinforce a learning culture and establish more processes to support a learning environment.

The Year Ahead

PIDM will continue with its leadership development, based on the results of the leadership assessment carried out in 2017 as a data point, with a focus on aligning the current leadership competencies with those identified for PIDM.

In 2018, PIDM will continue its efforts in providing a conducive work environment with a view to ensuring sustainable employee engagement and retention of key talents in a number of ways, including through:

- (a) clear leadership accountability for engagement and retention of talents. This will be reinforced through the total performance management system;
- (b) PIDM will roll out the career programme developed in 2017, and ensure adequate technical training for relevant employees including those involved in the resolution planning initiative, in preparation for the industry roll-out of the resolution planning guidelines in 2020. Career programmes in relation to employees in other divisions will also be provided; and
- (c) continued communications and engagements with employees through townhall sessions, teambuilding and celebrations, among others.

PIDM will also continue building its intellectual capital through its learning organisation initiatives. In 2018, PIDM will commence the implementation of the PIDM knowledge management strategic plan that was developed in 2017. PIDM's corporate e-book will form the basis for the development of PIDM-specific aspects of the PIDM curriculum to be developed in 2018.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

PERFORMANCE REVIEW

STRATEGIC PRIORITY – STAKEHOLDER MANAGEMENT AND CORPORATE GOVERNANCE

“In order to protect depositors and contribute to financial stability, it is essential that the public is informed on an ongoing basis about the benefits and limitations of the deposit insurance system.”
Principle 10 of the Core Principles for Effective Deposit Insurance Systems issued by the International Association of Deposit Insurers.

PIDM continues to implement its public awareness programme. In 2017, PIDM executed its public awareness programme through various channels and gained positive impact. Activities included advertising featuring Lat’s creative materials via various channels, digital platforms, electronic billboards, 8 media releases as well as 3 media engagements. PIDM also began development of video and online learning modules to equip the youths with basic financial management knowledge and to create awareness about PIDM, the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). PIDM also continues with its other stakeholder engagement activities as outlined in the following pages.

Areas	Key Achievements in 2017	Plans for 2018 - 2020*																
Communications and public awareness	<ul style="list-style-type: none"> • Lower public awareness levels compared to the targets: <table border="1" style="margin: 10px auto; border-collapse: collapse; text-align: center;"> <thead> <tr> <th style="background-color: #f2f2f2;">Awareness Level</th> <th style="background-color: #f2f2f2;">Actual 2016</th> <th style="background-color: #f2f2f2;">Actual 2017</th> <th style="background-color: #f2f2f2;">Target 2017</th> </tr> </thead> <tbody> <tr> <td>PIDM</td> <td>59%</td> <td>62%</td> <td>63%</td> </tr> <tr> <td>DIS</td> <td>50%</td> <td>49%</td> <td>53%</td> </tr> <tr> <td>TIPS</td> <td>34%</td> <td>37%</td> <td>38%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> – in general there was an overall increase in awareness levels compared to 2016, with the exception of DIS, which saw a marginal dip. – this increase in awareness levels is attributed to the success of PIDM’s 2017 advertising campaign, in particular the radio and print advertisements. PIDM’s advertising campaign has also had a positive impact on financial behaviour and attitudes, with many of the respondents citing that they are more aware of the need to save, and the benefits of DIS and TIPS protection for their deposits as well as takaful and insurance benefits. – the information regulations, which require member banks to provide depositors with information on deposit insurance protection and the scope of coverage for their deposit products, has supported general awareness of PIDM’s role and its protection systems. 	Awareness Level	Actual 2016	Actual 2017	Target 2017	PIDM	59%	62%	63%	DIS	50%	49%	53%	TIPS	34%	37%	38%	<ul style="list-style-type: none"> • Develop and implement new content and materials for mass awareness and granular understanding. • Enhance public touch points through on-ground engagement and presence in the media. • Leverage on social media as a channel to reach to different target audiences.
Awareness Level	Actual 2016	Actual 2017	Target 2017															
PIDM	59%	62%	63%															
DIS	50%	49%	53%															
TIPS	34%	37%	38%															

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
<p>Communications and public awareness</p>	<ul style="list-style-type: none"> – awareness of TIPS has shown steady improvement, in particular among insurance policy owners. PIDM expects to see continued growth in awareness for TIPS over time, given that the establishment of TIPS is quite recent, i.e. less than 10 years. – against target, the awareness levels achieved for 2017 was lower. The consumer research report indicated the need to refresh advertising materials and ensure better provision of brochures and information about PIDM during the opening of new accounts at member bank branches. 	
<p>Stakeholder engagement</p>	<ul style="list-style-type: none"> • Bank Negara Malaysia: continued to collaborate with Bank Negara Malaysia including on RRP, funding and policy matters. • Ministries: held meetings with the Ministry of Finance on funding, legislative amendments and various policy matters. • Member institutions and their industry associations: <ul style="list-style-type: none"> – organised the 2017 Annual Meeting with Liaison Officers in March 2017 to provide updates on new initiatives. – conducted a briefing session on resolution planning to the Chief Risk Officers of member banks. – held meetings and consultation sessions with member institutions to gather feedback on the initiatives that may impact the industry, including topics such as the review of scope and limit of protected benefits under TIPS, PIDM's online industry portal and the proposed enhancement of the disclosure requirements on DIS benefits and limits. – networked with the senior management of the industry associations, i.e. Life Insurance Association of Malaysia and Malaysian Takaful Association, to strengthen relationships. – a total of 42 briefing sessions were conducted for employees and agents of member institutions on financial consumer protection systems. 	<ul style="list-style-type: none"> • Continue to implement the overarching stakeholder engagement strategy that was developed in 2017. • Engage regularly with member institutions on the development of resolution plans and resolvability assessment of member institutions. • Execute memoranda of understanding with foreign authorities to facilitate effective cross-border cooperation and exchange of information in respect of any resolution plans and during resolution.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

PERFORMANCE REVIEW

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
Stakeholder engagement	<ul style="list-style-type: none"> • Deposit insurers and insurance guarantee schemes: <ul style="list-style-type: none"> – continued to actively participate in the International Association of Deposit Insurers and International Forum of Insurance Guarantee Schemes seminars, conferences and meetings. – hosted 5 study visits for delegates from Bank of Zambia, Indonesia Deposit Insurance Corporation, deposit insurers from the African region, State Bank of Pakistan and Bogor Agricultural University Indonesia on various topics relating to PIDM's IT infrastructure, risk assessment and monitoring, intervention and failure resolution, RRP, and Islamic deposit insurance system. • Strategic partners: engaged proactively with the media through regular networking sessions with editors and journalists. • Public or communities: <ul style="list-style-type: none"> – conducted a total of 27 briefing sessions to the general public, communities, Federal Land Development Authority settlers, pre-retirees and retirees as well as Government employees, in collaboration with our strategic partners, Federation of Malaysian Consumers Associations and pensioners' associations. – participated in 3 Karnival Kewangan events organised by Bank Negara Malaysia. – participated in 13 exhibitions including Malaysian Insurance Summit, Invest Smart, Hari Pengguna Malaysia and others. 	
Financial literacy	<ul style="list-style-type: none"> • Financial Education Network: invited to participate in the Financial Education Network, which is the inter-agency platform to develop and publish a national strategy for financial literacy that will address financial literacy and education for every life stage, i.e. for school-going children, youths, working adults, and retirees. 	<ul style="list-style-type: none"> • Participate in the Financial Education Network for the formulation and implementation of a national strategy for financial literacy.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

Areas	Key Achievements in 2017	Plans for 2018 - 2020*
Financial literacy	<ul style="list-style-type: none"> • Financial literacy programme: following a feasibility study to assess the general availability of current financial literacy programmes in Malaysia, PIDM identified a need for financial literacy programmes among the visually-, hearing-, and motor-impaired. In 2017, PIDM conducted money management and career planning workshops designed for the deaf in selected schools in Malaysia. 	<ul style="list-style-type: none"> • Collaborate with and leverage on networks within the Financial Education Network and the larger financial community for more concerted effort and greater reach to target audiences.
Corporate governance	<ul style="list-style-type: none"> • Continued to support FIDE FORUM, the Financial Institutions Directors' Education Programme alumni, and leverage on its networks, to connect with directors of financial institutions on matters such as resolution planning. • Undergraduate scholarship programme: established in 2010, this scholarship programme aims to contribute towards the development of human capital in the country. In 2017, PIDM provided scholarships to 20 external scholars. 	<ul style="list-style-type: none"> • Leverage on FIDE FORUM network and events to engage with directors of financial institutions to involve them on PIDM's key initiatives. • Continue to provide scholarships to deserving individuals.

The Year Ahead

PIDM will continue its public awareness campaign through advertising and explore the use of social media as a channel to reach the different target audiences. It will also continue to support and work with the Financial Education Network to support the important initiative of promoting financial literacy among members of the public.

Continuing stakeholder management will take place. In 2017, Management developed an overarching stakeholder engagement strategy for a coordinated and strategic approach to stakeholder engagement, which it has started to implement. In 2018, Management will continue to implement this with a view to improving external stakeholders' understanding of the value PIDM delivers to the stability of the financial system.

The CEO was elected to the Executive Council of the International Association of Deposit Insurers in 2017. Going forward, PIDM will continue to leverage on its international networks for relationship-building, including for resolution planning purposes, as well as sharing of knowledge and experience.

* Refer to the Summary of the Corporate Plan 2018 - 2020 for further details

PERFORMANCE REVIEW

2017 CORPORATE INITIATIVES

Overall, PIDM has achieved its 2017 initiatives except for 1 initiative that has been reprioritised as explained in note 5 on page 42. The 3 public awareness target levels were marginally missed as explained on page 36 and 37. Other initiatives, which are ongoing developments spanning beyond 1 year, are progressing as scheduled. All of PIDM's planned key initiatives for 2017 have been completed within the approved financial plan. Our achievements are summarised in the 2017 Corporate Scorecard below.


A Target achieved, initiative completed

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



P Progressing as scheduled; and / or within budget

D Deferred due to reprioritisation

Corporate Objectives	Corporate Initiatives	Target 2017	Results Dec 2017	
Stakeholders				
A Educated and informed stakeholders	1. Public awareness index:			
	a. General awareness of PIDM	63%	62% N	
	b. General awareness of Deposit Insurance System (DIS)	53%	49% N	
	c. General awareness of Takaful and Insurance Benefits Protection System (TIPS)	38%	37% N	
	2. Integrated Communications Plan	Complete	A	
	B Effective partnerships	3. PIDM's relationship with:		
		a. Bank Negara Malaysia	Strong	A
b. Member institutions and their industry associations		Satisfactory	A	
c. Ministries and other Government regulatory agencies		Strong	A	
d. Key suppliers and strategic partners		Strong	A	
e. Deposit insurers and insurance guarantee schemes		Strong	A	
f. Other key stakeholders		Satisfactory	A	
4. Other international fora	Active participation	A		
Governance and Internal Processes				
C Well-governed and well-managed organisation	5a. Best practices of governance adopted and maintained	Compliance	A	
	5b. Laws and significant corporate policies and practices kept current and relevant and complied with	Full compliance and updated	A	
	5c. Quality of management support to the Board	High satisfaction	A	

Corporate Objectives	Corporate Initiatives	Target 2017	Results Dec 2017
 Governance and Internal Processes			
C Well-governed and well-managed organisation	6a. PIDM Act	Review	P ¹
	i. Resolution planning-related drafting	Research and develop	P ¹
D Robust risk assessment, monitoring, intervention and resolution capabilities	7a. Evaluation model for DIS and TIPS	Complete	A
	7b. Strategic plan for resolvability	Develop	P ²
	7c. Resolution planning for financial institutions:		
	i. Resolution planning framework and guidelines	Review	P ³
	ii. Resolvability assessment framework	Review	P ³
	iii. Resolvability rating framework and methodology for differential premium systems	Research	P ⁴
	7d. Claims management system, policies and procedures for insurer members:		
	i. Premium Reimbursement Information Management System	Implement	A
	ii. Claims Management System	Implement	A
	iii. Policy Holders Support Management System	Develop	D ⁵
	iv. Payment Management System	Develop	P ⁶
	7e. Regulations:		
	i. TIPS information regulations	Review	P ⁷
	ii. Terms and conditions of membership regulations – DIS and TIPS	Implement	A
7f. Member institutions' compliance programme with PIDM legislation for insurer members	Develop	A	
8. FIDE FORUM, the Financial Institutions Directors' Education Programme alumni	Active support and participation	A	
E Sound business and financial practices	9. Reporting through:		
	a. Annual Report	Complete	A
	b. Corporate Plan	Complete	A

PERFORMANCE REVIEW

Corporate Objectives	Corporate Initiatives	Target 2017	Results Dec 2017
 Governance and Internal Processes			
E Sound business and financial practices	10. Financial performance against approved budgets	±10% variance	A ⁸
	11. Internal control and risk management compliance	Strong	A
	12. Management audit	Implement	P ⁹
	13a(i). Funding and liquidity adequacy framework – Alternative funding arrangements	Develop	P ¹⁰
	13a(ii). Target fund for TIPS – takaful funds	Develop	A
	13b. Annual information technology strategic plan	Complete	P ¹¹
	13c. Disaster recovery centre and infrastructure	Test	A
	13d. Corporate information security management	Maintain	A
 Learning and Growth			
F Competent and knowledgeable workforce	14. Strategic human capital management	Implement	A
G Conducive corporate environment	15. Sustainable Engagement Index (survey conducted once every 2 years to gauge level of employee engagement)	80%	A

¹ The review and drafting of the relevant legislative amendments is progressing as scheduled.

² The development of the policy paper is in progress and will continue in 2018 as scheduled.

³ Following the completion of the first draft in 2016, the review of the frameworks and guidelines will be an ongoing process to incorporate findings from the pilot exercises.

⁴ Research work is progressing as scheduled and will continue in 2018.

⁵ The Policy Holders Support Management System is a system that will support PIDM, in the event of a failure of an insurer member, to provide details to policy holders about their protected benefits and related claims. The development of the Policy Holders Support Management System has been reprioritised to cater for proposed changes to PIDM's regulations on protected benefits. This reprioritisation will also allow PIDM to test data through the Premium Reimbursement Information Management System and the Claims Management System that have been completed in 2017.

⁶ The development of the system is currently in progress and will continue in 2018.

⁷ The review of the regulations is progressing as scheduled.

⁸ Achieved positive variances for both operating and capital expenditures.

⁹ The audit work is progressing as scheduled and will continue in 2018 and 2019 in line with the approved audit plan.

¹⁰ A funding and liquidity adequacy framework has been established and various arrangements for liquidity funding at resolution are progressing as scheduled.

¹¹ Completed the key initiatives that have been prioritised in the IT strategic plan. The development and / or enhancement of operational systems spanning beyond 1 year are progressing as scheduled.

FINANCIAL OVERVIEW

OPERATING RESULTS

	2017 Actual RM'000	2017 Budget RM'000	Variance Actual vs Budget		2016 Actual RM'000
			RM'000	%	
Premium and levy revenues	474,338	482,000	(7,662)	(2)	468,245
Investment income from cash and investment securities	101,080	103,000	(1,920)	(2)	89,191
Total Income	575,418	585,000	(9,582)	(2)	557,436
Employee benefits	68,661	65,500	(3,161)	(5)	56,460
Public relations and advertising	8,795	11,500	2,705	24	10,853
Depreciation of property and equipment	6,162	5,550	(612)	(11)	3,622
Operating leases	6,066	6,045	(21)	*	6,048
Other expenses	22,644	31,405	8,761	28	21,899
Total Expenses	112,328	120,000	7,672	6	98,882
Operational Net Surplus	463,090	465,000	(1,910)	*	458,554
Moneys received from Insurance Guarantee Scheme Funds	-	-	-	-	35,032
Net surplus for the Year	463,090	465,000	(1,910)	*	493,586
Other Comprehensive Income:					
Remeasurement of Long Term Retirement Plan Liability	(102)	-	(102)	(100)	-
Total Comprehensive Income for the Year	462,988	465,000	(2,012)	*	493,586

CAPITAL EXPENDITURES

	2017 Actual RM'000	2017 Budget RM'000	Variance Actual vs Budget		2016 Actual RM'000
			RM'000	%	
Furniture, fittings and office refurbishments	261	260	(1)	*	2,014
Office equipment and computer systems	5,720	6,640	920	14	5,091
Motor vehicle	-	-	-	-	300
Total Capital Expenditures	5,981	6,900	919	13	7,405

* The amount is significantly below the rounding threshold

FINANCIAL OVERVIEW

COMMENTARY ON 2017 FINANCIAL PERFORMANCE

The operating results for the financial year ended 31 December 2017 saw PIDM moving closer towards achieving operational self-sufficiency, whereby operating expenses will be sustained through PIDM's investment income, and the premiums and levies collected from member institutions will directly go towards the accumulation of the Protection Funds. PIDM's annual net operating surplus is highest to date on the back of a steady trend of premium and levy revenues collection. PIDM's investment income also grew steadily in line with the increase in the base of its investable funds.

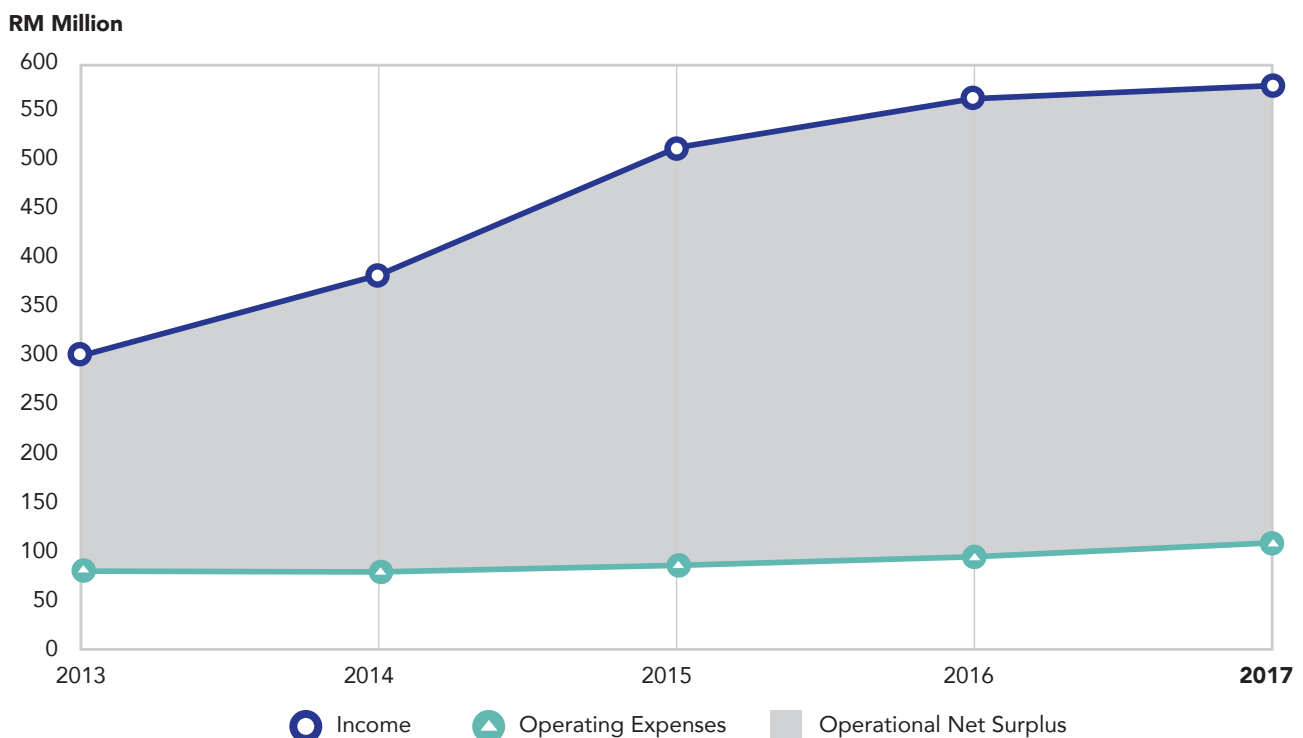
PIDM's key expenses relate to human capital as it continued to build capacity and specific capabilities for resolution planning and progressed as a learning organisation. Where needed, external subject matter experts were appointed to provide advice or transfer of knowledge in specialised areas. Despite the increase in human capital expenses, PIDM's average benefits costs per employee remain stable.

Operating expenses remain consistent as key operational infrastructure has been developed and operations have stabilised.

The following are the key financial highlights:

- (a) PIDM achieved a total income of RM575.4 million, an increase of RM18.0 million or 3.2% compared to the previous financial year. The increase year-on-year was mainly due to slightly higher premiums received from member banks and higher investment income arising from the increase in the base of investable funds.
- (b) PIDM's expenses for 2017 totalled RM112.3 million, which was an increase of RM13.4 million or 13.6% from the previous year. Expenses were RM7.7 million or 6.4% below budget.
- (c) PIDM's operational net surplus totalled RM463.1 million in 2017, an increase of RM4.5 million from 2016.
- (d) As at 31 December 2017, PIDM contracted RM6.0 million for capital expenditures, which represents 86.7% of the capital expenditures budgeted for 2017 of RM6.9 million.

Chart 1: Key Financial Trends from 2013 to 2017



The growth of the operational net surplus over the years has been consistent with the growth of total income. On the other hand, operating expenses have increased only marginally year-on-year. The operating expenses were in line with PIDM's strategic priorities as described on page 29 to 39, with key initiatives focussed on ensuring that PIDM has the capacity and capabilities to effectively carry out its statutory objects.

The balances of the Funds by DIS and TIPS as at the end of the financial years 2017 and 2016 are as follows:

Funds by System	2017	2016	Variance	
	RM'000	RM'000	RM'000	%
Deposit Insurance Funds	2,023,826	1,655,200	368,626	22.3
Takaful and Insurance Benefits Protection Funds	1,566,641	1,472,279	94,362	6.4
Total	3,590,467	3,127,479	462,988	14.8

The surpluses held in the Deposit Insurance Funds (DIFs) and the Takaful and Insurance Benefits Protection Funds (TIPFs) are to be used to cover any losses that may arise from providing protection to depositors as well as takaful certificate and insurance policy owners.

INCOME

Premiums and Levies – Incentives for Sound Risk Management

PIDM is mandated to provide incentives to member institutions for sound risk management, as well as promote and contribute to the stability of the financial system.

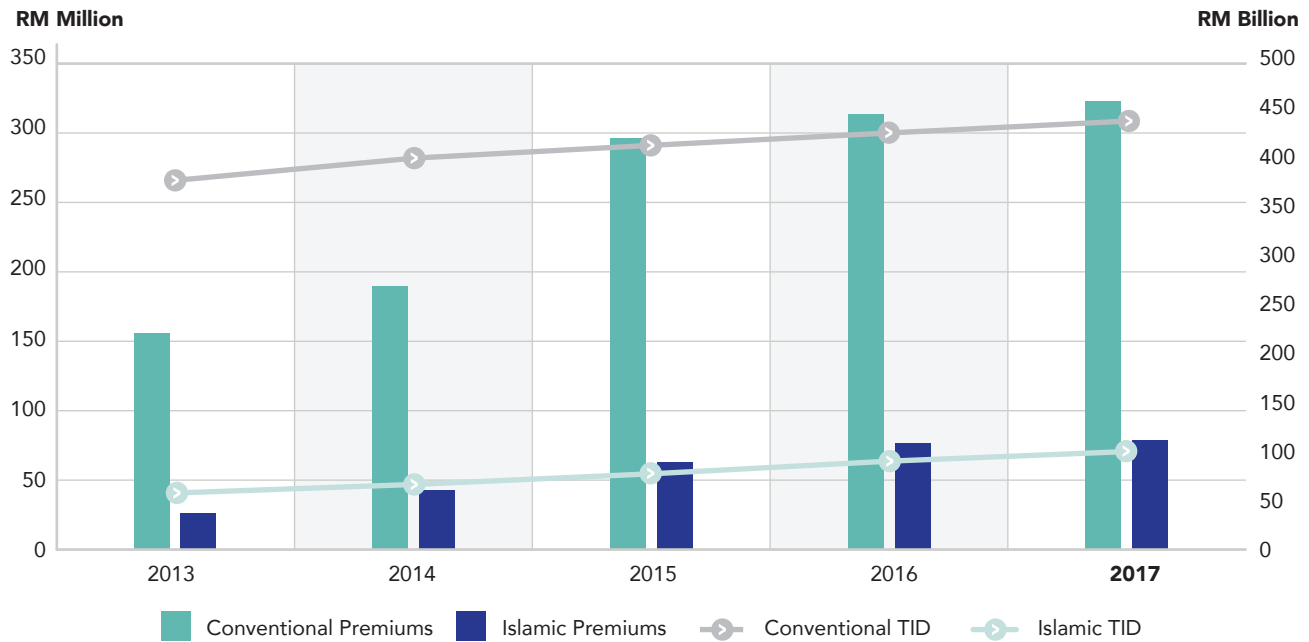
The primary means to fulfil this mandate is through the Differential Premium Systems (DPS) framework for member banks as well as the Differential Levy Systems (DLS) framework for insurer members. The objectives of both frameworks are to ensure that member institutions with lower risk profiles will pay lower premiums or levies compared to those with higher risk profiles. The DPS and DLS are aimed at providing incentives for member institutions to enhance their risk management practices and minimise excessive risk-taking. Moreover, the DPS and DLS ensure fairness of the premium or levy assessments compared with a flat-rate system. PIDM reviews the DPS and DLS periodically to ensure that they remain current and relevant.

Premium Revenues – Deposit Insurance System

The premium assessment of member banks is based on the DPS. The annual premiums for member banks are calculated based on a member bank's Total Insured Deposits (TID) as at 31 December of the preceding assessment year and the applicable premium rates under the DPS. For the assessment year 2017, total premiums collected from member banks (including first premiums) amounted to RM400.0 million, compared to RM388.4 million in the previous year. The increase in total premiums collected was in line with the growth in TID.

FINANCIAL OVERVIEW

Chart 2: Trend of Premiums for DIS and Trend of TID from Assessment Years 2013 to 2017



Premiums collected for conventional banks amounted to RM320.5 million, an increase of 1.4% from RM316.1 million collected in the previous year. For the Islamic banks, the premiums collected rose by 10.0% to RM79.5 million from RM72.3 million in the previous year.

For the assessment year 2017, TID stood at RM527.3 billion compared with RM508.5 billion in the previous year. The growth in TID of RM18.8 billion or 3.7% was in line with the trend in deposits growth in member banks. The TID for conventional banking business increased by RM10.2 billion or 2.4% and stood at RM430.5 billion as at the end of December 2016. For Islamic banking business, the TID totalled RM96.8 billion compared with RM88.2 billion in the previous year, an increase of RM8.6 billion or 9.8%.

Levy Revenues – Takaful and Insurance Benefits Protection System

Similar to the member banks, the levy assessment for insurer members is based on the DLS. The annual levies payable by insurer members are based on the applicable levy rates and the total actuarial valuation liabilities (AVL) of qualified certificates or policies² as at 31 December of the preceding assessment year for family takaful or life insurance business. In the case of general takaful or general insurance business, levies are based on the total net contributions or net premiums received during the preceding assessment year in relation to qualified certificates or policies.

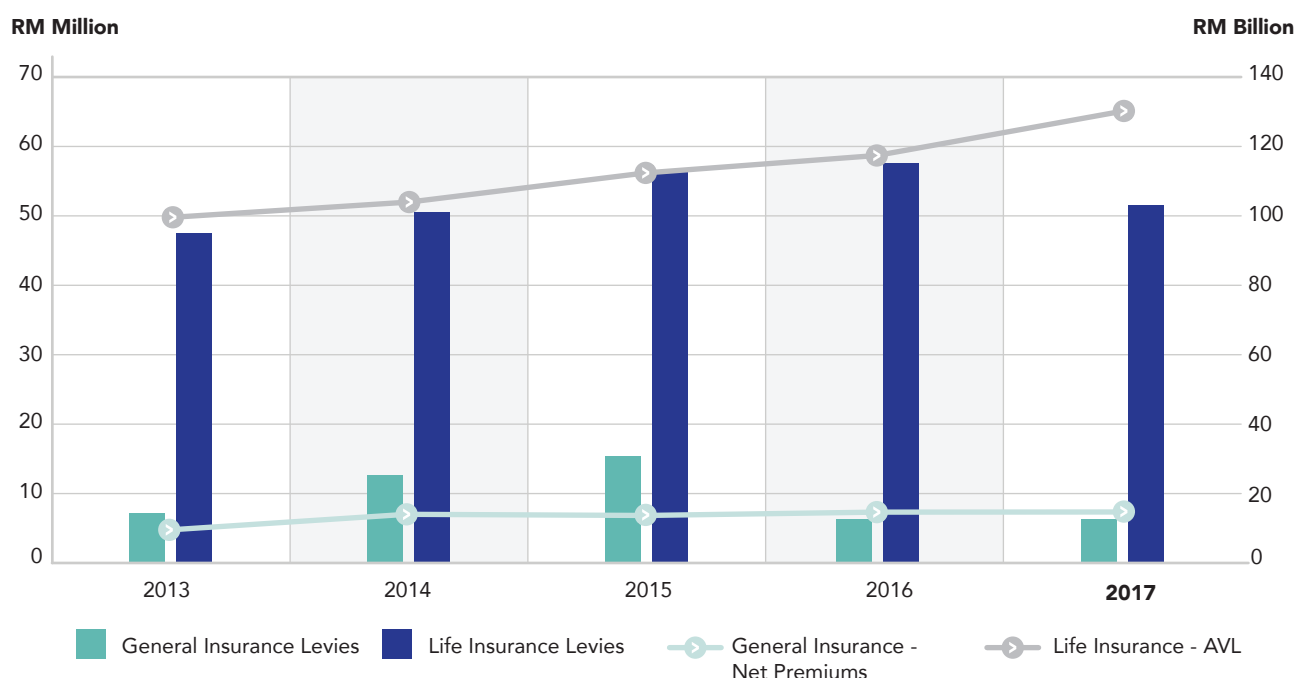
² Qualified certificates or policies refer to certificates or policies that contain part or all of those benefits protected under TIPS, as prescribed in the Malaysia Deposit Insurance Corporation (Protected Benefits) Regulations 2011, Malaysia Deposit Insurance Corporation (Protected Benefits Limits) Order 2011, and Guidelines on Takaful and Insurance Benefits Protection System: Submission of Returns on Calculation of Levies For Takaful and Insurance Businesses (2016)

For the assessment year 2017, the total levies collected from insurer members amounted to RM74.3 million, compared to RM79.8 million recorded in the previous assessment year. The lower amount of levies collected was mainly attributable to the improvements in levy categorisation for some insurer members, and offset by the growth in total net premiums or net contributions and AVL. The detailed breakdown is as follows:

General Insurance Protection Fund. The levies collected for the General Insurance Protection Fund (GIPF) amounted to RM5.4 million, similar to the previous year.

Life Insurance Protection Fund. The levies collected for the Life Insurance Protection Fund (LIPF) amounted to RM52.2 million. This was a decrease of 8.7% from RM57.2 million collected in the previous year.

Chart 3: Trend of Levies for TIPS (Insurance Business) and Trend of Net Premiums, Net Contributions and AVL for Assessment Years 2013 to 2017

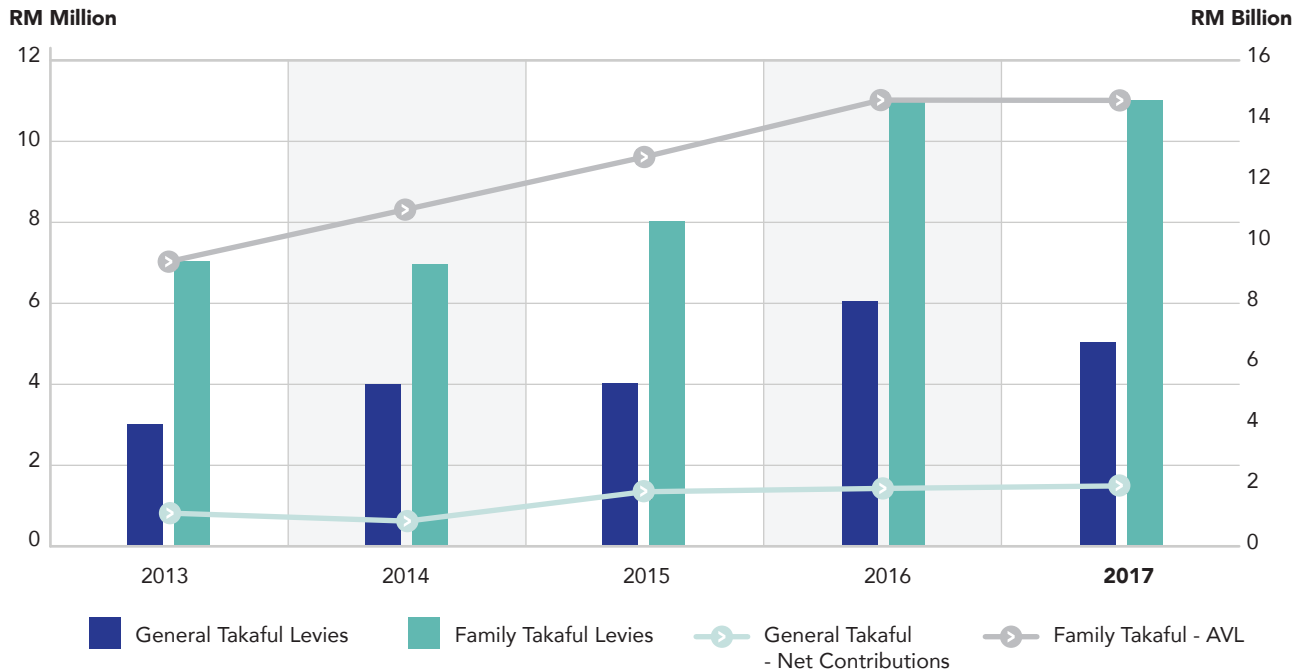


General Takaful Protection Fund. The levies collected for the General Takaful Protection Fund of RM5.3 million was lower than the levies of RM6.2 million collected in the previous assessment year.

Family Takaful Protection Fund. The levies collected for the Family Takaful Protection Fund rose by 3.4% to RM11.3 million, compared with RM11.0 million collected in the previous year.

FINANCIAL OVERVIEW

Chart 4: Trend of Levies for TIPS (Takaful Business) and Trend of Net Premiums, Net Contributions and AVL for Assessment Years 2013 to 2017

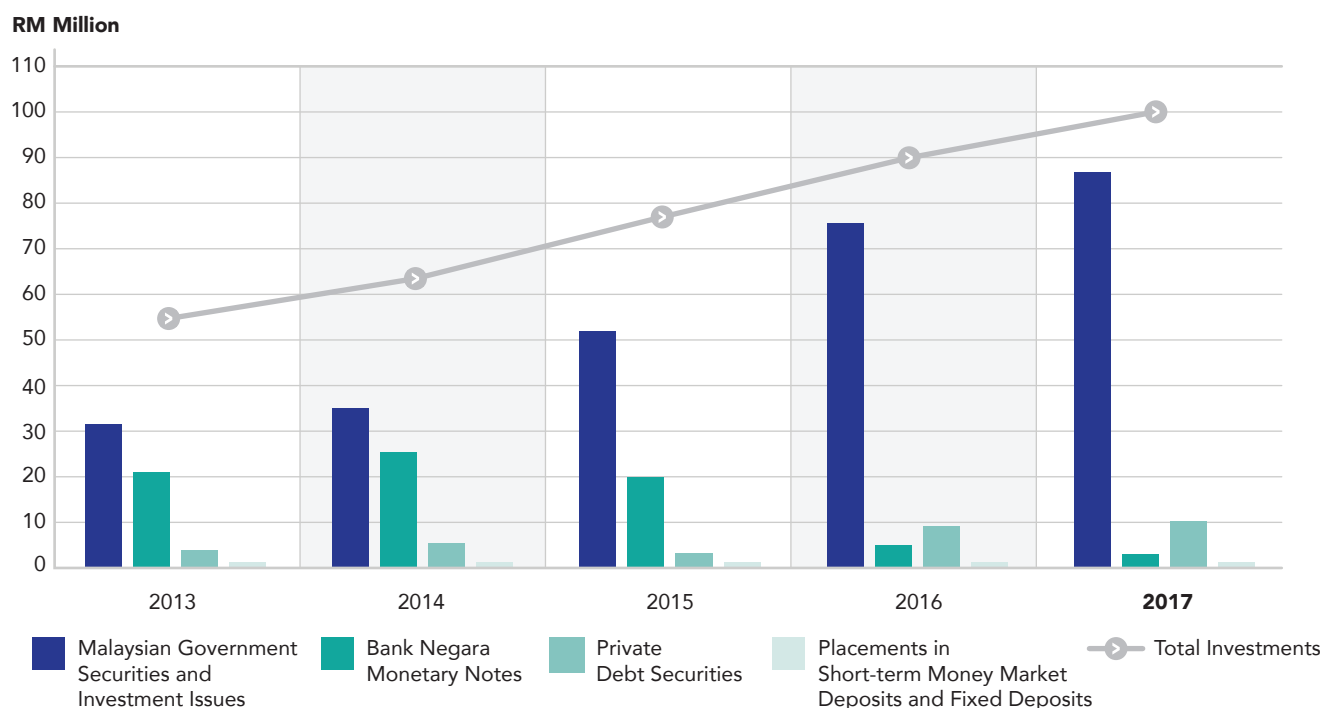


Investment-Related Income

PIDM's investment activities and operations are governed by the Board-approved investment policy in line with the PIDM Act. PIDM's investment objectives are to preserve capital and maintain sufficient liquidity to meet its financial obligations as and when they arise, particularly in the event of a resolution of a member institution.

PIDM's investment objectives are not essentially driven by return on investment but rather on the availability of conservative and highly secured investment instruments that fulfil its investment requirements. PIDM recognises that suitable investment instruments may not always be readily available. As such, PIDM proactively manages excess funds through placements in short-term money market and fixed deposits to minimise idle funds and generate reasonable returns until appropriate investment instruments become available.

PIDM's investment income for 2017 increased year-on-year by 13.3% or RM11.9 million to RM101.1 million primarily due to the increase in the base of investable funds arising from premiums and levies collected during the year. Also, the reinvestments of some of the existing investment portfolio that matured during the year yielded slightly higher returns compared to the previous year. However, the investment income for the year was lower by 1.9% or RM1.9 million compared to budget of RM103 million, primarily due to the slightly lower overall average yield compared to budget. Investment income is expected to increase steadily year-on-year in line with the increase in the investable funds.

Chart 5: Trend of Investment Income by Investment Instruments from 2013 to 2017

The main source of PIDM's investment income remains primarily from Malaysian Government Securities and Investment Issues (MGSII). However, as the investable funds increase, the availability of suitable investment instruments that meet PIDM's investment objectives became limited. Therefore, over the past few years, in accordance with its approved investment policy, PIDM has been investing in Private Debt Securities (PDS) of AAA rating issued by a Government-related entity. PIDM continuously monitors and proactively manages its investment portfolio to ensure its investment objectives are met.

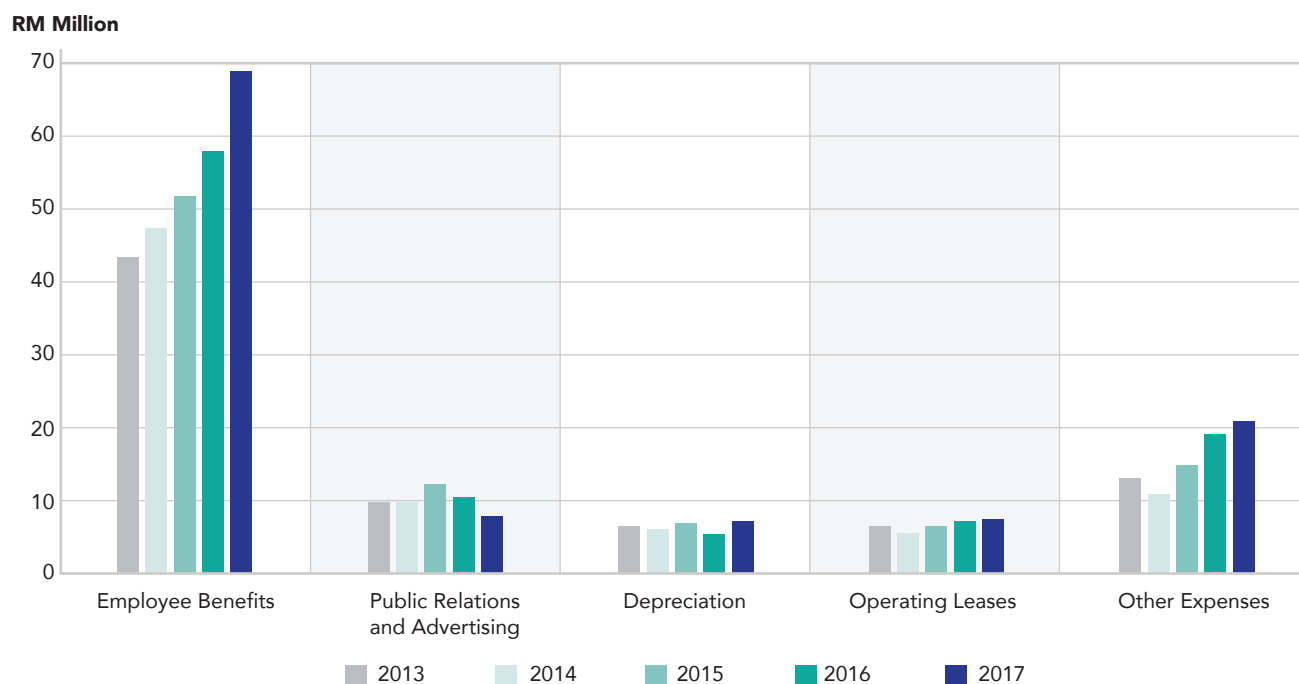
Details of the weighted average effective yield rate by the type of portfolio as well as by the respective Funds are presented in Note 12(c) to the financial statements.

FINANCIAL OVERVIEW

EXPENSES

The following chart depicts the trend of PIDM's expenses for the past 5 years.

Chart 6: Trend of Expenses from 2013 to 2017



Total operating expenses for 2017 was RM112.3 million, an increase of 13.6% from previous year. This was largely attributable to the following:

- (a) higher employee benefits expenses for 2017 compared to the previous year; and
- (b) higher depreciation of property and equipment mainly due to the full year impact of depreciation for assets capitalised in the previous year.

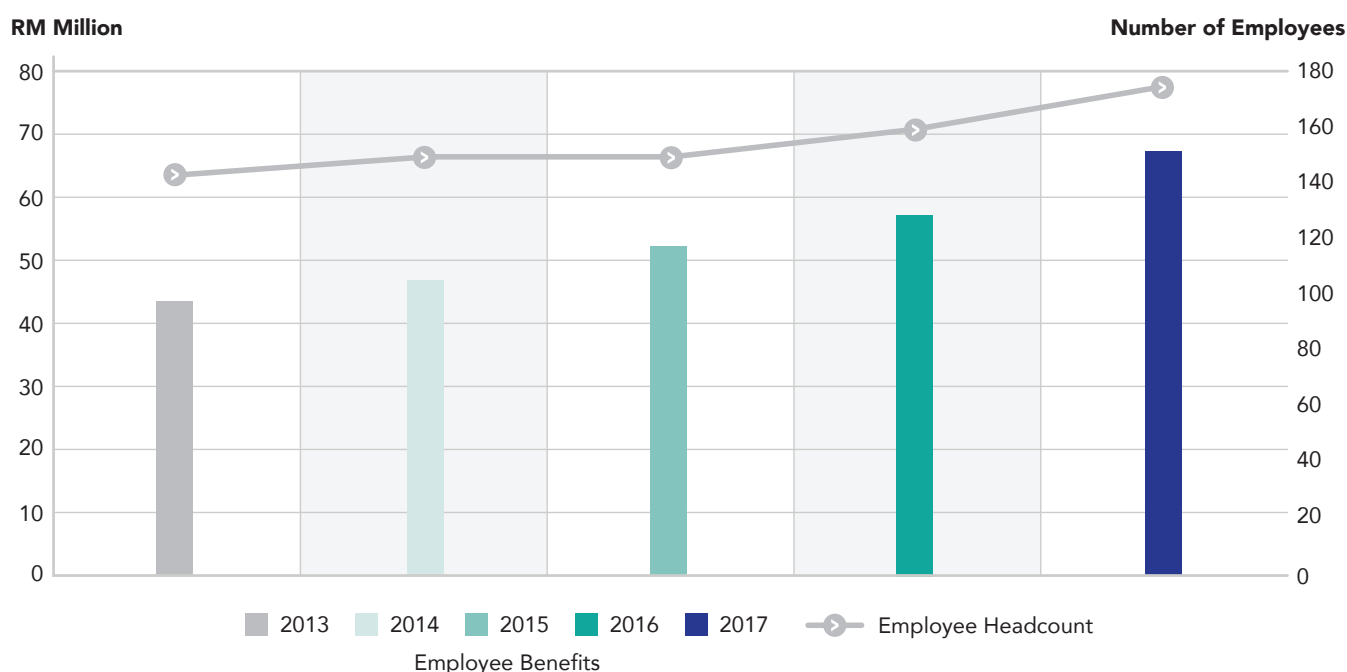
Notwithstanding the overall increase in the total operating expenses, it was lower against budget by 6.4%, attributable to several areas:

- (a) lower public relations and advertising expenses compared to budget; and
- (b) lower spend on several other key expenses, including professional and consultancy fees, telecommunications and computer systems expenses, business travelling and office maintenance expenses.

Employee Benefits

In line with its human capital philosophy, PIDM continues to benchmark its employee compensation and benefits against the external market in order to remain competitive and retain its talents.

Chart 7: Trend of Employee-related Expenses and Employee Headcount from 2013 to 2017



A total of RM68.7 million was expended on employee compensation and benefits in 2017 (2016: RM56.5 million), representing a 21.6% increase from the previous year. The employee benefits expenses was also higher than budget by 4.8% or RM3.2 million. The increase was due to several factors including the increase in the number of employees to 171 (2016: 157), alignment of salaries and wages against market benchmarks, a one-off approved gratuity payment, as well as increases in other benefits costs such as medical and insurance as well as expenses related to the Long Term Retirement Plan (LTRP) liability.

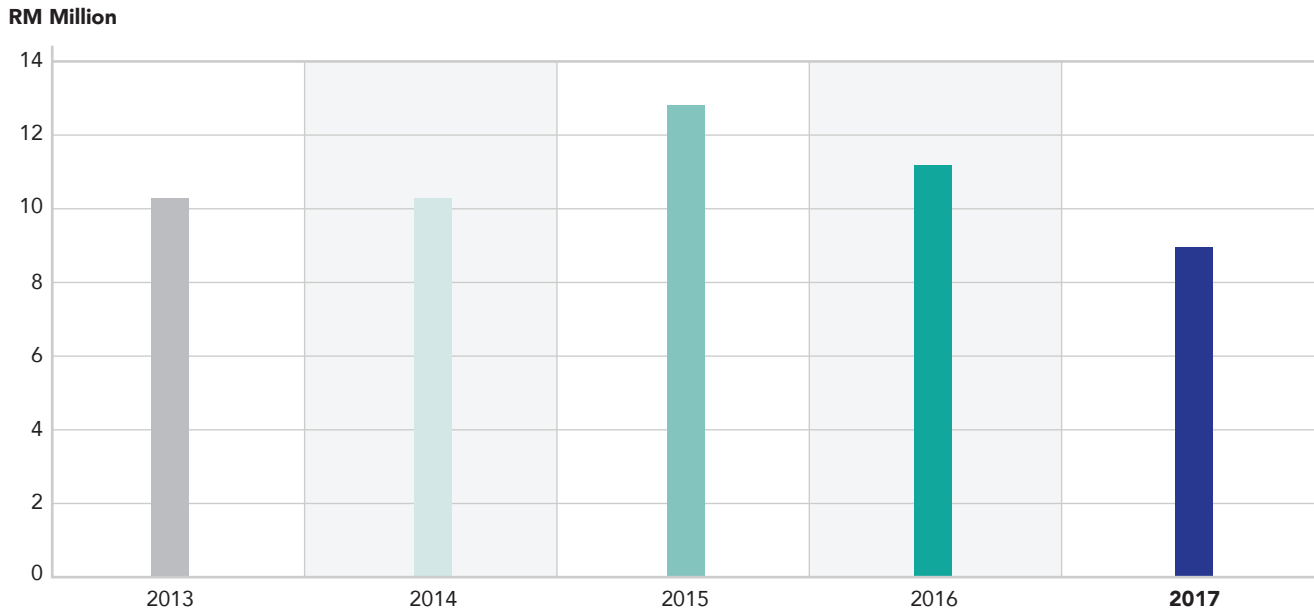
Despite the increase in the human capital expenses, PIDM’s average benefits costs per employee remained stable.

Refer to pages 32 to 35 for details of the key achievements and summary of plans for 2018 - 2020 for the strategic priority of Strategic Human Capital Management.

FINANCIAL OVERVIEW

Public Relations and Advertising

Chart 8: Trend of Public Relations and Advertising Expenses from 2013 to 2017



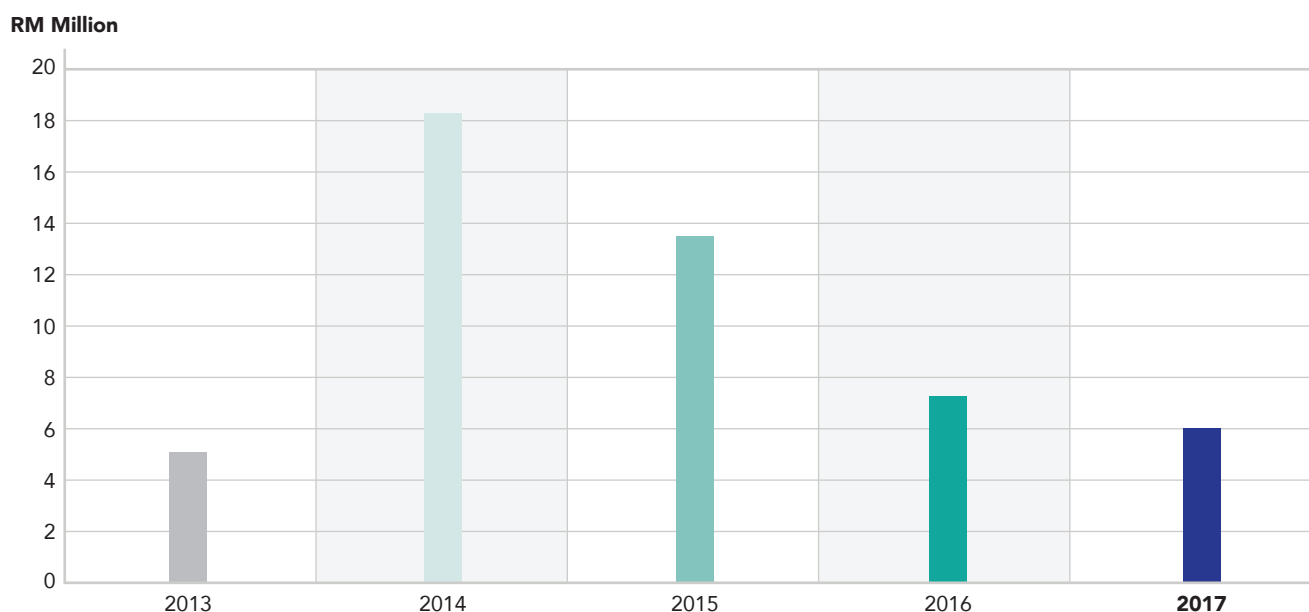
PIDM's public awareness programmes continue to be a key tool to educate financial consumers on DIS and TIPS. Advertising-related expenses continue to be the most significant component of PIDM's communications expenses.

Public relations and advertising expenses for 2017 totalled RM8.8 million, which was 19.0% lower than the previous year of RM10.9 million. It was also 23.5% or RM2.7 million lower than budget, primarily due to the lower spend on content development for advertising-related activities and other public relations initiatives.

Refer to pages 36 to 39 for details of the key achievements and summary of plans for 2018 - 2020 for the strategic priority of Stakeholder Management and Corporate Governance.

Capital Expenditures and Depreciation

Chart 9: Trend of Capital Expenditures from 2013 to 2017



Capital expenditures for 2017 were primarily for the enhancements of IT systems infrastructure and capabilities. As at 31 December 2017, PIDM contracted RM6.0 million for capital expenditures, which represents 86.7% of the capital expenditures budgeted for 2017 of RM6.9 million. The positive variance against budget was mainly attributable to savings on the procurement of IT hardware.

Depreciation expenses for the year amounted to RM6.2 million, which was higher by 70.1% or RM2.5 million compared to the previous year. The significant increase was primarily due to the full year impact of depreciation of IT systems, which were completed towards the later part of 2016 as well as depreciation for new IT systems and IT infrastructure enhancements, which were completed and commissioned during the year.

Details of property and equipment as well as the depreciation expenses are described in Note 8 to the financial statements.

Operating Leases and Other Expenses

The operating leases of RM6.1 million relate mainly to the lease of office premises and leases for equipment, which remained consistent compared to previous year.

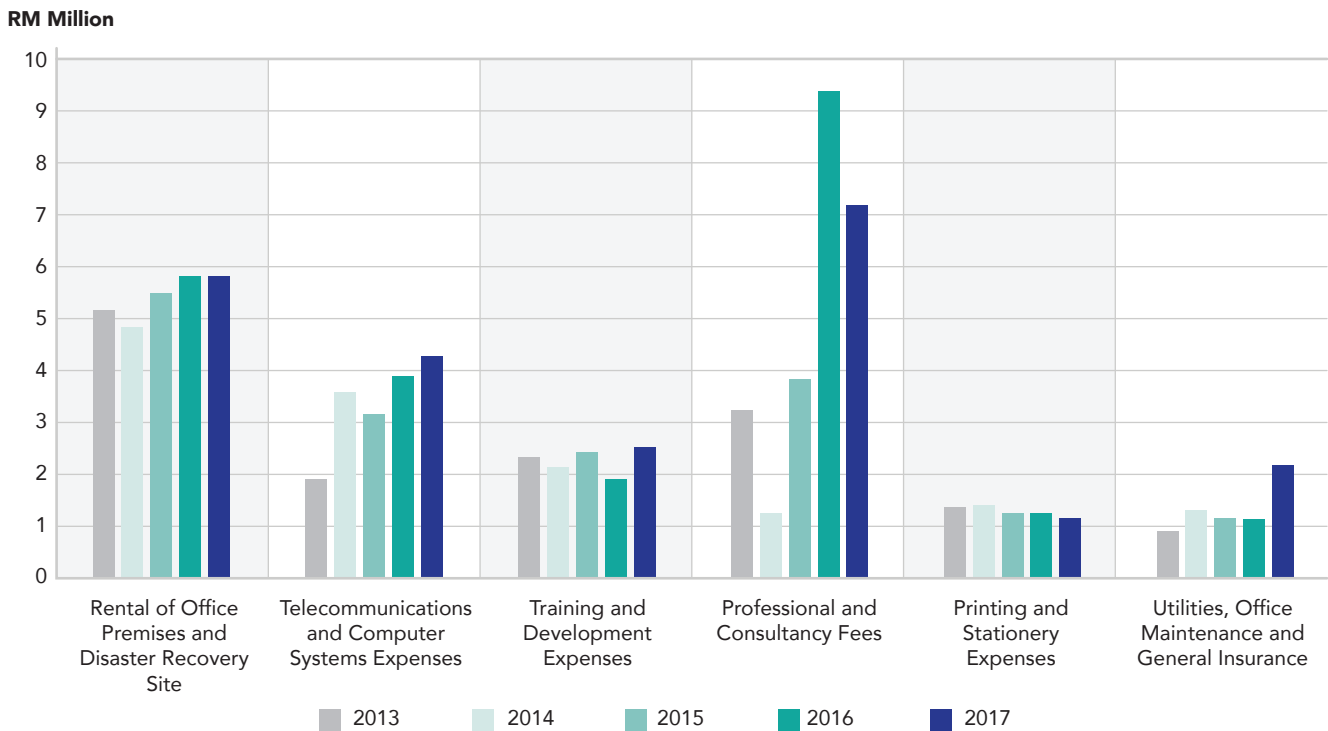
Other expenses of RM22.6 million comprise ongoing operational administrative expenses such as utilities, office maintenance and general insurance expenses, printing and stationery costs as well as telecommunications and computer systems operating expenses. It also includes expenses in support of key initiatives such as professional and consultancy fees mainly for the strategic priority of Effective Resolution Regime, training and development expenses, as well as costs of the undergraduate scholarship programme. Also included in other expenses are Director-related expenses.

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For 2017, other expenses increased by 3.4% or RM0.7 million but were below budget by 27.9% or RM8.8 million. The slight increase from the previous year was mainly attributable to the increase in utilities and office maintenance expenses for the disaster recovery centre, increase in training and development expenses as well as Director-related expenses.

On the other hand, the positive variance against budget was mainly due to lower spend on several key initiatives, including for professional and consultancy fees for the resolution planning initiative, travel expenses as well as training and development expenses. The positive variance were also attributable to lower spend against budget for several operational expenses including telecommunications and IT maintenance-related expenses as well as utilities and office maintenance expenses pertaining to the disaster recovery centre.

Chart 10: Trend of Major Items within Operating Leases and Other Expenses from 2013 to 2017



PIDM utilises its budget as a plan. During the year, spending decisions may differ from the plan due to availability of updated information and other relevant operational developments at the time these decisions were made. PIDM continues to practise prudent and responsible financial management including management of its budget, guided by its strategic priorities and operational requirements set out in its corporate plan.

Value Added Statement

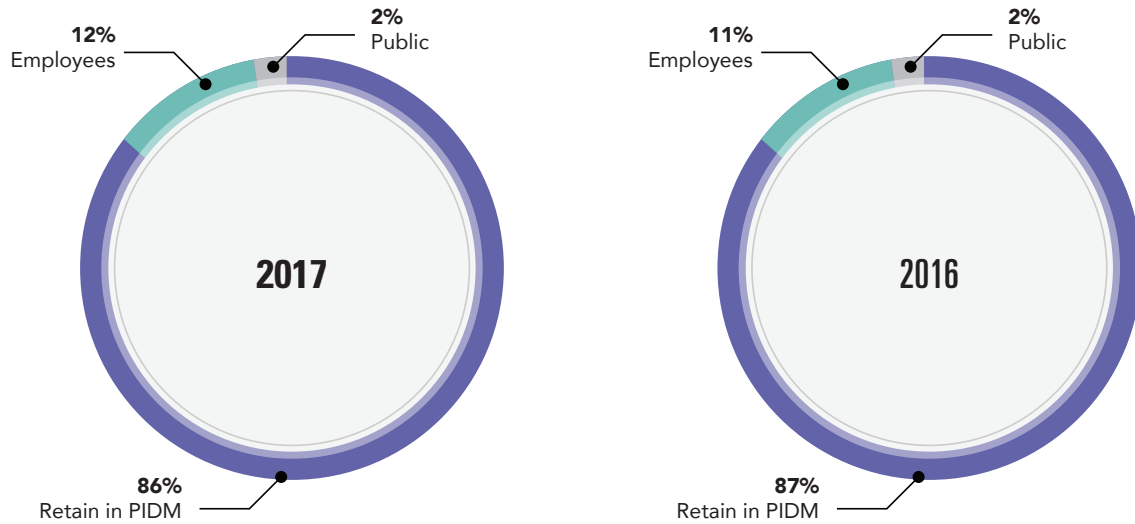
Value added is a measure of funds created by PIDM from its operations. The Value Added Statement indicates the total monetary value of the funds created during the financial year and its allocation to its key stakeholders, namely, (a) internal stakeholders, i.e. employees; (b) public and (c) the funds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

	2017 RM'000	2016 RM'000
Value Added		
Premium and levy revenues*	474,338	468,245
Investment income*	101,080	89,191
Total expenses excluding employee benefits expenses, public relations and advertising expenses, scholarship programme expenses as well as depreciation*	(27,944)	(27,248)
Value added available to be allocated	547,474	530,188
Distribution of Value Added		
To employees:		
Employee benefits expenses*	68,661	56,460
To public:		
Public relations and advertising expenses*	8,795	10,853
Scholarship programme expenses	766	699
Retain in PIDM:		
Depreciation expenses*	6,162	3,622
Funds		
– Conventional Deposit Insurance Fund	296,437	292,566
– Islamic Deposit Insurance Fund	72,268	64,231
– General Insurance Protection Fund	33,676	37,920
– Life Insurance Protection Fund	46,116	48,362
– General Takaful Protection Fund	4,550	5,663
– Family Takaful Protection Fund	10,043	9,812
Total allocated to Funds	463,090	458,554
Total allocated	547,474	530,188

* Refer to Note 19 to the financial statements for the breakdown of the income and expenses allocated to the respective Funds

FINANCIAL OVERVIEW

Chart 11: Allocation of Value Added for 2017 and 2016



The premium and levy revenue and investment income go towards the accumulation of the Funds, net of PIDM's total expenses. As the Funds increase over time, their respective investment income will also increase. Eventually, this will result in an increase in the proportion of funds allocated to the Funds, and a decrease in the proportion of funds allocated to expenses. Ultimately, it is expected that the investment income will be sufficient to cover PIDM's overall expenses, in which case, the premiums and levies collected from the member institutions will go entirely towards the accumulation of the Funds.

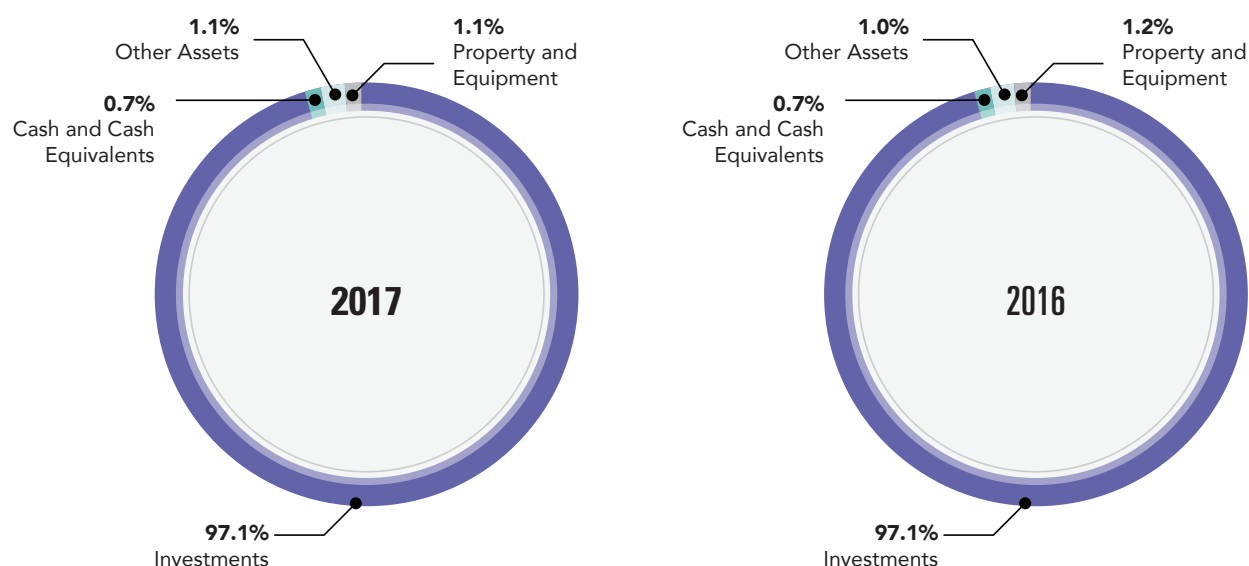
For 2017, the portion of total income allocated to the Funds decreased slightly, mainly due to the increase in employee benefits expenses described earlier.

It is expected that its human capital-related expenses will continue to increase over the next few years as it continues to build its capacity and capabilities, in particular on resources for resolution planning.

While it is anticipated that there will be an increase in human capital-related expenses, it is also anticipated that the investment income will also increase in line with the increase in the base of investable funds, which will offset the increase in expenses.

HIGHLIGHTS OF THE STATEMENT OF FINANCIAL POSITION

Chart 12: Asset Composition as at 31 December 2017 and 2016



PIDM's assets remain liquid with cash, cash equivalents and investments, which stood at RM3.5 billion, representing 97.8% of its total assets as at 31 December 2017.

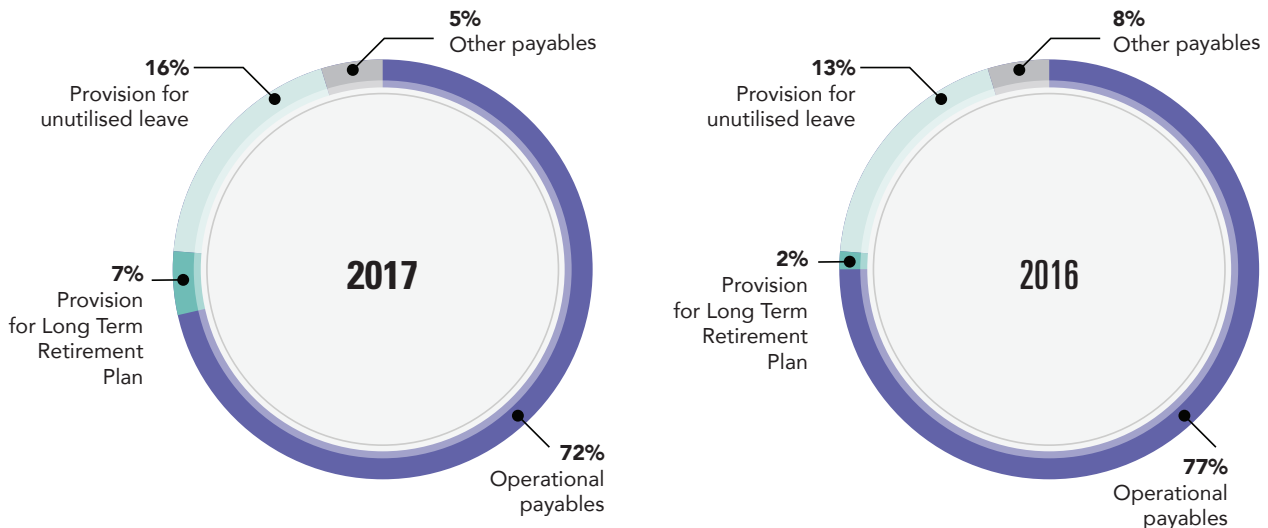
Investments as at 31 December 2017 totalled RM3.5 billion, an increase of 14.6% compared with RM3.1 billion in 2016. All of these investments were classified as held-to-maturity investments and were stated in the financial statements at cost, adjusted for accretion of discounts net of amortisation of premiums.

As at 31 December 2017, property and equipment amounted to RM38.3 million (2016: RM37.4 million), primarily comprising the disaster recovery centre, which commenced operations during the year, as well as its IT systems. Most of the IT systems that were under construction in 2016 have been completed and were reclassified during the year into the depreciable assets class.

Details of property and equipment as well as the depreciation expenses are described in Note 8 to the financial statements.

FINANCIAL OVERVIEW

Chart 13: Breakdown of Liabilities as at 31 December 2017 and 2016



Liabilities include payables for utilities, communications services, IT systems, provision for unutilised leave, accruals for services rendered in respect of consultancy engagements and the supply of goods as well as provision for LTRP. The increase in the provision for LTRP is consistent with the increase in the number employees eligible for the benefit.

Details of liabilities are described in Note 9 to the financial statements.

SOURCES OF FUND AND FINANCIAL ABILITIES

Funding Framework

As a statutory body, sources of funding and ability to meet liabilities and commitments as they arise are established in the PIDM Act. It is imperative for PIDM to have adequate financial resources in order to effectively administer and operate a robust and sound DIS as well as TIPS. The availability of financial resources is critical to ensure that PIDM is able to meet its obligations with a high degree of confidence as and when the need arises. As a financial consumer protection and resolution authority, it has an inherent exposure to losses resulting from protecting deposits held by member banks as well as takaful and insurance benefits provided by insurer members. During the year, there have been no events that require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

PIDM's funding framework explicitly highlights the need for adequate financial resources to effectively carry out its mandate as well as to address the risks to which it is exposed. The main objectives of its funding framework are to:

- ensure the availability of sufficient financial resources to enable PIDM to fund its day-to-day operations; and
- accumulate reserves to ensure its ability to meet future obligations to depositors as well as takaful certificate and insurance policy owners. The funding framework, which takes into consideration PIDM's role as one of the financial safety net players as well as its legislative powers relating to sources of funding, also provide clear objectives for internal and external sources of funding.

Internal Funding

PIDM's 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 it aims to accumulate over the long term to meet its objectives and fulfil its mandate. For PIDM, 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 provide a basis in assessing the adequacy of the current levels of the Funds, and identify a systematic approach to specify the target levels for the respective Funds.

The target fund frameworks for DIFs, GIPF and LIPF were established in 2011, 2015 and 2016 respectively. The target fund framework for the Takaful Protection Funds is expected to be completed in 2018.

The development of the target fund frameworks for DIFs, GIPF and LIPF was based on the same set of 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 PIDM 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.



FINANCIAL OVERVIEW

Target Fund Modelling Approach

In developing the target funds, PIDM adopted both the statistical modelling as well as a discretionary approach in determining the range of its target fund:

(a) **Statistical modelling approach**

PIDM adopted the Value-at-Risk (VaR) statistical model in developing the target fund framework. Under this statistical modelling approach, VaR is determined to assess PIDM's exposure to net losses based on estimates of the member institution's default probability, exposure at default, correlations of default and the possible recoveries in any given intervention and failure resolution action on a non-viable member institution. To determine the sufficient level of funds to cover its net losses, given a specified confidence level, PIDM 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 specified confidence level.

(b) **Discretionary approach**

In determining the target fund range, PIDM also took into consideration other qualitative factors such as its 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 PIDM to intervene and resolve a troubled member institution promptly to minimise losses to the financial system. The target fund modelling and estimation were made based on the current mandate and powers set out in the PIDM Act. Any significant changes to PIDM's 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 PIDM's 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
Probability of Default (PD)	<p>PIDM uses average failure rates as reported by External Credit Assessment Institutions in their annual default study.</p> <p>The average failure rates are then benchmarked against the most conservative risk rating between the member institutions' supervisory risk ratings and PIDM's internal rating assessments.</p>		
Loss Given Default (LGD)	<p>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.</p>		
Exposure At Default (EAD)	<p>PIDM considers the 2 broad approaches to intervention namely, a liquidation or a going-concern resolution approach.</p> <p>The 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.</p>	<p>PIDM considers several components of exposures as the proxy for the EAD, to reflect the total financial exposures to PIDM in the event of any general insurer member's failure.</p> <p>The EAD reflects a general insurer member's claims and premium liabilities exposures as adopted in the Risk-Based Capital Framework for Insurers, together with the operational risk exposures and potential costs involved in the event of liquidation of a general insurer member.</p>	<p>PIDM considers the AVL of the life insurer members as the proxy in determining the EAD, regardless of the insurance benefits protected by PIDM.</p> <p>The EAD reflects life insurer members' risk of any under-estimation of the insurance liabilities and adverse claims experience, over and above the amount of reserves already provided.</p> <p>The EAD also considers operational risks exposures and other contingency costs assumptions as a prudent measure for calculating the target fund level.</p>

FINANCIAL OVERVIEW

Target Fund for DIFs

The target fund range for both the Conventional and Islamic DIFs is between 0.6% and 0.9% of TID. Based on the level of TID as at 31 December 2016, the target range amount is between RM2.6 billion and RM3.9 billion for Conventional DIF and between RM581 million and RM871 million for Islamic DIF. The present balances of DIFs, compared to the target fund range, are described in Table 3.

Table 3: Target Fund Range for DIFs as at 31 December 2017

Deposit Insurance Funds	Target Fund			
	2017 Actual RM Million / %	2016 Actual RM Million / %	Lower Range RM Million / %	Upper Range RM Million / %
Conventional Deposit Insurance Fund				
Balance	1,685	1,388	2,583	3,875
Percentage of Total Insured Deposits*	0.39%	0.33%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	339	267	581	871
Percentage of Total Insured Deposits*	0.35%	0.30%	0.60%	0.90%

* Based on TID as at 31 December 2016

Time-to-Fund for DIFs

Time-to-fund refers to the timeframe (usually set out as number of years) required to achieve the set target fund level, given the levels of premium to be charged to member banks and the level of net surplus to be accumulated annually.

At the point of establishing the target fund for DIFs and taking into consideration the operating environment and impact to the banking industry, it was determined that the reasonable time-to-fund to achieve the lower range of the target fund of 0.6% of TID to be between 10 and 12 years (beginning from 2012).

In 2012, PIDM obtained the Minister of Finance's approval to gradually increase the premium rates assessed on member banks beginning from the assessment year 2013. The gradual upward revision of premium rates should enable PIDM to meet the target fund within the specified timeframe.

PIDM will continue to monitor and report on the progress of achieving its target fund annually. Based on the current level of accumulated surpluses and approved premium rates, it is expected that the lower range of the target fund will be achieved within the next 5 to 8 years.

Target Fund for GIPF

The target fund framework for GIPF has adopted the target fund level at the range of 80% to 100% of the total net expected loss level. From the modelling results, the target fund for GIPF will be in the range of RM332 million to RM415 million. As at 31 December 2017, the GIPF's target fund range in RM million were as follows:

Table 4: Target Fund Range for GIPF as at 31 December 2017

General Insurance Protection Fund	Target Fund			
	2017 Actual RM Million	2016 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	1,217	1,183	332	415

Based on the expected loss model, and taking into account the current composition of the industry's assets with a high expected assets recoverability, the upper range of the target fund now stands at RM415 million (2016: RM420 million).

The current balance of GIPF of RM1,217 million includes RM921.3 million that was transferred to PIDM in September 2011 from the Insurance Guarantee Scheme Fund that was previously administered by Bank Negara Malaysia. The current fund position has exceeded the upper range of the target fund. The management of the surplus Funds upon reaching target fund levels is explained below.

Management of Funds upon Reaching Target Fund Level

Upon reaching the upper target fund level, PIDM 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 PIDM to ensure that the DPS framework for member banks or the DLS 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 PIDM.

Target Fund for LIPF

The target fund framework for LIPF has adopted the target fund level at the range of 0.4% to 0.6% of the total AVL of the life insurer members. Based on the total AVL as at 31 December 2016, the target fund range in RM million were as follows:

Table 5: Target Fund Range for LIPF as at 31 December 2017

Life Insurance Protection Fund	Target Fund			
	2017 Actual RM Million	2016 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	283	237	510	766

FINANCIAL OVERVIEW

Time-to-Fund for LIPF

At the point of establishing the target fund for LIPF and taking into consideration the operating environment and impact to the insurance industry, PIDM had determined the reasonable time-to-fund to achieve the lower range of the target fund of 0.4% of the total AVL to be between 5 and 8 years (beginning from 2017). PIDM will continue to monitor and report on the progress of achieving its target fund level annually.

External Funding

PIDM may raise external funds through either borrowings 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 PIDM to meet its obligations. Such borrowings would be based on such terms and conditions as the Minister of Finance will determine. Funding from the capital markets, namely through the issuance of debt securities by PIDM, is also an option when the environment or market is conducive to do so.

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





OVERVIEW OF MEMBERSHIP

SECTION 4

Overview of Membership

OVERVIEW OF MEMBERSHIP

In 2017, domestic and global economic growth has surpassed expectations, underpinned by a turnaround in global trade volumes and investments backed by an accommodating monetary environment. The earlier downside concerns, such as rising trade tensions and a significant slowdown in the Chinese economy, did not materialise. On the back of positive macroeconomic performance, the operating conditions were favourable for member institutions.

MEMBER BANKS

Member banks performed well during the year, and continued to demonstrate sound fundamentals. Based on PIDM's assessment under the Differential Premium Systems (DPS) framework, the risk profiles of individual member banks were stable.

Capital buffers above the minimum regulatory requirement remained ample, providing strong capacity to support growth and absorb unexpected shocks. On aggregate, the common equity tier-1 capital ratio and the total capital ratio stood at 13.1% and 16.9% respectively, as at the end of 2017.

The prudent expansion in financing activities has continuously contributed to sound asset quality, with healthy default rates recorded across all lending segments. This, coupled with active cost management, as translated into an annual pre-tax profit growth of 12.3%. As a result, core earnings indicators such as the return-on-risk weighted assets, net interest margin, efficiency (cost-to-income) and credit cost showed a favourable trend, while earnings volatility remains low.

Chart 1: Asset Quality Indicators

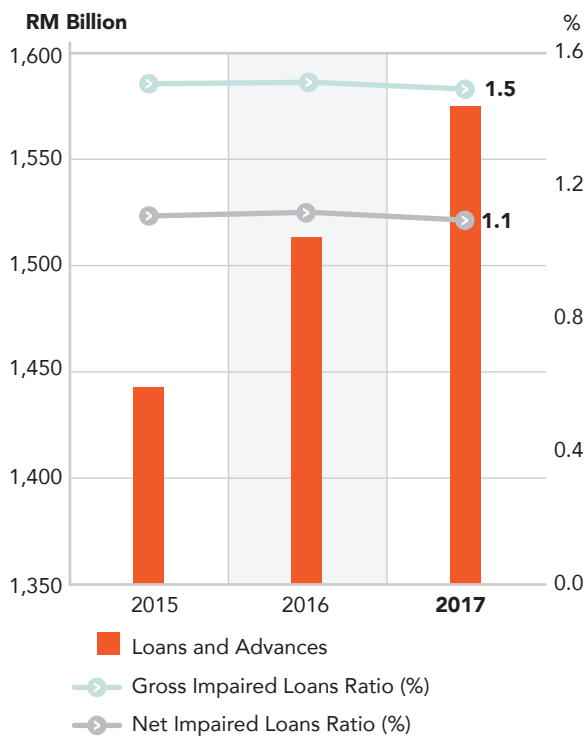
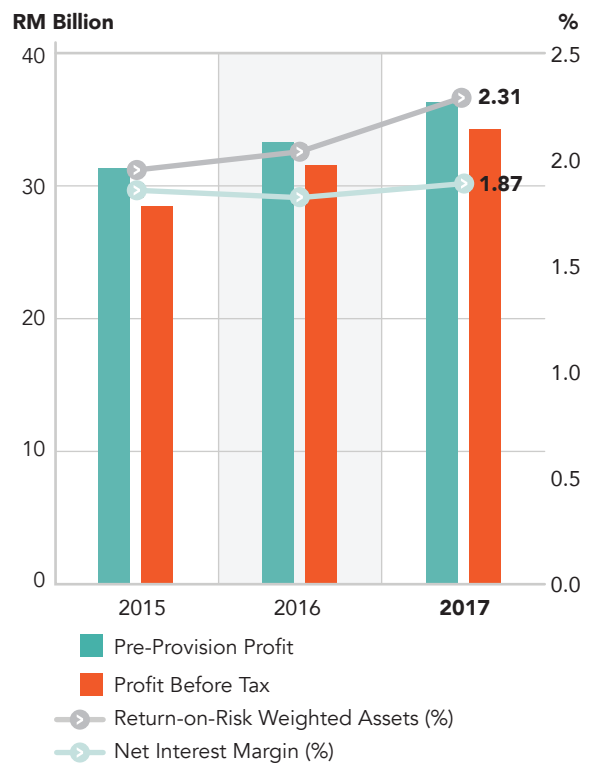
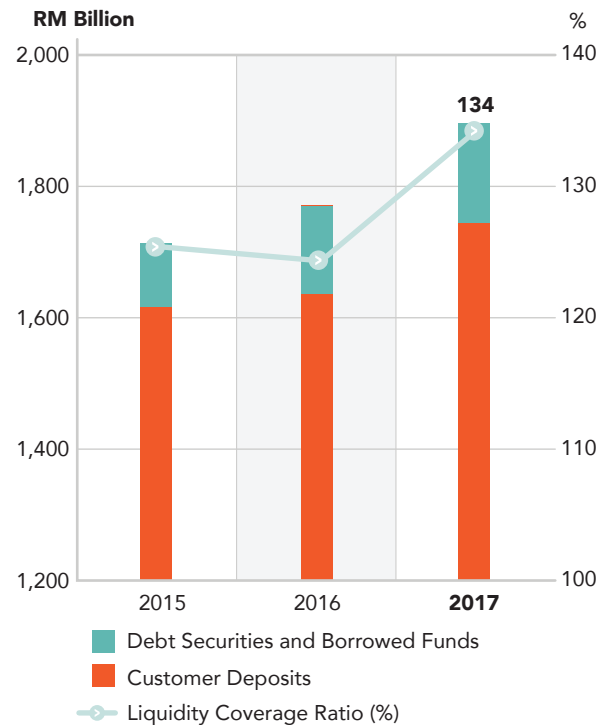


Chart 2: Profitability Indicators



Funding remained supportive of financing activities, as reflected in the stable trend of loan-to-fund ratio. Customer deposits expanded at a decent pace and continued to form more than 75% of total liabilities. Long-term debt instruments are gaining prominence as a source of stable funding, in line with its recognition under Basel III liquidity standards and advancements in the Malaysian capital market. Recognising the importance of these stable funding sources, PIDM will implement 2 new funding profile indicators under the DPS framework beginning assessment year 2018, namely, the loans-to-available funds ratio and the composition of core funds indicator. This will benefit the member banks whose businesses are supported by funding sources from deposits and debt instruments, as well as those with high composition of stable funding sources. Elsewhere, the Basel III Liquidity Coverage Ratio of member banks indicates a comfortable level of buffer to meet liquidity needs within a 30-day period.

Chart 3: Funding and Liquidity Indicators



OVERVIEW OF MEMBERSHIP

INSURER MEMBERS

Insurer members stayed resilient during the year. This was demonstrated by a solid capital position and encouraging performance. Based on PIDM's assessment under the Differential Levy Systems (DLS) framework for insurance companies and takaful operators, the risk profiles of individual insurer members were stable.

The insurance and takaful industry continued to record strong capital position, as demonstrated by its robust capital adequacy ratios, with healthy capital buffer to withstand future uncertainties and unexpected losses. Conventional insurers and takaful operators recorded strong capital adequacy ratios of 235.1% and 200.8%, respectively, surpassing Bank Negara Malaysia's supervisory target capital level of 130%. Moving into 2018, the industry's capital position is expected to enlarge further with the requirement to split the composite licenses for both insurance companies and takaful operators.

Chart 4: Capital Position



In 2017, the motor and fire business (being the largest component of the general insurance and general takaful business) continued to grow at a stable pace. However, the underwriting performances have tapered, mainly due to an increase in net claims incurred on the back of moderating total net premiums or contribution growth from certain business sectors.

Meanwhile, the life insurance and family takaful business remained stable. In 2017, the life insurance business shifted their focus back to investment-linked products. This contributed to a double-digit growth in 2017 for new businesses. As for the family takaful business, new business growth continued to be generated by the mortgage reducing term assurance business.

Chart 5: Gross Premiums / Gross Contributions

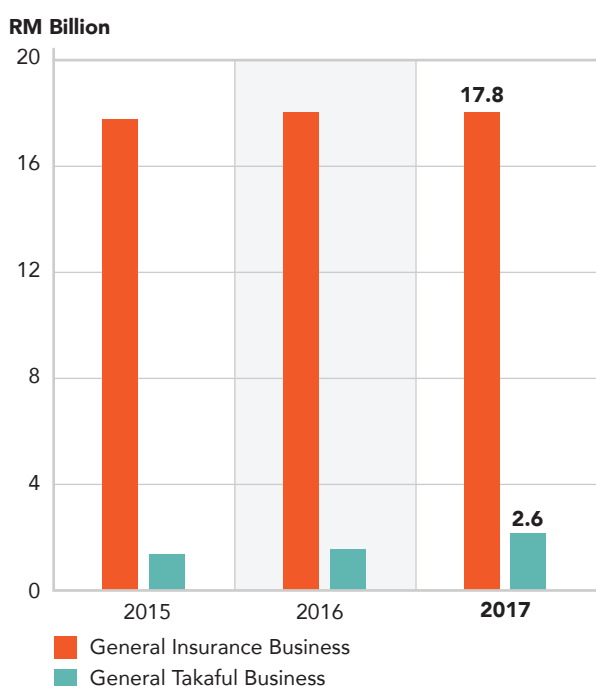
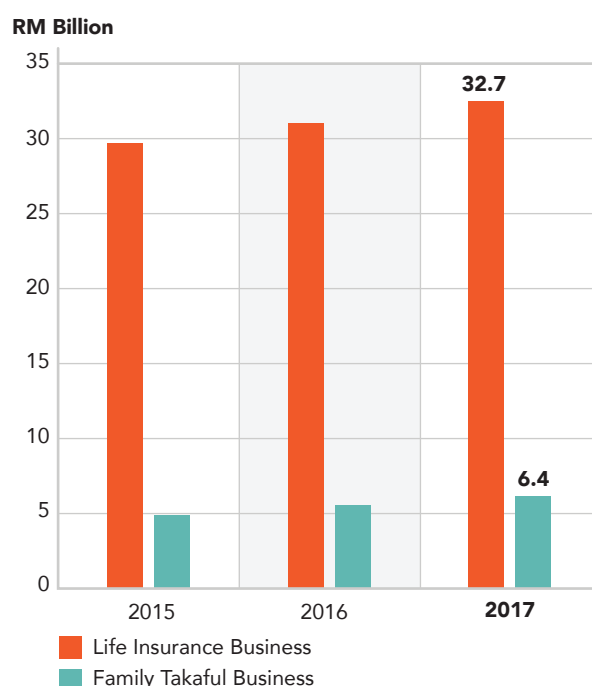


Chart 6: Net Premiums / Net Contributions



Total assets for the insurance and takaful fund grew by 8.3% and 9.4% respectively, as at the end of 2017. Investment remained the largest component of both the insurance and takaful assets, followed by cash and deposits. Given the need for higher liquidity to support shorter term insurance obligations, the general insurance funds continued to maintain a substantial proportion of high quality liquid assets, such as cash and collective investment schemes. Meanwhile, the life insurance funds have significant holding in corporate debts and securities that provide better matching against their longer-term liabilities.

OVERVIEW OF MEMBERSHIP

OUTLOOK

Growth prospects for 2018 remain positive, as the expansionary Purchasing Managers' Index¹ reading reaffirms the view that the global economic recovery remains intact. Potential headwinds to this outlook include tightening global financial conditions, a hard-landing in China, rising protectionism and trade tensions, United States financial deregulation and a major escalation in geopolitical tensions. Notwithstanding these near-term risks, the prospect for the Malaysian economy remains bright, underpinned by strong economic fundamentals.

Moving forward, a number of developments within the banking and insurance industries are on PIDM's radar. One of which is the implementation of the Malaysian Financial Reporting Standards 9 (MFRS 9) beginning 1 January 2018. The impact on capital ratios will be supported by ample capital buffers although member banks may likely experience an increase in credit cost from higher provisions. On a positive note, the adoption of MFRS 9 is expected to result in comprehensive provisioning methods, pricing of products that is more reflective of its degree of riskiness, and selective financial assets growth that protects asset quality. Another regulatory development is the implementation of the Basel III Net Stable Funding Ratio (NSFR), where Bank Negara Malaysia has indicated that the earliest date for implementation would be 1 January 2019. Given their healthy funding positions, member banks are well-positioned to transition into the requirements of the NSFR. Lastly, the re-emergence of any form of intense competitive pressures, whether from the asset or funding side, can pose challenges to the member banks' margins.

As for the insurance and takaful sector, industry players are expected to fully focus on the preparation of the planned regulatory reforms and to strive towards the implementation of the new accounting standards. These initiatives are crafted to enhance their financial statements' comparability and transparency, while the reforms are intended to improve product innovation, affordability and accessibility, strengthen the profitability of insurer members as well as increase the national penetration rate. At the same time, these developments are likely to generate a moderate level of market competition and place some pressure on resources.

Spilling over from 2017, the general insurance industry is transitioning into a more liberalised environment, which allows some flexibility in the offering of new motor and fire products at market-based pricing. Meanwhile, under the Life Insurance and Family Takaful Framework, the industry players are required to diversify their distribution channels beyond the traditional agency channel and beef up their business strategies to be in line with the new structure of operating cost controls.

Overall, the positive growth prospects and better operating conditions bode well for member institutions and present opportunities to build buffers. Member institutions will stay resilient, supported by robust risk management practices as well as sound capital and liquidity positions.

¹ The Purchasing Managers' Index is commonly used as a leading indicator of overall industrial activity and business conditions. It comprises 5 major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment



CORPORATE GOVERNANCE

SECTION 5

Statement on Corporate Governance

Statement on Risk Management and Internal Control

Board of Directors: Members and Profiles

Executive Management Committee: Members and Profiles

Organisation Structure

STATEMENT ON CORPORATE GOVERNANCE

PIDM benchmarks its corporate governance against relevant international best practices such as the Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance. PIDM has clear governance mechanisms to ensure transparency, integrity and accountability, including risk management and internal control. PIDM's governance structure is available on its website.

PIDM also ensures compliance with Shariah requirements in relation to the Islamic protection systems it administers. On relevant Shariah matters, advice and endorsement from the Shariah Advisory Council of Bank Negara Malaysia are obtained. Details are found on page 85.

The Board of Directors is guided by its Board Governance Policy and this Statement on Corporate Governance sets out how the Board complies with each of the 15 standards in its Board Governance Policy. PIDM continues to be in full compliance with the Policy.

STANDARD 1: INDEPENDENCE OF THE BOARD

Board members will exercise independent judgement.

In line with their explicit statutory duties, all of PIDM's Directors act honestly and in the best interests of PIDM, and use reasonable diligence in the discharge of their duties.

PIDM's Board comprises non-executive Directors, 2 of whom are ex officio Directors. The 2 ex officio Directors are the Governor of Bank Negara Malaysia and the Secretary General of Treasury, Ministry of Finance. All non-ex officio Directors are appointed by the Minister of Finance. The Chief Executive Officer (CEO) does not serve as a Director on the Board. Hence, there is a clear separation between the Board and Management.

The PIDM Act sets out the specific powers of the Minister of Finance and the responsibilities of the Board and CEO. The Board has the overall responsibility for the conduct of PIDM's business and affairs. The CEO is responsible for administering the day-to-day business of PIDM.

PIDM's authority matrix clearly delineates the authorities of the Board and CEO. Key matters that are reserved for Board approval are set out in the matrix, including key governance-related policies, succession plans, strategic plans, financial plans and statements, and risk policies. PIDM's authority matrix is aligned with recommendations in the OECD's Best Practice Principles on the Governance of Regulators and the International Association of Deposit Insurers' (IADI) Core Principles for Effective Deposit Insurance Systems. These best practices recommend that regulators maintain operational independence, good governance, transparency, accountability and insulation from external interference.

The Board is kept informed by Management about corporate initiatives, significant operational matters and Management's performance based on its corporate scorecard. Both the Chief Internal Auditor (CIA) and the Chief Risk Officer (CRO) report functionally to the Board through the Audit Committee.

The Board has recourse to independent professional advice at PIDM's expense under the Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisers.

STANDARD 2: BOARD EFFECTIVENESS AND GOVERNANCE RESPONSIBILITIES

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

To achieve this, the Board will:

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

Board Evaluation

The Board conducts an annual evaluation of the performance of the Board, Board Committees and individual Directors. In general, every 3 years, the Board appoints an external evaluator to assess its performance.

In June 2017, the Board appointed an external evaluator, cameron.ralph.khoury,¹ to assess the effectiveness of the Board and its governance practices. The evaluation criteria included the skills, experience, ethics, leadership and independence of the Directors, the comprehensiveness, quality and timeliness of information provided by Management to the Board and Board Committees, the quality of oversight by the Board through accountability mechanisms, the quality of decision processes of the Board and Board Committees, and the group dynamics within the Board and Board Committees. The process was conducted through a self assessment and peer review process.

cameron.ralph.khoury has rated the Board of PIDM as "strong" for 2017.² The Board demonstrated strong capabilities across the majority of the critical elements of board effectiveness and is actively minimising governance risk to PIDM and its stakeholders. It has a deep understanding of challenges facing the industry. The Board evaluation also highlighted that there are some risks of gaps arising in institutional knowledge and skills mix as the Board refreshes its membership.

Following this evaluation, the Board decided that moving forward it would monitor the succession planning process to ensure continuity of technical knowledge on the Board.

Board Orientation and Training

Newly-appointed Directors undergo a Board-approved orientation programme. They are provided with written materials, such as the Directors' Handbook, and briefings to assist them to obtain an understanding of PIDM's objects, powers and governance responsibilities.

In 2017, Encik Johan Mahmood Merican and Ms. Gloria Goh underwent the orientation programme.

The Board of PIDM is committed to obtaining in-depth and up-to-date technical knowledge about matters relating to PIDM's work, including recovery and resolution planning. With this in mind, Board Members attended several education sessions in 2017.

¹ Cameron Ralph Pty Ltd.

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

STATEMENT ON CORPORATE GOVERNANCE

These were:

- Differential Premium Systems, 14 April 2017
- Resolution Planning, 27 April 2017
- FIDE FORUM Distinguished Board Leadership Series, Efficient Inefficiency: Making Boards Effective in a Changing World, 4 May 2017
- 9th BankTech Asia 2017 Conference, 5 to 6 July 2017
- FIDE FORUM Distinguished Board Leadership Series, Fintech: Opportunities for the Financial Services Industry in Malaysia, 11 July 2017
- 15th IADI Asia Pacific Regional Committee Annual Meeting, Regional Workshop and International Conference, Yogyakarta, 19 July 2017
- Target Fund Frameworks, 24 July 2017
- Relevance of Fintech to PIDM, 15 August 2017
- Malaysian Economic Conditions, 11 September 2017
- Effective Resolution Regime – Key Policy Areas, 13 September 2017
- 16th IADI Annual General Meeting and Annual Conference, Quebec City, 8 to 13 October 2017

Newly-appointed Directors are encouraged to attend the Financial Institutions Directors' Education (FIDE) programmes conducted by The Iclif Leadership and Governance Centre.

STANDARD 3: ROLES AND RESPONSIBILITIES OF COMMITTEES

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

The Board has established Board Committees to assist with oversight of the business and affairs of PIDM. The responsibilities of the Board Committees are set out in their respective charters, available on PIDM's website. The Board periodically reviews the Board Committee charters. Board Committees deliberate on, make recommendations, and seek the approval of the Board on matters within their areas of responsibility. The summary reports on the work of the Board Committees are found on pages 81 to 82. All the Committees adopt the practice of reviewing their progress against their roles and responsibilities in their charters throughout the year.

STANDARD 4: BOARD COMPOSITION AND SUCCESSION

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

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

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

The PIDM Act sets out the composition of the Board and specifies certain requirements to ensure that there are both public and private sector perspectives on the Board.³ The Act also sets out certain conditions that would disqualify a person from being appointed or remaining on the Board to, among others, ensure the independence of the Board from external influence.⁴

The collective and individual Board profiles are reviewed on a regular basis. The collective profile is determined by reference to the current needs, the stage of development and aspirations of PIDM in determining the skills and experience required. The Board then regularly carries out a skills gap analysis to assess the skills, knowledge and experience that are available on the Board against the desired profile, and refers to any gaps when considering potential candidates for any non-ex officio vacancies on the Board.

The current skills on the Board are depicted below:

Required Qualifications, Skills, Knowledge or Experience	Number of Directors
Previous or current leaders of statutory bodies or relevant public bodies	5
Financial expertise including professional qualifications as an accountant and extensive experience in auditing and financial management	3
Risk management	1
Economics	5
Legal and accounting experience in relation to commercial law, corporate finance, receiverships, bankruptcies and insolvencies, company restructurings, mergers and acquisitions	2
Regulation of banking and financial services	2
Commercial banking or business operations in commercial banking	1
Insurance or business operations in insurance	2
Human resource management best practices	1
Consumer issues related to member institutions, corporate governance and communications	1

Since 2015, an evergreening policy has also been incorporated into the Board succession plan policy, to ensure rejuvenation of the Board and fresh perspectives. Thus, non-ex officio Directors will generally retire after serving 2 consecutive terms of 3 years each, unless there is justification to remain beyond 6 years.

³ Section 11 of the PIDM Act

⁴ Section 14 of the PIDM Act

STATEMENT ON CORPORATE GOVERNANCE

STANDARD 5: ROLES AND RESPONSIBILITIES OF THE CEO

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

In this connection, the Board will:

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

The responsibilities of the Chairman and CEO are clearly distinguished and documented in their position descriptions. There is also a description of the relationship between the positions of the Board, Chairman and CEO.

The key performance indicators (KPIs) for the CEO are determined annually based on the Board-approved corporate objectives. The CEO's performance against those KPIs is tracked and considered by the Board at the end of each year.

STANDARD 6: APPOINTMENT OF SENIOR CORPORATE OFFICERS

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

According to PIDM's Corporate By-Law, the Board appoints senior corporate officers and determines their terms and compensation. The Board-appointed officers are the Chief Operating Officer (COO) and General Counsel, the Chief Financial Officer (CFO), the CRO, the CIA and the Corporate Secretary.

STANDARD 7: COMPENSATION OF OFFICERS

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

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

In line with the PIDM Act, the Board determines the compensation policies for PIDM's employees.⁵ The Remuneration Committee reviews the compensation policies regularly and makes recommendations to the Board on the same.

PIDM requires a specialised team of people to achieve its mandate. Hence, the Board annually benchmarks the compensation of PIDM's employees against general market compensation levels to ensure salaries remain competitive. Employees of PIDM are awarded performance-related bonuses depending on their performance against KPIs that have been cascaded from the CEO's KPIs and the corporate plan.

⁵ Section 12(1)(a) of the PIDM Act

In December 2017, the Board approved salary increments for 2018 and performance bonuses in 2017 for PIDM employees. The total wages and salaries for employees for 2017 amounted to RM55.7 million. Refer to page 166 of this annual report.

Under the PIDM Act, every Director of the Board shall be paid such fees and allowances and any other remuneration as may be determined by the Minister of Finance, on the recommendation of the Board.⁶ Each Director is paid an annual fee and allowances for attendances at meetings. There were no changes to the remuneration structure for the Board in 2017. The total fees and remuneration, including medical benefits, received by the Directors in 2017 amounted to RM1.4 million. Refer to page 167 of this annual report.

STANDARD 8: SUCCESSION PLANNING

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

Under the PIDM Act, the CEO shall be appointed by the Minister of Finance on the recommendation of the Board.⁷

The Board had established a CEO succession plan in advance of the end of the term of the then incumbent CEO. In 2013, the Board established a Succession Planning Committee to oversee the CEO succession plan, which was successfully implemented in 2017. The Minister of Finance appointed Encik Rafiz Azuan Abdullah as the CEO effective 28 August 2017. Encik Rafiz Azuan who was Executive General Manager at PIDM prior to his appointment, replaced Mr. Jean Pierre Sabourin who retired in August 2017.

In 2017, the Board also continued to have oversight over the succession plans for key senior management.

STANDARD 9: STANDARDS OF BEHAVIOUR AND ETHICS

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

The Board has established standards of behaviour and ethics expected of Directors and employees through the Code of Business Conduct and Ethics, the Conflict of Interest Code as well as the Policy for Disclosure of Information Concerning Improper Conduct (Whistleblowing Policy).

PIDM provides regular training for employees on ethical behaviour, prevention of conflict of interest, information security and other relevant codes and policies. It assesses employees' understanding of these codes and policies through an annual compliance test. Directors and employees of PIDM are also required to make an annual declaration of their assets. Reports on compliance with laws, standards and ethics are provided to the Audit Committee and the Remuneration Committee.

PIDM conducts an employee engagement survey once every 2 years and presents the results to the Board. The survey gauges employees' views on several topics including the values and ethics of senior leadership. In 2017, PIDM achieved a Sustainable Engagement Index of 88% which is similar to the score obtained in 2015.

⁶ Section 16 of the PIDM Act

⁷ Section 19 of the PIDM Act

STATEMENT ON CORPORATE GOVERNANCE

The Board has a high degree of assurance that PIDM's employees understand the standards of behaviour expected of them and are in compliance with laws and key policies.

STANDARD 10: SIGNIFICANT RISKS TO PIDM

The Board will:

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

The Board risk policy states PIDM's commitment to sound ERM practices. Further information about PIDM's risk management is found in the Statement on Risk Management and Internal Control on page 86.

STANDARD 11: CONTROL ENVIRONMENT AND INTERNAL AUDIT

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

In this connection, the Board will:

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

The Board accepts overall responsibility for PIDM's systems of internal control and risk management and obtains assurance from Management, the CIA and the CRO respectively.

To ensure the independence of the internal audit process, the CIA reports functionally to the Board through the Audit Committee and administratively to the CEO. The Audit Committee is responsible for the oversight of the work of the internal audit function. The Chair of the Audit Committee will be consulted prior to the appointment or termination of the CIA and will conduct entry and exit interviews with the CIA. The CIA has full and free access to the Audit Committee.

Further information on PIDM's internal controls is provided in the Statement on Risk Management and Internal Control on page 86.

STANDARD 12: IN CONTROL

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

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

In addition to the assurances obtained by the Board as described in relation to Standards 10, 11 and 13, the Board has reasonable assurance that PIDM is “in control” for the following reasons:

- (a) The Board Governance Policy sets out the Board’s expectations from Management, and the Board evaluates the performance of Management in supporting the Board annually.
- (b) There is a strategic management process as described in Standard 13.
- (c) Board papers that are presented to the Board are comprehensive and set out the purpose of the report, the issues to be considered, the risk implications of the proposals together with quality assessment, analyses and sound recommendations. Directors have access to senior management, and if needed, the Board can question Management and conduct a detailed enquiry about any matter.
- (d) The Board can also question the CRO and the CIA, who report functionally to the Board through the Audit Committee, on the key risks or internal control matters and their views on the reliability of the information provided. The CRO and the CIA attend all scheduled Board meetings.
- (e) The Board receives comprehensive representation letters from the CEO, CFO and CRO that address the accuracy and reliability of the relevant information provided to the Board. Each of the divisional heads, in turn, provides representation letters to the CRO as well as the CEO with respect to their responsibilities to identify and manage risks, as well as the performance of their functions. In addition, the CIA provides a representation letter to the Audit Committee and the Board on the integrity of and compliance with the internal control systems that govern the relevant information provided to the Board by Management.

STANDARD 13: STRATEGIC MANAGEMENT PROCESS

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

To fulfil this responsibility, the Board will:

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

STATEMENT ON CORPORATE GOVERNANCE

The Board assesses PIDM's objects to ensure their continued relevance on a periodic basis. The Board has assessed that the objective of establishing an effective resolution regime is in line with PIDM's statutory object, in section 4 of the PIDM Act, to promote and contribute to the stability of the financial system.

The Board has adopted a strategic planning process. The Board provides its views on PIDM's strategic direction, given its operating environment, following which, a detailed corporate plan aligned with the strategic direction is developed, setting out the initiatives with timelines, KPIs, and financial and resource plans. Reports on the progress of PIDM's initiatives and KPIs against the corporate plan are presented to the Board on a regular basis.

In line with the criteria set out in the internal control framework, the Board has, in 2017, obtained reasonable assurance that PIDM's business and affairs are being managed effectively in accordance with the strategic management process in place.

STANDARD 14: EFFECTIVE COMMUNICATION

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

PIDM's communications policy seeks to promote public confidence in the stability of the financial system through the creation of awareness and understanding of PIDM's mandate, provide information and be accessible to the public and stakeholders in order to gain their trust and confidence.

In 2016, the Board-approved communications policy was reviewed and was found to be current and relevant. In terms of communications:

- (a) The Board oversees the implementation of PIDM's integrated communications plan.
- (b) Each year, PIDM's corporate plan and annual report are distributed to its key stakeholders and also made available on its website. PIDM's annual reports have been recognised and have received the National Annual Corporate Report Awards (NACRA) for excellence in reporting numerous times. In 2017, PIDM received a silver award from the Australasian Reporting Awards for the quality of its Annual Report 2015. PIDM also distributes related materials in other major languages to the public.

The report on PIDM's other stakeholder engagements activities is found on pages 37 to 38.

STANDARD 15: REVIEW OF THE BOARD GOVERNANCE POLICY

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

Annually, the Board, through the Governance Committee, benchmarks its governance arrangements against corporate governance best practices. The Board also reviews the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of PIDM. There were no amendments to the Board Governance Policy in 2017.

BOARD COMMITTEES

Throughout 2017, 4 Board Committees supported the Board; the Audit Committee (AC), Governance Committee (GC), Remuneration Committee (RC) and Succession Planning Committee (SPC). In 2017, all the Board Committees fulfilled their responsibilities against their respective charters. The charters of each of these Committees are available on PIDM's website.

Audit Committee

The following is a summary report of the AC's key areas of work in 2017:

Internal Audit

In 2017, the AC considered 4 internal audit reports issued by the Audit and Consulting Services (ACS) Division. These included annual reviews of PIDM's internal control compliance and audit reports on PIDM's financial statements and disclosures for the financial year ended 31 December 2016, the disaster recovery centre, and the security assessment-penetration testing and vulnerability analysis of PIDM's information technology systems and environment.

Recommendations emanating from these audits were reported to the AC, and Management's responses and action plans were considered. For 2017, there were no reported incidents of significant weaknesses or deficiencies in the adequacy and integrity of risk management and internal controls embedded in PIDM's systems, policies, practices and processes. There were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in its systems of risk management and internal control.

The AC reviewed the audit and consulting plan for 2018 - 2020 and considered budget and resource needs of the Division. The AC monitored the internal audit function's performance against the audit and consulting plan on an annual basis and ensured that it is independent. The AC also monitored the implementation of action plans arising from previous internal audits.

Management Audit

The main objective of the management audit is to assess PIDM's effectiveness in fulfilling its mandate, vision and mission through the review of the implementation of strategies and approaches, application of methodologies and processes as well as the utilisation of resources in administering the operations of PIDM. The results of the management audit will be used to realign or enhance PIDM's operations to achieve its mandate more effectively.

In 2017, the AC considered the progress report on the management audit including the results of the entity-level review assessment. As part of the entity-level review, a high level assessment was performed on the current state of the overall setup of PIDM. The outcome of this review indicated that PIDM has established the necessary structures and organisational setup, including the necessary key legislative powers to deliver its mandate.

Financial Reporting

The AC assisted the Board in discharging its oversight role to ensure reliable, accurate and clear financial reporting by reviewing PIDM's financial statements and other information provided in the annual report and corporate plan. Under the PIDM Act, PIDM's annual report (including its financial statements and the report from the Auditor General) must be provided to the Minister of Finance, 3 months after year end (31 December).

Financial Reporting Processes, Accounting Policies and Internal Control Structure

The AC reviewed and advised the Board with respect to the annual financial statements, the Management's Discussion and Analysis section of the annual report, external audit reports and the review of the integrity of financial reporting process and internal control reports. The AC also obtained a written certification from the CIA addressing PIDM's system of internal control.

STATEMENT ON CORPORATE GOVERNANCE

Strategic and Financial Management Oversight

The AC fulfilled its responsibilities with regard to financial management oversight, including the management of annual budgets and investments. In particular, the AC reviewed regular reports on the progress against the Corporate Plan 2017 - 2019, and considered and recommended the Corporate Plan 2018 - 2020.

Risk Management

The AC provided advice and support to the Board in respect of risk management. The role of the AC is described in the Statement on Risk Management and Internal Control on page 86. The AC has unrestricted and direct access to the CRO who regularly reports on the activities of the ERM Division and the significant risks. The AC also monitors the identification, evaluation and management of significant risks through these regular reports.

Ethical and Legal Compliance

The AC reviewed the reports on compliance with applicable laws and key codes and policies from the General Counsel.

Internal Payout Simulation

The AC considered the report on the outcome of the payout simulation exercise undertaken by PIDM. Key objectives of the simulation exercise are contained in page 30.

Governance Committee

In 2017, the GC carried out the following:

- (a) developed the annual board education programme for Directors. The programme is discussed on page 74;
- (b) reviewed PIDM's key governance policies and practices in light of recent developments in corporate governance;
- (c) reviewed the process for Board succession planning and the Chairman's profile;
- (d) reviewed corporate governance disclosures in the annual report including disclosures regarding the internal audit function.

Remuneration Committee

In 2017, the RC reviewed the Human Capital Division's status report including updates on PIDM's Strategic Human Capital Plan 2015 - 2020. It also reviewed the progress updates against the Corporate Plan 2017 - 2019.

The RC also recommended to the Board for approval, the employees' bonus awards for 2017 and salary increments for 2018.

Succession Planning Committee

In 2017, the SPC was involved in the process of selecting and recommending to the Board a CEO to succeed the outgoing CEO who had served PIDM for 12 years. The SPC was dissolved in July 2017. Moving forward, the GC will have oversight of succession planning for corporate officers in line with the GC Charter.

Attendance at Board and Board Committee meetings*Directors' Attendance at Board of Directors Meetings*

Name	21 Feb	19 May	23 May	27 July	18 Sept	10 Nov	5 Dec	Total
Tan Sri Datuk Dr. Abdul Samad Haji Alias*	1	1	1	1	not applicable	not applicable	not applicable	4
Tan Sri Dr. Rahamat Bivi Yusoff*	not applicable	not applicable	not applicable	not applicable	1	1	1	3
Governor Muhammad Ibrahim	1	1	1	1	1	1	1	7
Tan Sri Dr. Mohd Irwan Serigar Abdullah	1	0	1	0	0	0	0	2
Encik Mohamad Abdul Halim Ahmad*	1	1	1	1	1	1	1	7
Mr. Alex Foong Soo Hah	1	1	1	1	1	1	1	7
Dato Dr. Nik Ramlah Mahmood	1	1	1	1	1	1	1	7
Dato' Dr. Gan Wee Beng	1	1	1	1	1	1	1	7
Encik Johan Mahmood Merican*	1	0	1	0	0	1	0	3
Ms. Gloria Goh Ewe Gim*	1	1	1	1	1	1	1	7

Tan Sri Datuk Dr. Abdul Samad Haji Alias *retired w.e.f. 14 August 2017

Tan Sri Dr. Rahamat Bivi Yusoff *appointed w.e.f. 15 August 2017

Encik Mohamad Abdul Halim Ahmad *retired w.e.f. 2 January 2018

Encik Johan Mahmood Merican *appointed w.e.f. 3 January 2017

Ms. Gloria Goh Ewe Gim *appointed w.e.f. 3 February 2017

Directors' Attendance at Audit Committee Meetings

Name	15 Feb	3 May	22 Aug	23 Aug	15 Nov	11 Dec	Total
Encik Mohamad Abdul Halim Ahmad	1	1	1	1	1	1	6
Mr. Alex Foong Soo Hah	1	1	0	1	1	1	5
Encik Johan Mahmood Merican	1	0	0	1	1	0	3
Ms. Gloria Goh Ewe Gim	1	1	1	1	1	1	6

Directors' Attendance at Governance Committee Meetings

Name	7 Feb	2 Aug	Total
Tan Sri Datuk Dr. Abdul Samad Haji Alias	1	1	2
Dato Dr. Nik Ramlah Mahmood	1	1	2
Ms. Gloria Goh Ewe Gim	1	1	2

STATEMENT ON CORPORATE GOVERNANCE

Directors' Attendance at Remuneration Committee Meetings

Name	16 May	17 Nov	Total
Encik Mohamad Abdul Halim Ahmad	1	1	2
Dato' Dr. Gan Wee Beng	1	1	2
Encik Johan Mahmood Merican	1	0	1

Directors' Attendance at Succession Planning Committee Meetings

Name	17 Apr	Total
Tan Sri Datuk Dr. Abdul Samad Haji Alias	1	1
Encik Mohamad Abdul Halim Ahmad	1	1
Mr. Alex Foong Soo Hah	1	1



ACCOUNTABILITY AND AUDIT

Financial Reporting

PIDM adopts the Malaysian Accounting Standards Board's Approved Accounting Standards in Malaysia for Entities Other than Private Entities. It administers 6 distinct and separate funds under the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS) as stated in Section 1 – Overview. These funds are reported and accounted for separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2017 and the accompanying Statement by Directors are found on page 104.

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

Audit

Pursuant to the PIDM Act, the accounts of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. PIDM maintains a collaborative working relationship with the external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC reports and documentation prior to the AC meetings. NAD representatives attended 2 out of 6 AC meetings

held in 2017. Annual fees paid to the NAD are found on page 167 of this annual report.

In the recently published 2016 Auditor General's Report i.e. "Laporan Ketua Audit Negara 2016 – Penyata Kewangan Kerajaan Persekutuan dan Pengurusan Kewangan Kementerian / Jabatan / Badan Berkanun Persekutuan", PIDM achieved a score of 90.12% for its 2016 Accountability Index Audit, which puts it in the highest performance category of "excellent".

ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

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

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

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

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

RISK MANAGEMENT FRAMEWORK

PIDM's ERM framework assists PIDM to manage risks on an integrated, corporate-wide basis. The ERM framework supports the proactive identification and management of risks that could prevent PIDM from achieving its objectives, mission and vision through a clearly established ERM process.

The governance framework for risk management and internal control can be found on PIDM's website. The ERM framework implemented in PIDM is benchmarked against the Australian / New Zealand Standard for Risk Management (AS/NZS 4360:2004), the Committee of Sponsoring Organizations of the Treadway Commission's ERM – Integrated Framework, and the International Organization for Standardization 31000:2009 (Risk Management – Principles and Guidelines).

There are clear accountabilities and responsibilities for risk management:

- (a) The Board ensures that there is an appropriate ERM process to manage risk and reviews the ERM process and oversees its implementation. The Board, through the AC, provides oversight of ERM activities. The Board also obtains reasonable assurance on adherence to the ERM process and that the risks are effectively managed.
- (b) The CRO provides independent assurance on the management of the significant risks and provides reports to enable the Board to assess whether there is an appropriate and effective ERM process.
- (c) Management assumes ultimate responsibility for the implementation of the risk management process. It champions, manages and monitors risk management activities. Risk management is continually reinforced among employees, including through regular discussions at the risk committee meetings and employee briefings. Annually, there is a risk assessment workshop.

Risk Assessment 2017

In 2017, key risk management activities included the following:

- (a) Management reviewed and assessed risks in PIDM's organisational risk register. This involved the completion of a full cycle of the ERM process, which is to identify, assess, evaluate, treat, monitor, report and communicate the risks facing PIDM that could prevent it from achieving its objectives, mission and vision.
- (b) Carried out a risk maturity assessment survey of PIDM's risk management processes among employees, resulting in an internal rating of Level 3,⁸ which can be regarded as PIDM having risk management processes that are established, repeatable and standardised with defined and documented procedures.
- (c) Updated PIDM's business continuity plan to ensure it remains current. Simulations were also carried out with the purpose of ensuring that PIDM is able to continue its critical business functions in the event of a disaster.

Conclusion on Risks

From the 2017 risk assessment exercise, the conclusion is that, in respect of the 6 risk categories, PIDM's risks are either "acceptable" or "manageable", with risk trends remaining stable or increasing. There are no changes of significance to the residual risk ratings between 2017 and the previous year. PIDM's key risk areas remain the same, arising from the risk categories of people, insurance, and reputation risk.

⁸ PIDM's risk maturity level was assessed to be at Level 3 on a scale of 1 to 5, based on the risk management society (RIMS) Risk Maturity Model

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Risk Category	Risk Description	Residual Risk Rating	Risk Trend
People	How PIDM manages or treats its people.	●	↑
Insurance	Assessment, monitoring, intervention and failure resolution of member institutions, and other related risks inherent in providing DIS and TIPS.	●	↑
Reputation	Stakeholders' trust and confidence in PIDM.	●	↔
Strategic	Strategy and governance in achieving PIDM's mandate, vision, mission, objectives or initiatives.	●	↔
Financial	Adverse movements in the value of PIDM's financial assets and liabilities, both on and off balance sheet and the ability to fulfil its operational financial obligations.	●	↔
Operational	Day-to-day operations including inadequate or failed internal processes and systems.	●	↔

Residual Risk Rating Definitions		Risk Trend
<p>● Acceptable Overall, the residual risk is acceptable and appropriate risk management practices are in place.</p>	<p>● Manageable Overall, the residual risk warrants risk action plans as mitigation, and appropriate and timely action is being taken to manage the risk.</p>	<p>↔ Stable</p>
<p>● 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.</p>	<p>● Serious Concern Overall, the residual risk is unacceptable, including that significant gaps may exist in risk management practices and controls.</p>	<p>↑ Increasing</p> <p>↓ Decreasing</p>

The action plans to mitigate these key risk areas are described as initiatives in PIDM's corporate plan. The progress of key initiatives and PIDM's achievements in 2017 are detailed in the Performance Review in Section 3 – Management's Discussion and Analysis.

Significant risks are managed and monitored within PIDM's risk appetite. The CRO is of the opinion that there are no risk categories that would warrant heightened scrutiny, as adequate controls are in place and the appropriate risk action plans have been formulated to mitigate these risks effectively.

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

INTERNAL CONTROL FRAMEWORK

PIDM's internal control framework is founded on the internationally recognised Committee of Sponsoring Organizations of the Treadway Commission Internal Control – Integrated Framework (COSO Framework).

Key Policies, Practices and Processes

The following key policies, practices and processes have been established as part of PIDM's systems of risk management and internal control.

Focus Areas	Controls
Organisational structure and authority matrix	<ul style="list-style-type: none">• Proper assignment of authority and responsibilities.• Authority matrix setting out the Board's and Management's strategic and operational delegated authorities.
Codes of conduct	<ul style="list-style-type: none">• Training and awareness sessions for employees on Code of Business Conduct and Ethics, Conflict of Interest Code, Policy for Disclosure of Information Concerning Improper Conduct and Policy Against External Interference.
Systems, policies and procedures	<ul style="list-style-type: none">• Streamlining and integration of key operational policies and procedures with risk management and internal controls.
Information security	<ul style="list-style-type: none">• Corporate information security framework.• Annual reviews to assess compliance levels against International Organization for Standardization (ISO) / International Electrotechnical Commission (IEC) standards.• Information security awareness training session for employees.
Business continuity and disaster recovery	<ul style="list-style-type: none">• Simulation exercises to test the building and information technology facilities at the disaster recovery centre.

Annual Review of PIDM's Compliance with Internal Controls

Management carries out an annual review of PIDM's compliance with internal controls. For the year under review, the results of the assessment of internal controls indicate that overall, Management has ensured that sound internal controls have been established.

Conclusion on Internal Controls

For 2017, there were no reported incidents of significant weaknesses or deficiencies in the adequacy and integrity of risk management and internal controls embedded in PIDM's systems, policies, practices and processes. There were no financial losses incurred during the financial year under review resulting from weaknesses or deficiencies in its system of risk management and internal control.

THE BOARD'S REVIEW OF SYSTEM OF RISK MANAGEMENT AND INTERNAL CONTROL

The Board reviewed the effectiveness of PIDM's systems, policies, practices and processes based on the reports from various Board Committees and Management. Its review included the following:

- (a) The Board considered the reports of various Board Committees on a regular basis. These included the AC's report on the review of PIDM's financial statements, its compliance with laws and ethics, the effectiveness of controls embedded in systems or processes audited by the ACS Division; the report from the RC on compliance with key human capital policies and related laws; and the report from the GC on compliance with key governance policies.
- (b) The Board considered, on a semi-annual basis:
 - PIDM's financial reports, including the utilisation of resources, compared to the approved budget; and
 - the update and progress of Management's overall performance against approved initiatives and targets set out in the corporate plan, as well as Management's assessment of internal and external factors that may impair the performance of the corporate plan.
- (c) In addition, views of the Chairman of the Board were also obtained on the current strength of PIDM's internal control environment.

THE BOARD'S STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

Representations

The CRO provides the Board with an annual ERM representation letter confirming that PIDM's risks are being managed and that the relevant policies and ERM process continue to be effective and relevant. An annual ERM representation letter from each Head of Division is also provided to the CRO to confirm that each Division's risks are being managed and that the Division meets the Board's expectations with regard to the Division's responsibilities in mitigating the risks as well as to instil Management accountability.

The effectiveness of PIDM's compliance with internal controls as of 31 December 2017 has been assessed by Management and validated by the ACS Division based on the criteria set out in the internal control framework. The CIA provides an annual representation letter to the AC and the Board, which sets out the assessment results on PIDM's system of internal control that covers the areas judged to be of significant risk, as well as those pertaining to PIDM's financial management and reporting, i.e. the controls that support the preparation of the financial statements.

The CIA and CRO report functionally to the Board through the AC and administratively to the CEO and have unrestricted access to the AC and the Board. This ensures their independence and ability to fulfil their responsibilities effectively. There are 5 personnel in the ACS Division. To the Board's knowledge, the personnel are free from any relationships or conflicts of interest that could impair their objectivity and independence.

Based on these assessments and the effectiveness of PIDM's frameworks, systems, policies, practices and processes that have been implemented and maintained, the Board is of the view that a sound system of risk management and internal control has been established and maintained.

This Statement is made in accordance with the Board's resolution dated 22 February 2018.

BOARD OF DIRECTORS

MEMBERS AND PROFILES



TAN SRI DR. RAHAMAT BIVI YUSOFF

Chairman (appointed in August 2017)

Appointed to the Board:

January 2012

Qualifications:

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

Skills, Experience and Expertise:

Tan Sri Dr. Rahamat Bivi was appointed as the Chairman of the Board of Directors on 15 August 2017 for a 3-year term. She previously served on the Board of PIDM from January 2012 to January 2017. Tan Sri Dr. Rahamat Bivi is the former Director General of the Economic Planning Unit. Prior to that, she held the position of Deputy Secretary General of Treasury, Ministry of Finance, in charge of the Systems and Controls Division.

Tan Sri Dr. Rahamat Bivi serves on the Boards of Malaysia Nuclear Power Corporation, IOI Corporation Bhd, Ekuiti Nasional Berhad and Malaysia-Thailand Joint Authority. She is also a member of the Research Advisory Council of Perbadanan Nasional Bhd.



TAN SRI DATUK DR. ABDUL SAMAD HAJI ALIAS

Chairman (from August 2011 to August 2017)

Appointed to the Board:

August 2005

Qualifications:

- Fellow of the Institute of Chartered Accountants Australia
- Member of the Malaysian Institute of Certified Public Accountants
- Member of the Malaysian Institute of Accountants
- Honorary PhD in Accounting, Universiti Utara Malaysia, Malaysia
- Bachelor of Commerce, University of Western Australia, Australia

Skills, Experience and Expertise:

Tan Sri Datuk Dr. Abdul Samad has had extensive experience in auditing and accounting. In 2006, he received global recognition through the Association of Chartered Certified Accountants' Award for Achievement in Asia.

Retired from the Board on 14 August 2017



MUHAMMAD BIN IBRAHIM, FCB
Ex Officio Director
Appointed to the Board:
May 2016

Qualifications:

- Fellow of the Asian Institute of Chartered Bankers
- Member of the Malaysian Institute of Accountants
- Master in Public Administration, Harvard University, United States
- Master of Science in Islamic Banking and Finance, International Islamic University Malaysia, Malaysia
- Bachelor in Accounting (Honours), University of Malaya, Malaysia

Skills, Experience and Expertise:

Muhammad bin Ibrahim is the Governor of Bank Negara Malaysia. Appointed in May 2016, he is the Chair of the Bank's Monetary Policy Committee and the Financial Stability Committee.

Governor Muhammad serves as the Chair of the Labuan Financial Services Authority, the Asian Institute of Finance, and the International Centre for Education in Islamic Finance.

At the international level, he is the Co-Chair of the Financial Stability Board Regional Consultative Group for Asia with the Governor of the Reserve Bank of Australia and chairs the Global Standards and Policy Committee of the Alliance for Financial Inclusion.

Governor Muhammad is a Trustee of the National Trust Fund.



TAN SRI DR. MOHD IRWAN SERIGAR ABDULLAH
Ex Officio Director
Appointed to the Board:
August 2012

Qualifications:

- Advanced Management Program, Harvard Business School, United States
- PhD in Economics, International Islamic University Malaysia, Malaysia
- Master of Science in Energy Management and Policy, University of Pennsylvania, United States
- Bachelor of Arts (Honours) in Population Studies, University of Malaya, Malaysia

Skills, Experience and Expertise:

Tan Sri Dr. Mohd Irwan Serigar Abdullah is the Secretary General of Treasury at the Ministry of Finance Malaysia.

His career in the civil service began in 1984 when he joined the Malaysian Administrative and Diplomatic Service as Assistant Director, Regional Economics Division in the Economic Planning Unit (EPU) of the Prime Minister's Department. He served in various positions in EPU before joining the Ministry of Finance in 2003 as Principal Assistant Secretary, Economic and International Division. On 24 August 2012, he was appointed as Secretary General of Treasury.

Tan Sri Dr. Mohd Irwan Serigar serves on the Board of Directors of several key organisations including Khazanah Nasional Berhad, Permodalan Nasional Berhad, Lembaga Tabung Haji, Mass Rapid Transit Corporation Sdn. Bhd. and Bank Negara Malaysia. He is also Chairman of Retirement Fund (Incorporated), Inland Revenue Board of Malaysia, Cyberview Sdn. Bhd., Malaysian Global Innovation and Creativity Centre and Malaysia Rail Link Sdn. Bhd.

BOARD OF DIRECTORS

MEMBERS AND PROFILES



DATO DR. NIK RAMLAH MAHMOOD

Public Sector Director

Appointed to the Board:

August 2016

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

Skills, Experience and Expertise:

Dato Dr. Nik Ramlah Mahmood retired as a career regulator, having served the Securities Commission Malaysia (SC) for 23 years until her retirement on 31 March 2016. She joined the SC in 1993 as Manager for Law Reform and worked in various capacities including as Director of Policy and Development, Senior Executive Director, Managing Director and Deputy Chief Executive.

She currently sits on the Board of the Securities Industry Development Corporation, Axiata Group Berhad, United Malacca Berhad, edotco Group Sdn. Bhd. and Amanah Saham Nasional Berhad. She is a member of the Professional Development Panel of the International Centre for Education in Islamic Finance and the Financial Services Professional Board as well as an Adjunct Professor, Faculty of Law, Universiti Teknologi MARA, Malaysia.



MR. ALEX FOONG SOO HAH

Private Sector Director

Appointed to the Board:

August 2011

Qualifications:

- Fellow of Society of Actuaries, United States
- Registered Financial Planner with the Malaysian Financial Planning Council
- Master of Actuarial Science, Northeastern University, United States
- Bachelor of Science (Honours) in Mathematics, University of Malaya, Malaysia

Skills, Experience and Expertise:

Mr. Alex Foong Soo Hah sits on the Boards of Bank Simpanan Nasional, MRCB Quill Management Sdn. Bhd., Aviva Ltd. Singapore and Private Pension Administrator Malaysia. He has extensive experience in the insurance industry, having served as the Chief Executive Officer of a leading insurance company from 1996 to 2009, and another public listed insurance company prior to that. He has also served as president of both the Life Insurance Association Malaysia and the Actuarial Society of Malaysia.



ENCIK MOHAMAD ABDUL HALIM AHMAD

Private Sector Director

Appointed to the Board:
January 2012

Qualifications:

- Associate Member of the Institute of Chartered Accountants of England and Wales
- Member of the Malaysian Institute of Accountants
- Bachelor of Science (First Class Honours) in Civil Engineering, Imperial College, University of London, United Kingdom

Skills, Experience and Expertise:

Encik Mohamad Abdul Halim Ahmad was the Group Chief Executive of the Peremba Group of Companies until his retirement in 2014. In 1988, he served as General Manager of Finance and Finance Director of Landmarks Berhad, which is involved in a wide range of activities including hotel business, property investment and development, healthcare services and infrastructure works. From 1996 to 2005, he was the Managing Director of Landmarks Berhad. From 1994 to 2008, he sat on various Boards including Rashid Hussain Berhad, Saujana Consolidated Berhad, Shangri-La Hotels (Malaysia) Berhad, Landmarks Berhad and TDM Berhad.

Retired from the Board on 2 January 2018



DATO' DR. GAN WEE BENG

Private Sector Director

Appointed to the Board:
August 2016

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

Skills, Experience and Expertise:

Dato' Dr. Gan Wee Beng has held several key positions in CIMB Group including as Advisor for Investment Banking, Deputy Chief Executive Officer (Risk Management) and Executive Director at CIMB Bank, CIMB Investment Bank and CIMB Securities Berhad.

His other appointments outside CIMB Group were as Senior Advisor, Economics Department of the Monetary Authority of Singapore, and Consultant to the World Bank, International Labour Organisation and Bank Negara Malaysia. He was also a Research Fellow at the Malaysian Institute of Economic Research.

Currently, he is Chairman of KWEST Sdn. Bhd. and a member of the Board of Directors of Retirement Fund (Incorporated).

BOARD OF DIRECTORS

MEMBERS AND PROFILES



ENCIK JOHAN MAHMOOD MERICAN

Public Sector Director

Appointed to the Board:
January 2017

Qualifications:

- Member of the Institute of Chartered Accountants of England and Wales
- Bachelor of Arts (Economics), University of Cambridge, United Kingdom

Skills, Experience and Expertise:

Encik Johan Mahmood Merican is the Deputy Director General (Human Capital) of the Economic Planning Unit (EPU) since June 2016.

Prior to his current appointment, he was the Chief Executive Officer of Talent Corporation Malaysia Berhad (TalentCorp) since the agency's inception in January 2011. Under his leadership, TalentCorp drove public-private partnerships to meet Malaysia's talent needs. Between 2004 and 2010, he served as the Principal Private Secretary to the Minister of Finance and subsequently, in EPU.

Before his career in the public sector, Encik Johan had 9 years of experience working in corporate finance and accounting roles at Malaysian Resources Corporation Berhad, Sime Darby Berhad and PricewaterhouseCoopers.



MS. GLORIA GOH EWE GIM

Private Sector Director

Appointed to the Board:
February 2017

Qualifications:

- Fellow of CPA Australia
- Member of the Malaysian Institute of Certified Public Accountants
- Member of the Malaysian Institute of Accountants
- Bachelor of Commerce (Honours), University of Melbourne, Australia

Skills, Experience and Expertise:

Ms. Gloria Goh Ewe Gim is a retired partner of Ernst & Young, Malaysia and a former Council Member of the Malaysian Institute of Accountants and the ASEAN Federation of Accountants. She is a past president of the Information Systems Audit and Control Association Malaysia Chapter and currently sits on the Advisory Board of the Faculty of Business and Economics, University of Melbourne, Australia.

EXECUTIVE MANAGEMENT COMMITTEE

MEMBERS AND PROFILES

RAFIZ AZUAN ABDULLAH

Chief Executive Officer

**Appointed to the position
with effect from:**

August 2017



Qualifications:

- Advanced Management Program, Harvard Business School, United States
- Professional Accounting (Association of Chartered Certified Accountants)
- Bachelor of Arts in Accounting and Finance, Lancaster University, United Kingdom

Skills, Experience and Expertise:

Rafiz Azuan Abdullah joined PIDM in 2007 and was in the Insurance, Risk Assessment and Monitoring Division where he spearheaded the completion of the Risk Assessment System for PIDM. In 2011, with the expansion of PIDM's mandate to include the Takaful and Insurance Benefits Protection System, he managed the establishment of the Risk Assessment and Differential Levy Systems frameworks for insurer members. In June 2014, Rafiz Azuan assumed the role of Executive General Manager, as part of PIDM's Chief Executive Officer succession plan.

He also plays an active role internationally, especially at the International Association of Deposit Insurers (IADI). He is a member of IADI's Executive Council and was previously the Chairman of IADI's Islamic Deposit Insurance Technical Committee.

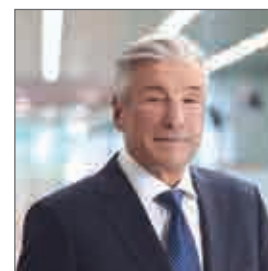
Prior to joining PIDM, Rafiz Azuan served at Rating Agency Malaysia for more than 10 years, where he specialised in rating financial institutions, real estate and construction companies. In 1999, Rafiz Azuan was seconded to the Corporate Debt Restructuring Committee at Bank Negara Malaysia to assist with the restructuring of distressed companies as a result of the economic recession.

JEAN PIERRE SABOURIN

Chief Executive Officer*

**Appointed to the position
with effect from:**

August 2005



Qualifications:

- Master of Business Administration, Rotman School of Management, University of Toronto, Canada

Skills, Experience and Expertise:

Jean Pierre Sabourin began his career at the Canada Deposit Insurance Corporation (CDIC) in 1976 and moved progressively to more senior positions until his appointment by the Government of Canada as President and Chief Executive Officer of CDIC in 1990, a position he held for 15 years until his retirement in April 2005. Under his leadership, CDIC developed into a best practice deposit insurer, successfully resolving over 40 financial institution failures.

In his over 40-year career in the field of deposit insurance both in Malaysia and Canada, Jean Pierre has gained unparalleled experience in all aspects of deposit insurance. His expertise has been widely sought by many jurisdictions around the globe planning to establish or improve their deposit insurance systems.

Jean Pierre's many accomplishments include chairing the International Study and Working Groups of the Financial Stability Forum (FSF), now the Financial Stability Board (FSB), on the establishment of Effective Deposit Insurance Systems from 1999 until 2001. He also led the first-ever Asia Pacific Economic Cooperation (APEC) Policy Dialogue on Deposit Insurance which made recommendations to APEC Ministers on enhancing deposit insurance systems. In May 2002, he led the development and establishment of the International Association of Deposit Insurers (IADI) and was elected its first Chair of the IADI Executive Council and President, a post he held until 2007.

* Retired in August 2017

EXECUTIVE MANAGEMENT COMMITTEE

MEMBERS AND PROFILES

LIM YAM POH⁹

Chief Operating Officer and
General Counsel

**Appointed to the position
with effect from:**
August 2017



Qualifications:

- Bachelor of Laws, University of Birmingham, United Kingdom

Skills, Experience and Expertise:

Lim Yam Poh was appointed as Chief Operating Officer on 28 August 2017. She has oversight over the Finance and Administration Division, Communications and Public Affairs Division, Legal Division, and Strategic Planning Division. She joined PIDM in 2006 as General Counsel and Corporate Secretary and assumed the role of Executive General Manager and General Counsel in June 2014.

Yam Poh has had both private sector and public sector experience in law and policy-making and has spent over 7 years in legal practice in Kuala Lumpur. Between 1997 and 2000, she worked at the Securities Commission Malaysia following which she worked at the Hong Kong Securities and Futures Commission in the Market Supervision as well as Corporate Finance Divisions until 2005.

Yam Poh has been called to the Bar of England and Wales and in Malaysia.

LEE YEE MING

Senior General Manager, Risk
Assessment and Resolution

**Appointed to the position
with effect from:**
January 2018



Qualifications:

- Certified Internal Auditor
- Chartered Member of The Institute of Internal Auditors Malaysia
- Master of Business Administration in Finance, Western Michigan University, United States
- Bachelor of Business Administration (summa cum laude), Western Michigan University, United States

Skills, Experience and Expertise:

Lee Yee Ming is responsible for the integration and implementation of the end-to-end spectrum of risk assessment and monitoring, early intervention, resolution planning, resolution execution, and timely and effective reimbursement of protected benefits and insured deposits of PIDM's member institutions. She also oversees the premium and levy collection function at PIDM.

Yee Ming joined PIDM in 2007 as Chief Risk Officer. She was subsequently appointed as General Manager, Policy and International Division in 2011, and appointed as Senior General Manager, Resolution Planning Unit in December 2016.

Prior to joining PIDM, Yee Ming had over 10 years of consulting and banking experience in Basel II implementation, enterprise risk management, and internal audit. She began her career with a financial institution in Illinois, United States and subsequently joined Ernst & Young in the Kuala Lumpur, Malaysia and Taipei, Taiwan offices.

⁹ Corporate officers appointed by the Board

LIM LEE NA⁹
Corporate Secretary

**Appointed to the position
with effect from:**
June 2014



Qualifications:

- Bachelor of Commerce in Accounting, Australian National University, Australia
- Bachelor of Laws, Australian National University, Australia

Skills, Experience and Expertise:

Lim Lee Na provides secretariat services to the Board and the Board Committees. She also supports the Board in the development and maintenance of good governance practices through research and advice. Lee Na joined PIDM in 2007 as Senior Legal Advisor and has led the development of the Product Registry System to automate the process of reviewing and rating the insurability status of deposit products offered by member banks as well as PIDM's programme for monitoring member institutions' compliance with PIDM's regulations.

She has over 20 years of combined experience mainly in the banking industry and legal practice, having worked with Sumitomo Mitsui Banking Corporation Malaysia Berhad, OCBC Bank (Malaysia) Berhad, Southern Bank Berhad, Malaysia Airports Holdings Berhad and Messrs Jeff Leong, Poon & Wong. She has also been a legal editor with Reed Elsevier.

Lee Na was called to the Malaysian Bar in 1991.

**WAN AHMAD IKRAM
WAN AHMAD LOTFI**⁹
Chief Financial Officer and
General Manager,
Finance and Administration

**Appointed to the position
with effect from:**
June 2017



Qualifications:

- Fellow of the Chartered Accountants Australia and New Zealand (CAANZ)
- Member of the Malaysian Institute of Accountants
- Bachelor of Commerce, University of Melbourne, Australia

Skills, Experience and Expertise:

Wan Ahmad Ikram Wan Ahmad Lotfi is accountable for the overall financial management and office administration of PIDM. In particular, he is responsible for the direction, management and control of accounting and treasury functions as well as functions related to information and technology systems management, and operational business processes, policies and controls. Since joining PIDM in 2006, Ikram had been involved in various areas of operations including taking on an assurance and advisory role as the Chief Internal Auditor.

Ikram started his career with Telekom Malaysia Berhad before pursuing his professional accounting career with KPMG in Melbourne, Australia. Upon his return to Malaysia, he joined Tahan Insurance Malaysia Berhad as Chief Internal Auditor and was later appointed its Chief Financial Officer.

He has gained extensive experience in various roles within several organisations in the areas of external and internal auditing, risk management, office operations and administration, accounting and finance operations, treasury and fund management, corporate planning, corporate finance, corporate restructuring, business process management and compliance as well as information technology.

⁹ Corporate officers appointed by the Board

EXECUTIVE MANAGEMENT COMMITTEE

MEMBERS AND PROFILES

ZUFAR SULEIMAN ABU BAKAR⁹

Chief Risk Officer and
General Manager,
Enterprise Risk Management

**Appointed to the position
with effect from:**

January 2018



Qualifications:

- Certified Internal Auditor
- Chartered Member of The Institute of Internal Auditors Malaysia
- Master of Science in Corporate Risk and Security Management, University of Southampton, United Kingdom
- Bachelor of Chemical and Bioprocess Engineering, University of Bath, United Kingdom

Skills, Experience and Expertise:

Zufar Suleiman Abu Bakar is responsible for the implementation of PIDM's Enterprise Risk Management framework and assists the Board, Audit Committee and Management in ensuring that PIDM's risks are being consistently and continuously identified, assessed, managed, monitored and reported on. He is also tasked with implementing the Business Continuity Management framework for PIDM. Zufar joined PIDM in 2013 as Senior Manager, Audit and Consulting Services Division.

Zufar started his career in the Advisory Division of Ernst & Young, Kuala Lumpur. After 8 years, he joined Projek Lintasan Kota Holdings (Prolintas) to set up and head the Enterprise Risk Management and Internal Audit Department. He has gained extensive experience in the areas of internal and operational auditing, enterprise risk management, quality assurance reviews, programme management, as well as internal control documentation and review involving the Sarbanes-Oxley Act.

AFIZA ABDULLAH

General Manager,
Policy and International

**Appointed to the position
with effect from:**

December 2016



Qualifications:

- Bachelor of Finance and Accounting (Honours), University of Salford, United Kingdom

Skills, Experience and Expertise:

Afiza Abdullah is responsible for PIDM's key policy areas and international relations. Her main responsibilities are to assess, develop and propose policies that concern the mandate and operations of PIDM, advance the views and interests of PIDM through involvement in relevant policy discussions by supranational bodies as well as strategically position PIDM in the international arena. Afiza joined PIDM in 2011 as Deputy General Manager, Policy and International Division.

Prior to joining PIDM, Afiza had over 9 years of regulatory experience with Bank Negara Malaysia, and had been involved in, among others, prudential policy formulation for insurance and banking sectors, and the modernisation of the Central Bank Act 2009 as well as the regulatory laws. She was a core team member in the development of the Bank Negara Malaysia Financial Blueprint. She began her career in an audit firm in London, United Kingdom and joined a local investment bank upon her return to Malaysia, before joining Bank Negara Malaysia.

⁹ Corporate officers appointed by the Board

CHUA EE LEEN

General Manager,
Strategic Planning

**Appointed to the position
with effect from:**
January 2012



Qualifications:

- Member of CPA Australia
- Member of the Malaysian Institute of Accountants
- Bachelor of Commerce in Accounting and Finance, Curtin University of Technology, Australia

Skills, Experience and Expertise:

Chua Ee Leen is responsible for the implementation of PIDM's strategic planning process and assists the Board and Management in setting the direction as well as the development of strategic and financial plans. She is responsible for monitoring and reporting performance against the approved plan, including financial performance against budget. She is also involved in project management of key corporate initiatives.

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

Prior to joining PIDM in 2007, she had over 7 years of experience in auditing, risk management, as well as the development of policies and procedures through her career at Ernst & Young Kuala Lumpur, including a secondment to a global group of energy and petrochemical companies. Her auditing experience includes external and internal auditing, Sarbanes-Oxley independent compliance review as well as certification-related review.

HELENA PREMA JOHN

General Manager,
Human Capital

**Appointed to the position
with effect from:**
November 2015



Qualifications:

- Certified Professional Trainer and Certified Practitioner of Neuro-Linguistic Programming (National Federation of NLP) and Neuro-Semantics (International Society of Neuro-Semantics)
- Bachelor of Economics (Honours), University of Malaya, Malaysia
- Diploma in Management Programme (DIMP), Malaysian Institute of Management (MIM), Malaysia

Skills, Experience and Expertise:

Helena Prema John is responsible for the development of human capital strategies and plans to maximise both organisational and individual effectiveness, and the provision of the full range of human capital policies, programmes and services to ensure that PIDM can continuously attract, develop, engage and retain the highest calibre workforce to fulfil its mandate.

Prior to joining PIDM in 2010, she had more than 20 years of experience in human capital development in various multinational manufacturing companies, local conglomerates and the services industry.

EXECUTIVE MANAGEMENT COMMITTEE

MEMBERS AND PROFILES

LIM KONG KUAN

General Manager, Membership and Reimbursement

Appointed to the position with effect from:
January 2018



Qualifications:

- Master of Science in Mathematical Trading and Finance (Distinction), City University Business School, City, University of London, United Kingdom
- Bachelor of Economics (Accounting), University of Sydney, Australia

Skills, Experience and Expertise:

Lim Kong Kuan is responsible for conducting timely and effective reimbursement of protected benefits and insured deposits. He has been instrumental in leading the development of PIDM's readiness in its reimbursement mandate. In addition, his responsibilities include managing the membership programme for member institutions including premium and levy collection. Prior to this, he was a pioneer in developing the intervention and failure resolution (IFR) function of PIDM. He has spoken on IFR-related subjects, both locally and internationally. He joined PIDM in 2006 as Deputy General Manager, Insurance, Risk Assessment and Monitoring Division.

Prior to PIDM, he served for 11 years at Bank Negara Malaysia. His experience in Bank Negara Malaysia included developing and reviewing prudential policies on capital adequacy requirements and banking risk management, particularly market risk and Basel II-related regulations.

LIM TAI CHING

General Manager, Legal

Appointed to the position with effect from:
January 2015



Qualifications:

- Certificate in Legal Practice by the Legal Profession Qualifying Board
- Master of Laws in International Legal Studies, Kyushu University, Japan
- Bachelor of Laws, University of London, United Kingdom

Skills, Experience and Expertise:

Lim Tai Ching is responsible for the provision of a range of legal services, including the maintenance and development of relevant legislation to ensure that they remain relevant to enable PIDM to effectively fulfil its mandate, and ensuring compliance with all applicable statutory requirements. She chaired the Corporate Social Responsibility Committee, from 2011 to 2017, leading initiatives that are focussed on community development, environmental conservation and sustainability for PIDM. She joined PIDM in 2010 as a Legal Advisor.

She commenced her legal career at Messrs Shook Lin & Bok. After leaving legal practice, she joined the United Nations High Commissioner for Refugees, supporting its operations in the Malaysia and Cambodia offices.

Tai Ching was called to the Malaysian Bar in 2002.

SARINA ARIFFIN

Acting General Manager,
Communications
and Public Affairs

**Appointed to the position
with effect from:**
September 2017



Qualifications:

- Master of Laws in International Law, University of Nottingham, United Kingdom
- Bachelor of Laws, University of Nottingham, United Kingdom

Skills, Experience and Expertise:

Sarina Ariffin is responsible for the full range of communications initiatives for PIDM's public awareness, stakeholder engagement, public relations, as well as advertising and promotions programmes. Sarina has over 22 years of experience in the public relations and communications field, in which she has held various roles.

Sarina began her career in an insurance company and later advanced her role at 2 public listed companies and also consulting with a public relations consultancy.

Before joining PIDM in 2008, she served for 10 years with the Securities Commission Malaysia where she was involved in stakeholder management, international affairs as well investors' complaints and issues management.

AZIRRUAN ARIFIN

Head, Shared Services

**Appointed to the position
with effect from:**
January 2018



Qualifications:

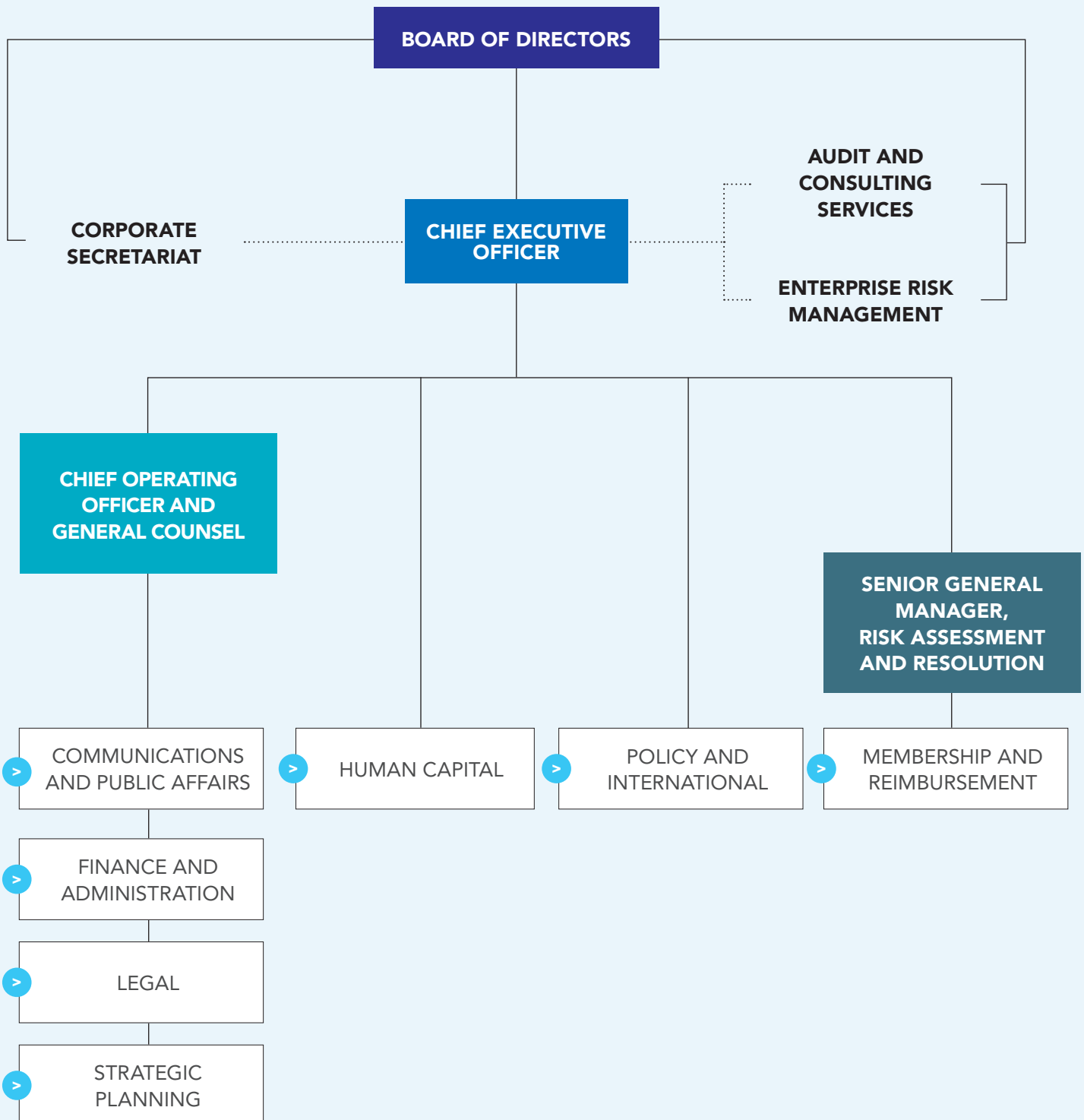
- Bachelor in Accounting (Honours), Universiti Teknologi MARA, Malaysia
- Diploma in Accountancy, Universiti Teknologi MARA, Malaysia

Skills, Experience and Expertise:

Azirruan Arifin is responsible for the provision of centralised services. The function is developed to increase efficiencies and improve processes through the shared services delivery model.

Azirruan joined PIDM in 2010 and was previously with the Audit and Consulting Services, Insurance, Risk Assessment and Monitoring as well as Enterprise Risk Management Divisions. Prior to joining PIDM, Azirruan was the Head of Advisory, Audit and Business Advisory Department in Malaysian Airline System Berhad. He also has over 7 years of onsite insurance supervision experience with Bank Negara Malaysia and has been involved in, among others, development of the Anti-Money Laundering guidelines for the insurance industry and guidelines for Bancassurance. He began his career in Malayan Banking Berhad before joining Bank Negara Malaysia.

ORGANISATION STRUCTURE





FINANCIAL STATEMENTS

SECTION 6

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 2017.

PRINCIPAL ACTIVITIES

PIDM is a statutory body established to administer the Deposit Insurance System (DIS) and the 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 Funds for Islamic and conventional deposits known as Deposit Insurance Funds (DIFs) as well as four separate Funds for each business segments within TIPS known as Takaful and Insurance Benefits Protection Funds (TIPFs). There is no commingling of funds between the separate Funds.

FINANCIAL RESULTS

	2017 RM'000	2016 RM'000
Net surplus for the financial year:		
Deposit Insurance Funds	368,705	356,797
Takaful and Insurance Benefits Protection Funds (excluding Other Comprehensive Income)	94,385	136,789
Total net surplus	463,090	493,586

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.

FINANCIAL RESULTS (continued)

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

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

	2017 RM'000	2016 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	1,684,676	1,388,304
Islamic Deposit Insurance Fund	339,150	266,896
Total Deposit Insurance Funds	2,023,826	1,655,200
Takaful and Insurance Benefits Protection Funds:		
General Insurance Protection Fund	1,216,735	1,183,067
Life Insurance Protection Fund	283,073	236,969
General Takaful Protection Fund	22,307	17,758
Family Takaful Protection Fund	44,526	34,485
Total Takaful and Insurance Benefits Protection Funds	1,566,641	1,472,279

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2017 were:

- Tan Sri Dr. Rahamat Bivi binti Yusoff (Chairman) (appointed on 15 August 2017)
- Tan Sri Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah
- Muhammad bin Ibrahim
- Dato Dr. Nik Ramlah binti Nik Mahmood
- Dato' Dr. Gan Wee Beng
- Alex Foong Soo Hah
- Johan Mahmood Merican (appointed on 3 January 2017)
- Gloria Goh Ewe Gim (appointed on 3 February 2017)
- George Anthony David Dass (retired on 2 February 2017)
- Tan Sri Datuk Dr. Abdul Samad bin Haji Alias (Chairman) (retired on 14 August 2017)
- Mohamad Abdul Halim bin Ahmad (retired on 2 January 2018)

Tan Sri Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah and Muhammad bin Ibrahim 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' REPORT

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 14 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 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 existing methods of valuation of assets or liabilities in PIDM's accounts misleading or inappropriate.

CHANGE OF CIRCUMSTANCES

As at the date of this report, the Directors are not aware of any change in circumstances not otherwise dealt with in this report or the financial statements of PIDM which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature, likely to substantially affect the results of the operations of PIDM for the current financial year in respect of which this report is made.

As at the date of this report, there does not exist any charge on the assets of PIDM that has arisen since the end of the financial year that secures the liabilities of any other person.

CONTINGENT LIABILITIES

Exposure to losses

Under the PIDM Act, PIDM has an inherent exposure to losses resulting from insuring deposits under DIS as well as insurance policies and takaful certificates under TIPS. However, this inherent exposure cannot be accurately ascertained or estimated with any acceptable degree of reliability.

During the year, there have been no 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 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 10 to the financial statements, PIDM has established Target Fund frameworks for DIFs and Conventional Insurance Protection Funds to determine the level of funds sufficient to cover the net expected losses from intervention or failure resolution (IFR) activities. The Target Fund Framework for the takaful funds with TIPFs are currently being developed.

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

Operational exposure

During the year, a claim was made against PIDM by the main contractor responsible for the construction of PIDM's disaster recovery centre. The claim of approximately RM1.2 million was in relation to the dispute over the losses and damages charged by PIDM against the contractor pursuant to the provisions of the contract. After taking into consideration appropriate legal advice, whilst it is possible for the claim to succeed, the likelihood is low. Therefore, no provisions have been made in the financial statements.

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.

DIRECTORS' REPORT

INVESTMENT IN SUBSIDIARIES

PIDM has incorporated five subsidiaries as part of its efforts to ensure operational readiness to carry out any IFR activities. In accordance with section 10 of the PIDM Act, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The subsidiaries are incorporated in advance as part of PIDM's operational readiness in case of a failure of a member institution, and thus will remain dormant until activated to carry out any necessary IFR activities. The basis of accounting as well as details of the subsidiaries are further described in Note 2.2(c), Note 3.1(a) and Note 7 to the financial statements.

During the year, PIDM had written-off the amounts due from subsidiaries of RM213,351, given that these subsidiaries will continue to remain dormant until such time it is required to be activated for its intended purpose as described in 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 2017, 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



Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
22 February 2018

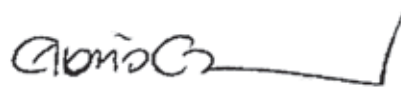
STATEMENT BY DIRECTORS

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 2017, 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



Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
22 February 2018

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 2017, 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 22 February 2018.

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 22 February 2018.



Rafiz Azuan bin Abdullah
Chief Executive Officer



Wan Ahmad Ikram bin Wan Ahmad Lotfi
Chief Financial Officer

Before me,
Commissioner for Oaths





**REPORT OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
PERBADANAN INSURANS DEPOSIT MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2017**

Report on the Financial Statements

Opinion

I have audited the Financial Statements of Perbadanan Insurans Deposit Malaysia, which comprise the Statement of Financial Position as at 31 December 2017 and the 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, summary of significant accounting policies and other explanatory information as set out on pages 119 to 185.

In my opinion, the Financial Statements give a true and fair view of the financial position of the Perbadanan Insurans Deposit Malaysia as at 31 December 2017 and of the 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

I conducted the audit in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities are further described in the Auditors' Responsibilities for the Audit of the Financial Statements in this report. 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 from Perbadanan Insurans Deposit Malaysia and have fulfilled other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

Information Other than the Financial Statements and Auditors' Report Thereon

The Directors are responsible for the other information in the Annual Report. My opinion on the Financial Statements of Perbadanan Insurans Deposit Malaysia does not cover the information other than the Financial Statements and auditors' report thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation of Financial Statements of 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 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 Perbadanan Insurans Deposit Malaysia, the Directors are responsible for assessing of Perbadanan Insurans Deposit Malaysia ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditors' Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements of Perbadanan Insurans Deposit Malaysia as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report 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 Perbadanan Insurans Deposit Malaysia 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 Perbadanan Insurans Deposit Malaysia ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my auditors' report to the related disclosures in the Financial Statements of 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 auditors' report.
- e. Evaluate the overall presentation of the Financial Statements of Perbadanan Insurans Deposit Malaysia including the disclosures that achieves fair presentation.

I communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control identified during my audit.

Report on Other Legal and Regulatory Requirements

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

Other Matters

This report 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 report.



(TAN SRI DR. MADINAH BINTI MOHAMAD)
AUDITOR GENERAL
MALAYSIA



PUTRAJAYA

16 MARCH 2018

STATEMENT OF FINANCIAL POSITION

as at 31 December

	Note	2017 RM'000	2016 RM'000
ASSETS			
Cash and cash equivalents	4a	26,163	20,755
Investments			
<i>Held-to-maturity investments</i>	5	3,498,582	3,052,014
Other assets	6	39,591	31,716
Investment in subsidiaries	7	—*	—*
Property and equipment	8	38,275	37,420
Total Assets		3,602,611	3,141,905
LIABILITIES			
Payables	9	12,144	14,426
Total Liabilities		12,144	14,426
FUNDS AND RESERVES			
Deposit Insurance Funds			
<i>Accumulated surpluses</i>	10a	2,023,826	1,655,200
Takaful and Insurance Benefits Protection Funds			
<i>Accumulated surpluses</i>	10b	1,566,641	1,472,279
Total Funds and Reserves		3,590,467	3,127,479
Total Liabilities, Funds and Reserves		3,602,611	3,141,905

* 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	2017 RM'000	2016 RM'000
Premium and levy revenues	11	474,338	468,245
Investment income from cash and investment securities	12	101,080	89,191
Total income		575,418	557,436
Employee benefits	13	68,661	56,460
Public relations and advertising		8,795	10,853
Depreciation of property and equipment	8	6,162	3,622
Operating leases		6,066	6,048
Other expenses	14	22,644	21,899
Total expenses		112,328	98,882
Operational net surplus		463,090	458,554
Exceptional item:			
Moneys received from Insurance Guarantee Scheme Funds		–	35,032
Net surplus for the year		463,090	493,586
Other comprehensive income			
Remeasurements of Long Term Retirement Plan liability	9 ii	(102)	–
Total comprehensive income for the year	19	462,988	493,586

Note: PIDM is exempted from income tax.

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
Accumulated Surpluses				
As at 1 January 2016	10a	1,095,738	202,665	1,298,403
Total comprehensive income for the year		292,566	64,231	356,797
As at 31 December 2016	10a	1,388,304	266,896	1,655,200
As at 1 January 2017	10a	1,388,304	266,896	1,655,200
Total comprehensive income for the year		296,372	72,254	368,626
As at 31 December 2017	10a	1,684,676	339,150	2,023,826

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
Accumulated Surpluses						
As at 1 January 2016	10b	1,110,115	188,607	12,095	24,673	1,335,490
Total comprehensive income for the year		72,952	48,362	5,663	9,812	136,789
As at 31 December 2016	10b	1,183,067	236,969	17,758	34,485	1,472,279
As at 1 January 2017	10b	1,183,067	236,969	17,758	34,485	1,472,279
Total comprehensive income for the year		33,668	46,104	4,549	10,041	94,362
As at 31 December 2017	10b	1,216,735	283,073	22,307	44,526	1,566,641

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

for the year ended 31 December

	Note	2017 RM'000	2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums and levies received from member institutions		474,338	468,245
Payments in the course of operations to suppliers and employees		(108,020)	(96,236)
Receipts of investment income		134,059	116,981
Net cash flows generated from operating activities		500,377	488,990
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		2,657,117	1,846,606
Purchase of investment securities		(3,144,312)	(2,356,555)
Receipts from Insurance Guarantee Scheme Funds		–	35,032
Purchase of property and equipment		(7,774)	(18,149)
Net cash flows used in investing activities		(494,969)	(493,066)
Net increase / (decrease) in cash and cash equivalents		5,408	(4,076)
Cash and cash equivalents at beginning of year		20,755	24,831
Cash and cash equivalents at end of year	4a	26,163	20,755

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 receivables (as described in Note 6). Refer to Note 20 (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.

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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 Funds for Islamic and conventional deposits known as the Deposit Insurance Funds (DIFs) as well as four separate 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 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 22 February 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS).

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

The 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The financial statements incorporate those activities relating to the administration of both DIFs and TIFs of PIDM. The Islamic Funds are maintained and administered in accordance with Shariah requirements and in compliance with the PIDM Act.

PIDM presents its Statement of Financial Position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Statement of Profit or Loss and Other Comprehensive Income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of PIDM.

The financial statements are presented in Ringgit Malaysia (RM) and all values are rounded to the nearest thousand (RM'000), except when otherwise indicated.

2.2 Summary of significant accounting policies

a. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on demand with banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value. This includes short-term investments with maturities of less than 90 days from the date of acquisition. The Statement of Cash Flows is prepared using the direct method. A Statement of Cash Flows prepared using the indirect method is also presented in Note 4(b) to the financial statements.

b. Financial instruments

(i) Initial recognition and measurement

Financial instruments are financial assets or financial liabilities recognised in the Statement of Financial Position when PIDM becomes a party to the contractual provisions of the instruments on the trade date. (This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place).

When financial instruments are recognised initially, they are measured at fair value, plus, in the case of held-to-maturity investments, directly attributable transaction costs.

PIDM determines the classification of its financial assets at initial recognition, and the categories include held-to-maturity investments as well as loans and receivables.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

b. Financial instruments (continued)

(ii) Financial instrument categories and subsequent measurement

1. *Financial assets*

- **Held-to-maturity investments**

Investments classified as held-to-maturity comprise marketable Malaysian Government Securities and Investment Issues, Bank Negara Malaysia Monetary Notes and Private Debt Securities. PIDM invests in short-term and medium-term Ringgit Malaysia denominated securities that are intended to be held-to-maturity and are not traded. These securities with fixed or determinable payments and fixed maturity are stated at cost adjusted for amortisation of premiums or accretion of discounts, calculated on an effective yield basis, from the date of purchase to the maturity date, less any impairment losses recognised. Interest or returns earned whilst holding these investments including amortisation of premiums and accretion of discounts, which are calculated using the effective interest or yield method, and impairment losses, are recognised in the Statement of Profit or Loss.

If PIDM were to sell or reclassify a more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, PIDM would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

- **Loans and receivables**

Loans and receivables are stated at anticipated net realisable values. Impairment losses are recognised when identified.

2. *Financial liabilities*

- **Payables**

PIDM measures all financial liabilities at cost, which is the fair value of the consideration to be paid in the future for goods and services rendered.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

b. Financial instruments (continued)

(iii) Fair value of financial instruments

PIDM provides fair value information on its investments for disclosure purposes. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

PIDM uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, PIDM determines whether transfers have occurred between the Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

b. Financial instruments (continued)

(iii) Fair value of financial instruments (continued)

For the purpose of fair value disclosures, PIDM has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the Levels of the fair value hierarchy as explained above.

(iv) Derecognition

1. 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 in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in the Statement of Profit or Loss.

2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

c. Investment in subsidiaries

Investment in subsidiaries are measured in PIDM's Statement of Financial Position at cost less any impairment losses, unless the investment is held-for-sale.

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

Furthermore, in accordance with the requirements of MFRS 10 *Consolidated Financial Statements*, PIDM does not prepare consolidated financial statements as PIDM does not meet all the criteria required for having 'control' over its subsidiaries, as defined in MFRS 10. This is because PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Funds. This is discussed in further detail in Note 3.1(a).

d. Property and equipment, and depreciation

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

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

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

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%

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

d. Property and equipment, and depreciation (continued)

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.

e. Impairment

1. Financial assets

PIDM assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired.

- **Held-to-maturity investments**

To determine whether there is objective evidence that an impairment loss on held-to-maturity investments has been incurred, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the issuers and obligors as well as any default or significant delay in payments.

If any such evidence exists, the amount of impairment loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the investment's original effective interest rate. The carrying value of the held-to-maturity investment is reduced and the amount of the impairment loss is recognised in the Statement of Profit or Loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the held-to-maturity investment does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the Statement of Profit or Loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

e. Impairment (continued)

1. Financial assets (continued)

• Loans and receivables

To determine whether there is objective evidence that an impairment loss on a loans and receivables has been incurred, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the debtors, any default or significant delay in payments or when there is an objective evidence that PIDM is unable to collect all outstanding loans or receivables pursuant to the credit terms.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of impairment loss is recognised in the Statement of Profit or Loss.

2. Non-financial assets

At each Statement of Financial Position date, PIDM reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, the recoverable amount is determined on an individual asset basis. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised in the Statement of Profit or Loss in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is accounted for. This is as the revaluation decreases to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for the same asset.

An impairment loss for assets is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the Statement of Profit or Loss unless the asset is carried at revalued amount, in which case such reversal is treated as a revaluation increase.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

f. 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 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 financial period.

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

2. Expenses

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

Expenses that cannot be charged directly to the relevant Fund or Funds will be allocated based on the requirements of the Malaysia Deposit Insurance Corporation (Allocation of Expenses, Costs or Losses) (Amendment) Order 2017. This amended 2017 Order replaces the previous 2011 Order which changes the basis of expense allocation from premiums and levies-based allocation to total income-based allocation. The amended 2017 Order is effective from the 2017 financial year onwards and does not affect the prior year comparatives.

The expenses that cannot be charged directly to a specific Fund or Funds are categorised into either the following two 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 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 2017 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 2016. The allocation rates used during the year are as follows:

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

f. Recognition of income and expenses (continued)

2. Expenses (continued)

Year	DIS		TIPS			
	Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2017	81.85%	18.15%	33.56%	51.39%	5.42%	9.63%
	100%		100%			
2016	81.24%	18.76%	15.53%	70.25%	4.70%	9.52%
	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 Funds in DIS and TIPS in the financial year prior to the year in which such expenses, costs or losses are allocated. For the 2017 financial year, these expenses were allocated to the respective Funds based on the proportion of total income earned for each of the Funds during the financial year ended 31 December 2016. The apportionment basis used is as follows:

Year	Total	DIS		TIPS			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2017	100%	63.81%	14.15%	7.40%	11.33%	1.19%	2.12%
2016	100%	66.02%	15.25%	2.91%	13.16%	0.88%	1.78%

g. Employee benefits

(i) Short-term benefits

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

g. Employee benefits (continued)

(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, as well as Pertubuhan Keselamatan Sosial.

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 LTRP liability 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 LTRP liability for the period by applying the discount rate used to measure the LTRP obligation at the beginning of the annual period to the then LTRP liability. Interest expense and other expenses relating to the LTRP plan are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

h. Currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

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

2.3 Changes in accounting policies

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

PIDM has early adopted the following accounting standards and amendments of the MFRS issued by the Malaysian Accounting Standards Board (MASB) in its prior years' financial statements but the application of the accounting standards, amendments and interpretations of the MFRS has been deferred:

MFRS, Interpretations and Amendments with deferred effective date:

- Amendments to MFRS 10 *Consolidated Financial Statements – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The adoption of the above amendments and improvements to MFRS did not have any material effect on the financial performance or position of PIDM. These changes also do not result in significant changes to the accounting policies of PIDM.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies (continued)

The following pronouncements that have been issued by the MASB will become effective in future financial reporting periods 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 2018:

- MFRS 9 *Financial Instruments* (IFRS 9 issued by IASB in July 2014)

MFRS 9 *Financial Instruments* ("MFRS 9") as issued by MASB in July 2014 is effective for annual period beginning 1 January 2018. MFRS 9 replaces MFRS 139 *Financial Instruments: Recognition and measurement* ("MFRS 139"), which significantly amends other standard dealing with financial instruments such as MFRS 7 *Financial Instruments: Disclosures* ("MFRS 7").

On the effective date, PIDM will be applying MFRS 9 retrospectively, but will elect to not restate the comparative information as the impact is not expected to be significant.

The adoption of MFRS 9 will result in the following changes to PIDM's accounting policies:

Classification and measurement of financial instruments

The following table summarises the impact on classification and measurement to PIDM's financial assets and financial liabilities:

Financial assets / Liabilities	Original measurement category under MFRS 139	New measurement category under MFRS 9
Cash and cash equivalents	At Cost and held to maturity	Amortised cost
Investments	Held to maturity	Amortised cost
Other receivables	Loans and Receivables	Amortised Cost
Payables	At Cost	Amortised Cost

There are no other changes in the classification and measurement of financial liabilities of PIDM.

Expected credit loss impairment model

PIDM has three types of financial assets which will be subjected to MFRS 9's new expected credit loss impairment model:

- Debt instruments carried at amortised cost;
- Other assets; and
- All deposits including placements in short-term money market and fixed deposits

Based on the preliminary impairment assessment on its debt instruments carried at amortised cost using the new expected credit loss model, PIDM does not expect any material impairment to be recognised in its financial statements. PIDM also does not expect any impairment on the other financial assets.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies (continued)

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

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

- MFRS 16 *Leases*

MFRS 16 will replace MFRS 117 *Leases*, IC Interpretation 4 *Determining whether an Arrangement contains a Lease*, IC Interpretation 115 *Operating Lease-Incentives* and IC Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. MFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on balance sheet model similar to the accounting for finance leases under MFRS 117.

At the commencement date of a lease, a lessee will recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to recognise interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under MFRS 16 is substantially the same as the accounting under MFRS 117. Lessors will continue to classify all leases using the same classification principle as in MFRS 117 and distinguish between two types of leases: operating and finance leases.

MFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted but not before an entity applies MFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach.

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

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

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2017:

- Amendments to MFRS 112 *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*
- Amendments to MFRS 107 *Statement of Cash Flows: Disclosure Initiative*
- Amendments to MFRS 12 *Disclosure of Interest in Other Entities (Annual Improvements 2014-2016 Cycle)*

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policies (continued)

MFRS, Interpretations and Amendments effective for annual periods beginning on or after 1 January 2018:

- Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 2 *Classification and Measurement of Share-based Payment Transactions*
- Amendments to MFRS 128 *Investments in Associates and Joint Ventures (Annual Improvements 2014-2016 Cycle)*
- Amendments to MFRS 140 *Investment Property: Transfers of Investment Property*
- Amendments to MFRS 4 *Insurance Contracts: Applying MFRS 9 Financial Instruments with MFRS 4 Insurance Contracts*
- MFRS 15 *Revenue from Contracts with Customers*

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

- MFRS 17 *Insurance Contracts*

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:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of investor's return.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Judgements made in applying accounting policies (continued)

(a) Non-consolidation of investments in subsidiaries (continued)

PIDM is the resolution authority for all member institutions with wide intervention and failure resolution (IFR) powers. The subsidiaries were incorporated to act as vehicles for PIDM to carry out any IFR activities rather than for investment purposes. Any returns from the subsidiaries are meant for the benefit of the respective Funds, which are to be used for future IFR activities. PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Funds. Although PIDM has rights to use monies in the Funds to cover any expenses incurred to run its operations, these expenses are limited and strictly governed by the PIDM Act.

Given the above considerations, the criteria for having 'control' as defined in MFRS 10 are not met, and hence consolidated financial statements have not been prepared. Nevertheless, a summary of the financial information of each of the subsidiaries is included in Note 7 to the financial statements.

(b) Impairment of held-to-maturity investments as well as loans and receivables

PIDM assesses at each reporting date whether there is any objective evidence that held-to-maturity investments, loans or receivables are impaired as a result of one or more events that occurred and that loss event has an impact on the estimated future cash flows of the held-to-maturity investments, loans or receivables. To determine whether there is objective evidence of impairment, PIDM considers factors such as the probability of insolvency or significant financial difficulties of the issuers, obligors or debtors as well as any default or significant delay in payments.

(c) Operating lease commitments

PIDM has entered into non-cancellable lease contracts for the use of office space and various office equipment. PIDM has determined, based on an evaluation of the terms and conditions of the arrangements, that the lease terms do not constitute a major part of the economic life of the assets and there is no purchase option clause included in the contract. As such, there is no transfer of significant risks and rewards of ownership of these assets to PIDM. Hence, these contracts are accounted for as operating lease.

3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of held-to-maturity investments as well as loans and receivables

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for held-to-maturity investments, loans or receivables with similar credit risk characteristics.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**3.2 Key sources of estimation uncertainty (continued)****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.

4. CASH AND CASH EQUIVALENTS**a. Balances as at the end of the financial year**

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Operational banking accounts	1,413	1,186	227
Placements in short-term money market and fixed deposits	24,750	17,750	7,000
Total cash and cash equivalents	26,163	18,936	7,227

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Operational banking accounts	5,735	3,205	2,530
Placements in short-term money market and fixed deposits	15,020	12,320	2,700
Total cash and cash equivalents	20,755	15,525	5,230

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	462,988	368,626	94,362
<i>Adjustments for:</i>			
Depreciation of property and equipment	6,162	4,742	1,420
Remeasurement of Long Term Retirement Plan Liability	102	79	23
Operating profit before changes in working capital	469,252	373,447	95,805
Change in payables	(2,282)	(2,155)	(127)
Change in other assets	(227)	(556)	329
Cash generated from operations	466,743	370,736	96,007
Net accretion / amortisation for investment securities	41,282	26,420	14,862
Change in investment income receivables	(7,648)	(7,124)	(524)
Net cash flows generated from operating activities	500,377	390,032	110,345
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	2,657,117	1,869,453	787,664
Purchase of investment securities	(3,144,312)	(2,250,798)	(893,514)
Receipts from Insurance Guarantee Scheme Funds	-	-	-
Purchase of property and equipment	(7,774)	(5,276)	(2,498)
Net cash flows used in investing activities	(494,969)	(386,621)	(108,348)
Net decrease in cash and cash equivalents	5,408	3,411	1,997
Cash and cash equivalents at beginning of year	20,755	15,525	5,230
Cash and cash equivalents at end of year	26,163	18,936	7,227

4. CASH AND CASH EQUIVALENTS (continued)**b. Statement of Cash Flows (indirect method) (continued)**

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	493,586	356,797	136,789
<i>Adjustments for:</i>			
Depreciation of property and equipment	3,622	2,595	1,027
Remeasurement of Long Term Retirement Plan Liability	–	–	–
Operating profit before changes in working capital	497,208	359,392	137,816
Change in payables	815	1,137	(322)
Change in other assets	(781)	(249)	(532)
Cash generated from operations	497,242	360,280	136,962
Net accretion / amortisation for investment securities	(4,247)	9,608	(13,855)
Change in investment income receivables	(4,005)	(1,385)	(2,620)
Net cash flows generated from operating activities	488,990	368,503	120,487
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	1,846,606	910,128	936,478
Purchase of investment securities	(2,356,555)	(1,264,613)	(1,091,942)
Receipts from Insurance Guarantee Scheme Funds	35,032	–	35,032
Purchase of property and equipment	(18,149)	(14,189)	(3,960)
Net cash flows used in investing activities	(493,066)	(368,674)	(124,392)
Net increase in cash and cash equivalents	(4,076)	(171)	(3,905)
Cash and cash equivalents at beginning of year	24,831	15,696	9,135
Cash and cash equivalents at end of year	20,755	15,525	5,230

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

5. INVESTMENTS

Held-to-maturity investments

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	3,278,187	1,830,525	1,447,662
Bank Negara Malaysia Monetary Notes	–	–	–
Private Debt Securities	235,542	137,912	97,630
	3,513,729	1,968,437	1,545,292
Add: Accretion of discounts net of amortisation of premiums	(15,147)	(5,395)	(9,752)
Total held-to-maturity investments	3,498,582	1,963,042	1,535,540
Fair value of investment securities held as at 31 December 2017 are as follows:			
Malaysian Government Securities and Investment Issues	3,263,934	1,824,745	1,439,189
Bank Negara Malaysia Monetary Notes	–	–	–
Private Debt Securities	235,679	138,467	97,212
Total fair value of investments	3,499,613	1,963,212	1,536,401

5. INVESTMENTS (continued)**Held-to-maturity investments (continued)**

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	2,565,078	1,218,616	1,346,462
Bank Negara Malaysia Monetary Notes	242,770	242,770	–
Private Debt Securities	250,631	144,958	105,673
	3,058,479	1,606,344	1,452,135
Add: Accretion of discounts net of amortisation of premiums	(6,465)	468	(6,933)
Total held-to-maturity investments	3,052,014	1,606,812	1,445,202
Fair value of investment securities held as at 31 December 2016 are as follows:			
Malaysian Government Securities and Investment Issues	2,542,240	1,209,575	1,332,665
Bank Negara Malaysia Monetary Notes	246,383	246,383	–
Private Debt Securities	250,161	145,109	105,052
Total fair value of investments	3,038,784	1,601,067	1,437,717

Investments are denominated in Ringgit Malaysia.

The fair values of investments in both DIFs as well as TIPFs as disclosed above are indicative of their market values as at the end of the financial year and are determined by reference to indicative market prices obtained from a bond pricing agency.

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6. OTHER ASSETS

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Investment income receivables	34,080	18,820	15,260
Deposits and prepayments	4,633	3,921	712
Other receivables	665	419	246
Miscellaneous assets	213	154	59
Amounts due from subsidiaries	–	–	–
Total other assets	39,591	23,314	16,277

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Investment income receivables	26,432	11,696	14,736
Deposits and prepayments	3,678	3,238	440
Other receivables	1,180	430	750
Miscellaneous assets	213	154	59
Amounts due from subsidiaries	213	116	97
Total other assets	31,716	15,634	16,082

Included in other receivables are inter-fund balances of RM0.6 million (2016: RM1.2 million) for day-to-day operational activities.

During the year, PIDM had written-off the amounts due from subsidiaries of RM213,351 given that these subsidiaries will continue to remain dormant until such time it is required to be activated for its intended purpose as described in Note 7.

7. INVESTMENT IN SUBSIDIARIES

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	—*	—	—
Total investment in subsidiaries	—*	—	—

	2016		
	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.

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7. INVESTMENT IN SUBSIDIARIES (continued)

The names of all Directors for all the subsidiaries in office during the financial year ended 31 December 2017 were:

- Rafiz Azuan bin Abdullah, Chief Executive Officer, PIDM
- 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 (IFR) activities. In accordance with section 10 of the PIDM Act, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The five subsidiaries, being one asset management company (AMC) and four bridge institutions (BIs), have been incorporated under the Companies Act 1965 as public companies limited by shares. The subsidiaries are incorporated in advance in case of any failure of a member institution and hence, will remain dormant until activated to carry out any necessary IFR activities.

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

Name of subsidiary	Objects / Purpose
The Federal Asset Management Agency of Malaysia Berhad	The AMC was established to carry on the business of an asset management company and has the authority to acquire, assume control, manage, dispose 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.
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.	
The Federal Commercial Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed bank to carry on and transact all commercial banking business as defined in the Financial Services Act 2013.

7. INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiary	Objects / Purpose
The Federal Islamic Bank of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed Islamic bank to carry on and transact all Islamic banking business as defined in the Islamic Financial Services Act 2013.
The National PIDM Insurance Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed insurance company to carry on or transact all insurance, assurance, guarantee and indemnity businesses as defined in the Financial Services Act 2013.
The Federal Takaful Corporation of Malaysia Berhad	This subsidiary, upon activation, will operate as a licensed takaful operator to carry on or transact every kind of takaful and re-takaful businesses under the Islamic Financial Services Act 2013.

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

Further details of are represented in Note 3.1(a).

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

Expense description	2017 RM	2016 RM
Audit Fees	15,370	14,310
Tax Consultancy Fees	545	7,405
Secretarial Fees	13,382	16,650
Total expenses of the subsidiaries	29,297	38,365

The administrative expenses for subsidiaries are also included in the other expenses disclosed in Note 14 within professional and consultancy fees.

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8. PROPERTY AND EQUIPMENT

	2017							Total RM'000
	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	
Cost								
Balance as at 1 January 2017	4,718	17,168	35,661	4,059	986	10,467	4,296	77,355
Additions	-	-	1,416	-	-	111	5,453	6,980
Reclassifications / Adjustments	-	113	6,773	-	-	179	(7,028)	37
Disposals	-	-	(47)	-	-	-	-	(47)
Retirement	-	-	(385)	(17)	(3)	(453)	-	(858)
Balance as at 31 December 2017	4,718	17,281	43,418	4,042	983	10,304	2,721	83,467
Accumulated depreciation								
Balance as at 1 January 2017	-	-	27,976	3,089	441	8,429	-	39,935
Charge for the year	-	345	4,885	158	148	626	-	6,162
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	(47)	-	-	-	-	(47)
Retirement	-	-	(385)	(17)	(3)	(453)	-	(858)
Balance as at 31 December 2017	-	345	32,429	3,230	586	8,602	-	45,192
Net carrying amount as at 31 December 2017	4,718	16,936	10,989	812	397	1,702	2,721	38,275

8. PROPERTY AND EQUIPMENT (continued)

	2016							
	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
Cost								
Balance as at 1 January 2016	4,718	-	29,070	3,099	686	9,031	11,590	58,194
Additions	-	-	1,280	-	300	247	17,334	19,161
Reclassifications / Adjustments	-	17,168	5,311	960	-	1,189	(24,628)	-
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	4,718	17,168	35,661	4,059	986	10,467	4,296	77,355
Accumulated depreciation								
Balance as at 1 January 2016	-	-	25,116	3,016	326	7,855	-	36,313
Charge for the year	-	-	2,860	73	115	574	-	3,622
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	-	-	27,976	3,089	441	8,429	-	39,935
Net carrying amount as at 31 December 2016	4,718	17,168	7,685	970	545	2,038	4,296	37,420

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8. PROPERTY AND EQUIPMENT (continued)

Assets under construction amounting to RM2,721,556 (2016: RM4,296,194) consist of:

	2017 RM	2016 RM
* Assets under construction consist of:		
Risk Assessment System (RAS) version 2	951,801	1,309,431
Office refurbishments	–	36,570
Claims Management System (CMS)	–	346,620
Premium Reimbursement Information Management System (PRIMS)	–	373,014
Enhancement for Financial Management System	–	386,370
Request Management System and Payout Management System	–	462,091
Travel Requisition System	–	261,661
Technology Assurance for RAS 2	576,667	244,844
Enhancement to Depositor Support Management System (DSMS) and Depositor Liability Information Management System (DLIMS) Lite	–	390,239
Data Leak Protection	418,617	–
Other Information Technology (IT) systems	774,471	485,354
Total	2,721,556	4,296,194

Subsequent to initial recognition, the freehold land is stated at cost. As at 31 December 2017, the fair value of the freehold land is RM8,200,000 based on the professional valuation carried out in 2016 by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. 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.

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 are reflective of current market conditions. Based on its assessment, PIDM is of the view that the valuation carried out in 2016 is still relevant and reflective of the value of the freehold land.

Significant unobservable valuation input:	Range
Price per square metre	RM120 – RM125

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

Reconciliation of fair value – Level 3 fair value

	2017 RM'000	2016 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	8,200	8,200

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

	2017							
	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
Cost								
Balance as at 1 January 2017	3,155	13,953	31,667	3,846	827	9,279	2,790	65,517
Additions	-	-	1,141	-	-	90	2,630	3,861
Reclassifications / Adjustments	-	93	3,305	-	-	141	(3,508)	31
Disposals	-	-	(27)	-	-	-	-	(27)
Retirement	-	-	(385)	(17)	(3)	(276)	-	(681)
Balance as at 31 December 2017	3,155	14,046	35,701	3,829	824	9,234	1,912	68,701
Accumulated depreciation								
Balance as at 1 January 2017	-	-	25,629	3,064	395	7,700	-	36,788
Charge for the year	-	280	3,754	126	117	465	-	4,742
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	(27)	-	-	-	-	(27)
Retirement	-	-	(385)	(17)	(3)	(276)	-	(681)
Balance as at 31 December 2017	-	280	28,971	3,173	509	7,889	-	40,822
Net carrying amount as at 31 December 2017	3,155	13,766	6,730	656	315	1,345	1,912	27,879

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8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds (continued)

	2016							
	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
Cost								
Balance as at 1 January 2016	3,155	–	26,463	3,067	583	8,125	8,553	49,946
Additions	–	–	1,041	–	244	200	14,086	15,571
Reclassifications / Adjustments	–	13,953	4,163	779	–	954	(19,849)	–
Disposals	–	–	–	–	–	–	–	–
Retirement	–	–	–	–	–	–	–	–
Balance as at 31 December 2016	3,155	13,953	31,667	3,846	827	9,279	2,790	65,517
Accumulated depreciation								
Balance as at 1 January 2016	–	–	23,559	3,007	306	7,321	–	34,193
Charge for the year	–	–	2,070	57	89	379	–	2,595
Reclassifications / Adjustments	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–	–
Retirement	–	–	–	–	–	–	–	–
Balance as at 31 December 2016	–	–	25,629	3,064	395	7,700	–	36,788
Net carrying amount as at 31 December 2016	3,155	13,953	6,038	782	432	1,579	2,790	28,729

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds

	2017							
	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
Cost								
Balance as at 1 January 2017	1,563	3,215	3,994	213	159	1,188	1,506	11,838
Additions	-	-	275	-	-	21	2,823	3,119
Reclassifications / Adjustments	-	20	3,468	-	-	38	(3,520)	6
Disposals	-	-	(20)	-	-	-	-	(20)
Retirement	-	-	-	-	-	(177)	-	(177)
Balance as at 31 December 2017	1,563	3,235	7,717	213	159	1,070	809	14,766
Accumulated depreciation								
Balance as at 1 January 2017	-	-	2,347	25	46	729	-	3,147
Charge for the year	-	65	1,131	32	31	161	-	1,420
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	(20)	-	-	-	-	(20)
Retirement	-	-	-	-	-	(177)	-	(177)
Balance as at 31 December 2017	-	65	3,458	57	77	713	-	4,370
Net carrying amount as at 31 December 2017	1,563	3,170	4,259	156	82	357	809	10,396

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31 December 2017

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

	2016							
	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
Cost								
Balance as at 1 January 2016	1,563	-	2,607	32	103	906	3,037	8,248
Additions	-	-	239	-	56	47	3,248	3,590
Reclassifications / Adjustments	-	3,215	1,148	181	-	235	(4,779)	-
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	1,563	3,215	3,994	213	159	1,188	1,506	11,838
Accumulated depreciation								
Balance as at 1 January 2016	-	-	1,557	9	20	534	-	2,120
Charge for the year	-	-	790	16	26	195	-	1,027
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Retirement	-	-	-	-	-	-	-	-
Balance as at 31 December 2016	-	-	2,347	25	46	729	-	3,147
Net carrying amount as at 31 December 2016	1,563	3,215	1,647	188	113	459	1,506	8,691

9. PAYABLES

	Note	2017		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Operational payables		8,710	6,870	1,840
Other payables		661	300	361
Provision for unutilised leave	i	1,879	1,470	409
Provision for Long Term Retirement Plan Liability	ii	894	705	189
Total payables		12,144	9,345	2,799

	Note	2016		
		Total RM'000	DIFs RM'000	TIPFs RM'000
Operational payables		11,171	9,100	2,071
Other payables		1,152	729	423
Provision for unutilised leave	i	1,851	1,466	385
Provision for Long Term Retirement Plan Liability	ii	252	205	47
Total payables		14,426	11,500	2,926

Included in other payables are inter-fund balances of RM0.6 million (2016: RM1.2 million) for day-to-day operational activities. Other payables include amount due to related parties as disclosed in Note 18.

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9. PAYABLES (continued)

i. Provision for unutilised leave

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January	1,851	1,466	385
Addition for the year	346	252	94
Payment	(318)	(248)	(70)
Balance as at 31 December	1,879	1,470	409

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Balance as at 1 January	1,503	1,130	373
Addition for the year	430	403	27
Payment	(82)	(67)	(15)
Balance as at 31 December	1,851	1,466	385

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.

9. PAYABLES (continued)

ii. Provision for Long Term Retirement Plan Benefit

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Long Term Retirement Plan Liability	894	705	189
Total provision for Long Term Retirement Plan	894	705	189
	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Long Term Retirement Plan Liability	252	205	47
Total provision for Long Term Retirement Plan	252	205	47

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. As at reporting date, the balance of the provision for LTRP represents accrued but not vested benefits.

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9. PAYABLES (continued)

ii. Provision for Long Term Retirement Plan Benefit (continued)

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

	Total		DIFs		TIPFs	
	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Balance as at 1 January Included in profit or loss	252	–	205	–	47	–
Current service cost	526	249	410	202	116	47
Past service cost	–	3	–	3	–	–*
Interest / Financing cost Included in other comprehensive income	14	–	11	–	3	–
**Remeasurements	102	–	79	–	23	–
Balance as at 31 December	894	252	705	205	189	47

* Total current service cost for TIPFs is significantly below the rounding threshold.

** Remeasurements of LTRP liability 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.

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

	2017 RM'000	2016 RM'000
Fair value of plan assets		
Present value of unfunded obligations	894	252
Total deficit of defined benefit pension plans (before asset ceiling)	894	252

Principal actuarial assumptions at the end of the reporting period (expressed as weighted averages) include the discount rate, future salary growth, turnover rate, mortality rate and disability rate. The mortality rate is based on the published Malaysian Ordinary Life Table 1999 – 2003 that is used in the insurance industry. The disability rate used is 10% of the mortality rate.

10. FUNDS AND RESERVES**a. Deposit Insurance Funds****Accumulated surpluses**

	2017		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	1,655,200	1,388,304	266,896
Net surplus	368,626	296,372	72,254
Balance as at 31 December	2,023,826	1,684,676	339,150

	2016		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Balance as at 1 January	1,298,403	1,095,738	202,665
Net surplus	356,797	292,566	64,231
Balance as at 31 December	1,655,200	1,388,304	266,896

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 earned net of total expenses incurred based on the proportion of premiums collected for a particular year.

In 2011, PIDM had established a framework to determine the levels of DIFs that PIDM aims to build as reserves over the long-run to meet its objectives and fulfil its mandate. This level (known as the Target Fund) represents the level of funds that would be sufficient to cover the net expected losses from IFR activities. The Target Fund is usually described as a percentage of Total Insured Deposits (TID), and for PIDM, is specified as a range of target levels (lower and upper ranges).

The Target Fund range is between 0.6% and 0.9% of TID for both the Conventional and Islamic DIFs. Based on the level of TID as at 31 December 2016, the range in RM absolute terms is between RM2.6 billion and RM3.9 billion for the Conventional DIF and between RM581 million and RM871 million for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

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10. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

The current balance of DIFs as at 31 December 2017 as a percentage of TID compared to the Target Fund range are described in the following table:

Deposit Insurance Funds	Target Fund			
	2017 Actual RM Million / %	2016 Actual RM Million / %	Lower Range RM Million / %	Upper Range RM Million / %
Conventional Deposit Insurance Fund				
Balance	1,685	1,388	2,583	3,875
Percentage of Total Insured Deposits	0.39%	0.33%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	339	267	581	871
Percentage of Total Insured Deposits	0.35%	0.30%	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 11(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 5 to 8 years.

10. FUNDS AND RESERVES (continued)**b. Takaful and Insurance Benefits Protection Funds****Accumulated surpluses**

	2017				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Balance as at 1 January	1,472,279	1,183,067	236,969	17,758	34,485
Net surplus	94,362	33,668	46,104	4,549	10,041
Balance as at 31 December	1,566,641	1,216,735	283,073	22,307	44,526

	2016				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Balance as at 1 January	1,335,490	1,110,115	188,607	12,095	24,673
Net surplus	136,789	72,952	48,362	5,663	9,812
Balance as at 31 December	1,472,279	1,183,067	236,969	17,758	34,485

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 Funds for each business segment within TIPS. TIPFs are accumulated from annual net surpluses, which are the levy revenue and investment income earned net of total expenses incurred based on the proportion of levies collected for a particular year.

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31 December 2017

10. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

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. Based on the exposures as at 31 December 2017, the Target Fund range in RM million are as follows:

General Insurance Protection Fund	Target Fund			
	2017 Actual RM Million	2016 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	1,217	1,183	332	415

Based on the above GIPF balance as at 31 December 2017, 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 and / 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 11(b)(i).

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. Based on the total AVL as at 31 December 2016, the Target Fund range in RM million are as follows:

Life Insurance Protection Fund	Target Fund			
	2017 Actual RM Million	2016 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Balance	283	237	510	766

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 of 0.4% of total AVL is expected to be achieved within the next 5 to 8 years.

PIDM will be implementing a Target Fund framework for the Takaful Protection Funds in 2018.

11. PREMIUM AND LEVY REVENUES**a. Premium revenues from member banks**

	2017		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
First premium	250	250	–
Annual premiums	399,764	320,258	79,506
Total premium revenues from member banks	400,014	320,508	79,506

	2016		
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
First premium	–	–	–
Annual premiums	388,457	316,123	72,334
Total premium revenues from member banks	388,457	316,123	72,334

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 2011¹ (Premium Order – Member Banks).

i. Rates for annual premium under the Differential Premium Systems

Premium Category	Premium Rate	Minimum Annual Premium Amount (RM)
	Assessment Year 2015 Onwards	
1	0.06%	100,000
2	0.12%	200,000
3	0.24%	400,000
4	0.48%	800,000

¹ 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

11. PREMIUM AND LEVY REVENUES (continued)

a. Premium revenues from member banks (continued)

i. Rates for annual premium under the Differential Premium Systems (continued)

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 System in respect of Deposit-Taking Members) Regulations 2011] holding Islamic insured deposits or conventional insured deposits, the rate for the first premium for such new member bank will be the same as the premium rate for premium category 1, subject to a minimum first premium of RM250,000.

b. Levy revenues from insurer members

	2017				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Annual levies	74,324	5,445	52,219	5,329	11,331
Total levy revenues from insurer members	74,324	5,445	52,219	5,329	11,331
	2016				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Annual levies	79,788	5,434	57,163	6,231	10,960
Total levy revenues from insurer members	79,788	5,434	57,163	6,231	10,960

11. PREMIUM AND LEVY REVENUES (continued)**b. Levy revenues from insurer members (continued)****i. Levy rates under the Differential Levy Systems for insurer members**

All insurer members are assessed based on the Malaysia Deposit Insurance Corporation (Differential Premium² Systems in respect of Insurer Members) Regulations 2012³ (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	2017			
	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%

The levy rates for 2016 based on Premium Order – Insurer Members 2016, were as follows:

Levy Category	2016			
	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%

² 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”.

³ 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.

NOTES TO THE FINANCIAL STATEMENTS

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11. 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 2017 were subject to minimum levies based on their levy category as follows:

Levy Category	2017			
	Minimum Annual Levy Amount (RM)			
	Insurance		Takaful	
	General	Life	General	Family
1	25,000	75,000		
2		150,000		
3		300,000		
4		600,000		

The annual levies payable for 2016 were subject to minimum levies based on their levy category as follows:

Levy Category	2016			
	Minimum Annual Levy Amount (RM)			
	Insurance		Takaful	
	General	Life	General	Family
1	25,000	75,000		
2		150,000		
3		300,000		
4		600,000		

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.

12. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES**a. Investment income according to investment securities**

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	87,366	46,408	40,958
Bank Negara Malaysia Monetary Notes	3,245	3,182	63
Private Debt Securities	9,951	5,747	4,204
Placements in short-term money market and fixed deposits	518	390	128
Total investment income from cash and investment securities	101,080	55,727	45,353

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	74,699	36,371	38,328
Bank Negara Malaysia Monetary Notes	4,543	4,420	123
Private Debt Securities	9,426	4,987	4,439
Placements in short-term money market and fixed deposits	523	321	202
Total investment income from cash and investment securities	89,191	46,099	43,092

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

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

b. Investment income according to nature of income

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon and profit rate from investment securities	110,916	57,257	53,659
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(10,354)	(1,920)	(8,434)
Returns from placements in short-term money market and fixed deposits	518	390	128
Total investment income from cash and investment securities	101,080	55,727	45,353

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Coupon and profit rate from investment securities	94,848	45,919	48,929
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(6,180)	(141)	(6,039)
Returns from placements in short-term money market and fixed deposits	523	321	202
Total investment income from cash and investment securities	89,191	46,099	43,092

12. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES (continued)**c. Weighted Average Effective Yield Rates (WAEYR)**

The WAEYR for investment securities that were effective during the financial year are as follows:

Year	Type of Portfolio	DIS		TIPS			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2017	Cash equivalents and investments						
	MGSII and BNMN*	2.96%	2.91%	2.99%	2.79%	3.03%	3.04%
	Private Debt Securities	4.03%	3.63%	4.07%	3.97%	3.58%	3.58%
	Placements in Short-term Money Market and Fixed Deposits	2.94%	2.99%	2.95%	2.95%	3.11%	3.07%
	Overall	2.99%		3.00%			
2016	Cash equivalents and investments						
	MGSII and BNMN*	3.09%	2.77%	3.05%	2.71%	2.92%	2.99%
	Private Debt Securities	4.08%	3.63%	4.02%	3.97%	3.58%	3.58%
	Placements in Short-term Money Market and Fixed Deposits	2.98%	3.04%	3.04%	3.04%	3.03%	3.03%
	Overall	3.06%		3.03%			

The WAEYR presented above are based on the weighted average yield for each portfolio for the whole of the financial year 2017 and 2016.

* MGSII and BNMN represent the Malaysian Government Securities and Investment Issues as well as the Bank Negara Malaysia Monetary Notes.

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13. EMPLOYEE BENEFITS

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Wages and salaries	55,655	41,946	13,709
Contributions to defined contribution plan	7,855	5,897	1,958
Provision for unutilised leave	346	251	95
Provision for Long Term Retirement Plan Liability	526	410	116
Other benefits	4,279	3,247	1,032
Total employee benefits	68,661	51,751	16,910

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Wages and salaries	45,498	34,193	11,305
Contributions to defined contribution plan	6,660	4,984	1,676
Provision for unutilised leave	430	403	27
Provision for Long Term Retirement Plan Liability	252	205	47
Other benefits	3,620	2,759	861
Total employee benefits	56,460	42,544	13,916

The number of employees at the end of the financial year was 171 (2016: 157).

14. OTHER EXPENSES

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	33	26	7
Directors' fees and remuneration*	1,356	1,057	299
Hosting of international event	46	38	8
Parking space rental	653	509	144
Printing and stationery	1,311	1,025	286
Professional and consultancy fees	7,281	6,659	622
Scholarship programme	766	597	169
Subscriptions and memberships	845	672	173
Telecommunication and computer systems	4,114	3,251	863
Training and development	2,634	2,117	517
Travelling	542	500	42
Utilities, office maintenance and general insurance	2,128	1,660	468
Amounts due from subsidiaries written-off (Note 6)	213	154	59
Interest / financing costs of the LTRP**	14	11	3
Miscellaneous	708	562	146
Total other expenses	22,644	18,838	3,806

	2016		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	139	113	26
Directors' fees and remuneration*	712	579	133
Hosting of international event	101	82	19
Parking space rental	621	505	116
Printing and stationery	1,284	1,049	235
Professional and consultancy fees	9,428	8,679	749
Scholarship programme	699	568	131
Subscriptions and memberships	757	623	134
Telecommunication and computer systems	3,967	3,231	736
Training and development	1,964	1,638	326
Travelling	405	342	63
Utilities, office maintenance and general insurance	1,193	968	225
Amounts due from subsidiaries written-off (Note 6)	–	–	–
Interest / financing costs of the LTRP**	–	–	–
Miscellaneous	629	534	95
Total other expenses	21,899	18,911	2,988

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

** Refer to Notes 9 (ii) and 13.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

15. TAXATION

PIDM is exempted from income tax.

16. OPERATING LEASES

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

During the year, PIDM has renewed their tenancy agreement for the use of office space at Levels 11, 12, 13, 15 & 16, Axiata Tower, Kuala Lumpur. The provisions of this tenancy contract are similar except that the duration has been synchronised with the prevailing tenancy contracts of existing Levels. The tenancy is for a further term of 4 years (Second Term) 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 operating lease contracts. These leases have lease terms of up to five years and include either a provision for an automatic renewal if PIDM does not serve termination notice three months before expiration of the primary terms or exclude a provision for an automatic renewal. For both type of lease terms, there are no purchase options or escalation clauses included in the lease contracts.

Future aggregate minimum lease payments under the non-cancellable operating leases contracted as at the Statement of Financial Position date but not recognised as liabilities are as follows:

	2017 RM'000	2016 RM'000
Future minimum lease payments:		
Within 1 year	6,064	6,204
More than 1 year but less than 5 years	17,693	766
Total operating lease commitments	23,757	6,970

17. CAPITAL COMMITMENTS

	Note	2017 RM'000	2016 RM'000
Approved and contracted for:			
Office equipment and computer systems	a	5,743	7,584
Total capital commitments		5,743	7,584

- a. The Capital commitment balance for office equipment and computer systems mainly includes development of core IT systems, enhancement of IT infrastructures, security facilities and systems.

18. RELATED PARTY DISCLOSURES**a. Transactions with related parties**

- i. PIDM is a statutory body governed by the PIDM Act. As such, PIDM is related by way of common interest with all Government Departments, agencies and other statutory bodies. During the financial year, PIDM has transacted with some of these related parties for various provision of services. All the transactions were transacted at commercial arm's length basis. The following table discloses the significant related party transactions:

	Note	Expenses		Payables	
		2017 RM'000	2016 RM'000	2017 RM'000	2016 RM'000
Bank Negara Malaysia	a	464	715	–	253
Kumpulan Wang Simpanan Pekerja	b	7,720	6,516	–	–
Pertubuhan Keselamatan Sosial	b	135	144	–	–

- a. Transactions relate to employee secondment cost and rental of space for the disaster recovery site.
- b. PIDM makes contributions to the statutory national pension scheme, the Kumpulan Wang Simpanan Pekerja and the Pertubuhan Keselamatan Sosial as disclosed in Note 13.
- ii. During the financial year, PIDM has entered into a contract with Messrs. Christopher and Lee Ong ("the Firm") to engage one of its partners who is a known Information and Communications Technology lawyer in Malaysia.
- a. One of the Directors of PIDM who retired during the year is a contracted consultant of the Firm. The former Director was not involved in the selection process, nor did the Director participate in or deliberate on the decision by Management to contract the Firm. The Director also did not obtain any gain or benefits from the contract.
- b. The spouse of one of the Corporate Officers ("the Officer") of PIDM is a partner of the Firm. The Officer was not involved in the selection process, nor did the Officer participate in or deliberate on the decision by Management to contract the Firm. The Officer also did not obtain any gain or benefits from the contract.

The fee charged by the Firm is comparable to market prices and the expenses incurred during the year involving the Firm amounted to RM44,286. As at 31 December 2017, the amount due to the Firm is RM19,080.

NOTES TO THE FINANCIAL STATEMENTS

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18. RELATED PARTY DISCLOSURES (continued)

b. Remuneration of key management personnel

	2017 RM'000	2016 RM'000
Short-term benefits	18,904	13,269
Post-employment benefits:		
Contributions to defined contribution plan	1,853	1,470
Total remuneration of key management personnel	20,757	14,739

The remuneration of key management personnel includes the remuneration of the Chief Executive Officer and all members of the Executive Management Committee. The amount for 2017 also includes an approved gratuity payment.

The amount above does not include the remuneration of Directors, which is disclosed separately in Note 14. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 13.

19. 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 Funds' categories. No operating segments have been aggregated to form the above reportable operating segments.

19. SEGMENT INFORMATION (continued)

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	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	26,163	15,378	3,558	479	980	3,063	2,705
Investments								
Held-to-maturity investments	5	3,498,582	1,634,347	328,695	1,202,628	273,425	18,738	40,749
Other assets	6	39,591	19,800	3,514	12,446	3,368	138	325
Investment in subsidiaries	7	—*	—*	—*	—*	—*	—*	—*
Property, plant and equipment	8	38,275	22,798	5,081	2,252	6,475	566	1,103
Total Assets		3,602,611	1,692,323	340,848	1,217,805	284,248	22,505	44,882
LIABILITIES								
Payables	9	12,144	7,647	1,698	1,070	1,175	198	356
Total Liabilities		12,144	7,647	1,698	1,070	1,175	198	356
FUNDS AND RESERVES								
Accumulated surpluses	10	3,590,467	1,684,676	339,150	1,216,735	283,073	22,307	44,526
Total Funds and Reserves		3,590,467	1,684,676	339,150	1,216,735	283,073	22,307	44,526
Total Liabilities, Funds and Reserves		3,602,611	1,692,323	340,848	1,217,805	284,248	22,505	44,882

* The amount is significantly below the rounding threshold

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

19. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	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	20,755	14,066	1,459	1,133	2,346	747	1,004
Investments								
Held-to-maturity investments	5	3,052,014	1,346,749	260,063	1,168,748	227,204	16,604	32,646
Other assets	6	31,716	13,128	2,506	12,244	3,514	104	220
Investment in subsidiaries	7	—*	—*	—*	—*	—*	—*	—*
Property, plant and equipment	8	37,420	23,503	5,226	1,384	5,910	461	936
Total Assets		3,141,905	1,397,446	269,254	1,183,509	238,974	17,916	34,806
LIABILITIES								
Payables	9	14,426	9,142	2,358	442	2,005	158	321
Total Liabilities		14,426	9,142	2,358	442	2,005	158	321
FUNDS AND RESERVES								
Accumulated surpluses	10	3,127,479	1,388,304	266,896	1,183,067	236,969	17,758	34,485
Total Funds and Reserves		3,127,479	1,388,304	266,896	1,183,067	236,969	17,758	34,485
Total Liabilities, Funds and Reserves		3,141,905	1,397,446	269,254	1,183,509	238,974	17,916	34,806

* The amount is significantly below the rounding threshold.

19. SEGMENT INFORMATION (continued)**Fund reporting (continued)****STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017**

	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	11	474,338	320,508	79,506	5,445	52,219	5,329	11,331
Investment income from cash and investment securities	12	101,080	47,103	8,624	36,455	7,082	612	1,204
Total income		575,418	367,611	88,130	41,900	59,301	5,941	12,535
Employee benefits	13	68,661	42,366	9,385	5,714	8,654	915	1,627
Public relations and advertising		8,795	5,710	1,265	612	935	98	175
Depreciation of property and equipment	8	6,162	3,914	828	250	959	71	140
Operating leases		6,066	3,871	859	447	688	73	128
Other expenses	14	22,644	15,313	3,525	1,201	1,949	234	422
Total expenses		112,328	71,174	15,862	8,224	13,185	1,391	2,492
Operational net surplus		463,090	296,437	72,268	33,676	46,116	4,550	10,043
Exceptional item:								
Moneys received from Insurance Guarantee Scheme Funds	23	-	-	-	-	-	-	-
Net surplus for the year		463,090	296,437	72,268	33,676	46,116	4,550	10,043
Other comprehensive income								
Remeasurements of Long Term Retirement Plan liability	9(ii)	(102)	(65)	(14)	(8)	(12)	(1)	(2)
Total comprehensive income for the year		462,988	296,372	72,254	33,668	46,104	4,549	10,041

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

19. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	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	11	468,245	316,123	72,334	5,434	57,163	6,231	10,960
Investment income from cash and investment securities	12	89,191	39,561	6,538	35,803	5,987	429	873
Total income		557,436	355,684	78,872	41,237	63,150	6,660	11,833
Employee benefits	13	56,460	34,546	7,998	2,162	9,777	654	1,323
Public relations and advertising		10,853	7,138	1,654	321	1,452	95	193
Depreciation of property and equipment	8	3,622	2,170	425	204	689	44	90
Operating leases		6,048	3,994	923	176	794	53	108
Other expenses	14	21,899	15,270	3,641	454	2,076	151	307
Total expenses		98,882	63,118	14,641	3,317	14,788	997	2,021
Operational net surplus		458,554	292,566	64,231	37,920	48,362	5,663	9,812
Exceptional item: Moneys received from Insurance Guarantee Scheme Funds		35,032	-	-	35,032	-	-	-
Net surplus for the year		493,586	292,566	64,231	72,952	48,362	5,663	9,812
Remeasurements of Long Term Retirement Plan liability	9(ii)	-	-	-	-	-	-	-
Total comprehensive income for the year		493,586	292,566	64,231	72,952	48,362	5,663	9,812

19. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

	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		474,338	320,508	79,506	5,445	52,219	5,329	11,331
Payments in the course of operations to suppliers and employees		(108,020)	(68,195)	(15,505)	(8,115)	(12,531)	(1,322)	(2,352)
Receipts of investment income		134,059	61,502	12,216	48,011	10,237	653	1,440
Net cash flows generated from operating activities		500,377	313,815	76,217	45,341	49,925	4,660	10,419
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		2,657,117	1,581,847	287,606	470,000	249,377	18,915	49,372
Purchase of investment securities		(3,144,312)	(1,890,021)	(360,777)	(515,575)	(298,977)	(21,129)	(57,833)
Receipts from Insurance Guarantee Scheme Funds		-	-	-	-	-	-	-
Purchase of property and equipment		(7,774)	(4,329)	(947)	(420)	(1,691)	(130)	(257)
Net cash flows used in investing activities		(494,969)	(312,503)	(74,118)	(45,995)	(51,291)	(2,344)	(8,718)
Net increase / (decrease) in cash and cash equivalents		5,408	1,312	2,099	(654)	(1,366)	2,316	1,701
Cash and cash equivalents at beginning of year		20,755	14,066	1,459	1,133	2,346	747	1,004
Cash and cash equivalents at end of year	4a	26,163	15,378	3,558	479	980	3,063	2,705

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

19. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

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	468,245	316,123	72,334	5,434	57,163	6,231	10,960
Payments in the course of operations to suppliers and employees	(96,236)	(61,545)	(14,111)	(3,142)	(14,414)	(995)	(2,029)
Receipts of investment income	116,981	45,356	10,346	49,686	10,008	499	1,086
Net cash flows generated from operating activities	488,990	299,934	68,569	51,978	52,757	5,735	10,017
CASH FLOWS FROM INVESTING ACTIVITIES							
Proceeds from maturity of investment securities	1,846,606	595,160	314,968	682,612	221,364	12,051	20,451
Purchase of investment securities	(2,356,555)	(880,553)	(384,060)	(768,479)	(269,965)	(20,494)	(33,004)
Receipts from Insurance Guarantee Scheme Funds	35,032	-	-	35,032	-	-	-
Purchase of property and equipment	(18,149)	(11,695)	(2,494)	(551)	(2,813)	(195)	(401)
Net cash flows used in investing activities	(493,066)	(297,088)	(71,586)	(51,386)	(51,414)	(8,638)	(12,954)
Net (decrease) / increase in cash and cash equivalents	(4,076)	2,846	(3,017)	592	1,343	(2,903)	(2,937)
Cash and cash equivalents at beginning of year	24,831	11,220	4,476	541	1,003	3,650	3,941
Cash and cash equivalents at end of year	4a 20,755	14,066	1,459	1,133	2,346	747	1,004

20. FINANCIAL INSTRUMENTS

PIDM's financial risk management policy seeks to ensure that adequate financial resources are available for PIDM's activities whilst managing PIDM's currency, interest rate and rate of return, liquidity, market and credit risks. PIDM operates within guidelines that are approved by the Board of Directors and PIDM's Investment Policy is to only invest in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia securities or securities of high investment grade issued by Government-related entities, which are government guaranteed or with a minimum rating of AAA, of varying maturities. In relation to the day to day operational cash management, PIDM may place excess funds in money market or overnight placements with its banker(s). No investments are made with member banks since PIDM is the insurer of deposits.

Part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia, that was transferred to PIDM in 2011 comprises investment securities that are not in line with PIDM's approved Investment Policy. In 2011, a specific approval from the Board of Directors has been obtained in order to exempt these investment securities from complying with the Investment Policy. The investment securities that are not in compliance with the Investment Policy consist of Government securities with long-term tenures and PDS.

a. Foreign currency risk

PIDM is currently not 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 as well as Bank Negara Malaysia Monetary Notes. The interest rate risk in this respect arises from fluctuations in market interest rate that may affect the market values and reinvestment decisions of these financial assets. The rate of return risk is the potential impact of market factors affecting the return on assets which, may consequently affect the market values and reinvestment decisions of these financial assets. To mitigate these risks, PIDM currently only invests in short-term and medium-term securities that minimises the impact of any fluctuations in market interest rate or rate of return on the market value of these securities.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

20. FINANCIAL INSTRUMENTS (continued)

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

The following tables set out the carrying amounts, the Weighted Average Effective Yield Rates (WAEYR) as at the Statement of Financial Position date and the remaining maturities of PIDM's financial instruments that are exposed to interest rate risk and rate of return risk.

	Note	WAEYR %	Within 3 months RM'000	4 – 12 months RM'000	13 – 36 months RM'000	37 – 60 months RM'000	61 – 120 months RM'000	Total RM'000
Conventional Deposit Insurance Fund								
31 December 2017								
Fixed rate								
Cash and cash equivalents	4a	2.98	15,378	-	-	-	-	15,378
Investments	5	2.97	399,847	852,488	382,012	-	-	1,634,347
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.10	14,066	-	-	-	-	14,066
Investments	5	3.14	121,151	650,746	574,852	-	-	1,346,749
Islamic Deposit Insurance Fund								
31 December 2017								
Fixed rate								
Cash and cash equivalents	4a	3.38	3,558	-	-	-	-	3,558
Investments	5	2.97	11,309	290,035	27,351	-	-	328,695
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	1,459	-	-	-	-	1,459
Investments	5	2.80	17,299	137,640	105,124	-	-	260,063

20. FINANCIAL INSTRUMENTS (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	37 – 60 months RM'000	61 – 120 months RM'000	Total RM'000
General Insurance Protection Fund								
31 December 2017								
Fixed rate								
Cash and cash equivalents	4a	3.00	479	-	-	-	-	479
Investments	5	3.06	291,325	501,097	394,990	15,216	-	1,202,628
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	1,133	-	-	-	-	1,133
Investments	5	3.07	92,084	260,609	796,366	19,689	-	1,168,748
Life Insurance Protection Fund								
31 December 2017								
Fixed rate								
Cash and cash equivalents	4a	3.00	980	-	-	-	-	980
Investments	5	2.97	166,448	43,525	63,452	-	-	273,425
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	2,346	-	-	-	-	2,346
Investments	5	2.64	13,468	139,171	74,565	-	-	227,204

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

20. FINANCIAL INSTRUMENTS (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	37 – 60 months RM'000	61 – 120 months RM'000	Total RM'000
General Takaful Protection Fund								
31 December 2017								
Fixed rate								
Cash and cash equivalents	4a	3.58	3,063	-	-	-	-	3,063
Investments	5	3.15	5,136	13,602	-	-	-	18,738
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	747	-	-	-	-	747
Investments	5	3.07	5,068	5,853	5,683	-	-	16,604
Family Takaful Protection Fund								
31 December 2017								
Fixed rate								
Cash and cash equivalents	4a	3.54	2,705	-	-	-	-	2,705
Investments	5	3.13	7,100	33,649	-	-	-	40,749
31 December 2016								
Fixed rate								
Cash and cash equivalents	4a	3.25	1,004	-	-	-	-	1,004
Investments	5	3.12	7,103	19,859	5,684	-	-	32,646

20. FINANCIAL INSTRUMENTS (continued)**b. Interest rate risk and rate of return risk (continued)**

Based on PIDM's investment portfolio as at 31 December 2017, the following table shows how net surplus would have been affected by a 50 basis points increase or decrease in WAEYR.

	Net Surplus						
	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
50 basis points increase							
- 31 December 2017	16,817	7,929	1,450	5,957	1,192	97	192
- 31 December 2016	14,524	6,282	1,166	5,774	1,084	73	145
50 basis points decrease							
- 31 December 2017	(16,817)	(7,929)	(1,450)	(5,957)	(1,192)	(97)	(192)
- 31 December 2016	(14,524)	(6,282)	(1,166)	(5,774)	(1,084)	(73)	(145)

c. Liquidity risk

PIDM's liquidity risk relates to the capability of PIDM to meet its obligations as they become due, without incurring unacceptable losses. This may be caused by the inability to liquidate assets as they become due or to obtain funding to meet its liquidity needs. A significant amount of funds available for investment were invested in short-term securities. PIDM continuously endeavours to manage the maturity profiles of these securities in order to ensure that sufficient funds are available at all times to meet the day-to-day working capital requirements or to bring any financial risk exposures within the approved exposure limits. The values of these investments by the maturity profiles are represented in Note 21(c). The following table sets PIDM's short-term assets and liabilities maturity profile.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

20. FINANCIAL INSTRUMENTS (continued)

c. Liquidity risk (continued)

	Note	2017					Total RM'000
		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	
Cash and cash equivalents	4a	18,663	–	7,500	–	–	26,163
Investments	5	5,004	726,939	149,223	2,607,265	10,151	3,498,582
Other assets	6	2,558	15,664	12,774	6,100	2,495	39,591
Payables	9	(3,368)	(3,640)	(17)	(4,225)	(894)	(12,144)
Net short-term assets		22,857	738,963	169,480	2,609,140	11,752	3,552,192

	Note	2016					Total RM'000
		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	
Cash and cash equivalents	4a	20,755	–	–	–	–	20,755
Investments	5	–	116,612	139,561	2,776,152	19,689	3,052,014
Other assets	6	1,484	9,340	11,822	6,521	2,549	31,716
Payables	9	(12,178)	(11)	–	(2,237)	–	(14,426)
Net short-term assets		8,577	116,601	139,561	2,773,915	19,689	3,058,343

* Investment securities with investment tenure exceeding 36 months represent investment securities from the former IGSF portfolio.

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

20. FINANCIAL INSTRUMENTS (continued)**c. Liquidity risk (continued)**

- i. **Internal funding** is developed through the accumulation of net surpluses after expenses. The annual net surplus is credited into the respective Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.
- ii. **External funding** may be raised through either borrowings from the Government, from capital markets or other sources as deemed necessary and appropriate. The PIDM Act empowers PIDM to borrow or raise funds to meet its obligations. PIDM may borrow from the Government with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

d. Market risk

PIDM's market risk relates to the risk of loss resulting from adverse changes in the value of its asset holdings arising from movements in market rates or prices. Market risk in PIDM includes investment-related risks. The market risk exposure of PIDM may vary during normal operations or as a result of IFR activities. Under normal operations, PIDM invests in short-term and medium-term securities which are intended to be held-to-maturity. As such, PIDM's current exposure to market risk in the context of these investments is minimal.

e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investment Issues, Bank Negara Malaysia Monetary Notes, which are generally considered as low risk assets. PIDM does not expect the counterparties to default and as such, considers the credit risk on these investment assets to be minimal.

Besides the Government investment securities and Bank Negara Malaysia Monetary Notes, PIDM holds investments in PDS issued by Government-linked Companies, which were part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia. The investments were transferred to PIDM in 2011 and comprised investment securities issued by Government-linked Companies, which continue to maintain AAA or non-rated rating during the financial year.

During the year, PIDM invested in PDS of AAA rating issued by a government-related entity. The following table provides the summary of new investments in PDS as at 31 December 2017. PIDM continuously monitors the credit standing of the issuers of the PDS for any potential downgrade in the credit ratings.

	Former IGSF		New Investments
Investment in PDS – Principal value (RM'000)	25,000	20,000	15,000
PDS rating	AAA	Non-rated	AAA

NOTES TO THE FINANCIAL STATEMENTS

31 December 2017

20. FINANCIAL INSTRUMENTS (continued)

f. Fair values

Generally, the carrying values of financial assets and liabilities of DIFs and TIPFs approximate their fair values, except for the investments in PDS whereby the fair value is disclosed in Note 5 and are considered as Level 2 fair value.

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.

21. 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 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 10 to the financial statements, PIDM has established Target Fund frameworks to determine the level of funds sufficient to cover the net expected losses from IFR activities.

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

Operational exposure

During the year, a claim was made against PIDM by the main contractor responsible for the construction of PIDM's disaster recovery centre. The claim of approximately RM1.2 million was in relation to the dispute over the losses and damages charged by PIDM against the contractor pursuant to the provisions of the contract. After taking into consideration appropriate legal advice, whilst it is possible for the claim to succeed, the likelihood is low. Therefore, no provisions have been made in the financial statements.



APPENDIX

List of Member Institutions
Glossary of Terms
Contact Details

LIST OF MEMBER INSTITUTIONS

As at 5 January 2018, PIDM's member institutions are as follows:

COMMERCIAL BANKS	ISLAMIC BANKS	INSURANCE COMPANIES
1. Affin Bank Berhad	1. Affin Islamic Bank Berhad	1. AIA Bhd.
2. Alliance Bank Malaysia Berhad	2. Alliance Islamic Bank Berhad	2. AIG Malaysia Insurance Berhad
3. AmBank (M) Berhad	3. Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	3. Allianz General Insurance Company (Malaysia) Berhad
4. Bangkok Bank Berhad	4. AmBank Islamic Berhad	4. Allianz Life Insurance Malaysia Berhad
5. Bank of America Malaysia Berhad	5. Asian Finance Bank Berhad	5. AmGeneral Insurance Berhad
6. Bank of China (Malaysia) Berhad	6. Bank Islam Malaysia Berhad	6. AmMetLife Insurance Berhad
7. Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad*	7. Bank Muamalat Malaysia Berhad	7. AXA Affin General Insurance Berhad
8. BNP Paribas Malaysia Berhad*	8. CIMB Islamic Bank Berhad	8. AXA Affin Life Insurance Berhad
9. China Construction Bank (Malaysia) Berhad	9. Hong Leong Islamic Bank Berhad	9. Berjaya Sampo Insurance Berhad
10. CIMB Bank Berhad	10. HSBC Amanah Malaysia Berhad	10. Chubb Insurance Malaysia Berhad
11. Citibank Berhad*	11. Kuwait Finance House (Malaysia) Berhad	11. Etiqa General Insurance Berhad
12. Deutsche Bank (Malaysia) Berhad*	12. Maybank Islamic Berhad	12. Etiqa Life Insurance Berhad
13. Hong Leong Bank Berhad	13. OCBC Al-Amin Bank Berhad	13. Gibraltar BSN Life Berhad
14. HSBC Bank Malaysia Berhad	14. Public Islamic Bank Berhad	14. Great Eastern General Insurance (Malaysia) Berhad (formerly known as Overseas Assurance Corporation (Malaysia) Berhad)
15. India International Bank (Malaysia) Berhad	15. RHB Islamic Bank Berhad	15. Great Eastern Life Assurance (Malaysia) Berhad
16. Industrial and Commercial Bank of China (Malaysia) Berhad	16. Standard Chartered Saadiq Berhad	16. Hong Leong Assurance Berhad
17. J.P. Morgan Chase Bank Berhad		17. Liberty Insurance Berhad
18. Malayan Banking Berhad		18. Lonpac Insurance Bhd.
19. Mizuho Bank (Malaysia) Berhad		19. Manulife Insurance Berhad
20. National Bank of Abu Dhabi Malaysia Berhad		20. MCIS Insurance Berhad
21. OCBC Bank (Malaysia) Berhad		21. MPI Generali Insurans Berhad
22. Public Bank Berhad		22. MSIG Insurance (Malaysia) Bhd.
23. RHB Bank Berhad		23. Pacific & Orient Insurance Co. Berhad
24. Standard Chartered Bank Malaysia Berhad		24. Progressive Insurance Bhd
25. Sumitomo Mitsui Banking Corporation Malaysia Berhad		25. Prudential Assurance Malaysia Berhad
26. The Bank of Nova Scotia Berhad		26. QBE Insurance (Malaysia) Berhad
27. United Overseas Bank (Malaysia) Bhd*		27. RHB Insurance Berhad
		28. The Pacific Insurance Berhad
		29. Sun Life Malaysia Assurance Berhad
		30. Tokio Marine Insurans (Malaysia) Berhad
		31. Tokio Marine Life Insurance Malaysia Bhd.
		32. Tune Insurance Malaysia Berhad
		33. Zurich General Insurance Malaysia Berhad
		34. Zurich Life Insurance Malaysia Berhad

* Denotes that this bank provides Islamic banking business under the Skim Perbankan Islam (SPI). SPI is defined by Bank Negara Malaysia as the Islamic banking scheme provided by licensed institutions to conduct banking business based on Islamic principles

GLOSSARY OF TERMS

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.

Claims Management System

An internal PIDM system used to monitor the claims progress and amounts payable for owners of takaful certificates and insurance policies in the event of a payout.

Common equity tier-1 (CET-1) capital ratio

The Common Equity Tier-1 Capital Ratio is computed as a percentage of a member bank's CET-1 capital to its risk-weighted assets in accordance to Bank Negara Malaysia's Capital Adequacy Framework. CET-1 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 CET-1 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 System

Protection by PIDM for depositors against the loss of their insured deposits against the loss of their insured deposits placed with member banks, in the unlikely event of a member bank failure.

Deposit Liability Information Management System

An internal PIDM system used to process depositors' information, so as to compute the total insured deposits by entity. The system undertakes processes that include the aggregation of deposit accounts for the same entity, making payment adjustments, holding back payments and generating payment files for payment purposes.

Depositor Support Management System

An internal PIDM system which is the communications component of the PIDM payout system. In the event of a Payout, the PIDM Call Centre, which manages depositor communications, enquiries and requests, will use the system to access the depositors' information contained in the payout system.

Differential Levy Systems

A system where insurer members 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 (ERM)

The framework applied on an organisation-wide basis to ensure and demonstrate that an entity's significant risks are being consistently and continuously identified, assessed, managed, monitored and reported on.

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.

Government Deposit Guarantee (GDG)

The GDG announced by the Government of Malaysia on 16 October 2008 was a temporary deposit guarantee that covered the full amount of guaranteed deposits and instruments held in member banks and other guaranteed financial institutions. The GDG was a pre-emptive and precautionary measure, consistent with measures taken by neighbouring jurisdictions, to preserve confidence in the financial system. It was in effect until 31 December 2010.

Impairment

A loan / financing asset is considered impaired if there is objective evidence of impairment as a result of: (i) a loss event that occurred after the initial recognition of the asset; (ii) the loss event had an impact on its estimated future cash flows; and that (iii) a reliable estimate of the loss amount can be made.

Insurance benefits

The aggregate of insurance benefits for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Insurer members

All insurance companies (including locally incorporated subsidiaries of foreign insurance companies operating in Malaysia) licensed under the Financial Services Act 2013 to conduct life and / or general insurance business in Malaysia, as well as takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family and / or general takaful business in Malaysia. Membership is compulsory under the PIDM Act. A full list of these insurer members is available on page 187.

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 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.

Member banks

All commercial banks (including locally incorporated subsidiaries of foreign banks operating in Malaysia) licensed under the Financial Services Act 2013 and all Islamic banks licensed under the Islamic Financial Services Act 2013. Membership is compulsory under the PIDM Act. A full list of these member banks is available on page 187.

Member institutions

Members of PIDM comprising member banks and insurer members.

Payment Management System

An internal PIDM system used to process payments to owners of takaful certificates and insurance policies in the event of a payout.

Payout

A process undertaken by PIDM to reimburse insured deposits to eligible depositors, or protected benefits to eligible takaful beneficiaries or insured persons of a non-viable member institution in accordance with sections 56 and 57, and sections 80 and 81 of the PIDM Act.

Policy 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 payout.

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.

Premium Reimbursement Information Management System

An internal PIDM system used to determine the reimbursement of unearned premiums for owners of takaful certificates and insurance policies in the event of a payout.

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.

GLOSSARY OF TERMS

Risk Assessment System

An internal PIDM system used to evaluate 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.

Strategic Alliance Agreement

The Strategic Alliance Agreement makes clear how Bank Negara Malaysia and PIDM collaborates and coordinates their activities to carry out their respective mandates effectively, and to minimise unproductive duplication, and therefore minimise regulatory costs and burdens on the industry. It provides for the coordination of risk assessments and monitoring, as well as intervention and failure resolutions of member institutions. It also establishes protocols for regular consultation and exchange of information concerning developments in the industry to promote financial stability.

Shariah principles

The law of Islam, based upon the Quran, Sunnah (sayings and deeds of the Prophet Muhammad s.a.w.), Ijma' (consensus among Islamic scholars) and Qiyas (analogy).

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 benefits

The aggregate of takaful benefits for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Takaful and Insurance Benefits Protection System

Protection by PIDM for owners of takaful certificates and insurance policies from the loss of their eligible takaful or insurance benefits, in the unlikely event of an insurer member failure.

Takaful Protection Funds

Refers 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.



TOLL FREE INFORMATION LINE

1-800-88-1266

Mondays to Fridays

8.30 am to 5.30 pm

GENERAL LINE

603 - 2173 7436

603 - 2265 6565

FAX

603 - 2173 7527

603 - 2260 7432



WEBSITE

www.pidm.gov.my

FAQs on PIDM, DIS and TIPS are available on PIDM's website



EMAIL

info@pidm.gov.my



ADDRESS

Communications and Public Affairs Division

Perbadanan Insurans Deposit Malaysia

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50470 Kuala Lumpur.

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