



ENGAGING STAKEHOLDERS

Annual Report 2018



Perbadanan Insurans Deposit Malaysia
Protecting Your Insurance And Deposits In Malaysia

ABOUT THIS REPORT

This Annual Report gives an overview of Perbadanan Insurans Deposit Malaysia (PIDM)'s financial and non-financial achievements from 1 January 2018 to 31 December 2018. This report covers the principal activities of PIDM in order for our stakeholders to form a comprehensive view of how the organisation creates value.

The financial statements as at 31 December 2018 have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act (PIDM Act)¹ and the Malaysian Financial Reporting Standards (MFRS). It also complies with the International Financial Reporting Standards (IFRS).

In developing this Annual Report, we have referred to the International Integrated Reporting Framework. In line with this framework, we strive to provide a clear and concise report of our strategy, governance, performance and prospects. A key objective of integrated reporting is to help "... businesses to think holistically about their strategy and plans, make informed decisions and manage key risks to build... stakeholder confidence, value creation and improve future performance".²

Integrated reporting is aimed at communicating a "... clear, concise, integrated story that explains how all of our resources are creating value".³

The Board has reviewed and approved the Annual Report and financial statements, on recommendation of the Audit Committee. The Board has (through the Audit Committee) provided strategic management oversight to ensure the identification and evaluation of material matters for value creation by PIDM. It has also obtained key management representations as well as internal control and risk assurances to ensure that the Annual Report and financial statements fairly represent the performance and the state of affairs of PIDM.

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

This Annual Report 2018, as well as our earlier annual reports, are available on our website, at www.pidm.gov.my.

¹ Amended in 2010 and 2016.

² International Integrated Reporting Council (IIRC)

³ The Council is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs.

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WHO WE ARE

WHO WE ARE

We promote financial system stability. This is through providing financial consumer protection, promoting public confidence, and incentivising sound risk management in the financial system.

We are a statutory body established by the PIDM Act in 2005. We are designed to protect financial consumers and we are part of Malaysia's financial safety net system. Our mandate under section 4 of the PIDM Act is to:

- (a) administer two financial consumer protection systems;
- (b) provide protection for depositors and takaful certificate or insurance policy owners should a member institution fail;
- (c) provide incentives for sound risk management in the financial system; and
- (d) promote or contribute to the stability of the financial system.

Sound, competitive financial systems are critical to economic vitality. Because of their role in intermediation and savings, financial institutions play a special role in a nation's economic growth. Given this, safety net arrangements are critical to promote economic growth and financial system stability.

Economies globally recognise the importance of having robust financial safety net arrangements.

After the global financial crisis in 2008, economies globally recognise that they must develop robust resolution mechanisms to enable the orderly wind-down of failing financial institutions in a way that limits contagion to the broader financial system.

Together with Bank Negara Malaysia and the Ministry of Finance, we aim to support the stability of the Malaysian financial system by providing appropriate long-term incentives for member institutions to adopt sound risk management. At the same time, we must ensure our operational readiness to deal promptly with member institutions should a failure nevertheless occur. We work closely with Bank Negara Malaysia on the recovery and resolution planning efforts for all member institutions.

WHO WE ARE

We pursue “regulatory excellence”.

We are committed to reporting our progress against targets to be achieved.¹ Aside from reporting on targets, we strive for “regulatory excellence”, drawing insights on how to achieve regulatory excellence² from experienced regulators.

Some key practices we adopt include the following:³

- (a) We aim to achieve best practices in corporate governance in the public sector.
- (b) In carrying out any policy work, we research extensively and benchmark against practices in other jurisdictions, adapting where needed to the specific circumstances of our industry and operating environment. We benefit by learning from others, and have strong partnerships and extensive networks with our international counterparts.
- (c) We consult on key matters including regulations that may have significant impact on key stakeholders. We take into consideration their views towards delivering publicly valuable outcomes.
- (d) We pay attention to matters that are vital to the long-term sustainability and success of PIDM and the achievement of our mandate. Key to our success is investment in our people – we strive to attain and maintain the right level of competencies, attitudes and culture within PIDM.

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

¹ Refer to the Performance Section on [pages 64 to 79](#).

² *Achieving Regulatory Excellence*, Cary Coglianese, Editor, Brookings Institute (2016).

³ The three core attributes of regulatory excellence are utmost integrity, stellar competence, and empathic engagement. Refer to “Listening, Learning, Leading: A Framework for Regulatory Excellence”, Cary Coglianese.

STRATEGY

STRATEGY

VISION

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

MISSION

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

STRATEGY

We will fulfil our vision and mission through the strategy articulated in our corporate plans. This Annual Report 2018 reports on our achievements based on the three strategic priorities in our Summary of the Corporate Plan 2018 - 2020.

Following the establishment of PIDM in 2005, we focused on building strong foundations for deposit insurance. Our expanded mandate, at the end of 2010, effected protection for takaful and insurance benefits under our purview. From 2016 onwards, we embarked on our journey towards achieving an effective resolution regime for Malaysia.

2005 FOUNDATION

Deposit Insurance

Built strong foundations through the establishment of sound corporate governance practices, processes and systems, in administering the Deposit Insurance System (DIS)

2010 RECOGNITION

Takaful and Insurance Benefits Protection

Expanded mandate to administer the Takaful and Insurance Benefits Protection System (TIPS). Assessed to be compliant with international standards for effective deposit insurance systems

2016 EVOLUTION

Long-Term Strategic Direction

Enhancing our role as a resolution authority

Our Strategic Priorities

Effective Resolution Regime

To enable member institutions to be resolved in a prompt and orderly manner, without systemic disruption, and in a manner that minimises loss to the financial system

Stakeholder Management and Corporate Governance

To engage with key stakeholders and engender trust and confidence in PIDM, including through promotion of best practices in corporate governance

Strategic Human Capital Management

To maintain a conducive work environment that promotes excellence, focusing on active human capital management and continuous learning



STRATEGY

Effective Resolution Regime

FOUNDATION	RECOGNITION	
2005 - 2010	2010 - 2015	2016
Developed a comprehensive intervention and failure resolution framework and built the foundation for an effective resolution regime <ul style="list-style-type: none"> • The PIDM Act was enacted by Parliament with extensive resolution powers for us to deal with non-viable member institutions, so as to minimise loss to the financial system. • Developed a comprehensive intervention and failure resolution framework setting out our approaches in applying our resolution tools. • The PIDM Act was amended to include bridge institution powers, and powers in respect of insurer members (Refer to the <i>Resolution Planning</i> Section on page 95). • Developed and implemented a payout system for prompt reimbursements to insured depositors. • Required member institutions to ensure their processes and systems are ready to provide complete, timely, and accurate information to facilitate prompt reimbursements. • Conducted simulations to test our resolution approaches and enhance overall readiness of our employees. 		The effective resolution regime as a strategic priority <ul style="list-style-type: none"> • Established the strategic priority to achieve an effective resolution regime for Malaysia, in line with international recommendations. • Engaged with relevant authorities, domestically and internationally, for cooperation, information exchange and coordination in respect of resolution planning. • Together with Bank Negara Malaysia, developed the draft Recovery and Resolution Planning (RRP) framework. • Developed the draft Resolution Planning Framework, Resolution Planning Guidelines and information requirements for the purpose of planned pilot exercises with selected banks.

Operational readiness

Simulations and continuous improvements

STRATEGY

EVOLUTION

2017	2018	2019	2020
Readiness and engagement with the industry <ul style="list-style-type: none"> Organised a joint industry seminar with Bank Negara Malaysia on RRP to articulate the importance of RRP and set regulatory expectations. Highlighted the strategic roadmap for implementation of RRP in Malaysia, which includes pilot exercises and industry consultations. 	Enhance readiness and engagement with the industry <ul style="list-style-type: none"> Commenced a programme and simulation for the end-to-end resolution planning process, to test the resolution-related frameworks and guidelines. Developed internal capabilities for resolution planning through training and development. Continued collaboration with other relevant authorities in relation to resolution planning, crisis management and resolution actions during crisis. Commenced work to ensure that the industry are ready for resolution planning guidelines, which will be rolled out in phases in 2020. <p>(Refer to the <i>Performance</i> Section on pages 67 to 69 for details).</p>	Test and consult <ul style="list-style-type: none"> Commence resolution planning pilot exercises and enhance the draft resolution planning guidelines and information requirements based on feedback from the pilot banks. Develop policies and supporting legislation, as needed. Continue engagement with key stakeholders, in particular safety net players and the industry as well as international counterparts. 	Roll out resolution planning to the industry in phases <ul style="list-style-type: none"> Complete resolution planning pilot exercises and identify the preferred resolution strategies for the pilot banks. Finalise and roll out resolution planning guidelines and information requirements for consultation with the industry. Carry out phased industry rollout. Work with each member institution on individual resolution plans. Develop any other policies and supporting legislation, as needed. Continue engagement with key stakeholders, in particular safety net players and the industry as well as international counterparts.

Inter-agency simulation

STRATEGY

Stakeholder Management and Corporate Governance

FOUNDATION	RECOGNITION		
2006 - 2010	2010 - 2015	2016 - 2017	2018
Built public awareness and engagement with key stakeholders <ul style="list-style-type: none"> Implemented advertising campaigns – television, radio and print advertisements for public awareness of PIDM, DIS and TIPS. Conducted annual dialogues for the launch of annual reports and public consultations on various regulations and guidelines. Conducted corporate outreach programmes to different states outside Klang Valley as part of public awareness initiatives. Participated in international associations for knowledge sharing and networking. Implemented the school education programme, the PIDM Project MoneySmart to enhance financial awareness among the younger generation. 			Built foundation towards trust and confidence <ul style="list-style-type: none"> Commenced on-ground activities in Kuala Lumpur Sentral, followed by the states of Kedah, Perak and Pulau Pinang. Engaged with the industry on our initiatives, including the resolution planning initiative. Participated in international and other forums for knowledge sharing. Conducted an assessment of stakeholder perception. Tested our crisis communications. <p>(Refer to the <i>Performance</i> Section on <u>pages 70 to 74</u> for details).</p>

Best practices in corporate governance

(Refer to the *Corporate Governance Overview* on pages 25 to 29 for details)

- **Simulation for crisis communications**
- **Operational self-sufficiency**
(Refer to the *Performance Section* on

STRATEGY

EVOLUTION

2019 - 2021

Establish trust and confidence

- Continue awareness initiatives and conduct on-ground activities nationwide.
- Diversify channels of communication, including the digital and social media space.
- Continue stakeholder engagement with the industry including on resolution planning.
- Implement plans for aspirations towards thought leadership.
- Continue crisis communications simulations.
- Design and commence execution of a comprehensive corporate social responsibility (CSR) plan.

2021 onwards

Enhance and sustain trust and confidence

- Continue to review and enhance trust and confidence programmes (including public awareness campaigns and engagements), based on the targeted audiences.
- Continue to aspire towards thought leadership.
- Continue stakeholder engagement.
- Continue to implement CSR plan to contribute to public value, trust and confidence.



STRATEGY

Strategic Human Capital Management

FOUNDATION		RECOGNITION	
2005 - 2010	2010	2011 - 2015	2016
Designed and established the human capital model, philosophy and key policies		Employee and leadership development and succession planning	Towards a learning organisation
DIS <ul style="list-style-type: none"> Recruited key talents, leveraging on expertise and support from Bank Negara Malaysia. Established human capital model, compensation and benefits philosophy, other key human capital policies and processes. Worked on building competencies in the field of deposit insurance, including through knowledge sharing from other deposit insurers. Developed competency model and framework. 		TIPS <ul style="list-style-type: none"> Conducted second wave of recruitment of employees. 	<ul style="list-style-type: none"> Commenced implementation of the learning organisation framework.
		<ul style="list-style-type: none"> Built competencies for TIPS. Commenced succession planning for senior leadership positions. Focused on talent management and leadership development. Reviewed the human capital model, philosophy and key policies and developed the Strategic Human Capital Plan for alignment with our strategic direction. 	

Conducive work environment

Complete establishing key pillars

STRATEGY

EVOLUTION

2017

Realigned human capital in line with strategic priorities

- Restructured selected divisions and units and trained employees in preparation for the rollout of the resolution planning initiative.
- Implemented Chief Executive Officer succession planning.
- Determined the unique leadership behavioural competencies for senior management.

2018

Leadership, communication and culture

- Commenced unique leadership behavioural competencies training for senior management.
- Involved senior leadership in active human capital management.
- Established Risk Assessment and Resolution Division.
- Implemented intensive training for the resolution planning initiative.
- Carried out frequent engagements with all employees and across divisions.
- Implemented the knowledge management framework (as one of the learning organisation initiatives).

(Refer to the *Performance* Section on pages 75 to 79 for details).

2019 onwards

Further realignment of human capital to meet future demands of PIDM

- Complete talent review exercise and maximise the use of our human capital.
- Continue to develop leadership coaching skills and commence coaching.
- Build bench strength for leadership and technical capabilities.
- Continue to develop PIDM as a learning organisation.
- Continue training for unique divisional functional competencies (Refer to the *Performance* Section on page 77 for definition).

of learning organisation

Reinforce culture of communication and teamwork

FROM
OUR LEADERSHIP



FROM OUR LEADERSHIP

Confidence in the financial system is paramount. Promoting or contributing to confidence lies not only in the hands of safety net players – it also involves the industry, financial consumers, media, and other strategic partners.

We recognise the importance of building essential relationships among our stakeholders, so as to successfully overcome challenges – systemic and otherwise – to the financial system and economic stability of Malaysia.

STRATEGIC PRIORITIES

Regulators have many diverse stakeholder interests to balance. Often we struggle with how to demonstrate that we have achieved success in achieving one's mandate. Performance measurements by regulators are also equally complex – intended outcomes are affected by many factors, some of which are not within the regulator's control.

Hence, in addition to performance targets, we aspire to also demonstrate "regulatory excellence".¹ Excellence increases the likelihood of success. Some attributes of regulatory excellence, paraphrasing Dame Deidre Hutton,² are as follows:

- (a) there must be a clear objective in law;
- (b) its employees must be real experts, with deep knowledge of the industry being regulated;
- (c) it must listen to, and be engaged with varied stakeholders; and
- (d) it should be transparent so that stakeholders can determine whether it is fulfilling its mission.

As described in our Summary of the Corporate Plan 2016 - 2018, there are three strategic priorities that guide our work towards our vision. In this context, we strive for regulatory excellence as follows:

- (a) **Clear objectives.** Our role, including promoting or contributing to financial system stability, is clearly stated in the PIDM Act.
- (b) **Resolution experts.** As always, we continue our work to maintain a high state of operational readiness for an intervention and failure resolution, carrying out simulations to test our people, systems and processes. To achieve our aspiration for an effective resolution regime for Malaysia, we must ensure our employees have sufficient depth of knowledge to work effectively with key stakeholders in this new area. 2018, therefore, marked a year of intense training – through knowledge sharing, simulations and experiential learning.
- (c) **Engagement with varied stakeholders.** Just as importantly, we must build confidence among our stakeholders. Aside from public awareness and strategic partnerships, the success of the resolution planning initiative will involve close collaboration with the industry. In 2018, engagement with the industry was also a key focus.
- (d) **Transparency.** Finally, transparency. This report adopts accepted standards for financial reporting. At the same time, we are applying the principles of integrated reporting prescribed in the International Integrated Reporting Framework.³

¹ Refer to the Who We Are Section on [page 5](#).

² The Chair of the UK Civil Aviation Authority, *The Role of Stakeholder Relationships in Regulatory Excellence*.

³ Refer to [About This Report](#).

FROM OUR LEADERSHIP



**Tan Sri Dr. Rahamat
Bivi Yusoff**
Chairman of PIDM Board of
Directors
Chairman of Governance
Committee



Gloria Goh Ewe Gim
Chairman of Audit Committee



Alex Foong Soo Hah
Chairman of Remuneration
Committee



Rafiz Azuan Abdullah
Chief Executive Officer

STAKEHOLDER ENGAGEMENT

“ ... no matter how clear your objectives, or how expert your staff,
none of that will suffice without the right relationships
with that web of external interests.”⁴

This is especially true for PIDM, which is mandated to promote or contribute to the stability of the financial system. In 2017, with the transition to a new Chief Executive Officer (CEO), recognising the need to introduce the CEO, and in anticipation of the resolution planning initiative, the Board directed that stakeholder engagement be an area of focus for 2018. As it transpired, with the change in government administration in May 2018, more engagements were carried out than planned. These were necessary to address the changes that took place among senior leadership within financial safety net players and other strategic partners.

In respect of the public, 2018 also signified the commencement of our planned transition from achieving public awareness about PIDM (which tends to be transitory) to a more impactful association of trust and confidence with PIDM. While maintaining awareness through the launch of a refreshed advertising campaign, we also commenced our Jelajah Komuniti PIDM campaign in Kuala Lumpur and the states of Kedah, Perak and Pulau Pinang, with the view to evoking greater personal connection with the targeted communities.

⁴ Dame Deidre Hutton, page 1, *The Role of Stakeholder Relationships in Regulatory Excellence*.

FROM OUR LEADERSHIP

A YEAR OF LISTENING AND LEARNING

We recognise that trust and confidence are not built overnight. Nevertheless, we seek to build the foundations for future trust and confidence through our interactions with our key stakeholders. Details about our stakeholder engagement activities are found on [pages 71 to 73](#).

In 2018, we also sought to identify the baselines that would enable us, in the future, to better inform ourselves about our progress in this area. For our public awareness campaigns, our annual survey showed the public awareness index for PIDM at 63%, a similar level to that attained in recent years. For the future, we will track our trust index.

As for the industry and other key stakeholders, in 2018, we commissioned an agency to carry out a stakeholder perception audit. This was to gauge the perceptions of the industry, media, and other strategic partners about PIDM and our work. Generally, the survey revealed familiarity with PIDM and our work. There were some comments about the need for more education on resolution planning, as well as on expenditure. This report will highlight some of our actions already implemented as well as our future action plans.⁵

FINANCIAL AND OPERATIONAL PERFORMANCE

In line with stakeholder expectations, in 2018 we carried out an internal campaign to do “more with less”, looking for ways to restructure and improve on processes. We also rolled back some of our original plans – for example, by recruiting fewer headcount, making more selective use of consultants, and generally looking for ways to better manage our resources and productivity. In 2018, in part due to this exercise, and through the efforts of our employees, we achieved a positive variance in operating expenses against budget of 16%.

In 2018, we also achieved another milestone. With effect from 2018, our investment income from the Protection Funds by itself is now sufficient to cover all of our operational costs.

BOARD EFFECTIVENESS

2018 also saw changes in our Board composition. During the year, four Directors retired, and changes took place in respect of the two ex officio positions. The current board composition maintains diversity in terms of its members’ expertise, backgrounds and gender. Given their backgrounds and familiarity with PIDM, the ex officio Directors were able to integrate seamlessly onto the Board, actively participating in board discussions and providing forward-looking insights into corporate strategy and its implementation.

⁵ Refer to the Performance Section on [page 64](#).

FROM OUR LEADERSHIP

OUTLOOK

Taking into account our review of the operating environment as well as global trends, and the feedback from our key stakeholders, we will continue to execute our action plans to meet the corporate objectives in our Summary of the Corporate Plan 2019 - 2021, available at www.pidm.gov.my. Some key highlights are as follows:

- (a) **Current state of operational readiness.** As we enhance our role as a resolution authority, we must at all times keep an eye on our operating environment, risks within it, and their potential impact on the industry. For the immediate term, we continue to focus on enhancing and testing our readiness to intervene should the need arise, and find opportunities to enhance how we work. For example, we continue to strive to make payouts convenient for depositors by leveraging on technological advancements.
- (b) **Enhanced role as a resolution authority.** For the future, we are also working on enhancing our role as a resolution authority and contributing as much as we can to financial system stability. As experience shows, not preventing, preparing or managing a financial crisis, should it occur, can have costly and damaging economic and social dimensions. To meet stakeholders' expectations, we will also need to have sufficient tools to manage crises if they occur.
- (c) **Addressing stakeholder perceptions.** Insofar as the feedback from key stakeholders are concerned, we take note of the expressed views. We will take steps, where reasonable and practicable, to address the comments received. For example, on the feedback about expenses and the need to optimise value, we will continue the "more with less" journey we started in 2018 without compromising on the effective and efficient delivery of our duties, functions and achievement of our goals. As an example, we have taken steps to reduce the production and printing costs for corporate publications. We will also continue to demonstrate the highest corporate governance standards, as a matter of reputation, trust and confidence in the public sector.

A feature of our sustainability is the value we derive through our external exchanges with our stakeholders. Thus, we will maintain these engagements on an ongoing basis.

Our resilience and readiness to achieve sustainable development for the future also lie in our employees. Looking beyond immediate risks, we see the opportunities for our organisation to learn and grow over the long term through our employees. In 2018, we have sustained our learning organisation efforts for employees to continuously learn, adapt and innovate. The philosophy underlining these efforts, is summed up in the words of Tom Peters, the business author, as follows – "Excellent firms don't believe in excellence - only in constant improvement and constant change."

ACKNOWLEDGEMENTS

In closing, we thank the Board, our employees, key stakeholders and strategic partners for their invaluable feedback and insights. We look forward to their continued support and collaboration towards our collective cause of ensuring financial system stability and economic growth for Malaysia.

Tan Sri Dr. Rahamat Bivi Yusoff

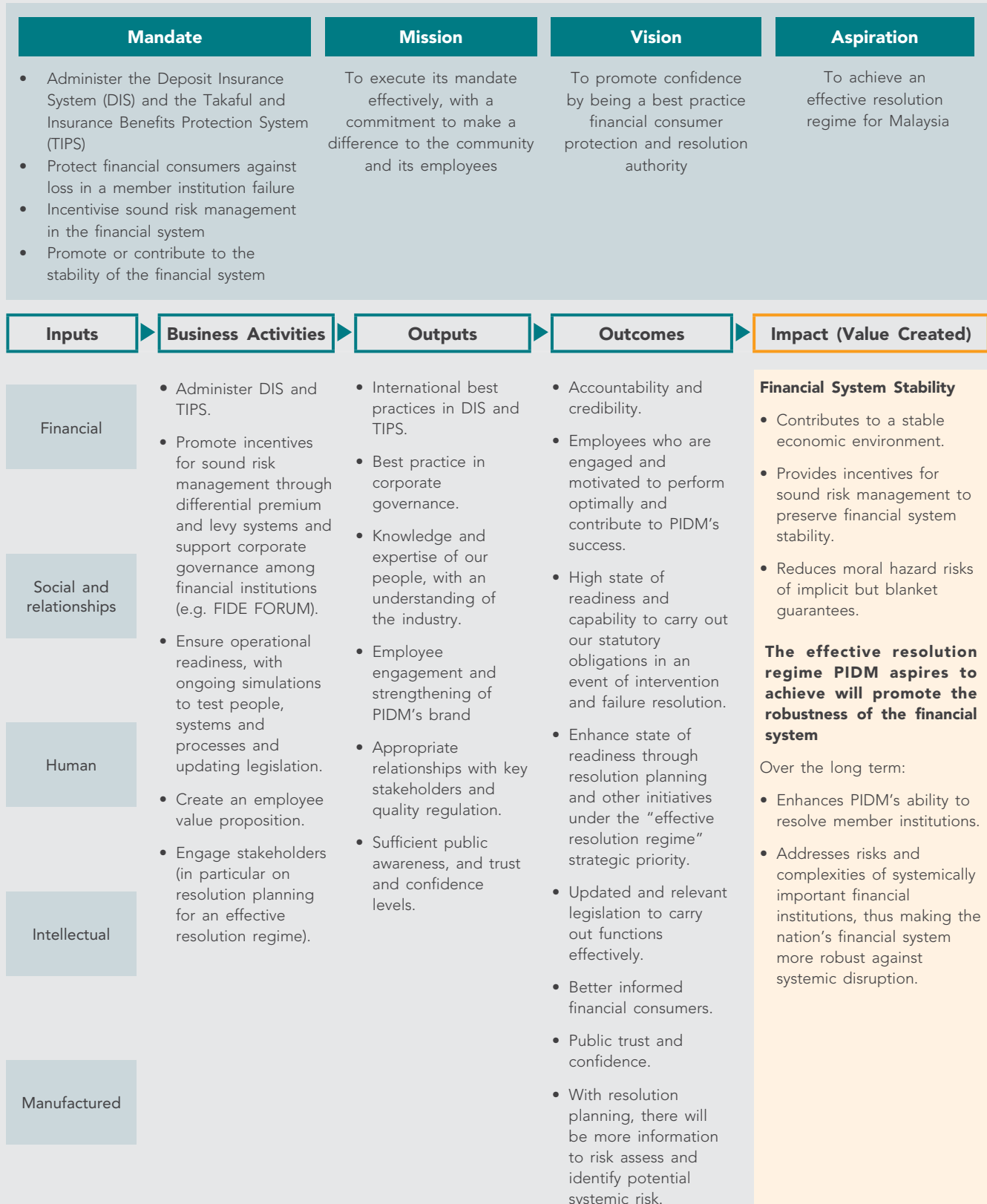
Rafiz Azuan Abdullah

HOW WE CREATE VALUE



HOW WE CREATE VALUE

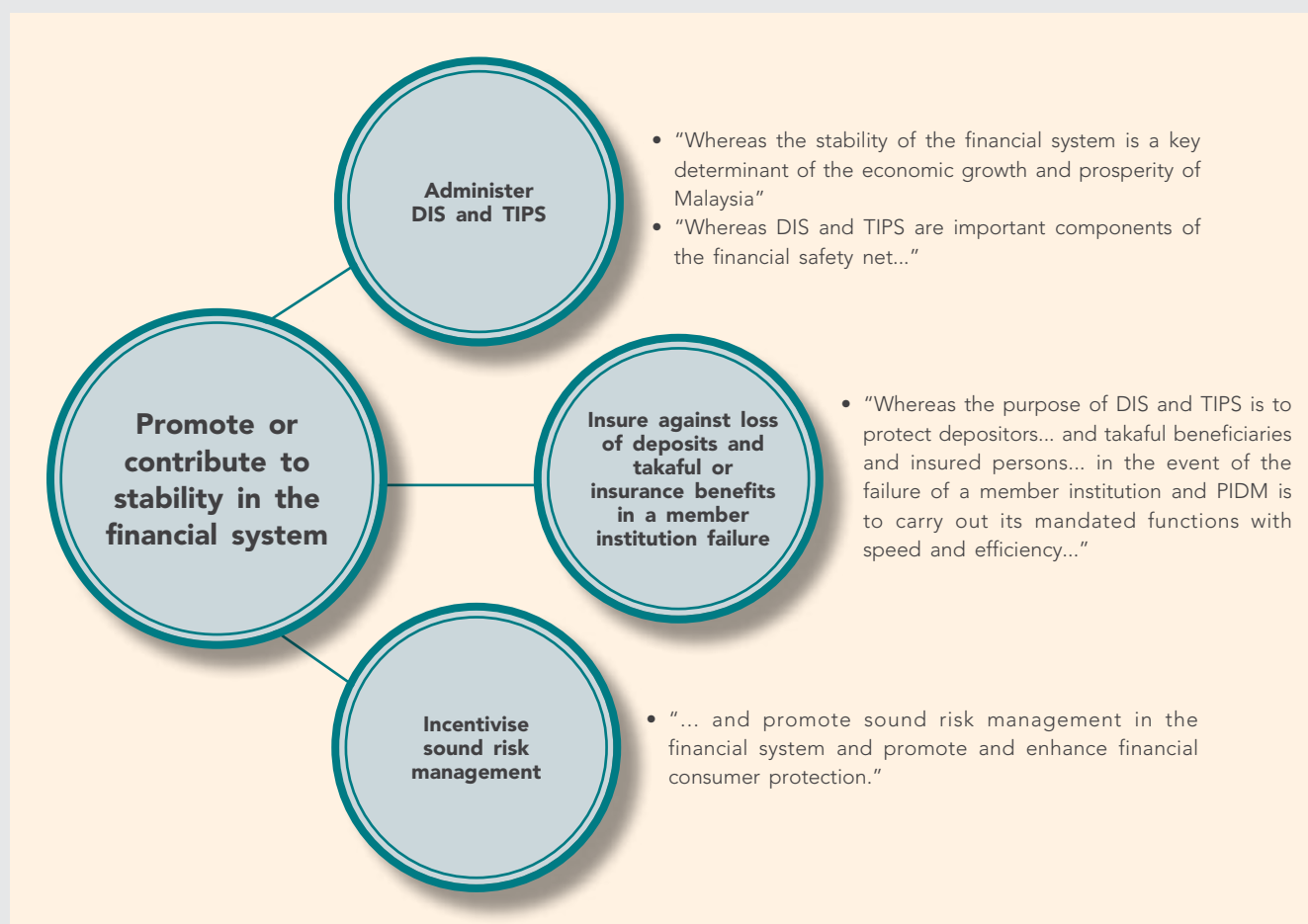
This report strives to incorporate the principles of integrated reporting, which is aimed at depicting our overall purpose and assessing our outcomes or impact on value to various stakeholders and the community. The diagram below explains our business model in creating value.



HOW WE CREATE VALUE

To set the context, what underlines the value that we aspire to add to the financial system is set out in our statutory mandate under section 4 of the PIDM Act and explained in its preamble.

Mandate and Preamble to the PIDM Act



As part of the nation’s financial safety net, our public policy objectives include:

- to insure against loss of deposits and takaful or insurance benefits in a member institution failure; and
- to help ensure the smooth functioning of the financial system and preserve it as an engine of growth.

This contemplates that we play a role during business as usual as well as in the event of an intervention and failure resolution of a member institution. To elaborate:

- we are to incentivise sound risk management in the financial system, helping to mitigate threats to financial system stability; and
- should a member institution actually fail, we should exercise our powers to intervene and resolve it “with speed and efficiency” and “in such manner as to minimise costs to the financial system”.¹

¹ As stated in the preamble and section 4 of the PIDM Act.

HOW WE CREATE VALUE

Our value creation is in monitoring the health of our member institutions as the proxy for less sophisticated depositors, takaful certificate and insurance policy owners, as well as by incentivising sound risk management. We must remain ready to intervene should we be called to do so. Our role, as mandated in the PIDM Act, is to insure depositors, takaful certificate and insurance policy owners against loss in case of any member institution failure. The existence of such protection contributes in some way towards financial consumer confidence and mitigates the potential for runs on any member institutions. In these ways, we also contribute to the stability of the financial system.

In essence, our role is in contributing to or promoting overall stability in the financial system. A systemic disruption to the financial system can have disastrous consequences. The impact of such a disruption is long term and wide-ranging. It has consequences on the financial services industry, investors, economies, the public, and ultimately on public trust, on which the financial system depends.

The long-term value in ensuring ongoing financial system stability, and mitigating the consequences of systemic disruptions, far outweighs the short-term cost of having such an insurance.

HOW WE CREATE VALUE

How PIDM creates value in line with its statutory mandate

Our business model in creating value, in line with our statutory mandate is described in more detail in the table below.

Inputs	Business Activities	Outputs	Outcomes	Impact (Value Created)
<p>Financial capital</p> <ul style="list-style-type: none">Statutory income from premiums and levies collected from member institutions.Investment income from funds.High creditworthiness. <p>Social and relationships capital</p> <ul style="list-style-type: none">Good relationships with safety net players (Bank Negara Malaysia, Ministry of Finance); domestic authorities in the sector (Financial Education Network); the industry’s directors alumni network (FIDE FORUM); international counterparts (International Association of Deposit Insurers (IADI) and International Forum of Insurance Guarantee Schemes (IFIGS)); and key suppliers.63% awareness of PIDM among public in 2018.95% of stakeholders surveyed are familiar with PIDM’s roles and mandate.² <p>Human capital</p> <ul style="list-style-type: none">Trained and motivated employees.Employees of strategic partners that are service providers. <p>Intellectual capital</p> <ul style="list-style-type: none">Knowledge and expertise in deposit insurance and insurance guarantee schemes.Recognition of good corporate governance practices and recognition through Financial Sector Assessment Programme. <p>Manufactured capital</p> <ul style="list-style-type: none">Established systems and infrastructure for our day-to-day operations and to support intervention and failure resolution actions.	<p>Aspiration</p> <ul style="list-style-type: none">To achieve an effective resolution regime for Malaysia. <p>DIS and TIPS</p> <ul style="list-style-type: none">Administer DIS and TIPS in line with good international practices, adapted to our context.Promote sound risk management through differential premium and levy systems.Build funds through collection of premiums and levies from member institutions.Prudent financial management in regard to investment and expenses.Support FIDE FORUM, for high standards of corporate governance.Ensure operational readiness, through ongoing simulations to test people, systems and processes and updating legislation as needed. <p>Talent</p> <ul style="list-style-type: none">Create an employee value proposition (with competitive compensation and a conducive environment for employees).Adopt a learning culture that continually strives to improve.Achieve knowledge and expertise for regulatory excellence (Refer to page 5). <p>Stakeholder engagement</p> <ul style="list-style-type: none">Navigate through the network of stakeholders (Refer to the <i>Stakeholders</i> Section on page 50). <p>Accountability</p> <ul style="list-style-type: none">Adopt best practices in governance, with Board and leadership setting the tone.High reporting standards. <p>Culture and corporate social responsibility</p> <ul style="list-style-type: none">Implement corporate social responsibility (CSR) programmes such as the undergraduate scholarship programme.Implement continuous improvement initiatives and encourage intrinsic motivation for employee engagement.	<p>Best practice in DIS and TIPS</p> <ul style="list-style-type: none">Recognition as best deposit insurer in 2011 by IADI.Achieved broadly compliant under the Financial Sector Assessment Programme in 2013.Aim to achieve core elements in the Financial Stability Board’s Key Attributes of Effective Resolution Regimes for Financial Institutions. <p>Best practice in governance</p> <ul style="list-style-type: none">Received the National Annual Corporate Report Award (NACRA) and Australasian Reporting Awards for PIDM’s annual report.From 2018 onwards, we use only investment income to defray operating expenses.Transparency of reporting through corporate plans and annual reports since 2006. <p>Knowledge and expertise of our people are recognised</p> <ul style="list-style-type: none">Receipt of regular study visits from PIDM’s counterparts.IADI Executive Council membership since 2005. <p>Employee engagement strengthens PIDM’s value proposition</p> <ul style="list-style-type: none">Maintained employee engagement index above 80% since 2013.Low turnover with an average of 6.5% since 2013.Absence rate of 5.5% in 2018.³Self-development and growth through learning organisation and other initiatives. <p>Relationships with stakeholders</p> <ul style="list-style-type: none">Refer to the <i>Stakeholders</i> Section on page 50. <p>Awareness levels</p> <ul style="list-style-type: none">From 4% in 2006 at its inception to 63% public awareness level in 2018 (Refer to page 72).	<p>Stakeholders</p> <ul style="list-style-type: none">We pursue a proactive approach in our relationship with key service providers with a view to maintaining a small number of employees during business as usual. We draw on key service providers only as needed (e.g. during an intervention and failure resolution).We contribute to promoting sound risk management in financial institutions by supporting FIDE FORUM, which promotes the maintenance and enhancement of high standards of corporate governance within the financial sector and works on succession pipelines for board members in the industry.We contribute to financial literacy for financial consumers through requiring member institutions to comply with information requirements and carry out public awareness and literacy campaigns, in collaboration with our partners. Better informed financial consumers will have a better understanding about PIDM and our work, and engender trust and confidence. <p>Remaining “ever ready”</p> <ul style="list-style-type: none">We enhance operational readiness for any intervention and failure resolution and constantly ensure that we have relevant, updated, efficient and effective processes and systems (e.g. for more effective risk assessments and for prompt reimbursements in the event of a failure and resolution in line with our mandate).With an effective resolution regime, more information in advance will lead to more effective intervention and failure resolutions while helping to mitigate systemic risks. <p>Talent</p> <ul style="list-style-type: none">We promote high standards of excellence within the organisation through our talent management measures and through developing an employee value proposition. We also enhance their expertise to meet stakeholder expectations. <p>Trust and confidence</p> <ul style="list-style-type: none">We promote trust and confidence through the adoption of good corporate governance and ethics (including transparency, objectivity and integrity) and set an example in the public sector.We encourage community involvement and return of value to the community through our CSR programmes, such as our scholars with financial needs through our scholarship programme.	<p>Financial system stability</p> <ul style="list-style-type: none">We contribute to the economy of Malaysia by contributing or promoting a stable environment for economic activity fuelled by member institutions and ensuring orderly exits of failed member institutions. We provide incentives for sound risk management to preserve financial system stability.We contribute to the Government and the public by collecting premiums and levies through the industry and not through implicit protection by the Government and public money. We also reduce the moral hazard risks of blanket guarantees through our best practice DIS and TIPS design.Our differential premium and levy systems promote sound risk management among member institutions, thus promoting greater financial system stability. <p>Enhancing value creation through an effective resolution regime</p> <ul style="list-style-type: none">The “effective resolution regime” strategic priority is intended to help enhance our ability to resolve all member institutions even more effectively. Implemented effectively, it will help address risks arising from complexities of systemically important financial institutions thus making the nation’s financial system more robust against systemic disruption (Refer to the Summary of the Corporate Plan 2019 - 2021, available at www.pidm.gov.my).

² Stakeholder perception audit respondents include member institutions, industry associations and media.

³ Absence rate is 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.

GOVERNANCE

Corporate Governance Overview

Board of Directors

Executive Management Committee



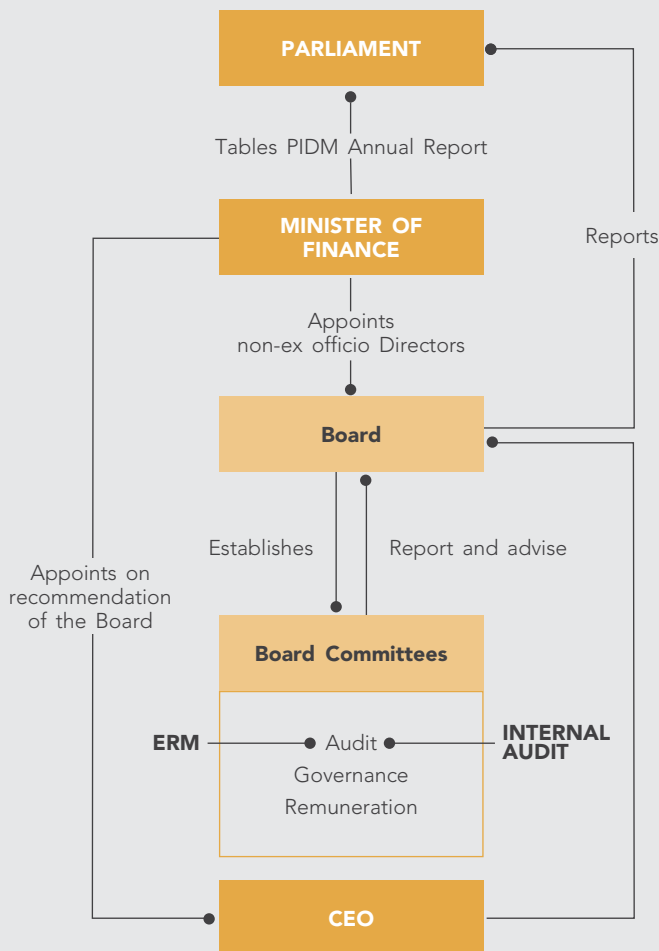
CORPORATE GOVERNANCE OVERVIEW

We are committed to good governance practices, which seek to promote transparency and accountability to all our stakeholders as well as promote our ability to create value.

We comply with all applicable laws. In addition, governance structures and processes are in place to ensure the execution of our strategy and the management of risks. Our internal controls include a code of business conduct and ethics, declarations of conflict of interest and assets and liabilities, and a whistleblowing policy. Our Board plays an important role with respect to ensuring a sound system of risk management and internal control, in particular with regard to ethics, culture and standards of behaviour.

As required by law, we provide our annual report and financial statements to Parliament through the Minister of Finance. We are audited by the National Audit Department (NAD).

PIDM'S GOVERNANCE STRUCTURE

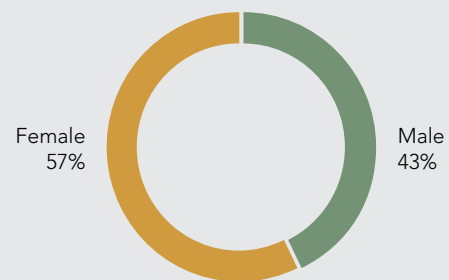


BOARD COMPOSITION

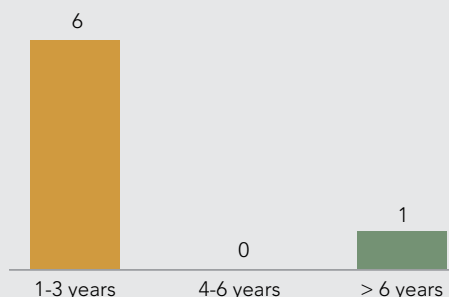
The Board of Directors (Board) comprises non-executive Directors from the public and private sectors. Two directors are ex officio, namely the Governor of Bank Negara Malaysia and the Secretary General of Treasury. The rest comprise a mix of individuals with public sector or private sector experience or both. The non-ex officio Directors are appointed by the Minister of Finance (Refer to [pages 30 to 35](#) for their profiles and background).

Our current Board composition is depicted below.

Gender Diversity



Tenure of Directors



CORPORATE GOVERNANCE OVERVIEW

KEY HIGHLIGHTS OF THE BOARD'S WORK IN 2018

The Board Governance Policy sets out PIDM's governance standards. The standards from the Board Governance Policy are Board-approved and drawn from relevant public sector and private sector best practices. These standards were developed and adopted in the context of PIDM's public function and legislative mandate and are reviewed from time to time to ensure they keep up with applicable best practices in corporate governance. For transparency, our 2018 report voluntarily discloses, in detail, how the Board has performed against each of the standards in its Board Governance Policy. This report is available on our website at www.pidm.gov.my.

This overview contains key highlights of the Board's corporate governance work in 2018.

BOARD TRAINING

The Board keeps itself informed and up-to-date on our operating environment as well as key matters related to our business and affairs. This is in order to be able to provide strategic insights and contribute effectively towards PIDM's achievement of its mandate. In 2018, Directors participated in the following sessions:

List of Trainings Attended

Managing Cyber Risks in Financial Institutions
Navigating the Volatility, Uncertainty, Complexity and Ambiguity (VUCA) World
International Association of Deposit Insurers (IADI)'s Asia-Pacific Regional Committee (APRC) Annual Meeting and International Conference
Understanding Liquidity Risk Management in Banking
Introduction to Recovery and Resolution Planning
Knowledge Sharing Session on Recovery and Resolution Planning by Taiwan Insurance Guarantee Fund
PIDM's Approach to Seamless Payout
Knowledge Sharing Session on Recovery and Resolution Planning by PwC Germany
Deposit Insurance Protection for Electronic Money and National Resolution Authority
Malaysian Economic Conditions
Malaysia: A New Dawn
17 th IADI Annual General Meeting and Annual Conference

COMPENSATION OF OFFICERS AND EMPLOYEES

The Board is authorised under the PIDM Act to determine employees' compensation, which is linked to the achievement of their key performance indicators. In 2018, the Board approved salary increments for 2019 and performance bonuses for 2018 for our employees. The remuneration of key management personnel in 2018 amounted to RM11.4 million (Refer to the *Financial Statements* Section on [page 185](#) for further details).

Board compensation is approved by the Minister of Finance. The total fees and remuneration, including medical benefits, received by the Directors in 2018 amounted to RM0.9 million (Refer to the *Financial Statements* Section on [page 182](#) for further details).

CORPORATE GOVERNANCE OVERVIEW

BOARD COMMITTEES

The Board has established three Board Committees, namely the Audit Committee (AC), the Governance Committee (GC) and the Remuneration Committee (RC) to support it in the discharge of its roles and responsibilities.

Outline of the Principal Responsibilities of the Board Committees

Audit Committee	Governance Committee	Remuneration Committee
Assists the Board with the oversight of: <ul style="list-style-type: none"> the integrity of financial statements, financial reporting, internal accounting, financial controls, internal audit; risk management; and compliance with ethics-related policies, and legal and regulatory requirements. 	Assists the Board with the oversight of: <ul style="list-style-type: none"> maintaining effective corporate governance principles and practices; evaluating and assessing the functioning of the Board, Board Committees and Management; and the succession planning of Directors and corporate officers. 	Assists the Board with the oversight of: <ul style="list-style-type: none"> human resources compensation matters and succession plans generally.

In 2018, all the Board Committees fulfilled their responsibilities against their respective charters. For more details, refer to Statement on Corporate Governance on our website at www.pidm.gov.my.

Attendance at Board and Board Committee Meetings

Member	Meetings attendance			
	Board	AC	GC	RC
Tan Sri Dr. Rahamat Bivi Yusoff	5/5		2/2	
Tan Sri Muhammad Ibrahim ¹	2/2			
Datuk Nor Shamsiah Mohd Yunus ²	2/3			
Tan Sri Dr. Mohd Irwan Serigar Abdullah ³				
Datuk Ahmad Badri Mohd Zahir ⁴	1/3			
Mr. Alex Foong Soo Hah	5/5	3/5		2/2
Dato Dr. Nik Ramlah Mahmood	5/5		2/2	
Dato' Dr. Gan Wee Beng	5/5	5/5		2/2
Ms. Gloria Goh Ewe Gim	4/5	5/5	2/2	
Encik Johan Mahmood Merican ⁵	1/2	1/2		

¹ Tan Sri Muhammad Ibrahim - Ex Officio Director until 6 June 2018.

² Datuk Nor Shamsiah Mohd Yunus - Ex Officio Director with effect from 1 July 2018.

³ Tan Sri Dr. Mohd Irwan Serigar Abdullah - Ex Officio Director until 16 May 2018.

⁴ Datuk Ahmad Badri Mohd Zahir - Ex Officio Director with effect from 12 September 2018.

⁵ Encik Johan Mahmood Merican - resigned with effect from 11 July 2018.

CORPORATE GOVERNANCE OVERVIEW

RISK MANAGEMENT

Risk Management Framework and Process

Our Enterprise Risk Management (ERM) Framework 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 31000:2018 (Risk Management – Guidelines).

In 2018, we completed the full cycle of the ERM process to identify, assess, evaluate, treat, monitor, report and communicate the risks facing us. There were no significant changes to the residual risk rating between 2018 and the previous year. However, the risk trends for reputation risk and strategic risk have changed from "stable" to "increasing". Key risk areas remain the same, arising from the risk categories of people, insurance, reputation and strategic. Refer to the Summary of the Corporate Plan 2019 - 2021, page 34, for our ratings of key risks, available at www.pidm.gov.my.

Arising from the risk assessment exercise conducted, action plans were formulated to manage the key risks described above. These action plans, which have been incorporated as part of our key initiatives, serve to further our efforts towards achieving our strategic priorities. Refer to the Summary of the Corporate Plan 2019 - 2021 for our corporate initiatives, available at www.pidm.gov.my.

INTERNAL CONTROL

Internal Control Framework and Process

Our Internal Control Framework (ICF) is founded on the internationally recognised Committee of Sponsoring Organizations of the Treadway Commission Internal Controls – Integrated Framework.

We implement internal controls that are embedded in relevant policies and practices to ensure the effectiveness of our operations. The review on the state of internal control was carried out by the Audit and Consulting Services (ACS) Division and was based on two approaches that were benchmarked against the ICF components.

For 2018, based on the assessment performed by ACS on the state of internal controls, 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 and practices.

Further information about our risk management and internal controls can be found in the Statement on Risk Management and Internal Control on our website at www.pidm.gov.my.

CORPORATE GOVERNANCE OVERVIEW

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors' Report on the financial statements for the financial year ended 31 December 2018 and the accompanying Statement by Directors are found on pages 99 to 104.

Audit

Pursuant to the PIDM Act, our financial statements are audited by the Auditor General in accordance with the Audit Act 1957. We maintain a collaborative working relationship with the external auditors from the NAD, whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC papers and reports prior to the AC meetings.

NAD representatives attended two out of five AC meetings held in 2018. The annual fees paid to the NAD are found in the *Financial Statements* Section on page 182.

The Report of the Auditor General on the Financial Statements of PIDM for the year ended 31 December 2018 is found on page 106.

Compliance with Shariah Principles

We ensure compliance with Shariah requirements in relation to the Islamic protection systems that we administer. To do this, we obtain advice and endorsement from the Shariah Advisory Council of Bank Negara Malaysia.

BOARD OF DIRECTORS

MEMBERS AND PROFILES



1 Dato' Dr. Gan Wee Beng

2 Dato Dr. Nik Ramlah Mahmood

3 Datuk Nor Shamsiah Mohd Yunus

BOARD OF DIRECTORS

MEMBERS AND PROFILES



4

5

6

7

4 Tan Sri Dr. Rahamat Bivi Yusoff

5 Datuk Ahmad Badri Mohd Zahir

6 Mr. Alex Foong Soo Hah

7 Ms. Gloria Goh Ewe Gim

BOARD OF DIRECTORS

MEMBERS AND PROFILES

Tan Sri Dr. Rahamat Bivi Yusoff

Chairman

Appointed to the Board: August 2017

Membership of Board Committees

- Chairman of PIDM Board of Directors
- Chairman of Governance Committee

Qualifications

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

Area of Expertise

- Economics

Current Appointment

- Member, Board of Governors, Multimedia University, Malaysia

Directorships

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

Past Experience

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

Datuk Nor Shamsiah Mohd Yunus

Ex Officio Director

Appointed to the Board: July 2018

Membership of Board Committees

- Nil

Qualifications

- CPA, Australia
- Chartered Accountant Malaysia
- Bachelor of Arts in Accountancy, University of South Australia, Australia

Area of Expertise

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

Current Appointment

- Governor, Bank Negara Malaysia

Directorships

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

Past Experience

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

BOARD OF DIRECTORS

MEMBERS AND PROFILES

Datuk Ahmad Badri Mohd Zahir

Ex Officio Director

Appointed to the Board: September 2018

Membership of Board Committees

- Nil

Qualifications

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

Area of Expertise

- Economics, finance

Current Appointment

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

Directorships

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

Past Experience

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

Dato Dr. Nik Ramlah Mahmood

Appointed to the Board: August 2016

Membership of Board Committees

- Member of Governance Committee

Qualifications

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

Area of Expertise

- Legal, capital market and financial services regulation, corporate governance

Current Appointment

- Member of the Senate, International Centre for Education in Islamic Finance (INCEIF)
- Member of the Financial Services Professional Board

Directorships

- Director of Securities Industry Development Corporation
- Director of Permodalan Nasional Berhad
- Independent Non-Executive Director of Amanah Saham Nasional Berhad
- Independent Non-Executive Director of Axiata Group Berhad
- Independent Non-Executive Director of United Malacca Berhad
- Independent Non-Executive Director of edotco Group Sdn. Bhd.

Past Experience

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

BOARD OF DIRECTORS

MEMBERS AND PROFILES

Mr. Alex Foong Soo Hah

Appointed to the Board: August 2011

Membership of Board Committees

- Chairman of Remuneration Committee
- Member of Audit Committee

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

Area of Expertise

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

Directorships

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

Past Experience

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

Dato' Dr. Gan Wee Beng

Appointed to the Board: August 2016

Membership of Board Committees

- Member of Remuneration Committee
- Member of Audit Committee

Qualifications

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

Area of Expertise

- Economics, risk management, commercial banking

Directorships

- Chairman of KWEST Sdn Bhd
- Director of Retirement Fund (Incorporated)

Past Experience

- Advisor, CIMB Group
- Deputy Chief Executive Officer, CIMB Group
- Executive Director, CIMB Bank
- Senior Advisor, Economics Department, Monetary Authority of Singapore
- Consultant to the World Bank, International Labour Organisation and Bank Negara Malaysia

BOARD OF DIRECTORS

MEMBERS AND PROFILES

Ms. Gloria Goh Ewe Gim

Appointed to the Board: February 2017

Membership of Board Committees

- Chairman of Audit Committee
- Member of Governance Committee

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

Area of Expertise

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

Current Appointment

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

Directorships

- Nil

Past Experience

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

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

EXECUTIVE MANAGEMENT COMMITTEE

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



1 Yogendra Thavakumar

General Manager,
Communications and
Public Affairs

2 Afiza Abdullah

General Manager,
Policy and International

3 Helena Prema John

General Manager,
Human Capital

4 Zufar Suleiman Abu Bakar

Chief Risk Officer and
General Manager,
Enterprise Risk Management

**5 Wan Ahmad Ikram Wan
Ahmad Lotfi**

Chief Financial Officer and
General Manager,
Finance and Administration

6 Lee Yee Ming

Senior General Manager,
Risk Assessment and Resolution

7 Rafiz Azuan Abdullah

Chief Executive Officer

EXECUTIVE MANAGEMENT COMMITTEE



8 Lim Yam Poh
Chief Operating Officer and
General Counsel

9 Azirruan Arifin
Head, Shared Services

10 Lim Lee Na
Corporate Secretary

11 Chua Ee Leen
General Manager,
Strategic Planning

12 Lim Tai Ching
General Manager, Legal

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

14 Lim Kong Kuan
General Manager,
Membership and
Reimbursement

OPERATING ENVIRONMENT

Overview of Operating Environment

Overview of Membership

Outlook



OVERVIEW OF OPERATING ENVIRONMENT

Our strategy is aligned with our aspirations for an effective resolution regime, and in line with the public policy objective of promoting and contributing to the stability of the financial system. At the same time, we must ensure that we are always operationally ready to address the risks of a member institution failure.

Economic environment	Despite rising uncertainties in the global economy and prevailing fiscal concerns domestically, the Malaysian economy has remained resilient, with a real gross domestic product (GDP) growth of 4.7% in 2018 (2017: 5.9%).
Membership	The overview of PIDM's membership is found below.
Political and regulatory	<p>The National Anti-Corruption Plan (2019) reflects the new national agenda to eradicate corruption and focus on standards of accountability for the public sector. There are several key strategies to eradicate corruption, including – strengthening political integrity and accountability, efficiency in the delivery of the public sector, improving the effectiveness and transparency in public procurement, and promoting good governance in corporate entities. We have always been aligned with efforts to adopt best practices in governance, and will continue to keep track of developments in this area (Refer to the Corporate Governance webpage, available at www.pidm.gov.my for more details of our governance arrangements and practices).</p> <p>We have consulted on some proposed changes to the PIDM Act.¹ One set of amendments is to update certain provisions for collecting premiums and levies in relation to amalgamated and new member institutions. Proposed amendments to the PIDM Act are also to make explicit the following:</p> <ul style="list-style-type: none"> • our role in relation to resolution planning; • the ability to borrow between funds, subject to conditions; and • the power to provide a rebate, on conditions, in relation to premiums or levies. <p>We are also monitoring the impact of changes in accounting standards, such as Malaysian Financial Reporting Standards 17 (MFRS 17), to study and consider the implications on member institutions and our regulations and guidelines.</p>
Stakeholder expectations	Refer to the <i>Stakeholders</i> Section on page 50 .
Social	Social media has become part of Malaysian life. There are approximately 25 million Malaysians accessing the internet, 24 million active social media users, and 22 million active mobile users. ² This presents both risks (of the spreading of inaccurate or malicious news about either PIDM or its member institutions) as well as opportunities to reach Malaysians to build public confidence and trust in PIDM and to solicit feedback.
Technology	The cybersecurity threat landscape in the Asia-Pacific region remains, as hackers use more sophisticated tools and techniques to launch attacks. Personal data leaks remain the main focus of attacks, and key operating systems are also exposed to security risks and blackmail demands.

We adopt an enterprise risk management process to identify and manage the significant risks that can prevent us from achieving our objectives. Through this process we have assessed our significant risks. We have concluded that, overall, as at 31 December 2018, significant risks are being addressed through our action plans, and we do not need to heighten scrutiny in respect of any new significant risks.

A reflection on areas of significant risks needing further attention is also noted in the *Material Matters* Section on [page 58](#). More details about significant risks needing further attention are found on page 34, of the Summary of the Corporate Plan 2019 - 2021, available at www.pidm.gov.my.

¹ Consultation Paper On The Proposed Amendments To The Malaysia Deposit Insurance Corporation Act 2011, issued on 9 January 2019.

² DIGITAL IN 2018 IN SOUTHEAST ASIA - Essential Insights Into Internet, Social Media, Mobile and eCommerce Use Across the Region, Hootsuite.

OVERVIEW OF MEMBERSHIP

MEMBER BANKS

A. Profile

PIDM has 42 member banks.

	2017	2018
Conventional	27	26
Islamic	16	16
Total	43	42

National Bank of Abu Dhabi Malaysia Berhad ceased operations following a strategic review by its parent bank



MBSB Bank Berhad's depositors are now protected (Malaysia Building Society Berhad acquired Asian Finance Bank Berhad)

B. Coverage of PIDM's Protection on Deposits

The current scope of deposit coverage remain adequate and are in line with the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems based on a review undertaken in 2018.

Deposit Insurance System

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

**Separate protection for
Conventional and Islamic
deposits** held by



Individual



Joint
owners



Trustee



Sole
proprietorship

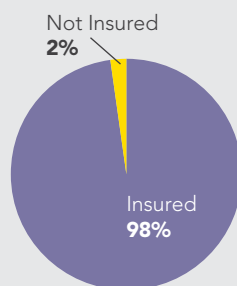


Partnership



Company

Number of Depositors



98%

Total depositors protected

97%

Total depositors protected in full

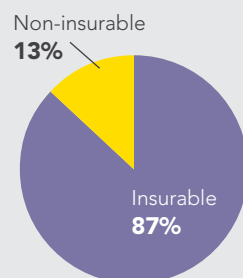
Deposit Amount

87%

Total deposits insurable

30%

Deposits insured up to RM250,000

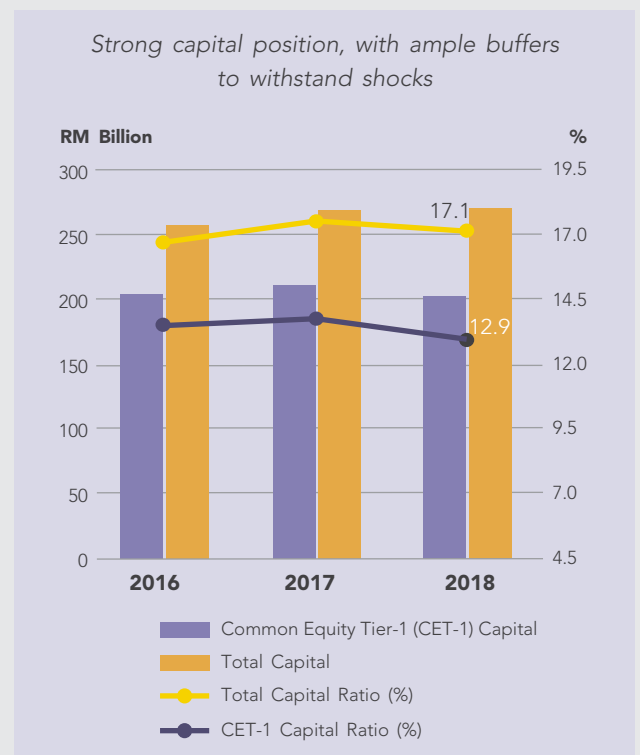
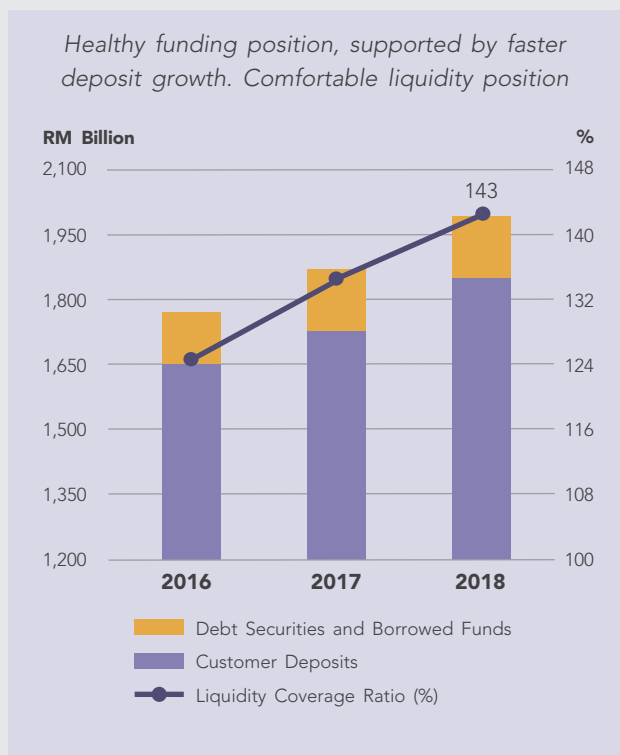
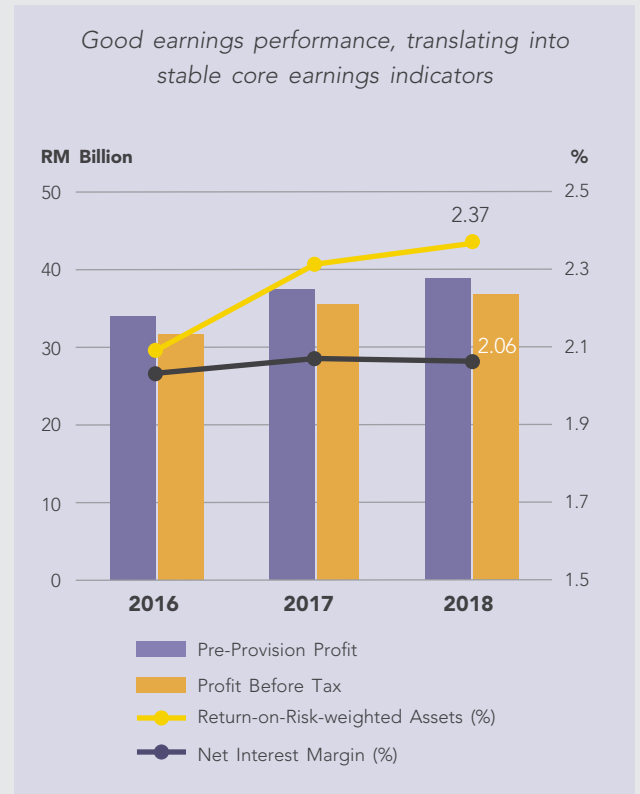
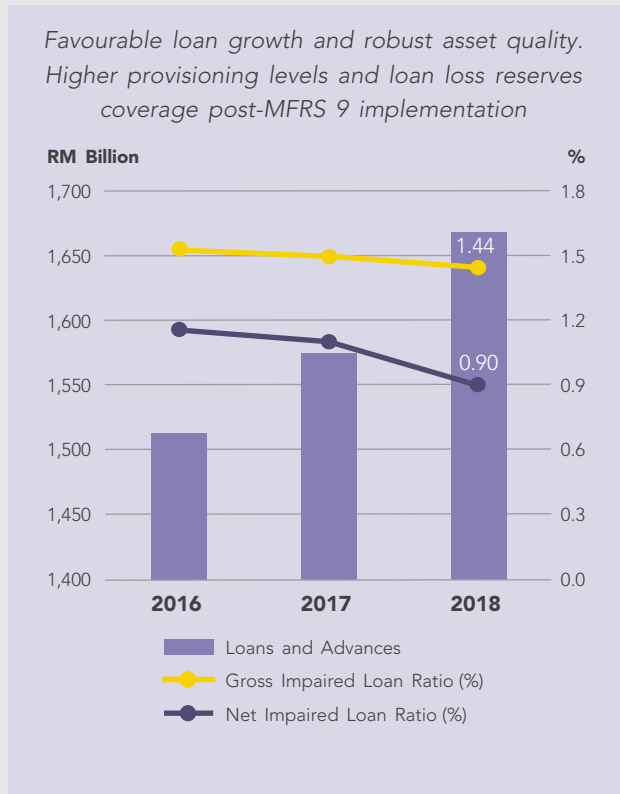


Source: Member banks' statistical submission to PIDM

OVERVIEW OF MEMBERSHIP

C. Assessment on Safety and Soundness

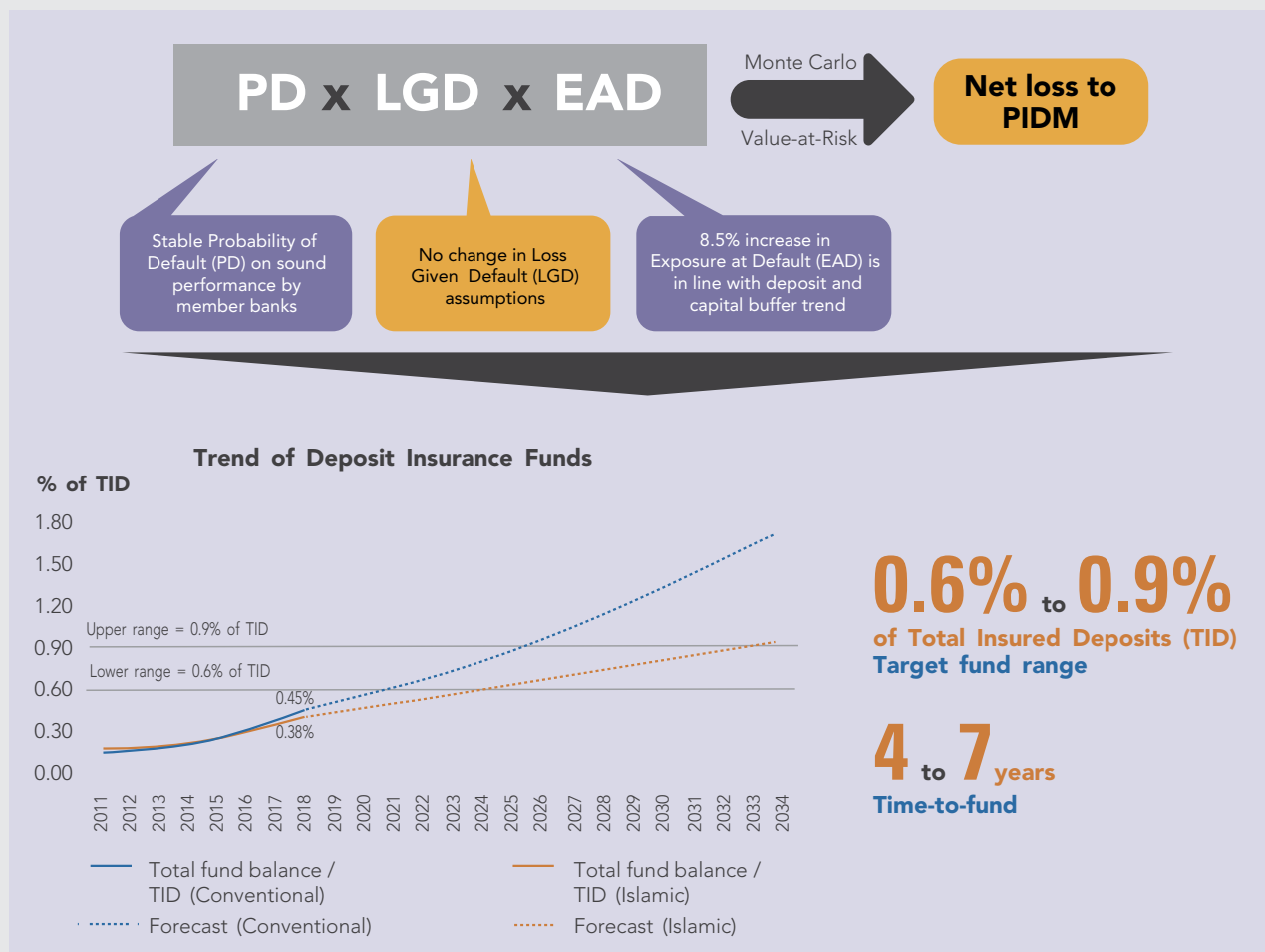
Member banks performed well in 2018, with strong capital and healthy liquidity positions.



Source: PIDM and Bank Negara Malaysia

OVERVIEW OF MEMBERSHIP

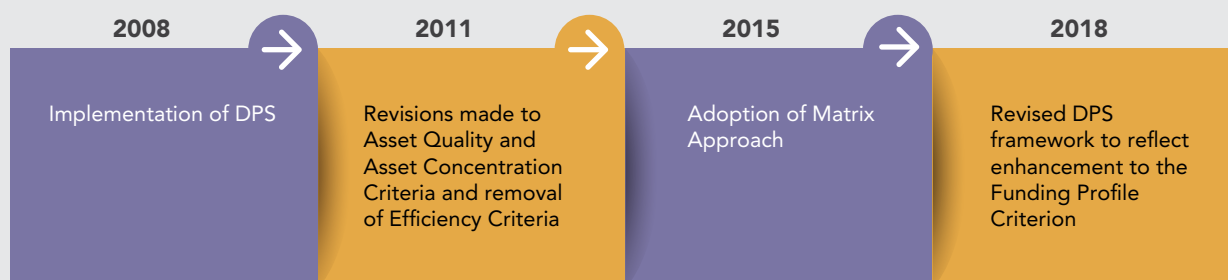
With the sound overall performance of member banks, PIDM remains on track to meet the lower range of the target fund level.



Refer to the *Technical Reference on Target Fund* on [page 208](#).

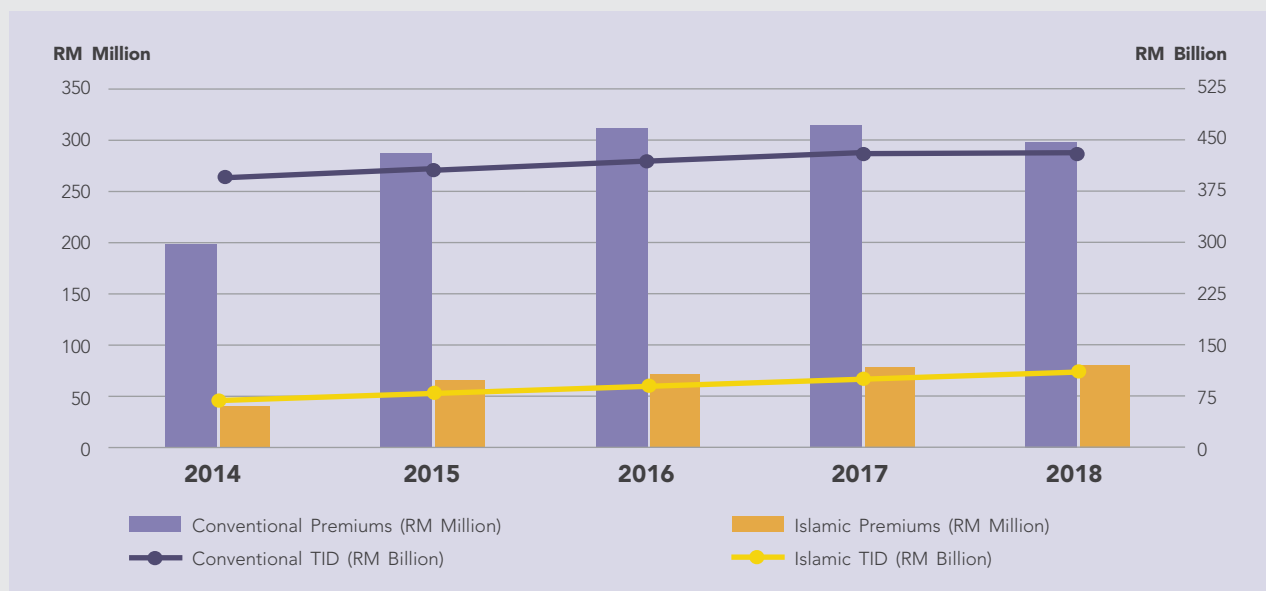
D. Incentives for Sound Risk Management

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



OVERVIEW OF MEMBERSHIP

Premiums growth are in line with deposit growth.



E. Looking Ahead

Member banks to stay resilient amidst potential challenges:

1) Regulatory developments

Member banks to meet the requirements under the Basel III Net Stable Funding Ratio, which is expected to be implemented no earlier than 2020.

2) Industry developments

Potential impairment pressure from certain loan segments may push up credit cost. Overall impact on member banks are expected to be manageable.

3) External environments

Against an uncertain global macroeconomic backdrop, the operating environment is expected to remain challenging.

OVERVIEW OF MEMBERSHIP

INSURER MEMBERS

A. Profile

The number of insurer members increased to 50 following the splitting of their composite licences.

	2017	2018
Insurance Companies	32	35
Takaful Operators	11	15
Total	43	50

2 new general insurer members

- AIA General Berhad
- Zurich General Insurance Malaysia Berhad

1 new life insurer member

- Etiqa Life Insurance Berhad

4 new general takaful members

- Etiqa General Takaful Berhad
- Syarikat Takaful Malaysia Am Berhad
- Takaful Ikhlas General Berhad
- Zurich General Takaful Malaysia Berhad

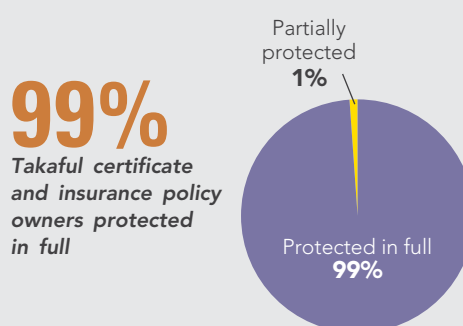
B. Coverage of PIDM's Protection on Takaful and Insurance Benefits

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

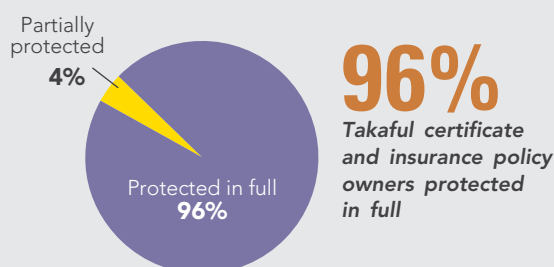
Takaful and Insurance Benefits Protection System



Family takaful and life insurance



General takaful and general insurance



Source: PIDM survey

OVERVIEW OF MEMBERSHIP

C. Assessment on Safety and Soundness

Insurer members demonstrated resilience throughout 2018 despite a challenging operating landscape.



Source: PIDM and Bank Negara Malaysia

OVERVIEW OF MEMBERSHIP

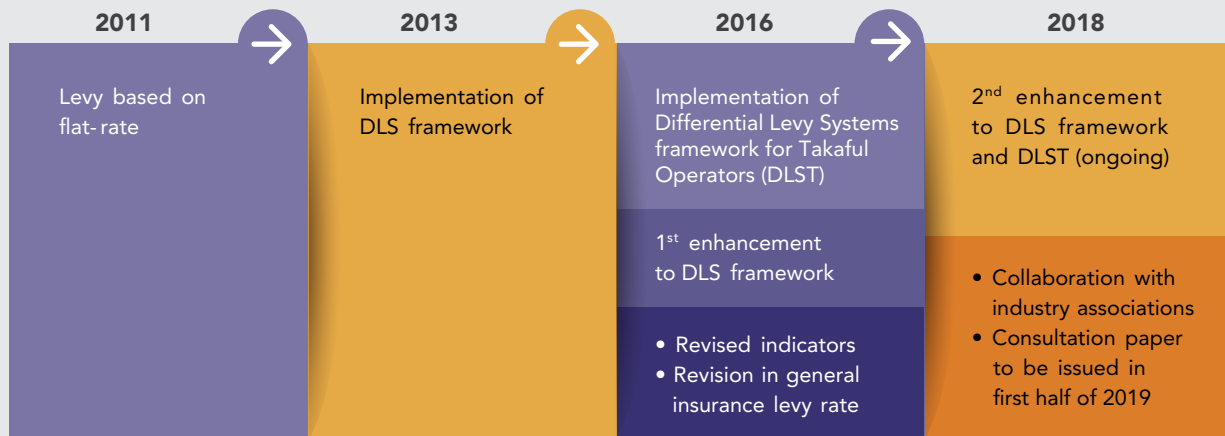
In 2018, we completed the funding framework for Takaful and Insurance Protection Funds. With sound overall performance of insurer members, we remain on track to meet the lower range of the target fund level for LIPF, GTPF and FTPF.

Implemented	Takaful and Insurance Protection Funds	Target Fund Level	Current Level	Time-to-Fund
2015	General Insurance Protection Fund (GIPF)	80 - 100% of Total Net Expected Loss	Met	–
2016	Life Insurance Protection Fund (LIPF)	0.4 - 0.6% of Total Actuarial Valuation Liabilities (AVL)	0.26%	4 - 7 years
2018	General Takaful Protection Fund (GTPF)	2.8 - 3.3% of Total General Takaful Liabilities	1.15%	5 - 7 years
	Family Takaful Protection Fund (FTPF)	1.0 - 1.5% of Total Family Takaful Liabilities	0.30%	8 - 11 years

Refer to the *Technical Reference on Target Fund* on [page 208](#).

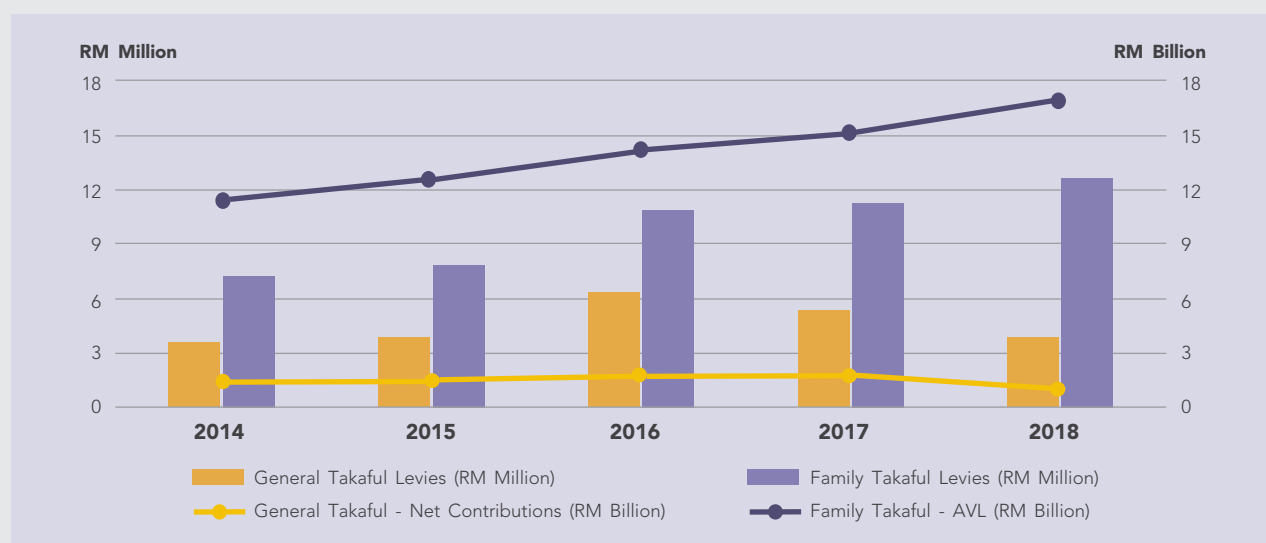
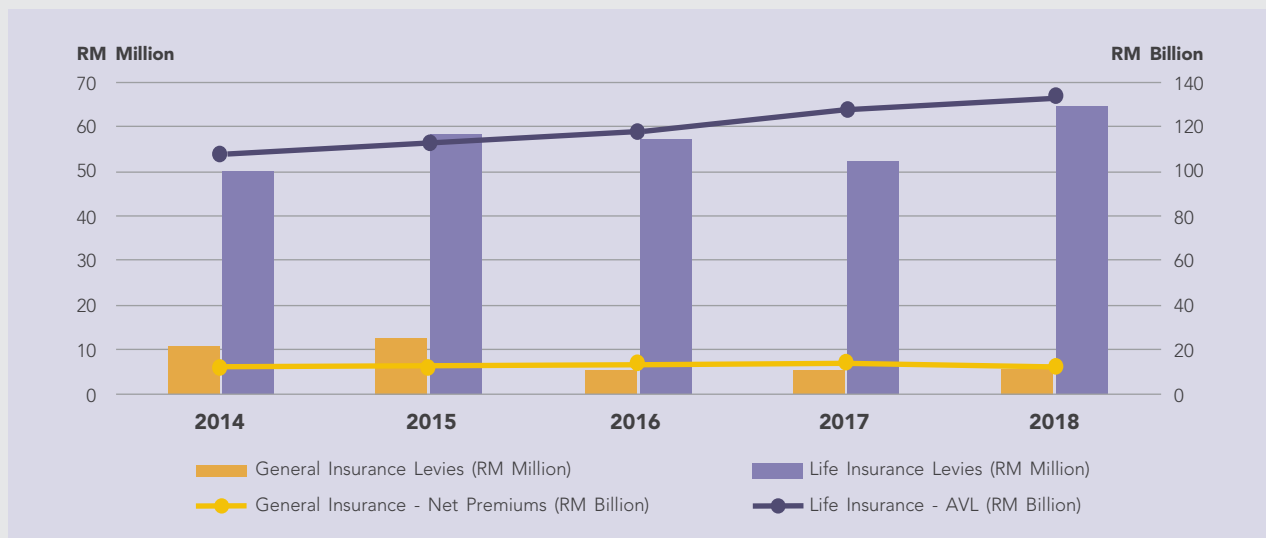
D. Incentives for Sound Risk Management

Periodic review of the Differential Levy Systems (DLS) framework to incentivise sound risk management practices and minimise excessive risk-taking.



OVERVIEW OF MEMBERSHIP

Levies growth are in line with premiums / contributions and liabilities growth.



E. Looking Ahead

Insurer members to continuously improve operational efficiencies on the back of a challenging operating environment:

1) Regulatory developments

- Reassessment on readiness for further liberalisation of motor and fire business.
- Continuation of planned initiatives under the Life Insurance and Family Takaful Framework.

2) Industry developments

Slower automotive sector outlook and continuous increase in medical care costs.



OUTLOOK

In 2019, considerable downside risks still persist in the global economy that have potential to spill over domestically. Against this uncertain global macroeconomic backdrop and efforts to rein in government deficit, the operating environment for Malaysia is likely to remain challenging. Still, the Malaysian economy is expected to continue on a steady growth path, with growth projected at 4.9%³ for 2019.

A diversified structure and strong fundamentals will provide buffer against these external headwinds. Economic expansion will emanate from continued domestic demand growth generated by private consumption and to a lesser degree, investment activity. The financial services sector is expected to remain robust despite a challenging operating environment.








We will continue to monitor the operating environment and maintain high state of readiness to carry out our statutory obligations in an event of intervention and failure resolution. Action plans are in place for us to address unforeseen events that could necessitate a reprioritisation of our planned initiatives and a refocusing of our resources for the task at hand. Refer to the Summary of the Corporate Plan 2019 - 2021, page 37 for our action plans, available at www.pidm.gov.my.

³ Budget 2019.

STAKEHOLDERS


STAKEHOLDERS

The overall performance and success of a regulator are shaped by our interactions with key stakeholders and we must consider these diverse interests. As stakeholder engagement is central to many aspects of our performance, it is an ongoing activity (Refer to the *Strategy* Section on [page 7](#) for the overall strategy in relation to stakeholder engagement).


 Members of the public, including financial consumers	 Member institutions / industry associations	 Safety net players and Government agencies	 Media	 International counterparts	 Service providers and other strategic partners	 Employees
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STAKEHOLDER INTERESTS


The following describes the objectives of our stakeholder engagements, their interests, and provide examples of how we engage them. Details about our specific engagements in 2018 are found in the *Performance* Section on [pages 71 to 73](#).

Key stakeholder	Stakeholder interests	Key engagements
 <p>Members of the public, including financial consumers</p> <p>Objective – To instil trust and confidence and to preserve reputation.</p>	<p>The public expects us to fulfil the policy objectives of our statutory mandate (Refer to the <i>How We Create Value</i> Section on page 20). Lack of trust and confidence in PIDM and in the financial system as well as misconceptions can also lead to instability in the financial system.</p>	<p>Awareness as well as building trust and confidence campaigns, briefings and exhibitions / roadshows</p> <ul style="list-style-type: none"> We adopt best practices in governance, standards of behaviour and ethics, and account to Parliament by publishing our practices in the media, annual reports and website. We carry out awareness campaigns, on-ground and other activities with the public. We issue consultation papers on areas of interest to the public. Member institutions display information about PIDM at their premises, website and provide information to their customers. <p>(Refer to page 72 for the results of our surveys on public awareness).</p> <hr/> <p>Going forward</p> <p>Refer to the <i>Material Matters</i> Section on page 61 for our response to the material matters.</p>


STAKEHOLDERS

Key stakeholder	Stakeholder interests	Key engagements
 <p>Member institutions / industry associations</p> <p>Objective – To consult and hear views in respect of key policies and regulations impacting the industry, and encourage collaboration in relevant areas for the purposes of fulfilling our mandate and vision. Our ability to influence regulatory compliance and outcomes, also requires us to understand the industry and the reasons for any non-compliance or adverse behaviour.</p>	<p>Member institutions share a common interest in achieving a stable financial system, which allows them to continue to carry out businesses and their economic functions.</p> <p>As a regulator, we need to maintain an effective relationship with the industry, without regulatory capture.</p> <p>Industry interests are:</p> <ul style="list-style-type: none"> that policy-making, regulations and regulatory solutions for desirable policy outcomes, are made after hearing them out, as well as based on a sound understanding about how they operate; that duplication in terms of submission of information to financial regulators are minimised; that we make fair, objective decisions in line with our mandate; and that we provide information about how we manage the Protection Funds, and to exercise prudent financial management. 	<p>Consultation and dialogues</p> <ul style="list-style-type: none"> We adopt a consultative approach for wider acceptance and more effective policy-making through various platforms. We work with Bank Negara Malaysia to minimise duplication of information submissions and other requirements as far as practicable. We carry out dialogues to provide information to member institutions about our work and impending policies, regulations and guidelines. We run focus group discussions on specific topics when needed. We provide information about how we fulfil our objectives and the management of funds, as well as our audited financial statements through the annual report. <p>(Refer to pages 87 to 91 on the discussion on performance against budget and the internal campaign that was carried out in 2018 to identify ways to improve the effective use of financial and human capital resources).</p> <hr/> <p>Going forward</p> <p>Refer to the <i>Material Matters</i> Section on page 60 for our response to the material matters.</p>


STAKEHOLDERS

Key stakeholder	Stakeholder interests	Key engagements
 <p>Safety net players and Government agencies</p> <p>Objective – To establish a smooth working relationship and effective coordination among safety net players and to work collaboratively with other Government agencies in areas of common interest.</p>	<p>Bank Negara Malaysia and the Ministry of Finance have a common interest in the stability of the financial system. Their interests are in having a clear understanding of the respective roles and responsibilities and effective communications during times of stress within the financial system.</p> <p>Other stakeholders, such as those within the Financial Education Network (FEN), have a common interest in promoting financial literacy for a more informed public.</p> <p>The National Audit Department (NAD), which audits us, has an interest in ensuring that we adhere to Malaysian accounting standards and that we have effective risk management and internal controls and adopt best practices in governance.</p>	<p>Consultation and information sharing sessions</p> <ul style="list-style-type: none"> • We conduct regular engagements and consultations with a variety of relevant stakeholders at different levels. • We coordinated closely with Bank Negara Malaysia on financial sector policy matters. <p>(Refer to page 73 on some of these stakeholder engagements in 2018).</p> <ul style="list-style-type: none"> • We execute the necessary agreements and memoranda of understanding on key areas for collaboration. • We work with relevant agencies to establish relationships; understand protocols for matters such as communication; and understand the respective roles and responsibilities during times of stress within the financial system. • We are a member of FEN and engage with members of FEN for collaboration and to leverage on each other in areas of common interest. • We consult relevant agencies prior to any amendments to the PIDM Act. • We invited the NAD to all of our Audit Committee meetings and provide them information for their audits. <hr/> <p>Going forward</p> <p>Refer to the <i>Material Matters</i> Section on page 59 for our response to the material matters.</p>

STAKEHOLDERS


Key stakeholder	Stakeholder interests	Key engagements
 <p>Media</p> <p>Objective – To leverage on their platforms for brand messaging and build PIDM's reputation and visibility.</p> <p>To create awareness, educate, and build relationships to minimise inaccurate reporting during a crisis, or that might precipitate concerns about any member institution or the stability of the financial system.</p>	<p>The media's interests are to be provided with information about how PIDM and its systems work, the role it plays in the society, so that they are able in turn to provide information to the public.</p> <p>The media must have a clear understanding about our role in the financial system as a financial consumer protection and resolution authority.</p> <p>A good story with a clear message is important to increase public interest.</p>	<p>Media coverage</p> <ul style="list-style-type: none"> • We work with relevant media agencies for more media coverage and profiling. <p>Media networking</p> <ul style="list-style-type: none"> • We engage with senior management and working levels of the media to establish good relationships. • We partner with relevant media agencies for dialogue sessions and forums.

STAKEHOLDERS

Key stakeholder	Stakeholder interests	Key engagements
 <p>International counterparts</p> <p>Objective – To leverage on international networks for knowledge sharing and learning, to establish cross-border cooperation, to be able to contribute to technical knowledge in areas of PIDM’s expertise such as Shariah matters relating to deposit insurance, and to provide input into developments of standards and best practices from the perspective of Malaysia.</p>	<p>The International Association of Deposit Insurers (IADI) and International Forum of Insurance Guarantee Schemes (IFIGS) are forums for deposit insurers and insurance guarantee schemes from around the globe to gather to share knowledge and expertise. Their interests are to have the support of members to achieve these goals.</p> <p>Crisis Management Groups (CMGs) are established to discuss and oversee the development of recovery and resolution plans for each financial group in accordance with the principles laid out in the Key Attributes of Effective Resolution Regimes for Financial Institutions. Their interests are to understand the respective jurisdictions’ laws and positions with regard to the financial institutions in their country, and to achieve cooperation on cross-border recovery and resolution planning matters within the CMGs.</p> <p>The EMEAP¹ Focused Meeting on Resolution (FMR) is established to support the ongoing work on resolution. The FMR will focus on information sharing, capacity building, coordination and cooperation among EMEAP members given the complexity and cross-border nature of resolution.</p>	<p>International events, consultation and knowledge sharing sessions</p> <ul style="list-style-type: none"> • We participate in international events of IADI and IFIGS and our Chief Executive Officer (CEO) is an Executive Council Member of IADI. • We also participate as guest speakers or moderators in international fora. • We execute memoranda of understanding for knowledge and expertise sharing. • We engage with other international organisations, especially those involved in issues related to financial markets and promotion of financial growth, stability and integrity as well as foreign authorities in relation to cross-border recovery and resolution planning. <p>(Refer to the <i>Performance</i> Section on pages 67 to 68 for engagements with CMGs).</p>


¹ EMEAP (Executives’ Meeting of East Asia-Pacific Central Banks) is a cooperative organisation of central banks and monetary authorities comprising central banks of 11 economies, i.e. Reserve Bank of Australia, People’s Bank of China, Hong Kong Monetary Authority, Bank Indonesia, Bank of Japan, The Bank of Korea, Bank Negara Malaysia, Reserve Bank of New Zealand, Bangko Sentral ng Pilipinas, Monetary Authority of Singapore and Bank of Thailand.

STAKEHOLDERS

Key stakeholder	Stakeholder interests	Key engagements
 <p>Service providers and other strategic partners²</p> <p>Objective – PIDM's business model is to keep the organisation relatively small with professionals, and to utilise service providers should the need arise, especially during an intervention and failure resolution. Service providers therefore need to work well with PIDM and understand its business and processes.</p>	<p>As a regulator, we are expected to be transparent and fair in our selection process and dealings with all our service providers and strategic partners.</p> <p>Their interests are in being familiar with our business in order to provide quality services.</p>	<p>Consultation, training and knowledge sharing sessions</p> <ul style="list-style-type: none"> • We engage them to familiarise them on relevant matters such as our legislation, mandate, approaches and processes. • As part of our simulation exercise, we conduct training and knowledge sharing sessions to enhance readiness of our service providers. • We also have procurement requirements as well as fair selection processes and practices, which are subject to audit by the NAD.

² Refers to third parties or outsourced suppliers or organisations that provide or share expertise, resources or competencies in the achievement of PIDM's objectives.

STAKEHOLDERS

Key stakeholder	Stakeholder interests	Key engagements
 <p>Employees</p> <p>Objective – Employee performance, technical expertise, and commitment are critical to our overall success.</p>	<p>Our employees interests are:</p> <ul style="list-style-type: none"> • to understand and align with organisational goals and provide valuable contributions; • to contribute to a collaborative and communicative team; • that we provide opportunities for learning and growth; and • that we foster a workplace culture premised on strong ethics and integrity, including openness and that focuses on employee well-being. 	<p>Face-to-face interactions</p> <ul style="list-style-type: none"> • Our senior management provides regular updates to their teams. • We conduct quarterly townhall sessions. <p>Surveys</p> <p>We conduct a biennial:</p> <ul style="list-style-type: none"> • Employee Voice Survey to gauge the level of employee engagement; and • Internal Services Satisfaction Survey to gauge internal customer satisfaction of services within our organisation. <p>Internal communique</p> <ul style="list-style-type: none"> • We disseminate internal bulletins to inform our employees of important messages and information. • We provide regular communique to keep employees abreast of the economic environment including global developments. <p>(Refer to the <i>Performance</i> Section on pages 77 to 78 for engagement with our employees).</p>

For 2018, targeted stakeholder engagements were a significant occupation for us, both to address external stakeholder readiness for the impending rollout of the resolution planning initiative, as well as to familiarise the industry with the new CEO (Refer to the *Performance* Section on [pages 71 to 73](#) for details on the engagement activities conducted in 2018) and our future engagements are found on page 19, on the Summary of the Corporate Plan 2019 - 2021, available at www.pidm.gov.my.

MATERIAL MATTERS

MATERIAL MATTERS

The International Integrated Reporting Framework¹ issued by the International Integrated Reporting Council applies the meaning of “material matters” as those that would help reporting entities decide on the key information to include in its report. These matters also serve as a guide for conciseness in reporting. Material matters are matters of relevance and importance that would substantively influence an external assessment of our ability to create value over the short, medium and long term.

In determining material matters, the question is – “Whether the matter substantively affects, or has the potential to substantively affect, our strategy, business model, or one or more of the capitals (e.g. financial, ... human, intellectual, ..., social, relationship) we use or affect”.²

Material matters can include financial and non-financial matters, positive and negative, including risks, opportunities, favourable and unfavourable results.

As part of our integrated enterprise risk management and strategic planning process, senior management has identified and brought forward significant risks and opportunities for the Board’s consideration and obtained the Board’s approval for the strategic plan to address these. In the course of the same process, senior management also brought forward to the Board, material matters that had been considered from the perspectives of value drivers,³ stakeholder issues,⁴ external and internal factors, current performance,⁵ and PIDM’s ability to create value over the short, medium and long term.⁶

In the following table, we describe the key problems and opportunities we have identified, and we discuss the threats or risks we are trying to reduce or prevent as well as the conditions we are trying to improve.

¹ Materiality background paper by the International Integrated Reporting Council, March 2013: <http://integratedreporting.org/wp-content/uploads/2013/03/IR-Background-Paper-Materiality.pdf>.

² Ibid.

³ These are our clear legislative mandate and wide powers, corporate governance (accountability) arrangements and practices, talent and stakeholder relationships.

⁴ Refer to the Stakeholders Section on [page 50](#).

⁵ Refer to the Performance Section on [page 64](#).

⁶ Refer to the How We Create Value Section on [page 20](#).

MATERIAL MATTERS

R: Risk O: Opportunity

Material Matter		Our Response (action plans supporting the Summary of the Corporate Plan 2019 - 2021)	Strategic Priority / Action Plans
<p>Value proposition of our mandate (administer the systems, protect depositors, takaful certificate and insurance policy owners in the event of a member institution failure, incentivise sound risk management in the financial system, promote or contribute to the stability of the financial system). Our monitoring of the overall economy, risks in the financial system and the health of member institutions, allows us to prepare and to address risks to the Protection Funds, and risks to the financial system stability, if any.</p>			
R	<p>Ensuring operational readiness to fulfil our statutory object to protect financial consumers and promote stability in the financial system is material to the fulfilment of our mandate. (This also addresses our insurance risk).</p> <p>Our ability to intervene early and effectively with appropriate resolution tools will ultimately help reduce costs to the financial system.</p> <p>This ability includes ensuring that there are coordination and communication arrangements among the safety net players, so that there can be a coordinated response during an intervention and failure resolution event or financial crisis.</p>	<ul style="list-style-type: none"> Continue to ensure that we maintain a high state of operational readiness for any possible member institution failure through regular testing of various aspects of readiness and carrying out evaluations for improvement. Continue to work with financial safety net players and strategic partners for effective communication and coordination, and understanding of protocols. Conduct an inter-agency simulation to achieve a clear understanding of their respective roles and responsibilities during an intervention or failure resolution event. 	<p>Effective resolution regime – ongoing testing and simulations for operational readiness</p>
O	<p>Establishing an effective resolution regime in Malaysia will help mitigate systemic vulnerabilities and make the financial system more robust.</p> <p>Before the global financial crisis, it was contemplated that deposit insurers would play their role as part of the safety net through the resolution of idiosyncratic failures of member institutions. Deposit insurers were often not equipped to play a key role in a failure that had systemic consequences.</p> <p>Post-crisis approaches recognise the need for resolution authorities to identify and address vulnerabilities posed by the possible failure of systemically important financial institutions that can adversely impact the country's financial system and the economy as a whole. Establishing an effective resolution regime helps reduce the risk of systemic failures that could bring the financial system to a halt, and damage the economy as a whole.</p>	<ul style="list-style-type: none"> Identify and recognise these vulnerabilities, in advance of any failure. This allows for steps to be taken to remove or mitigate the associated risks. Work towards an effective resolution regime with the objective of ensuring that our financial system is sufficiently robust to be able to deal with and withstand the failure of member institutions through early planning, removal of vulnerabilities and amendment of legislation to support policy decisions (if needed). <p>(Refer to the <i>Resolution Planning</i> Section on page 95).</p>	<p>Effective resolution regime – resolution planning</p>

MATERIAL MATTERS

Material Matter		Our Response (action plans supporting the Summary of the Corporate Plan 2019 - 2021)	Strategic Priority / Action Plans
R	<p>Promoting the benefits of working towards establishing an effective resolution regime and working towards external readiness. (This will also address reputational risk and give rise to project risks if not effectively implemented).</p> <p>Insufficient understanding or evidence of the benefits of establishing key elements for an effective resolution regime to the industry, strategic partners, and the media or other stakeholders, could hinder the effective implementation of our plans towards an effective resolution regime.</p>	<ul style="list-style-type: none"> Engage senior levels of industry and other key stakeholders to explain the benefits of embarking on the resolution planning journey, as well as what to expect and how to get ready. Obtain regular feedback to ensure that negative perceptions can be addressed. Expand our communications programme, leveraging on media and other channels, to increase understanding of the subject matter. <p>(Refer to the <i>Resolution Planning</i> Section on page 95).</p>	Effective resolution regime – stakeholder engagement
R/O	<p>Monitoring potential changes in the operating environment that can impact PIDM's mandate, business model, or the manner in which it carries out its mandate. (This ensures that we keep an eye out for strategic risks, and continuously validate the assumptions during our strategic planning).</p>	<ul style="list-style-type: none"> Monitor trends and developments in the financial services landscape that might affect the stability of the financial system or our mandate or its relevance. Monitor the characteristics of member institutions, the market forces affecting them, the state of cybersecurity vulnerabilities at member institutions, the state of financial literacy of consumers and their behaviours, and the potential impact of non-member institutions within the financial system and fintech. Monitor developments in other jurisdictions and in the international sphere to learn and help us assess potential risks within the financial system from a macro perspective. 	Corporate governance – monitoring strategic areas
Value driver in engaging key stakeholders			
R/O	<p>Understanding and addressing stakeholder issues and the potential impact of our key actions is necessary to secure support, collaboration from those regulated, as well as gain trust from other safety net players and the public in general. (This addresses our reputation risk and promotes trust and confidence in our ability as a regulator).</p>	<ul style="list-style-type: none"> Continue to monitor what is working and what is not in terms of outcomes of our regulatory actions, including non-compliance and incentivised behaviours. Continue to work on the process of fairness, in terms of consultation, responsiveness, timeliness, decision, predictability and courtesy. Continue to listen to stakeholders' representations on the impact of policy and regulatory proposals. Consider their different characteristics, such as size, market forces, common or unique problems in the decision-making process, and balance these considerations in the context of our public duties. 	Stakeholder engagement

MATERIAL MATTERS

Material Matter	Our Response (action plans supporting the Summary of the Corporate Plan 2019 - 2021)	Strategic Priority / Action Plans
<p>O Recognising increasing public demands and changes in the media landscape. This is important especially given the ease in which inaccurate information can today spread and impact us and our work. (This addresses our reputation risk, the potential risk of public panic (insurance risk), as well as our effectiveness in meeting our mandate to promote confidence in the stability of the financial system).</p>	<ul style="list-style-type: none"> • Continue efforts in the monitoring and management of all forms of media, in particular social media. This is to address the potential risks and challenges to the stability of the financial system and safeguard our reputation. • Continue educating the media and public, in order to minimise misconceptions. • Continue to test our crisis communications readiness. 	<p>Stakeholder engagement</p>
<p>R Building trust and confidence. This is important for us in fulfilling our mandate to promote and contribute to the stability of the financial system.</p>	<ul style="list-style-type: none"> • Continue engagements with the public. (Refer to the <i>Stakeholders</i> Section on page 50 for continuous key engagement activities). • Continue to monitor intermediate outcomes of initiatives to develop trust and confidence, understanding, and acceptance of the need for PIDM, and enhance approaches. (Refer to the <i>Performance</i> Section on pages 71 to 72). 	<p>Stakeholder engagement</p>
<p>Value driver in striving to achieve "regulatory excellence" (Refer to the <i>From Our Leadership</i> Section on page 15).</p>		
<p>R Building internal capabilities for immediate, medium and long-term needs. Especially in our context, to ensure trust and confidence, and influence stakeholders, "people serving in regulatory organisations need to be technically knowledgeable and highly competent".⁷ (This addresses people risk, including the risk that we do not have sufficient skills and experience to effectively carry out our mandate and achieve our vision).</p>	<ul style="list-style-type: none"> • Ensure sufficient knowledge, experience and skills of internal capabilities to support the effective implementation of the resolution planning initiative. • Review and refine the competency model to ensure our ability to track and monitor capabilities-building to meet our immediate needs as well as our aspirations for the medium to long term. (Refer to the <i>Performance</i> Section on pages 76 to 77). 	<p>Human capital management – training and development and the competency model</p>

⁷ Achieving Regulatory Excellence – The Challenge of Regulatory Excellence, Cary Coglianese, Editor, (Brooking Institutions Press, 2017), page 13.

MATERIAL MATTERS

Material Matter		Our Response (action plans supporting the Summary of the Corporate Plan 2019 - 2021)	Strategic Priority / Action Plans
R	Providing a conducive working environment. Our business model contemplates a team heavy with professionals, who will draw on external suppliers when the need arises, resulting in a flat organisation structure with limited potential for internal career advancement. (This relates to the risk of losing people in whose development we have invested).	<p>Continue to work on our value proposition to attract and retain high quality employees. The value proposition currently encompasses a competitive compensation philosophy, a conducive work environment with opportunities to carry out challenging work, as well as to contribute to public service, and by providing scope for self-development. The expectations from leaders to continue to engage their employees have already been established.</p> <p>(Refer to the <i>Performance</i> Section on pages 77 to 78).</p>	Human capital management – employee engagement
○	Building a “regulatory excellence” culture for long-term sustainability. (Refer to the <i>Who We Are</i> Section on page 5).	<p>Work at achieving a culture whereby our employees “... are committed to doing their utmost to deliver value, and to learning and improving in their ability to deliver that value through respectful engagement with others”.⁸</p> <p>(Refer to the <i>Performance</i> Section on pages 78 to 79).</p>	Human capital – learning organisation

⁸ Ibid.

PERFORMANCE

Performance Review

Financial Review

PERFORMANCE REVIEW

EVOLUTION

During the global financial crisis, fears of systemic collapse compelled many governments around the world to rescue big, complex banks and other financial institutions. In 2011, to address this issue, the Financial Stability Board (FSB) published the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes). The Key Attributes set out the core elements needed within economies to allow large, systemically important complex financial institutions to fail in an orderly manner and preserve the critical economic function.

Our aspiration is to work towards Malaysia achieving a resolution regime that is effective. Over the long term, such a regime will allow for the resolution of member institutions – including large and complex ones – and enable a failure in an orderly manner, making our financial safety net more robust in protecting the financial system, the real economy and Malaysians as a whole.

In the immediate term, a key priority for PIDM is to work on ensuring resolution plans for all member institutions (MIs). A key outcome is, by 2020, to be able to provide a clear picture of what the final guidelines on resolution planning will be. All of our strategic priorities and our key initiatives support the evolution of our role within such a regime (Refer to the *Strategy* Section on [page 7](#) for the overview of the strategic priorities).

2018 CORPORATE SCORECARD

For 2018, with marginal slippages on public awareness targets, we completed all planned initiatives as scheduled within the approved financial plan. Our progress and performance against the set targets are monitored via a balanced scorecard approach. This is summarised in the 2018 Corporate Scorecard below.

<div> <div>A Target achieved, initiative completed</div> <div>P Progressing as scheduled; and / or within budget</div> <div>F Not yet initiated / future date</div> <div>N Target not achieved, slippage – time to completion; and / or below target</div> </div>				
Corporate Objectives	No.	Corporate Initiatives	Target 2018	Results Dec 2018
Effective Resolution Regime				
Robust risk assessment, monitoring, intervention and resolution capabilities	1.	Effective Resolution Regime:		
	a.	Resolution planning for financial institutions:		
	i.	Pilot exercises	Implement	P ¹
	ii.	Frameworks and methodologies	Review	P ²
	iii.	Industry rollout	–	F ³
	iv.	Resolvability rating framework and methodologies	Research	P ⁴

PERFORMANCE REVIEW

Corporate Objectives	No.	Corporate Initiatives	Target 2018	Results Dec 2018
Effective Resolution Regime				
Robust risk assessment, monitoring, intervention and resolution capabilities		b. PIDM Act (resolution planning-related drafting)	Develop	P
		c. Inter-agency simulation	Develop	A
		d. Claims management system, policies and procedures for insurer members:		
		i. Policy Holders Support Management System	Research	A
		ii. Payment Management System	Complete	A
		e. Protected benefits regulations for Takaful and Insurance Benefits Protection System (TIPS)	Develop	P ⁵
		f. Protected benefits order for TIPS	Develop	P ⁵
		g. TIPS information regulations	Develop	P ⁶
		h. Funding:		
		i. Alternative funding arrangements	Complete	P ⁷
		ii. Target fund – takaful funds	Implement	A
Corporate Governance				
Well-governed and well-managed organisation	2.	a. Best practices of governance adopted and maintained	Compliance	A
		b. Laws and significant corporate policies and practices kept current and relevant as well as complied with	Full compliance and updated	A
		c. Quality of management support to the Board	High satisfaction	A
	3.	Reporting through:		
		a. Annual Report	Complete	A
		b. Corporate Plan	Complete	A
	4.	Internal controls and risk management compliance	Strong	A
Sound business and financial practices	5.	Financial performance against approved budgets	±10% variance	A ⁸
	6.	Online industry portal (an online platform for managing the submission of a standard file format by member banks, as well as managing the submission of premiums and levies-related information. Serves as a real-time communications platform for member institutions and as a microsite for payout purposes)	Develop	P ⁹

PERFORMANCE REVIEW

Corporate Objectives	No.	Corporate Initiatives	Target 2018	Results Dec 2018
Stakeholder Management				
Educated and informed stakeholders	7.	Public awareness index:		
	a.	General awareness of PIDM	65%	63% N¹⁰
	b.	General awareness of Deposit Insurance System (DIS)	57%	53% N¹⁰
	c.	General awareness of TIPS	41%	37% N¹⁰
	8.	Financial education programme	Develop and implement	P¹¹
Effective engagement	9.	PIDM's relationship with key stakeholders	Strong	A
	10.	FIDE FORUM, the Financial Institutions Directors' Education Programme alumni	Support	A
	11.	Local and international forums	Participate	A
Strategic Human Capital Management				
Competent and knowledgeable workforce	12.	Strategic human capital plan:		
	a.	Competency model	Implement	P¹²
	b.	Engagement strategy	Develop	A
	c.	Learning organisation	Implement	A
Conducive corporate environment	13.	Sustainable Engagement Index	–	F¹³

¹ The recovery planning pilot exercises have been completed. The resolution planning guidelines (in draft form) will be issued for the resolution planning pilot exercises in 2019. Refer to the Resolution Planning Section on [page 95](#).

² The review of the resolution planning frameworks and guidelines to incorporate the feedback received from the pilot banks involved in the recovery planning pilot exercises is ongoing and will continue in 2019.

³ The roll out of resolution planning to the industry will commence in 2020 in line with the 2018 - 2020 Corporate Plan, and will be carried out in phases. This is explained on [page 67](#).

⁴ Research on the development of a resolvability rating framework to incorporate scores from the resolvability assessment into PIDM's differential premium systems is currently ongoing. We aim to formulate a recommended approach for the framework by the end of 2019.

⁵ The protected benefits regulations and order for TIPS spell out the takaful and insurance benefits and their respective limits protected under TIPS. The industry will be consulted on the proposed amendments to these regulations and order.

⁶ The TIPS information regulations specify the requirements for insurer members to provide takaful certificate and insurance policy owners with information about PIDM's protection under TIPS. The regulations will be finalised together with the protected benefits regulations and order for TIPS.

⁷ The alternative funding arrangements are to secure prompt access to liquidity funds for a three-day reimbursement in liquidation scenario to depositors. The discussions in relation to one of the arrangements for alternative funding will continue in 2019.

⁸ We achieved positive variances for both operating and capital expenditure with a net surplus within the 10% variance.

⁹ The online industry portal aims to facilitate more efficient and secure engagements between PIDM and member institutions. The development of the online industry portal is progressing as scheduled and will continue in 2019.

¹⁰ Refer to [page 72](#) for further details.

¹¹ The Financial Education Network is an inter-agency platform to develop and publish a national strategy for financial literacy that will address financial literacy education for every life stage of members of the Malaysian public. This collaborative initiative by the members of the Financial Education Network is ongoing and will continue in the next planning period.

¹² The review of the enhanced unique and behavioural competencies for employees is ongoing. Refer to [page 77](#) for further explanation regarding employee competencies.

¹³ The next Employee Voice Survey will be conducted in 2019 in line with the 2018 - 2020 Corporate Plan.

PERFORMANCE REVIEW

2018 KEY ACHIEVEMENTS

The following describes our 2018 key achievements in relation to each strategic priority.

STRATEGIC PRIORITY: EFFECTIVE RESOLUTION REGIME

Enhance readiness and engagement with the industry (Refer to the Strategy Section on [page 9](#) for details)

Resolution Planning Readiness

Malaysia's resolution regime satisfies some of the core elements in the Key Attributes. However, more work is needed in some other areas. A key priority in the next few years, is to establish appropriate recovery and resolution plans for each of our MIs (Refer to the *Resolution Planning* Section on [page 95](#)).

We plan to roll out the resolution planning exercise for pilot banks in 2019. This is part of the plan to be ready for an effective rollout to the rest of the industry in 2020 in phases.¹

In anticipation of the rollout of the resolution planning guidelines and information requirements in 2020, and the need to work closely with MIs, in 2018, our key activities revolved around the following:

- (a) **The preliminary Resolution Planning framework and the Resolvability Review and Assessment framework, draft resolution planning guidelines and information requirements.** These were tested and refined through simulations using actual and simulated data as well as through our participation in the recovery planning pilot exercises led by Bank Negara Malaysia;
- (b) **External stakeholders readiness.** We continued work to familiarise the industry on the subject matter. We also participated in Crisis Management Groups (CMGs)² in other jurisdictions for collaboration on cross-border resolution issues, giving input from the Malaysian perspective; and
- (c) **Internal capabilities' readiness and enhancements.** We worked at ensuring our employees have sufficient depth of knowledge to work effectively with key stakeholders. Changes to our internal organisation were also made to ensure our organisational structure supports the effective implementation of the initiative. With the merger of divisions and a unit to form the Risk Assessment and Resolution Division (RARD), there was also a need to bring all of the talents within RARD to the same level of knowledge and expertise on all the key aspects of the entire process for risk assessment and resolution. Refer to the report on human capital on [page 76](#) for further details.

¹ The rollout of resolution planning to the industry will be in line with the recovery planning rollout approach by Bank Negara Malaysia.

² CMGs provide a forum for home and key host authorities of all global systemically important financial institutions to enhance preparedness for, and facilitate the management and resolution of, a cross-border financial crisis.

PERFORMANCE REVIEW

Key achievements in 2018 and plans moving forward

RESOLUTION PLANNING

Key Attributes of Effective Resolution Regimes for Financial Institution Core Element No. 11

Benefits of resolution planning

Increase efficiency and competitiveness of the MIs



Achieve orderly resolution of the MIs



Enhance financial system resilience and stability



Provide adequate protection and promote public confidence



Ensure continuity of critical functions



Sustainable economic growth

Final resolution planning guidelines in 2020



Frameworks, resolution planning guidelines and information requirements

2018

- Tested two key resolution-related frameworks with actual and simulated data.
- Completed the enhancements to the resolution planning guidelines and information requirements.



Going forward

- Test the frameworks, guidelines and information requirements further through the resolution planning pilot exercises (2019).
- Final rollout to the rest of the industry (2020).



Industry engagement

2018

- Engaged pilot banks and Bank Negara Malaysia in relation to the recovery planning pilot exercises (led by Bank Negara Malaysia).
- Continued to familiarise all MIs about PIDM and resolution planning.
- Participated in CMG meetings.
- Engaged in bilateral discussions with foreign authorities.

(Refer to Stakeholder Engagement on [page 73](#))



Going forward

- Continue to engage with MIs and implement programmes to promote a clear understanding of resolution planning.
- Continue to participate in CMGs and engage with other resolution authorities.



Internal capabilities enhancements

2018

- Established RARD.
- Knowledge-sharing sessions, training programmes and simulation sessions on end-to-end resolution planning process.

(Refer to Strategic Human Capital Management on [page 76](#))



Going forward

- Continue to conduct knowledge sharing and training programmes.

PERFORMANCE REVIEW

Operational Readiness

Maintenance of a high state of operational readiness for intervention and failure resolution also means continuous testing of different aspects of our processes and systems, and is an essential part of having an effective resolution regime.

Key operational readiness initiatives in 2018

Continuing operational readiness

2018	Going forward
<ul style="list-style-type: none"> • Two simulations – TIPS and crisis communications • TIPS system development – Payment Management System 	<ul style="list-style-type: none"> • TIPS simulation (2019) • DIS simulation (2019) • Inter-agency simulation (2020) • TIPS system development – Policy Holders Support Management System (2021) • Seamless reimbursement options for depositors (2021)



PERFORMANCE REVIEW

STRATEGIC PRIORITY: STAKEHOLDER MANAGEMENT AND CORPORATE GOVERNANCE

Built foundation towards trust and confidence (Refer to the Strategy Section on [page 10](#) for details)

Stakeholder Engagement

Stakeholder engagement will always be an important aspect of how we carry out our role as a regulator.

In 2018, PIDM's stakeholder engagement took particular prominence as we introduced the recently appointed Chief Executive Officer (CEO) to the industry, including preparation for the rollout of the resolution planning exercise. We continued to implement our public awareness campaigns to promote confidence in the stability of the financial system and educate the public about us and our work.

PERFORMANCE REVIEW

The Public

2018

Public awareness of PIDM

63%

Going forward

Public awareness of PIDM

65%

Trust and Confidence
(We will track the trust index going forward)



40
On-ground
Activities



Reached out to

10,800



Persons

10
Media
releases /
Interviews



5 Media interviews conducted
Media releases disseminated

Collaborations

Partners

Partnered with the Fire and Rescue Department (or Bomba), Credit Counselling and Debt Management Agency (or AKPK) and Ombudsman for Financial Services (OFS) in our Jelajah Komuniti PIDM awareness campaign

Financial education initiatives with:

- Financial Education Network
- OpenLearning Malaysia
- EduNation Malaysia

22 Briefing Sessions / Exhibitions

Including **seven** exhibitions in conjunction with:

- Karnival Kewangan Kedah 2018
- Hari Terbuka Kementerian Kewangan
- 5th Malaysian Financial Planning Council (MFPC) International Conference on Islamic Wealth Management & Financial Planning
- Annual Signature Financial Planning Symposium 2018
- Compliance Awareness Week 2018 by Bank Muamalat Malaysia Berhad
- InvestSmart[®] Fest 2018
- Hari Pengguna Malaysia 2018

Reached out to

2,072



Participants

Awareness Indices (Refer to page 72 for further details)

Awareness index achieved

63% PIDM

53% DIS

37% TIPS

Sample size of
1,014 Respondents

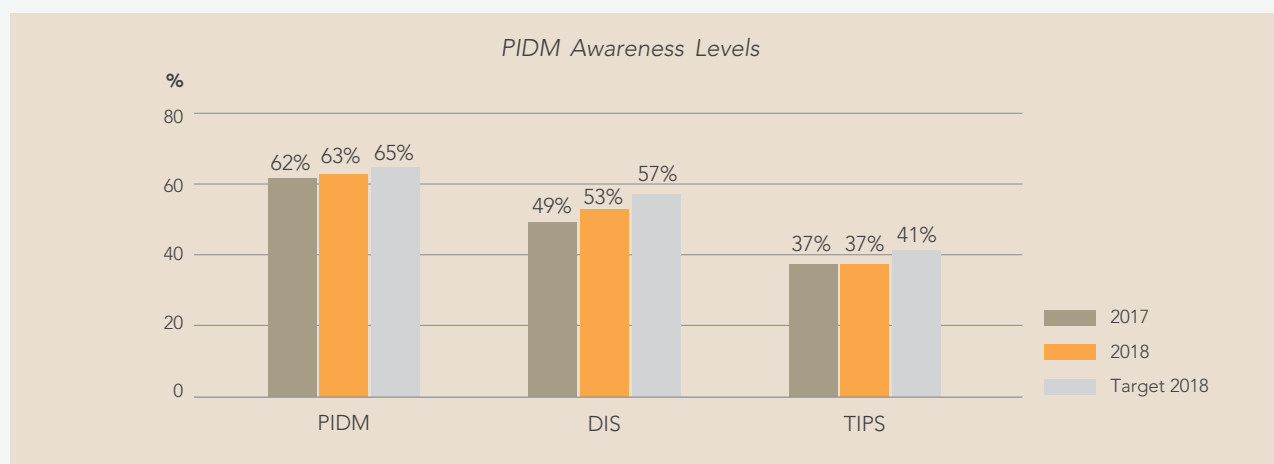
PERFORMANCE REVIEW

PIDM on-ground activities

Jelajah Komuniti PIDM focuses on direct engagement with the general public in targeted locations. Based on the post-event survey, an average of 61% of the visitors and participants stated that they were able to gain a better understanding of the financial consumer protection systems administered by PIDM, and 70% claimed that their financial knowledge improved significantly through these engagements.

Our partnerships with AKPK and OFS provided visitors and participants with a better view of their personal finances.

PIDM awareness indices



There was an overall increase in awareness levels compared to 2017, except in relation to TIPS, which remained unchanged. While awareness levels for PIDM and DIS did increase in 2018, we achieved marginally lower public awareness levels against 2018 targets.

Our assessment from the recent years' survey results shows that these indices are likely to be reaching a plateau, and are unlikely to increase much in the years to come given the same communications approach and advertising expenditure. Thus, our communications strategy is to shift our focus to building trust and confidence, as opposed to concentrating on the general awareness index. Nevertheless, we will continue to maintain the index for public awareness of PIDM as follows:

Year	Target
2019	65% public awareness
2020 - 2021	Minimum of 65% public awareness

Going forward, this strategy will see us diversifying our communications approaches with a reduction of advertising expenditure for general awareness, and a corresponding increase in other measures to instill trust and confidence.

PERFORMANCE REVIEW

The Industry and Other Stakeholders

(Refer to Stakeholders Section on page 50 which sets out the diverse stakeholder interest)

69 Industry Engagements

Member Institutions and Industry Associations

- Industry dialogue with directors of MIs (in collaboration with FIDE FORUM)
- Five industry dialogue sessions on PIDM's Annual Report 2017 with senior management of MIs
- Five presentations on resolution planning to directors and CEOs of financial institutions as part of The Iclif Leadership and Governance Centre's FIDE Core Programme
- Industry dialogue on PIDM's Differential Levy Systems with directors of life insurance companies
- Four engagement sessions on PIDM's industry portal for regulatory submissions with MIs
- 53 awareness briefing sessions on PIDM's protection systems to 2,129 employees and agents of MIs



Other Engagements

Ministry of Finance

- Participated in the Pesta Sukan Kementerian Kewangan (PSKK) 2018 together with 11 other agencies
- Hosted Larian Kewangan 2018 and attracted 2,777 participants from agencies under the Ministry of Finance

Bank Negara Malaysia

- Worked closely on risk assessment, recovery and resolution planning and other financial sector policy matters

A Memorandum of Understanding

was executed with Payments Network Malaysia Sdn Bhd (Paynet)



Speaking Engagements

Speaking engagements on the topics of:

Local

- Resolution planning
- Governance and diversity
- Integrated reporting

International

- Resolution regime, including resolution planning and cross-border resolution
- Crisis preparedness for Islamic banks
- Financial consumer protection and education



Scholarship Programme

Provided scholarships to 21 scholars to support the creation of a talent pool, in particular for the financial services sector

Collaborated with:

- Schoollah Malaysia
- Yayasan Peneraju Pendidikan Bumiputera

Scholarship briefing sessions at:

- Karnival Kewangan Kedah 2018
- Hari Terbuka Kementerian Kewangan
- Malaysian Chinese Muslim Association (MACMA)
- Jabatan Kemajuan Orang Asli Malaysia (JAKOA)
- 4th MFPC National Financial Planning Tournament



International Engagements

- Active membership in the International Association of Deposit Insurers (IADI) and International Forum of Insurance Guarantee Schemes (IFIGS)
- Participated in various international forums
- Hosted four study visits for international counterparts
- Participated in CMG meetings on recovery and resolution planning

A Memorandum of Understanding

was executed with the Indonesia Deposit Insurance Corporation

PERFORMANCE REVIEW

Industry feedback

Our engagements through dialogue sessions were reasonably well received. From the feedback:

- the directors of MIs were familiar with PIDM's mandate but less about our incentives for sound risk management and how we contribute to financial system stability;
- MIs expressed interest for more regular engagement and want to learn more about us;
- the directors of MIs found the Annual Report and Corporate Plan to be useful, however, noted the scope for summarising these documents and reducing print publication; and
- a majority of the directors have an introductory level of understanding in relation to resolution planning and are interested to enhance their understanding in this area.

(Refer to the *Stakeholders* Section on [page 51](#)).

Governance

We continue, as always, to adhere to best practices in governance (Refer to the Corporate Governance Overview on [pages 25 to 29](#)).

PERFORMANCE REVIEW

STRATEGIC PRIORITY: STRATEGIC HUMAN CAPITAL MANAGEMENT

Leadership, communication and culture (Refer to the Strategy Section on [page 13](#) for details)

Our Strategic Human Capital Plan was developed in 2015 to ensure that human capital strategies are aligned with our strategic direction and ensures sustainable growth. An important thread of our human capital strategy is to establish the right culture within the organisation.

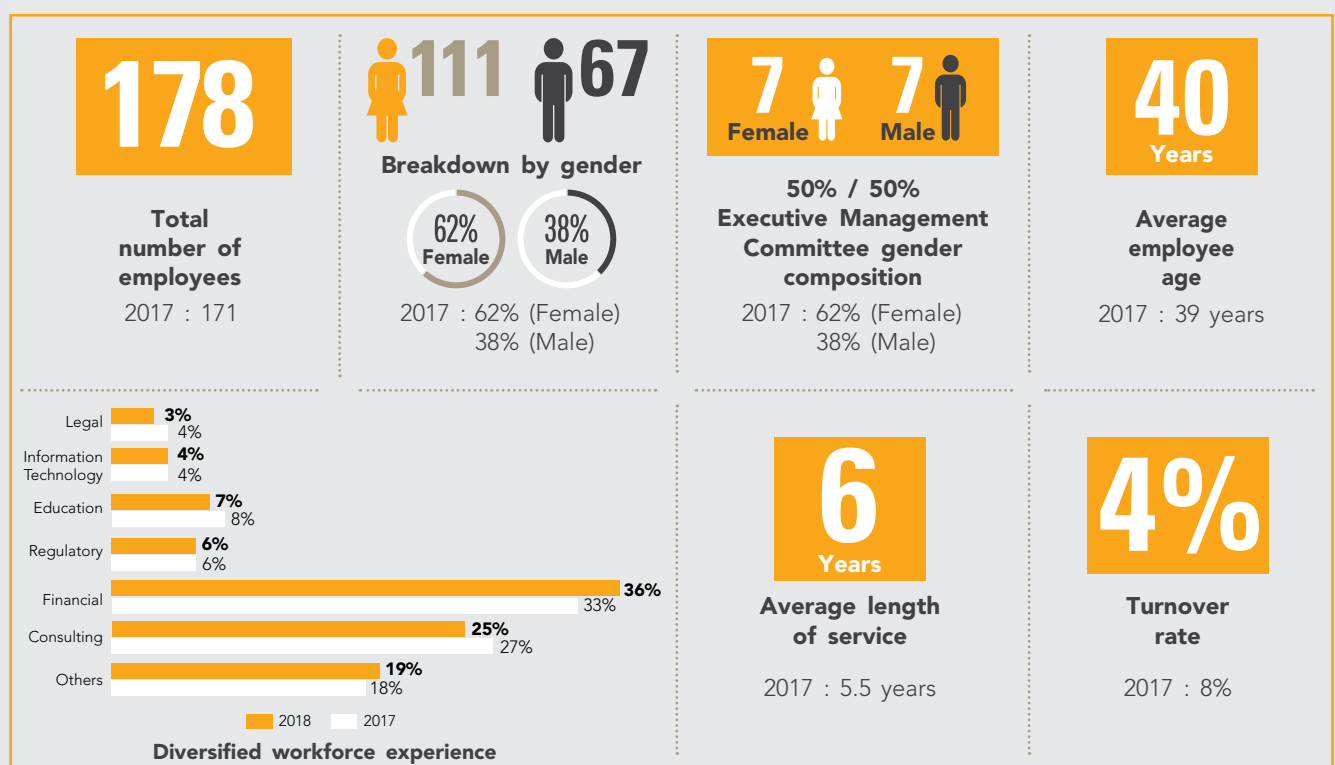
For long-term sustainability, we provide an environment that is conducive for employees to continually learn, adapt and improve, so that we are always able to perform at the highest levels of competence expected of us as a regulator.

Striving for people excellence



PIDM Human Capital Profile

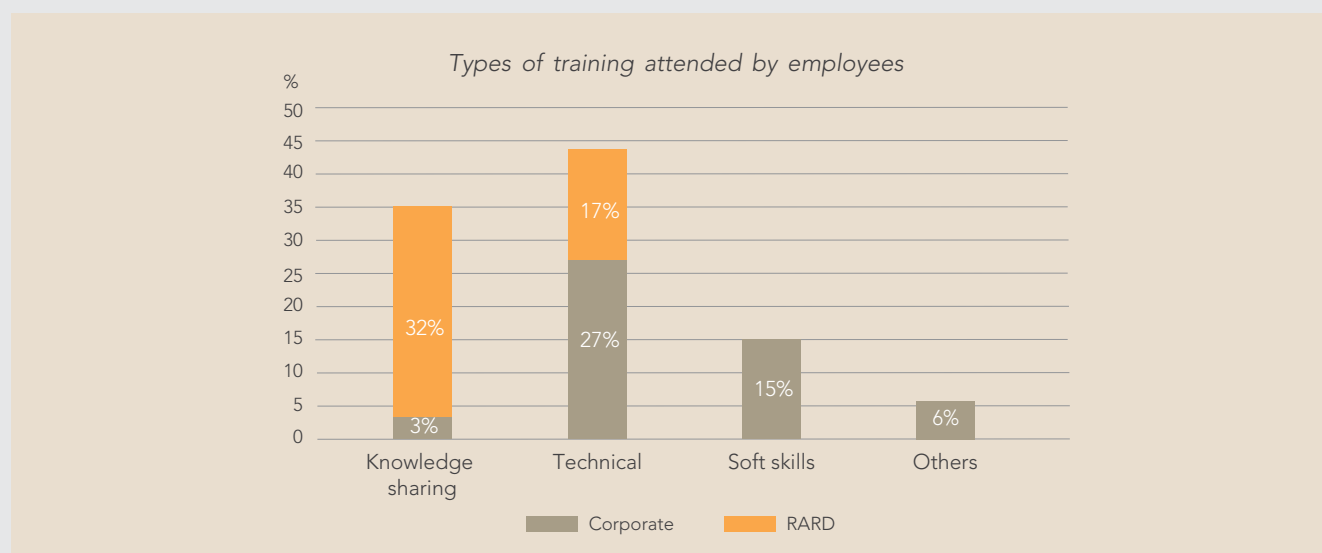
Overall, our work environment is currently conducive and our workforce highly engaged. In 2018, the Sustainable Engagement Index remained above our target at 88%. From the statistics below, we assess that there is healthy diversity and inclusion at the workplace. Employees are drawn from relevant skill sets and trained and developed for our needs. We have committed employees. On average, they have served six years with us, and we have experienced a generally high retention rate.



PERFORMANCE REVIEW

Technical expertise and a sound understanding of the industry is important to us, as a regulator, in order for us to effectively play that role. Thus, an important focus for our employees is learning and development. In the immediate and medium term, our training is also focused on preparing for the implementation of key initiatives within the “effective resolution regime” strategic priority.

Learning and Development



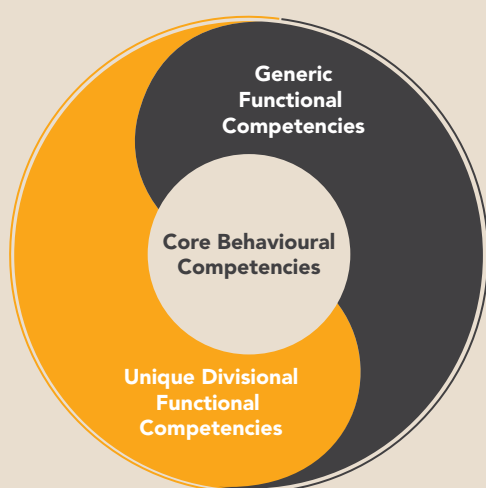
During the year, we continued to develop our employees on professional and technical skills through various means including on-the-job learning. The average training days per employee in 2018 totalled 10 days. Of the total training, 44% related to technical training while 15% and 41% related to soft skills and other areas, such as safety and health, respectively. In particular, a significant amount of time was spent on knowledge sharing within RARD following the merger of two divisions and one unit. Knowledge sharing, training and on-the-job learning through the “immersion programmes” were carried out to ensure that the relevant team members are trained and updated in respect of the whole spectrum of competencies needed for risk assessment and resolution. 45 of these sessions were held for 57 members of the team.

Competency Model

To align our human capital strategies with our corporate strategic direction, our competency model is regularly reviewed and updated. This is to strengthen our talent management approaches including recruiting, performance management, training and development, and succession planning, to meet our immediate and medium term needs. In 2018, a key focus was on the functional competencies for RARD. We also rolled out training in relation to unique leadership behavioural competencies that were developed in 2017, and we revised our behavioural competencies for senior managers and below.

PERFORMANCE REVIEW

Key activities in 2018



Core Behavioural Competencies

- Revised behavioural competencies for senior managers and below

Generic Functional Competencies

- Continue to review to ensure its relevance

Unique Divisional Functional Competencies

- Developed the unique divisional competencies for RARD

Definition:

- Core Behavioural Competencies – set of behavioural characteristics that underpin performance in PIDM
- Generic Functional Competencies – set of fundamental skills and knowledge applicable to all PIDM employees
- Unique Divisional Functional Competencies – set of technical skills, knowledge and ability that are divisional specific and are necessary in order to perform a particular type or level of work activity

Employee Engagement

Our business does not justify a big workforce, hence we strive for structural efficiency, making use of external service providers and building strategic partnerships as and when needed. This means that we operate within a relatively flat organisation structure, with a team comprising largely professionals – and limited career advancement potential. Employee engagement is therefore key to retaining our talents.

Apart from corporate-wide engagement strategies, we expect all our leaders to participate in active human capital management together with our Human Capital Division, as well as to encourage continuous learning among employees.

PERFORMANCE REVIEW

Internal engagements in 2018



Employee engagement

- Established Kelab Sukan, Rekreasi dan Kebajikan PIDM
- Teambuilding events with cross-divisional team activities
- PSKK with other agencies under Ministry of Finance
- Hosted Larian Kewangan 2018
- Corporate social responsibility activities such as collection drives and fabric recycling



CEO engagement with employees

- Coffee, Run and Walk with CEO sessions
- Quarterly townhall sessions

Employees were also engaged as PIDM ambassadors in the Jelajah Komuniti PIDM in 2018 (Refer to Stakeholder Engagement on [page 71](#)).

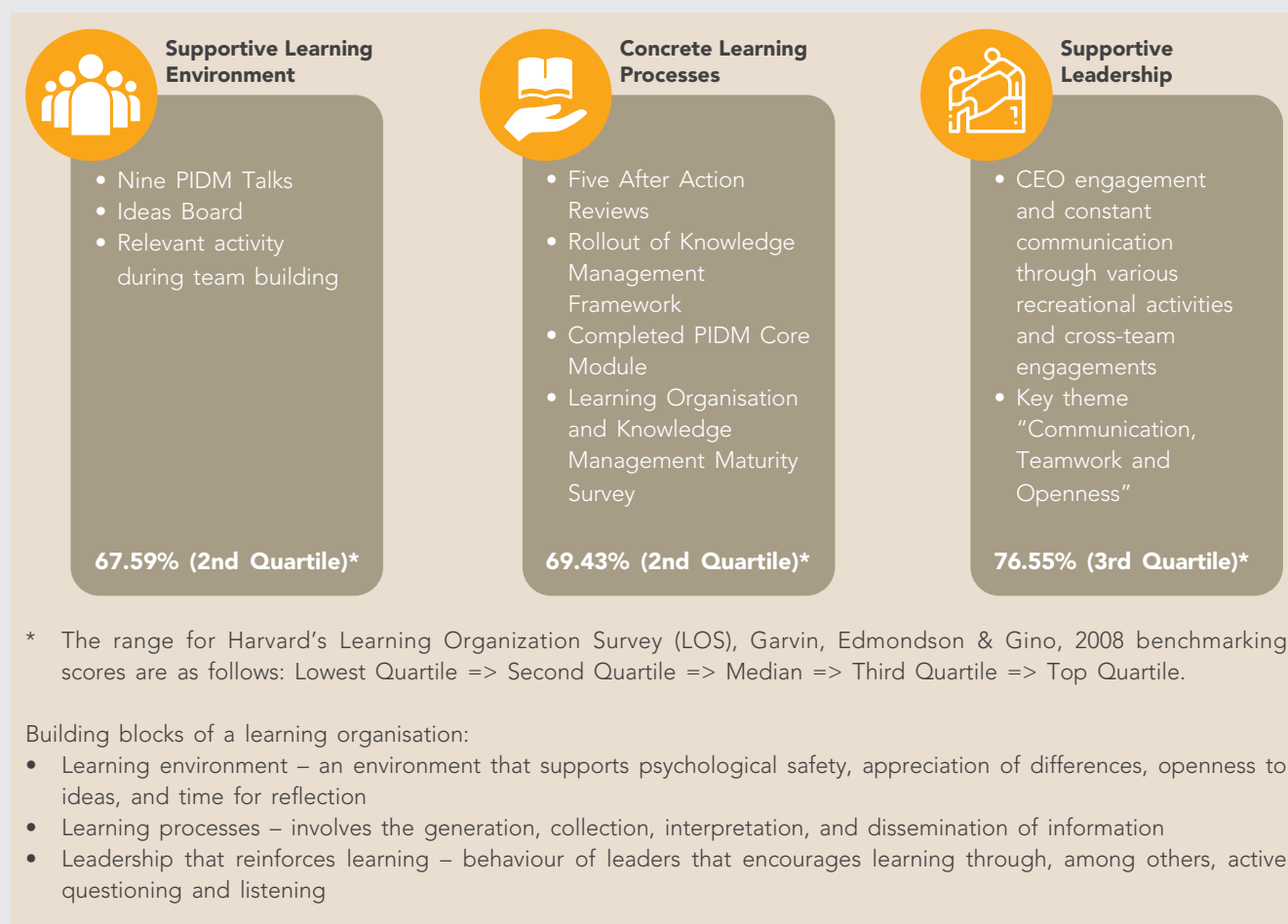
Learning Organisation

With the increasing demands on regulators to be adaptable and agile for long-term sustainability, we must continue to promote a learning culture. We strive to achieve collaboration, to have employees with critical thinking, and who are responsive to changes – to ensure we have an organisation that is continually seeking to improve. This also means establishing a culture and leadership, supported with processes, which encourage the acquisition, capture and transfer of knowledge.

PERFORMANCE REVIEW

The building blocks of the learning organisation framework³ in PIDM involve (i) inculcating a learning environment, (ii) establishing concrete learning processes, with (iii) supportive leadership.

Activities in 2018 and internal survey assessment of our level of maturity in relation to each learning organisation building block



Culture

As employees in public service, we are expected to subscribe to the principles, ethics and integrity, and high standards of professionalism and excellence. Integrity and ethical conduct maintains sound decision-making processes and ensures public confidence and trust. PIDM's approach, as part of its governance framework, is to embed strong ethics and integrity in the workplace culture. The Board sets the tone, approving codes of business conduct and ethics and ensuring compliance with such codes through internal controls and the Audit Committee (Refer to the *Governance* Section on [page 25](#)). In 2018, the annual training took place to emphasise the ongoing importance of the culture of ethics. Annual declarations of assets and certifications of compliance with relevant codes have been complied with.

In recognition of stakeholder perception and as part of our efforts to continually improve, a campaign to do "more with less" was also initiated in 2018. Employees were encouraged to maximise value with the best use of resources. As described in the Financial Review on [pages 87 to 91](#), this campaign has contributed to a significant decrease in operating expenses in 2018 and will continue to be reinforced as part of the way things should be done in PIDM moving forward.

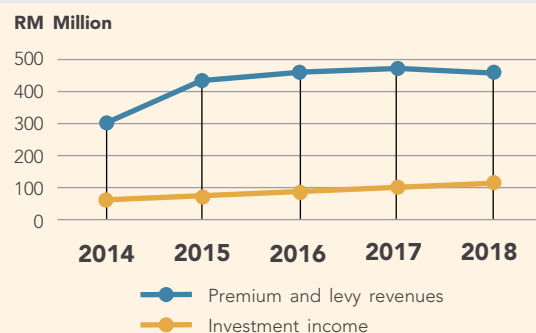
³ Which contemplates an organisation that continually creates, acquires, and transfers knowledge, so that it can continually improve itself.

FINANCIAL REVIEW

OPERATING RESULTS

	2018 Actual RM'000	2018 Budget RM'000	Variance %	2017 Actual RM'000
Premium and levy revenues	468,179	459,000	2	474,338
Investment income	120,292	116,000	4	101,080
Total income	588,471	575,000	2	575,418
Human capital management expenses	64,544	74,160	13	72,209
Operations and administrative expenses	23,637	26,880	12	24,798
Initiatives related expenses	12,037	18,960	37	15,321
Total expenses	100,218	120,000	16	112,328
Net surplus for the year	488,253	455,000	7	463,090
Other comprehensive income:				
Remeasurements of Long Term Retirement Plan liability	113	–	–	(102)
Total comprehensive income for the year	488,366	455,000	7	462,988

5-Year Income Trend



5-Year Operating Expenses Trend



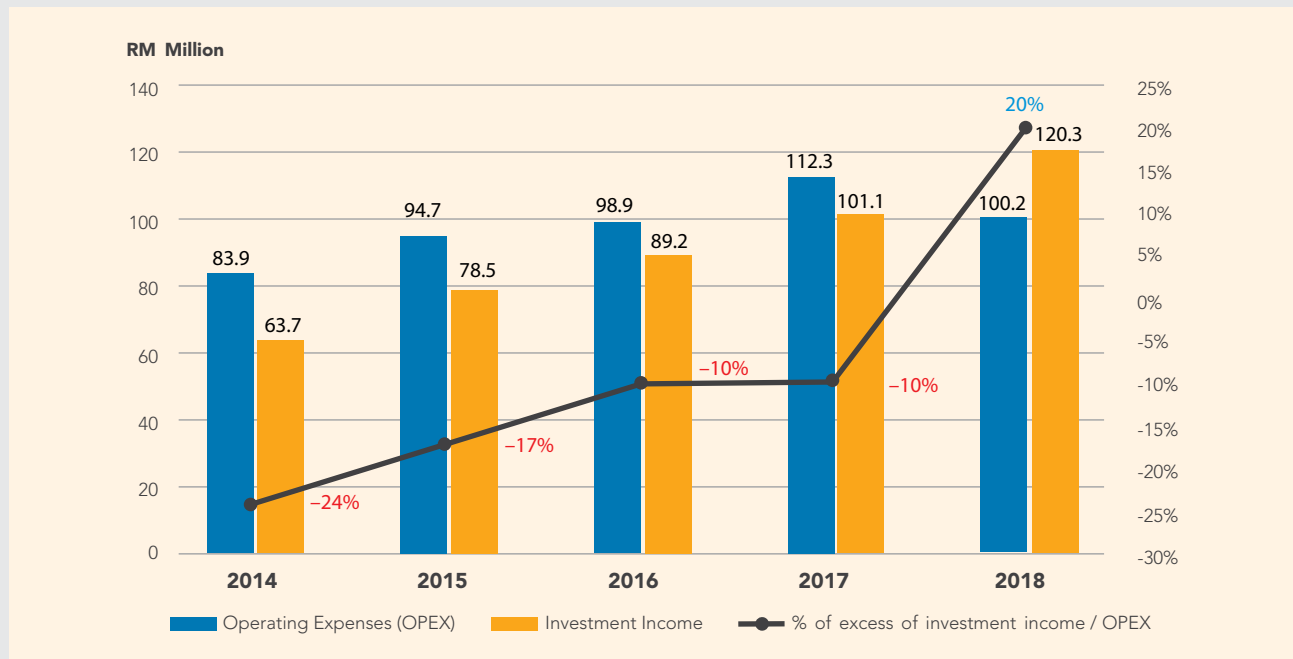
CAPITAL EXPENDITURES

	2018 Actual RM'000	2018 Budget RM'000	Variance %	2017 Actual RM'000
Furniture, fittings and office refurbishment	95	1,280	93	261
Office equipment and computer systems	2,594	6,200	58	5,720
Motor vehicle	188	220	15	–
Total capital expenditures	2,877	7,700	63	5,981

FINANCIAL REVIEW

FINANCIAL PERFORMANCE – ACHIEVED OPERATIONAL SELF-SUFFICIENCY

Self-Sufficiency (Investment Income against Operating Expenses)

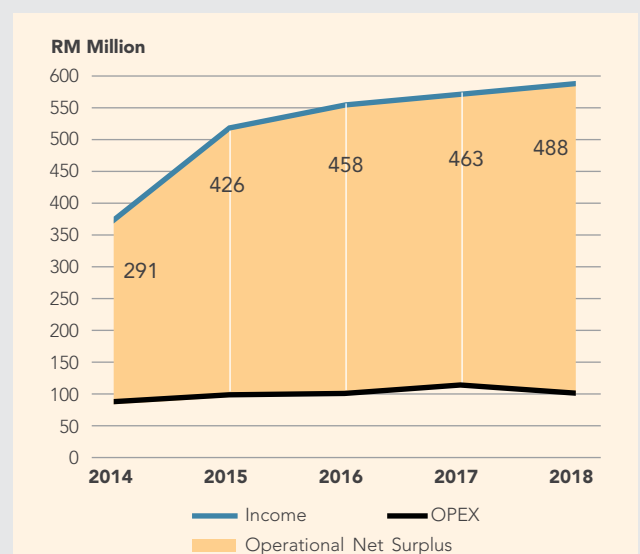


In 2018, we reached another key milestone, whereby we can be described as having achieved operational self-sufficiency.

In 2018, our investment income generated sufficient revenue to cover our operational costs. This means that all of the premiums and levies collected from member institutions will now contribute directly towards the accumulation of the Protection Funds. Moreover, most of our key operational infrastructure have been developed, and we do not anticipate significant changes to our normal operations. As such, we are in better control of ongoing day-to-day operating expenses.

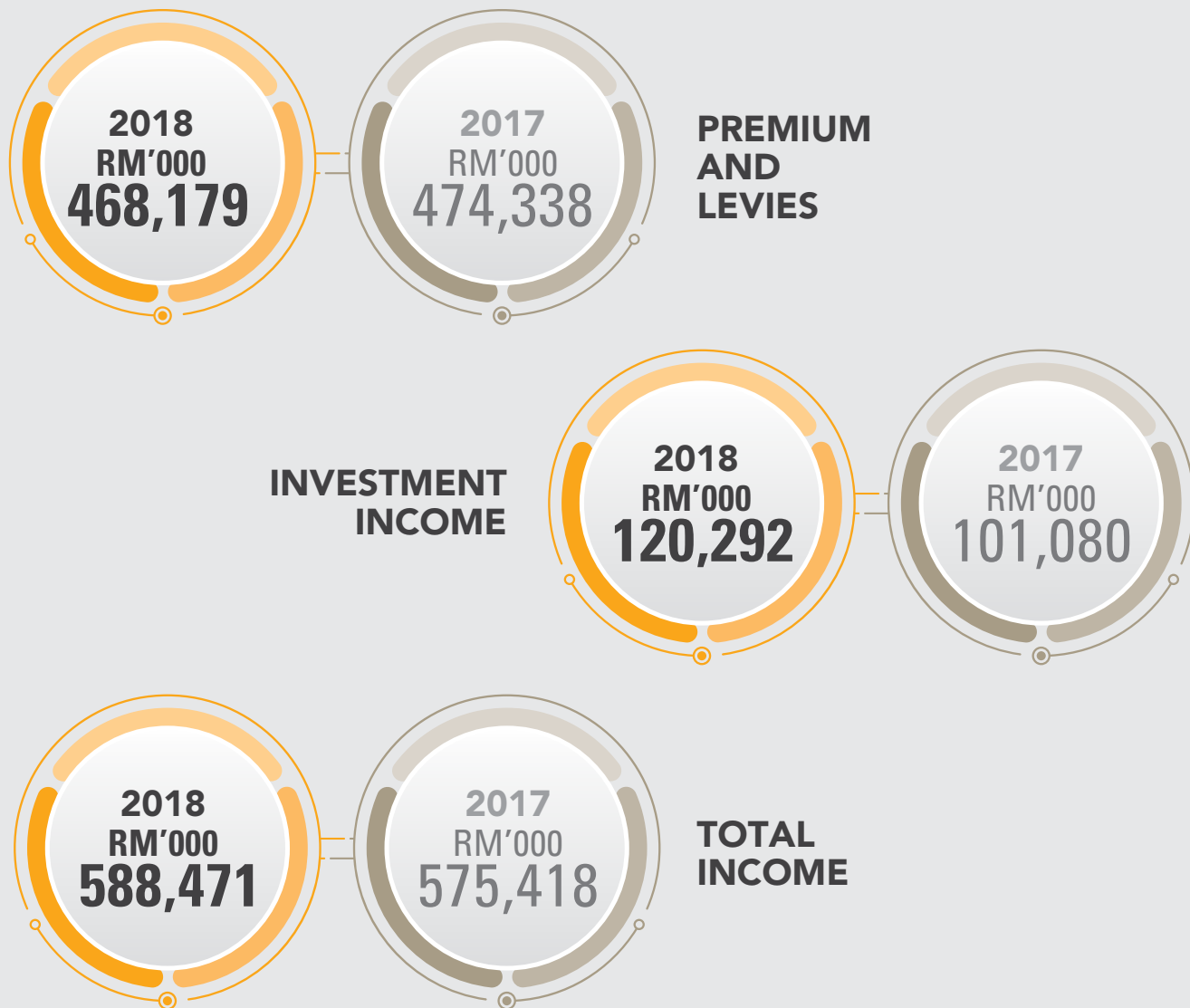
Over the past few years, our annual net surplus has been growing steadily, and is now at approximately RM0.5 billion. Going forward, we expect the level of growth of the funds to increase further on the back of increasing investment income and stable operating expenses.

Key Financial Trends



FINANCIAL REVIEW

TOTAL INCOME – SUSTAINABLE INCOME GROWTH



For the financial year ended 31 December 2018, we recorded a total income of RM588.5 million, an increase of RM13.1 million or 2% compared to the previous year. While premium and levy revenues were lower as compared to the previous year, these were offset by the higher investment income arising from the increase in the size of investable funds as well as the increase in the weighted average effective yield rates (WAEYR) of the instruments invested.

FINANCIAL REVIEW

Premiums and Levies – Incentives for Sound Risk Management

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

PREMIUMS

- CONVENTIONAL
- ISLAMIC

2018**RM381
MILLION****2017****RM400
MILLION****LEVIES**

- GENERAL INSURANCE
- LIFE INSURANCE
- GENERAL TAKAFUL
- FAMILY TAKAFUL

2018**RM87
MILLION****2017****RM74
MILLION**

Premiums collected in 2018 were slightly lower than the previous year due to the improvement in the DPS categorisation of several member banks on the back of steady growth of the Total Insured Deposits.

Levies collected from insurer members were higher than the previous year, consistent with the trend of growth in actuarial valuation liability and net premiums and contributions.

More analyses and information relating to our member institutions are covered in the Overview of Membership on [pages 40 to 47](#).

FINANCIAL REVIEW

Investment Income – Well Guarded and Preserved

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

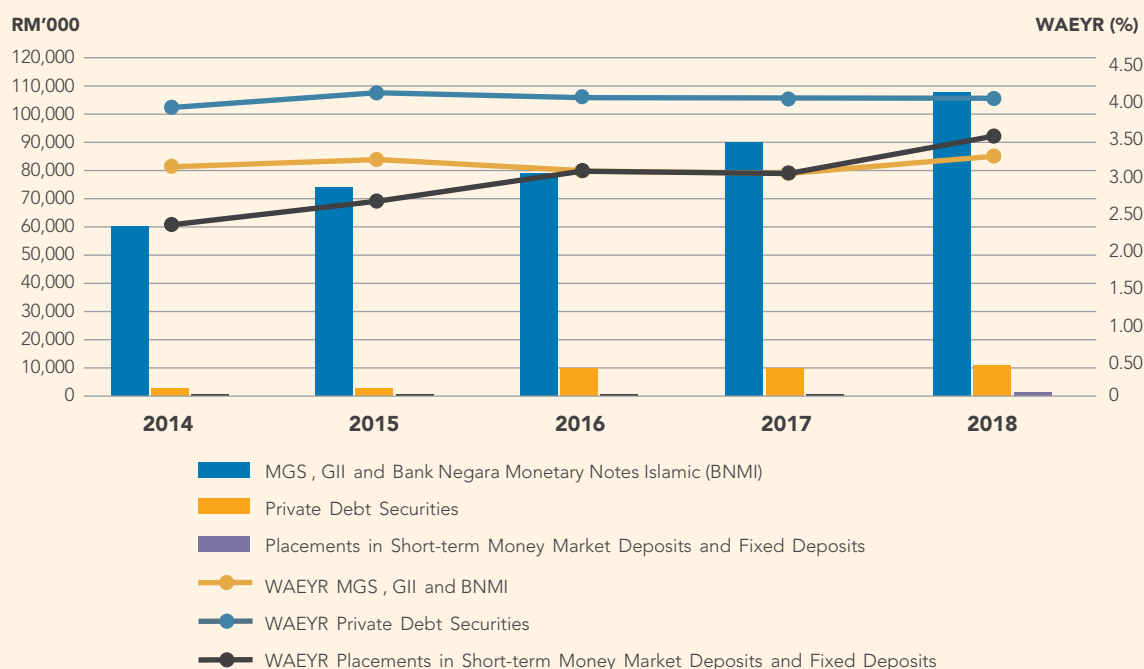
Malaysian Government Securities and Government Investment Issues

Bank Negara Monetary Notes

Private Debt Securities

The main source of our investment income remains primarily Malaysian Government Securities (MGS) and Government Investment Issues (GII). However, as the investable funds increase, the availability of suitable investment instruments that meet our investment objectives became limited. Therefore, over the past few years, in accordance with our approved investment policy, we have been investing in Private Debt Securities (PDS) of AAA rating issued by government-related entity. We continuously monitor and proactively manage our investment portfolio to ensure our investment objectives are met.

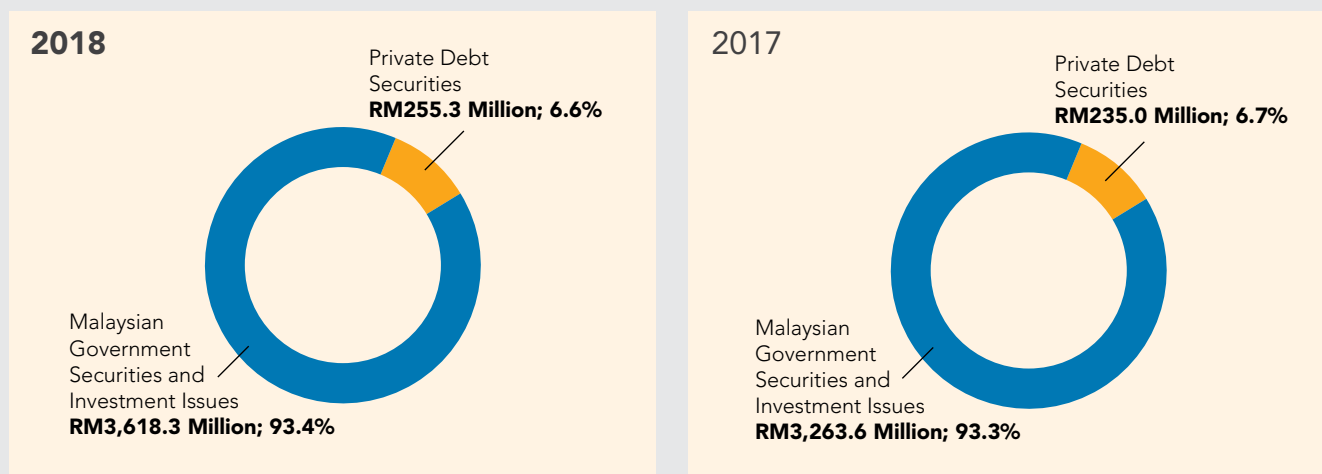
Investment Income and WAEYR Trends (By Type of Instruments)



FINANCIAL REVIEW

Investment Income – Well Guarded and Preserved (continued)

Investment Composition as at 31 December 2018 and 2017



Moving forward, whilst the composition of the investment assets is expected to remain the same, we expect our investment income to continue to grow steadily with the increase in the base of investable funds as well as the continued increase in the weighted average effective yields for the coming year. We will also optimise the use of other instruments such as fixed deposits to better manage our operational cash flow needs.

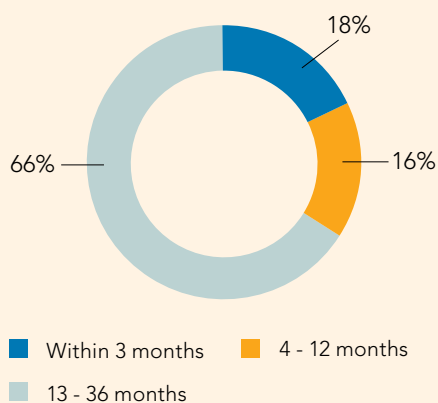
For 2018, we have also taken a longer-term position for our investments, within the parameters of the approved investment policy. The maturity profiles of our investments are described in the following page.

FINANCIAL REVIEW

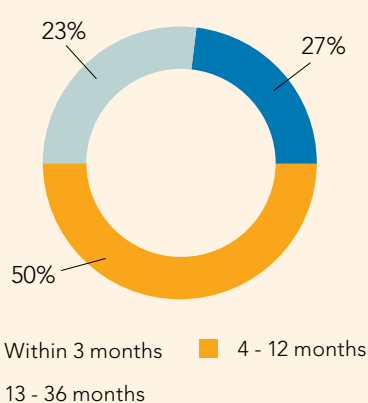
Maturity Profiles as at 31 December 2018

Malaysian Government Securities and Investment Issues

2018

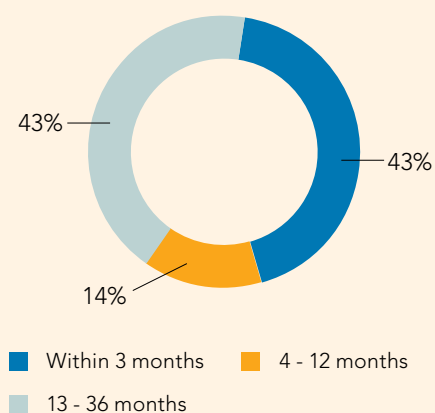


2017

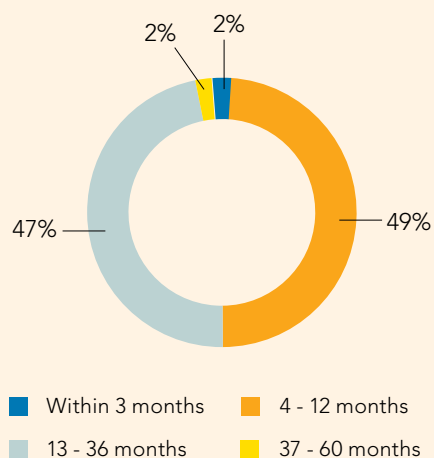


Private Debt Securities

2018

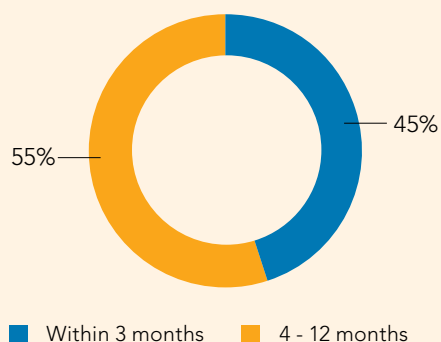


2017

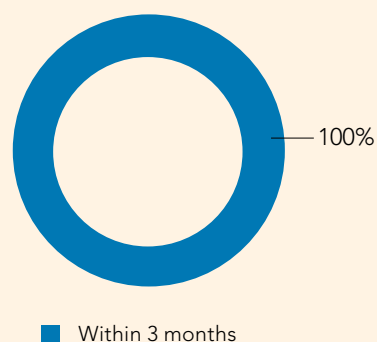


Placements in Short-term Money Market and Fixed Deposits

2018



2017



FINANCIAL REVIEW

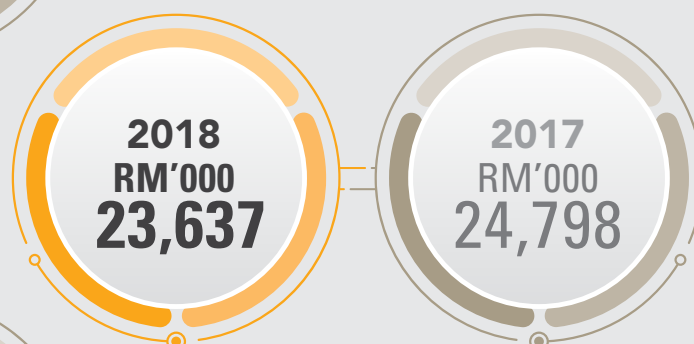
OPERATING EXPENSES – CONTINUED PRUDENT FINANCIAL MANAGEMENT, ACHIEVING MORE WITH LESS



Operating expenses for 2018 totalled RM100.2 million, a decrease of RM12.1 million or 11% from RM112.3 million in 2017. This is RM19.8 million or 16% lower than budget.



OPERATIONS AND ADMINISTRATIVE EXPENSES



There was an overall improvement in all categories of operating expenses as we continue to practise prudent financial management, and optimising the use of our resources in carrying out our operations.

FINANCIAL REVIEW

Human Capital Management Expenses

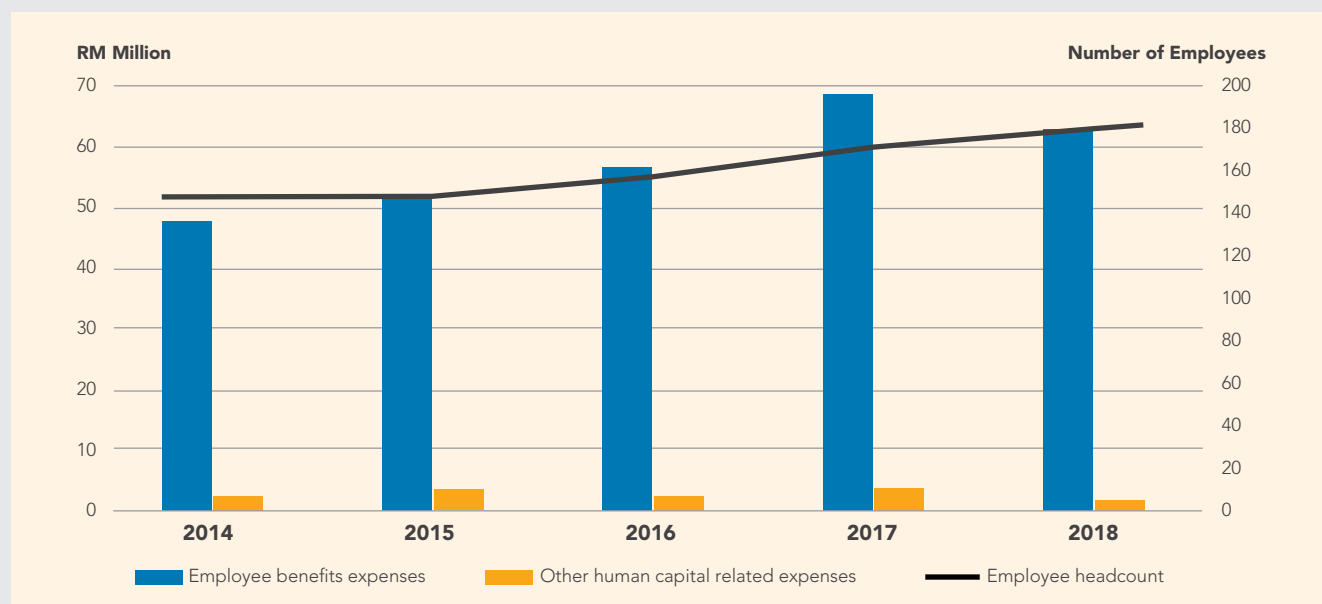
Given the nature of our business, costs relating to human capital continue to be the most significant expense item, representing approximately 64% of our total operating expenses.

The increasing trend in human capital-related expenses is primarily driven by the increase in the number of employees, as we continue to build human capital capacity for operational readiness and long-term sustainability. Nevertheless, our average benefits costs per employee remained stable.

We also reviewed and enhanced our approaches to learning and development where possible, for example through internal-based training and knowledge sharing. This led to significant reduction in the learning and development costs, whilst maintaining the outcome of the required learning.

Human capital-related expenses was also 13% below budget, as we paced out hiring during the year and implemented other cost-savings measures.

Trend of Human Capital Management Expenses and Employee Headcount



More details on the statistics and activities pertaining to human capital management are found in the Performance Review on [pages 75 to 79](#).

FINANCIAL REVIEW

Operations and administrative expenses

Our operations and administrative expenses are expenses incurred to support our day-to-day operations. These expenses have reduced slightly from the previous year, as we instituted measures to enhance the management of operational expenses.

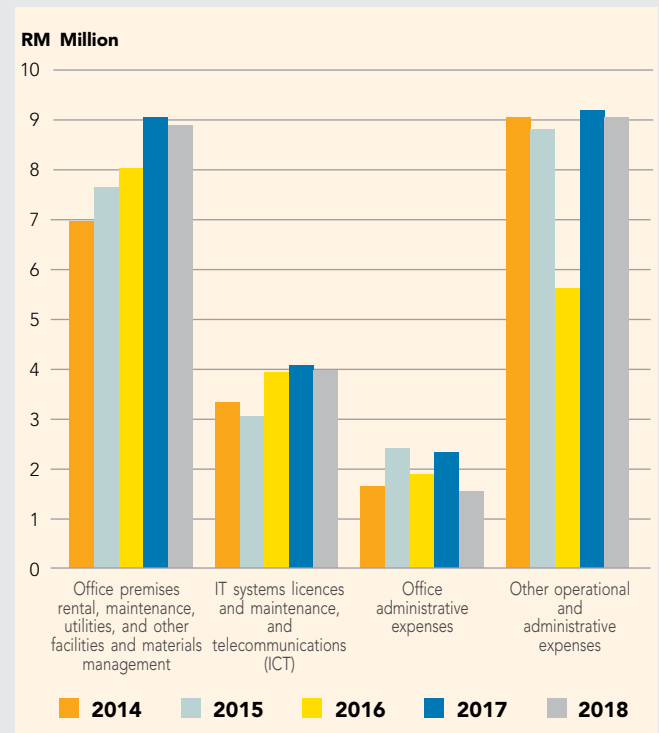
Our operations and administrative expenses was RM1.2 million or 5% lower than the previous year, and RM3.2 million or 12% below budget. The main areas of reduction in this category of expenses were in relation to costs of office premises, telecommunications expenses as well as office administrative expenses on items such as subscriptions, printing and stationery. We have also significantly reduced our publications expenses, particularly for annual report and corporate plan through the reduction of printed copies, and moved towards digital publications.

Average Operations and Administrative Cost per Employee



An analysis of operations and administrative expenses against a key costs driver, namely, the number of employees, shows that it is moving towards a downward trend, which substantiates the continued improvements in operational efficiency and management of expenses. In other words, we are able to maintain the level of relevant operational expenses despite the increase in the number of employees by optimising existing available resources as well as improving processes to enhance operational effectiveness and efficiency.

Trend of Operations and Administrative Expenses



Commentary

- Office premises and equipment rental as well as maintenance costs remained stable, with a slight reduction for 2018 as we instituted tighter measures on management of expenses.
- ICT-related expenses remained stable during the year, with a slight reduction for 2018 as we reviewed and streamlined our licensing and maintenance arrangements.
- Office administrative expenses primarily relate to items such as subscriptions, printing and stationery and audit fees. There was a slight reduction due to tighter measures on management of expenses.
- Other operational and administrative expenses relate to other corporate expenses such as publications of annual report and corporate plan, Directors' related expenses as well as other non-cash items such as depreciation.

FINANCIAL REVIEW

Initiatives related expenses

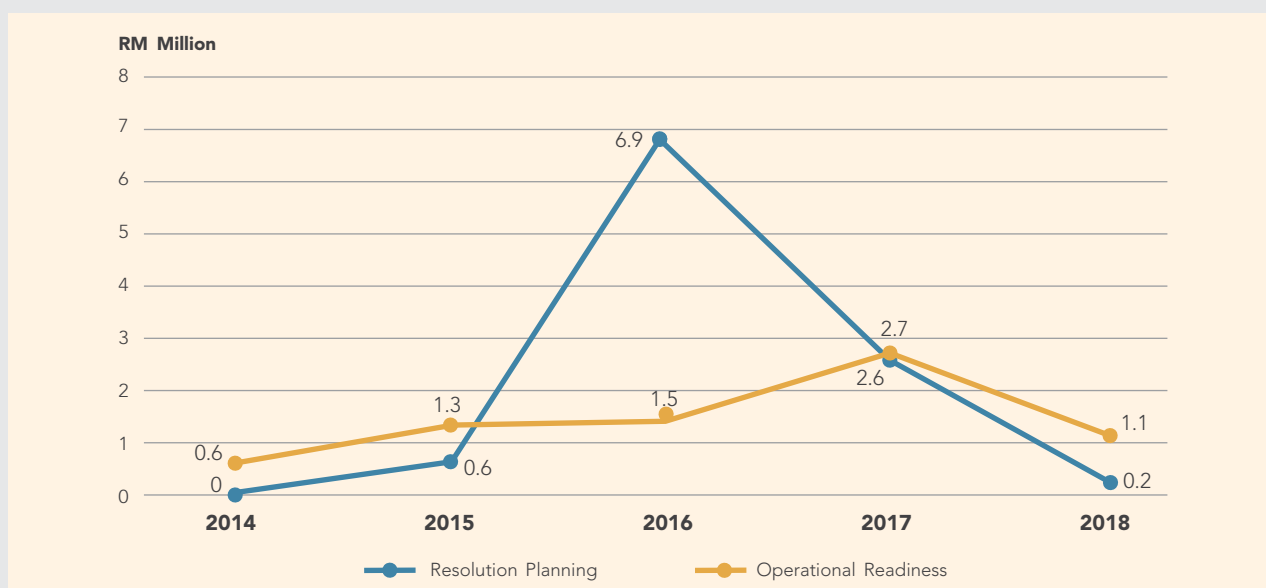
Initiatives related expenses are costs (apart from human capital-related expenses) that are specifically attributable to the initiatives planned for 2018 in the Corporate Plan. The expenses are grouped into two main categories namely, "effective resolution regime" and "stakeholder engagement and corporate social responsibility" (which includes communications-related activities such as advertising and public relations).

During the year, we reviewed the approaches for these initiatives to ensure optimal use of resources. This led to a lower spend on initiatives in 2018 compared with the previous year as well as against budget.

The details of activities and achievements relating to these two categories are detailed out in the Performance Review on [pages 67 to 74](#). The analyses of expenses are detailed below.

i. Effective resolution regime

Trend of Operational Readiness and Resolution Planning Expenses



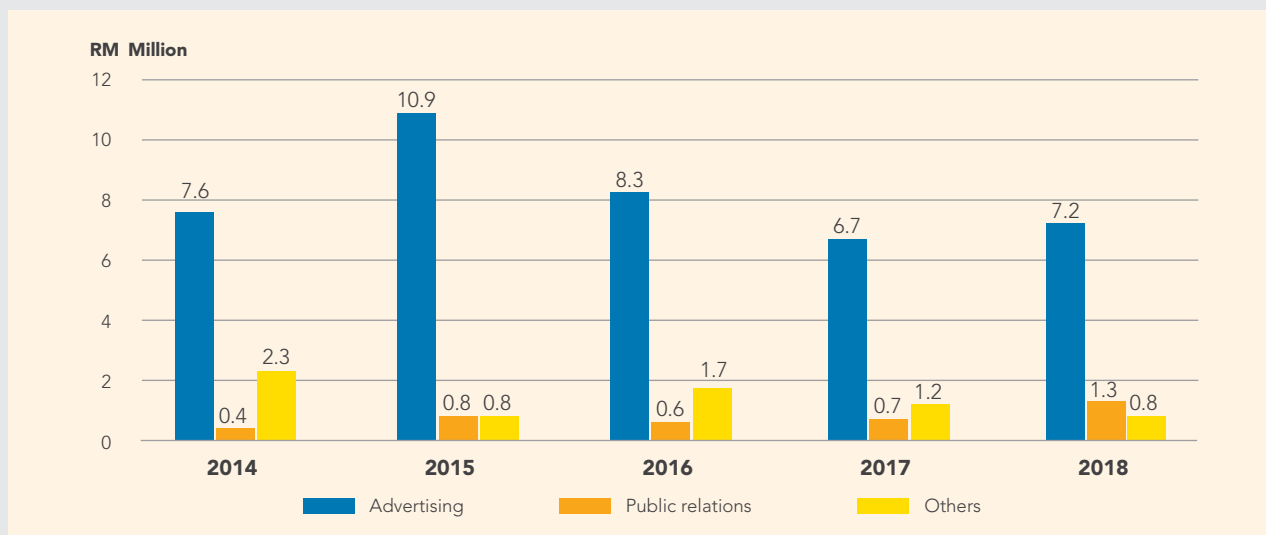
Commentary

- In 2016, we commenced the ground work on resolution planning, with the development of the draft framework and guidelines on Recovery and Resolution Planning (RRP). Subject matter experts were engaged to ensure the framework was developed and benchmarked against best practices. The next major phase of the resolution planning work will be in 2019 with the rollout of the pilot exercises with selected banks (Refer to [pages 67 to 68](#) for details).
- On operational readiness, the expenses incurred primarily related to simulations on reimbursements as well as intervention and failure resolution of member institutions (Refer to [page 69](#) for details).

FINANCIAL REVIEW

ii. Stakeholder engagement and corporate social responsibility

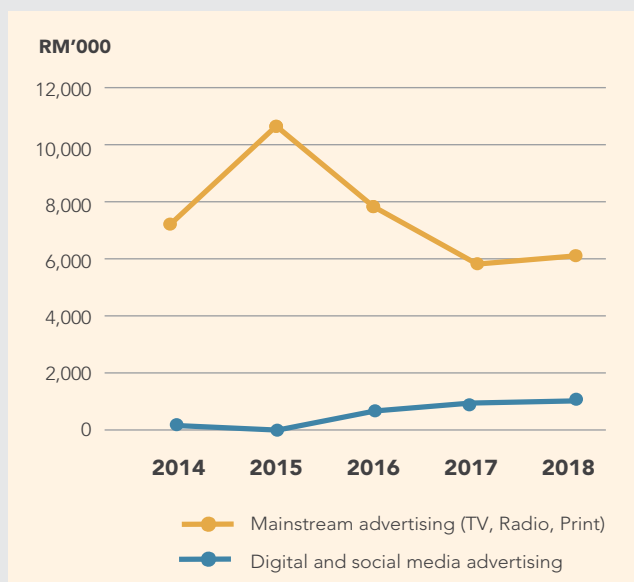
Communication Expenses



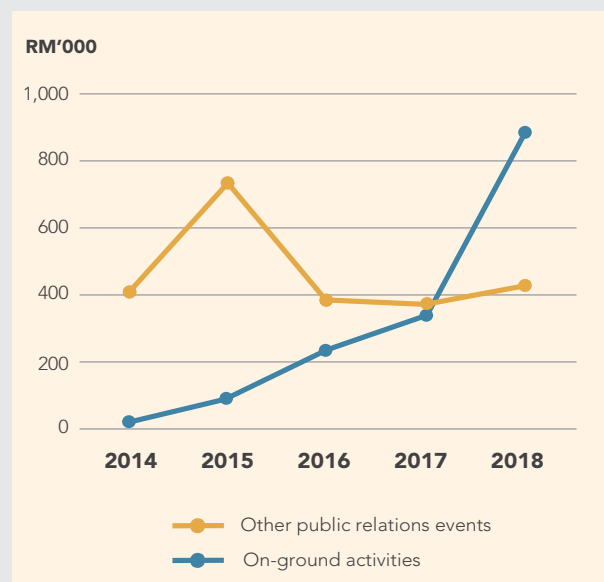
Commentary

- Advertising expenses are generally on a downtrend as we reviewed and enhanced our approaches to promoting public awareness. The changes included taking a targeted approach for specific target segments and using more digital and social media channels. There was a slight increase in advertising expenses in 2018 arising from the new advertising campaign.
- Public relations expenses are on an uptrend as we focus on direct engagement activities to promote awareness and increase the level of understanding about the protection systems (Refer to [pages 71 to 72](#) for details).

Trend of Advertising Expenses



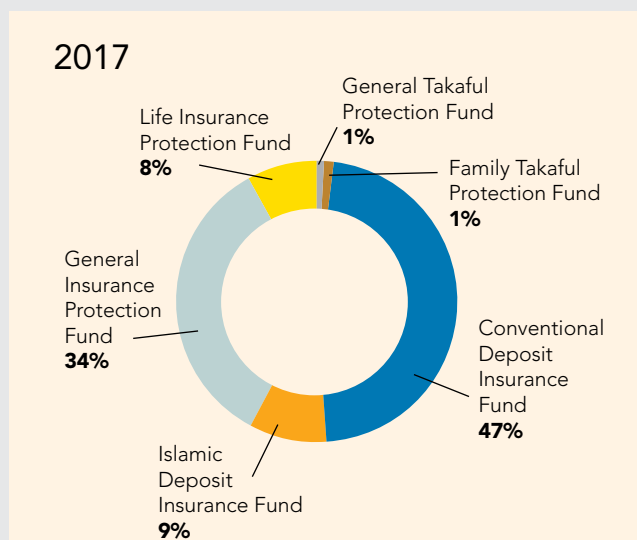
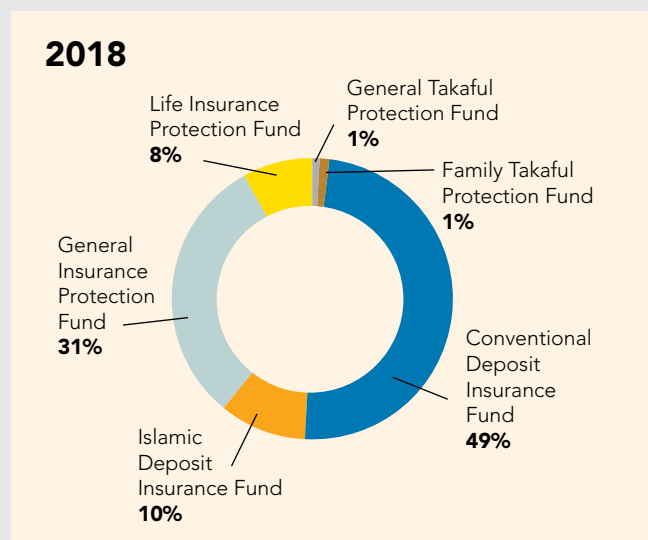
Trend of Public Relations Expenses



FINANCIAL REVIEW

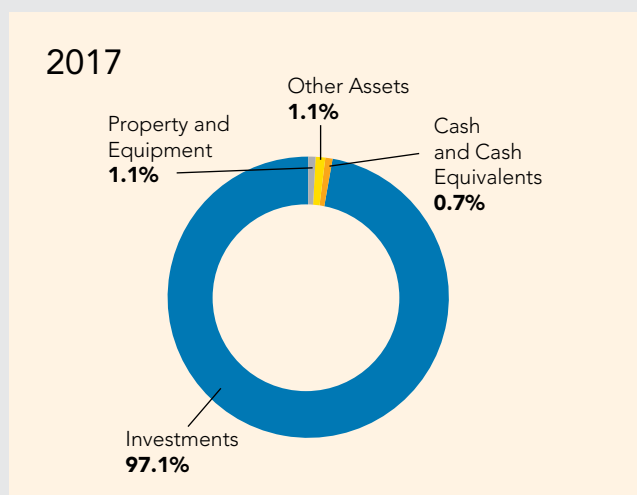
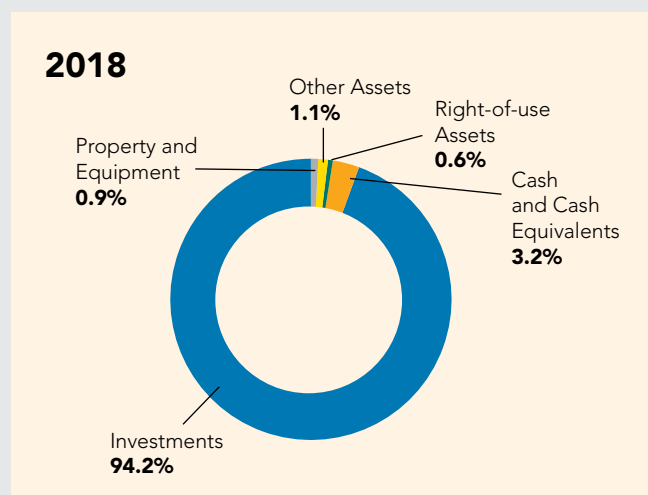
STATEMENT OF FINANCIAL POSITION

Composition of Protection Funds



Total Protection Funds as at 31 December 2018 amounted to RM4.08 billion, on the back of total assets of RM4.11 billion and net of liabilities of RM0.03 billion.

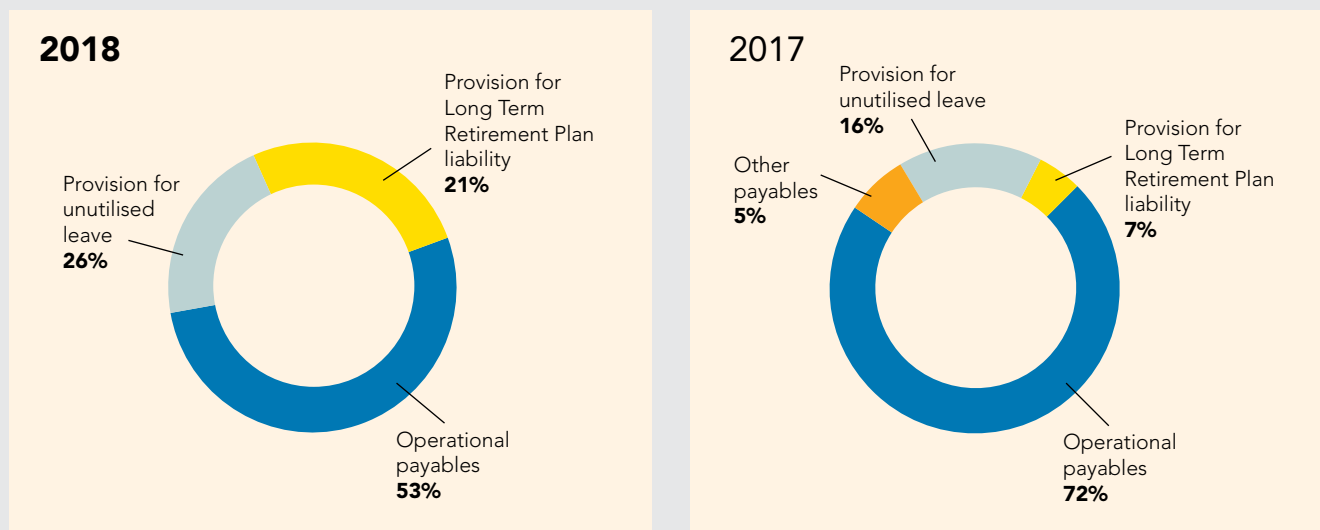
Assets Composition



Our assets remain liquid with financial assets comprising cash, cash equivalents, investments and investment income receivables which stood at RM4.05 billion, representing 97.4% of our total assets as at 31 December 2018. The remaining non-financial assets relate to property and equipment, which amounted to RM0.04 billion as well as RM0.02 billion of "right-of-use assets" for the lease of the office premises. The property and equipment as at end of 2018 mainly comprise the disaster recovery centre as well as IT systems.

FINANCIAL REVIEW

Breakdown of Liabilities



Liabilities on the other hand primarily comprise operational payables as well as the provision for unutilised leave and the provision for the Long Term Retirement Plan.

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

RESOLUTION PLANNING



RESOLUTION PLANNING

INTRODUCTION

As a financial safety net player with a mandate to promote financial system stability, our aspiration is to work towards the establishment of an effective resolution regime for Malaysia. Such a regime allows member institutions (MIs) to fail and be resolved in a prompt and orderly manner, without systemic disruption.

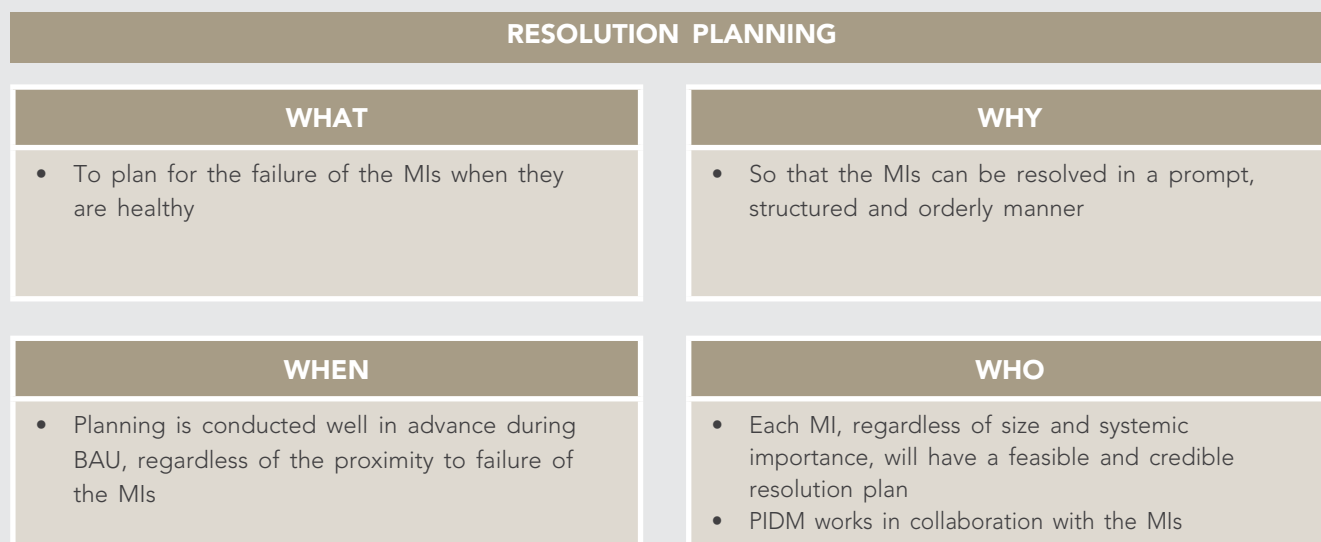
An important aspect of an effective resolution regime is resolution planning, which is part of the Recovery and Resolution Planning framework jointly established by Bank Negara Malaysia and PIDM in 2016. Bank Negara Malaysia is leading the recovery planning process, and has undertaken the recovery planning pilot exercises in 2018.

Resolution planning involves, amongst others, the assessment of the business structure, operational and financial interdependencies, the development of likely strategies and plans, which are specific to the MIs. This is essential for the enhancement of our state of operational readiness but does not exclude development of alternative courses of actions, depending on the circumstances and the overall state of the financial system at the time of a resolution.

PIDM leads the resolution planning process. The development of robust and credible resolution plans during business as usual (BAU) increases the likelihood of the smooth execution of resolution actions, and contributes to the stability of the financial system. In 2019, following the completion of the recovery planning pilot exercises, we will commence the resolution planning pilot exercises with selected MIs.

OUR APPROACH TO RESOLUTION PLANNING

The following diagram depicts our approach to resolution planning for MIs and highlights the value that is derived from carrying out resolution planning.



RESOLUTION PLANNING

HOW

- (1) Close coordination between strategic stakeholders is key

MI	PIDM	Bank Negara Malaysia	Foreign home and host regulators
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- (2) MI prepares and provides quality quantitative and qualitative information

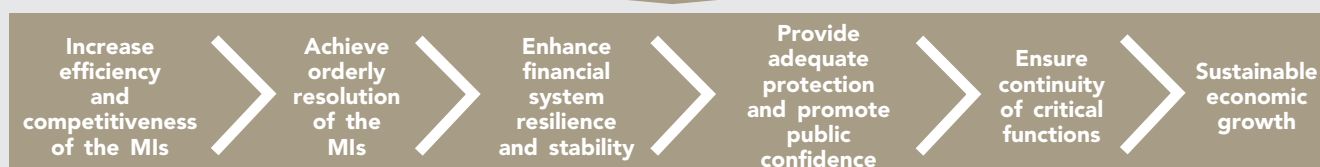
- (3) Development of a resolution plan

Step 1: Strategic business analysis	Step 2: Preferred resolution strategy (PRS) and operational plan	Step 3: Resolvability assessment	Step 4: Remediation of impediments
--	---	-------------------------------------	---------------------------------------

Interactive and iterative process

Objective	Provide overview of the MI to assess: <ul style="list-style-type: none"> Systemic importance Separability 	PRS sets out the intended resolution approach Operational plan sets out the arrangements to implement the PRS	Assess whether the PRS is feasible and credible Articulate resolution impediments	Remove / mitigate / remediate resolution impediments
What does it entail	<ul style="list-style-type: none"> Corporate (legal, financial and operational) structure Understand the complexity of the MI's structure Business model, core business lines and significant legal entities Identify business lines and entities which are core to the operations or profitability; hold strategic significance or undertake critical functions Critical functions and critical shared services Assess and identify functions (and its supporting services, infrastructure and systems) undertaken by the MI which are critical and where the failure or discontinuance would adversely affect the functioning of the real economy and financial stability Internal and external interdependencies Identify interdependencies which may constrain effective implementation of a resolution strategy 	Resolution planning involves identification of resolution options specific to the MI, which include options to continue key operations or closure of the MI Resolution options: <ul style="list-style-type: none"> Restructuring of the MI's business, assets and / or liabilities Sale or transfer of business / shares of the MI to a third party acquirer(s) Bridge Institution (BI) involves the transfer of selected functions, business and / or assets of the MI to a BI, pending sale to a third party acquirer(s) Liquidation Closure of the MI's business and operations under the winding up process Exit strategy Formulating a clear exit strategy to complete the resolution process	Feasibility Assess the practical capacity for PIDM to apply the resolution strategy and the operational preparedness of the MI Credibility Assess the likely impact of the resolution strategy on the MI and the financial system and real economy	Identify list of barriers to achieving effective resolution and the corresponding actions to mitigate or remove the barriers

Benefits of resolution planning



RESOLUTION PLANNING

CONCLUSION

The journey towards resolvability has been described as a “marathon”,¹ and we will need the collaboration of the many runners involved. At its starting point, we need the buy-in and commitment from all of our strategic stakeholders, in particular our MIs. MIs have in-depth knowledge about their inner workings and structures and are best placed to ensure the successful implementation of the resolution planning initiative.

We will continue to engage regularly and work collaboratively with the MIs in this resolution planning journey. We expect MIs to establish the necessary governance arrangements and to devote sufficient time and resources to support resolution planning. Early involvement and commitment from MIs – especially at the board and senior management levels – is essential, to better plan and prepare for a smooth journey ahead.

Like a marathoner, advanced training, and a constant pace, will reward us, not only with the completion at the finish line, but with greater overall fitness and strength. In our context, at the end of the resolution planning initiative, we expect MIs to be more resolution-ready, and our financial system, more robust in dealing with failures of our MIs. This journey for each MI has considerable value – not only for the industry – but for the nation as a whole.

“Most people overestimate what they can do in one year
and underestimate what they can do in ten years.” – Bill Gates

¹ Elke König, Chair of the Single Resolution Board.

FINANCIAL STATEMENTS

Directors' Report

Statement by Directors

Statutory Declaration

Auditor General's Certification

Statement of Financial Position

Statement of Profit or Loss and Other Comprehensive Income

Statement of Changes in Funds and Reserves

Statement of Cash Flows

Notes to the Financial Statements



DIRECTORS' REPORT

31 December 2018

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) for the financial year ended 31 December 2018.

PRINCIPAL ACTIVITIES

PIDM is a statutory body established to administer a Deposit Insurance System (DIS) and a Takaful and Insurance Benefits Protection System (TIPS). PIDM is governed by the provisions of the Malaysia Deposit Insurance Corporation Act 2011 (PIDM Act).

The DIS provides protection against the loss of part or all of deposits for which a member bank is liable whereas the TIPS provides protection against the loss of part or all of takaful or insurance benefits for which an insurer member is liable. In addition, PIDM provides incentives for sound risk management in the financial system as well as promotes and contributes to the stability of the financial system. PIDM is the resolution authority for all member institutions and thus, has wide intervention and failure resolution powers. PIDM also undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that concerns about the business and affairs of member institutions are addressed promptly.

The PIDM Act provides for separate protection coverage for:

- i. Islamic and conventional deposits; and
- ii. protected benefits in relation to general insurance, life insurance, general takaful and family takaful.

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

FINANCIAL RESULTS

Net surplus for the financial year:

Deposit Insurance Funds
 Takaful and Insurance Benefits Protection Funds
 (excluding Other Comprehensive Income)

2018 RM'000	2017 RM'000
373,074	368,705
115,179	94,385
488,253	463,090

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



DIRECTORS' REPORT

31 December 2018

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:

	2018 RM'000	2017 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	1,978,991	1,684,676
Islamic Deposit Insurance Fund	417,998	339,150
Total Deposit Insurance Funds	2,396,989	2,023,826
Takaful and Insurance Benefits Protection Funds:		
General Insurance Protection Fund	1,253,455	1,216,735
Life Insurance Protection Fund	346,341	283,073
General Takaful Protection Fund	25,761	22,307
Family Takaful Protection Fund	56,287	44,526
Total Takaful and Insurance Benefits Protection Funds	1,681,844	1,566,641

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2018 were:

- Tan Sri Dr. Rahamat Bivi binti Yusoff (Chairman)
- Datuk Seri Dr. Ismail bin Bakar (ex officio between 12 June 2018 and 28 August 2018)
- Datuk Ahmad Badri bin Mohd Zahir (ex officio with effect from 12 September 2018)
- Datuk Nor Shamsiah binti Mohd Yunus (ex officio with effect from 1 July 2018)
- Dato Dr. Nik Ramlah binti Nik Mahmood
- Dato' Dr. Gan Wee Beng
- Alex Foong Soo Hah
- Gloria Goh Ewe Gim
- Tan Sri Dato' Sri Dr. Mohd Irwan Serigar bin Abdullah (retired on 16 May 2018)
- Tan Sri Muhammad bin Ibrahim (retired on 6 June 2018)
- Johan Mahmood Merican (retired on 11 July 2018)

Datuk Ahmad Badri bin Mohd Zahir and Datuk Nor Shamsiah binti Mohd Yunus are *ex officio* Directors by virtue of their office, in accordance with subsection 11(2) of the PIDM Act. Members of the Board of Directors of PIDM other than *ex officio* Directors are appointed by the Minister of Finance in accordance with subsection 11(2) of the PIDM Act.

DIRECTORS' REPORT
31 December 2018**DIRECTORS' BENEFITS**

Neither at the end of the financial year, nor at any time during the financial year, was there any arrangement to which PIDM was a party, whereby the Directors might acquire benefits by means of the acquisition of shares in or debentures of any other body corporate.

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than benefits included in the aggregate amount of emoluments received or due and receivable by the Directors as shown in Note 16 to the financial statements) by reason of a contract made by PIDM or a related corporation with any Director or with a firm of which a Director is a member, or with a company in which a Director has a substantial financial interest.

IMPAIRMENT AND VALUATION METHODS

Before the Statements of Profit or Loss and Other Comprehensive Income as well as the Statements of Financial Position of PIDM were completed, the Directors have satisfied themselves that Management had taken proper action to ensure that there are no known significant impairment nor were they aware of any circumstances that would require such action. At the date of this report, the Directors are not aware of any circumstances which would render the need for any impairment in the financial statements of PIDM.

The Directors have also satisfied themselves that Management had taken reasonable steps to ascertain the values attributed to the assets and liabilities in the financial statements of PIDM. As at the date of this report, the Directors are not aware of any circumstances that have arisen that would render adherence to the methods used in the valuation of assets or liabilities in PIDM's accounts misleading or inappropriate.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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



DIRECTORS' REPORT

31 December 2018

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 12 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 and failure resolution (IFR) activities. During the year, PIDM has implemented the target fund framework for General Takaful Protection Fund and Family Takaful Protection Fund. Details are provided in Note 12 (b).

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

The main contractor responsible for the construction of PIDM's disaster recovery centre has made a claim against PIDM in an arbitration proceeding. PIDM has filed a defence and counterclaim in response to the main contractor's claim. The exposure of the claim to PIDM is approximately RM1.2 million. 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

31 December 2018

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.

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS


The Directors, in providing the opinion on the financial statements, relied on written representations by Management on 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 2018, the results of its operations and its cash flows for the year ended on that date; and
- (ii) the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements and are in compliance with the PIDM Act.

AUDITORS

In accordance with the PIDM Act, the accounts of PIDM are audited by the Auditor General of Malaysia.

Signed on behalf of the Board in accordance with a resolution approved by the Board of Directors



Tan Sri Dr. Rahamat Bivi binti Yusoff
Chairman of the Board of Directors



Ms. Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
21 February 2019

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 2018, the results of its operations and its cash flows for the year ended on that date. The Directors are also of the opinion that the Islamic Deposit Insurance Fund as well as the Takaful Protection Funds are maintained and administered in accordance with Shariah requirements, as set out in the PIDM Act.

Signed on behalf of the Board in accordance with a resolution approved by the Board of Directors



Tan Sri Dr. Rahamat Bivi binti Yusoff
Chairman of the Board of Directors



Ms. Gloria Goh Ewe Gim
Chairman of the Audit Committee

Kuala Lumpur
21 February 2019

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 2018, 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 21 February 2019.

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 21 February 2019

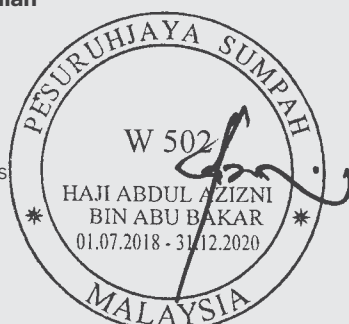


Rafiz Azuan bin Abdullah
Chief Executive Officer



Wan Ahmad Ikram bin Wan Ahmad Lotfi
Chief Financial Officer

Before me,
Commissioner for Oaths



G1-1-2, Ground Floor, Menara 1 Dutamas,
Solaris Dutamas, No. 1, Jalan Dutamas 1,
50480 KUALA LUMPUR, MALAYSIA.

AUDITOR GENERAL CERTIFICATION



REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF PERBADANAN INSURANS DEPOSIT MALAYSIA FOR THE YEAR ENDED 31 DECEMBER 2018

Report on the Audit of 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 2018 and Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Funds and Reserves and Statement of Cash Flows for the year then ended, a summary of significant accounting policies and other explanatory information as set out on pages 110 to 205.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Perbadanan Insurans Deposit Malaysia as at 31 December 2018 and of their financial performance and cash flows for the year then ended in accordance with the approved financial reporting standards in Malaysia and Malaysia Deposit Insurance Corporation Act 2011 (Act 720).

Basis for Opinion

I conducted the audit in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my 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 of the Perbadanan Insurans Deposit Malaysia and I have fulfilled the other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

AUDITOR GENERAL CERTIFICATION

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

The Directors of the Perbadanan Insurans Deposit Malaysia are responsible for the other information in the Annual Report. My opinion on the financial statements of the Perbadanan Insurans Deposit Malaysia does not cover the information other than the financial statements and auditor's 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 the Perbadanan Insurans Deposit Malaysia that give a true and fair view in accordance with approved financial reporting standards in Malaysia and Malaysia Deposit Insurance Corporation Act 2011 (Act 720). The Directors are also responsible for such internal control as it determines is necessary to enable the preparation of the financial statements of Perbadanan Insurans Deposit Malaysia that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements of the Perbadanan Insurans Deposit Malaysia as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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

AUDITOR GENERAL CERTIFICATION

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

- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Perbadanan Insurans Deposit Malaysia's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- d. Conclude on the appropriateness of the Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Perbadanan Insurans Deposit Malaysia's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my auditor's report to the related disclosures in the financial statements of the Perbadanan Insurans Deposit Malaysia if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of auditor's report.
- e. Evaluate the overall presentation of the financial statements of the Perbadanan Insurans Deposit Malaysia including the disclosures that achieve 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 that in my opinion, the accounting and other records required by the Act to be kept by Perbadanan Insurans Deposit Malaysia have been properly kept in accordance with the provision of the Act.

AUDITOR GENERAL CERTIFICATION

Other Matters

This 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.



(JOHARI BIN ISMAIL)
ON BEHALF OF AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
28 MARCH 2019





	Note	2018 RM'000	2017 RM'000
ASSETS			
Cash and cash equivalents	4a	133,123	26,163
Investments	5	3,873,567	3,498,582
Other assets	6	44,710	39,591
Investment in subsidiaries	7	—*	—*
Property and equipment	8	36,100	38,275
Right-of-use assets	9	23,924	—
Total Assets		4,111,424	3,602,611
LIABILITIES			
Payables	11	7,856	12,144
Lease liabilities	10	24,735	—
Total Liabilities		32,591	12,144
FUNDS AND RESERVES			
Deposit Insurance Funds Accumulated surpluses	12a	2,396,989	2,023,826
Takaful and Insurance Benefits Protection Funds Accumulated surpluses	12b	1,681,844	1,566,641
Total Funds and Reserves		4,078,833	3,590,467
Total Liabilities, Funds and Reserves		4,111,424	3,602,611

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December

	Note	2018 RM'000	2017 RM'000
Premium and levy revenues	13	468,179	474,338
Investment income from cash and investment securities	14	120,292	101,080
Total income		588,471	575,418
Human capital management expenses	15	64,544	72,209
Operations and administrative expenses	16	23,637	24,798
Initiatives related expenses	17	12,037	15,321
Total expenses		100,218	112,328
Net surplus for the year		488,253	463,090
Other comprehensive income			
Remeasurement of Long Term Retirement Plan liability	11ii	113	(102)
Total comprehensive income for the year	21	488,366	462,988

Note: Refer to Note 2.4 for details on changes to the presentation of the Statement of Profit or Loss and Other Comprehensive Income.

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 2017	12a	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	12a	1,684,676	339,150	2,023,826
As at 1 January 2018	12a	1,684,676	339,150	2,023,826
Total comprehensive income for the year		294,315	78,848	373,163
As at 31 December 2018	12a	1,978,991	417,998	2,396,989

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 2017	12b	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	12b	1,216,735	283,073	22,307	44,526	1,566,641
As at 1 January 2018	12b	1,216,735	283,073	22,307	44,526	1,566,641
Total comprehensive income for the year		36,720	63,268	3,454	11,761	115,203
As at 31 December 2018	12b	1,253,455	346,341	25,761	56,287	1,681,844

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

for the year ended 31 December

	Note	2018 RM'000	2017 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums and levies received from member institutions		468,179	474,338
Payments in the course of operations to suppliers and employees		(89,953)	(108,020)
Payment of lease finance cost	9	(1,487)	–
Receipts of investment income		168,191	134,059
Net cash flows generated from operating activities		544,930	500,377
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment securities		4,639,207	2,657,117
Purchase of investment securities		(5,067,377)	(3,144,312)
Purchase of property and equipment		(5,673)	(7,774)
Net cash flows used in investing activities		(433,843)	(494,969)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	9	(4,127)	–
Net cash flows used in financing activities		(4,127)	–
Net increase / (decrease) in cash and cash equivalents		106,960	5,408
Cash and cash equivalents at beginning of year		26,163	20,755
Cash and cash equivalents at end of year	4a	133,123	26,163

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 22(c) for details of PIDM's management of liquidity risk.

Note 2: Statement of Cash Flows prepared using the indirect method is presented in Note 4(b) to the financial statements.

The accompanying notes form an integral part of the financial statements



NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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 segment 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 21 February 2019.

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 2018

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 TIPFs of PIDM. The Islamic Funds are maintained and administered in accordance with Shariah requirements and in compliance with the PIDM Act.

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

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

2.2 Summary of significant accounting policies**(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018)**

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

Measurement methods*Amortised cost and effective interest rate or rate of return*

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

Interest income or returns earned

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

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

Fair value of financial instruments

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Summary of significant accounting policies (continued)****(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)**

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

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

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

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

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

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

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

Business model

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

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

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

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

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

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

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI or returns.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

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

Financial assets

(i) Cash and cash equivalents

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

The Statement of Cash Flows is prepared using the direct method. A Statement of Cash Flows prepared using the indirect method is also presented in Note 4(b) to the financial statements.

(ii) Investment securities

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest or return (i.e. passes the 'SPPI test') on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest or return on the principal amount outstanding.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

(ii) Investment securities (continued)

PIDM's investment securities 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 which are held-to-maturity in order to collect contractual cash flows and are not traded. The contractual cash flows of the investment securities represent solely payments of principal and interest or return on the principal amount outstanding. As such, these investment securities are measured at amortised cost.

(iii) Other receivables

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

(iv) Payables

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

Derecognition

(i) Financial assets

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- PIDM has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:
 - o PIDM has transferred substantially all the risks and rewards of the asset; or
 - o PIDM has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When PIDM has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of PIDM's continuing involvement in the asset. In that case, PIDM also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that PIDM has retained.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Summary of significant accounting policies (continued)****(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)****(ii) Financial liabilities**

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

Impairment of financial assets

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

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

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

Change in credit quality since initial recognition

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

(i) Significant increase in credit risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

(i) Significant increase in credit risk (continued)

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

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

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

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

(ii) Definition of default

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

(iii) Credit-impaired financial assets

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

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

(iv) Write-offs

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

(v) Measurement and recognition of ECL

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments – MFRS 9 (policy applicable from 1 January 2018) (continued)

(v) Measurement and recognition of expected credit losses (continued)

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(b) Financial instruments – MFRS 139 (policy applicable before 1 January 2018)

Initial recognition and measurement

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.

Financial instrument categories and subsequent measurement

(i) Financial assets

- **Held-to-maturity investments**

Investments classified as held-to-maturity comprise marketable Malaysian Government Securities and Investment Issues, Bank Negara Monetary Notes and Private Debt 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 rate or rate of return 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.

(ii) 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 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(b) Financial instruments – MFRS 139 (policy applicable before 1 January 2018) (continued)

Derecognition

In general, the condition and criteria for derecognition of financial assets and financial liabilities are the same under MFRS 139 and MFRS 9.

Specifically, 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.

Fair value of financial instruments

All financial assets and financial liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy as described in Note 2.2 (a) above.

Impairment of 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.

• **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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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%

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(d) Property and equipment, and depreciation (continued)

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 of non-financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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 particular 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 of total income earned for the respective systems in the financial year prior to the year in which such expenses, costs or losses are allocated. For the 2018 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 2017. The allocation rates used during the year are as follows:

Year	DIS		TIPS			
	Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2018	80.66%	19.34%	35.01%	49.56%	4.96%	10.47%
	100%		100%			
2017	81.85%	18.15%	33.56%	51.39%	5.42%	9.63%
	100%		100%			

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.2 Summary of significant accounting policies (continued)****(f) Recognition of income and expenses (continued)**

- (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 2018 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 2017. The apportionment basis used is as follows:

Year	Total	DIS		TIPS			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2018	100%	63.88%	15.32%	7.28%	10.31%	1.03%	2.18%
2017	100%	63.81%	14.15%	7.40%	11.33%	1.19%	2.12%

(g) Employee benefits**(i) Short-term benefits**

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

(ii) 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(g) Employee benefits (continued)

(ii) Post-employment benefits (continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(i) PIDM as lessee – MFRS 16 (policy applicable from 1 January 2018)

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(i) PIDM as lessee – MFRS 16 (policy applicable from 1 January 2018) (continued)

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(j) PIDM as lessee – MFRS 117 (policy applicable before 1 January 2018)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

New and revised MFRS Standards, Interpretations and Amendments

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

The following pronouncements issued by the MASB have become effective in the current financial reporting period and have been adopted by PIDM in these financial statements:

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

- MFRS 9 *Financial Instruments* (IFRS 9 as issued by IASB in July 2014)
- Amendments to MFRS 1 *First-time Adoption of Malaysian Financial Reporting Standards (Annual Improvements 2014-2016 Cycle)*
- IC Interpretation 22 Foreign Currency Transactions and Advance Consideration

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements other than the following:

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

On the effective date, PIDM applied MFRS 9 retrospectively, but has elected to not restate the comparative information as the impact is not significant. As such, PIDM has adopted MFRS 9 and the consequential amendments to MFRS 7 that were applied to the disclosures for 2018 and not to the comparative period. Similarly, the accounting policies for the financial instruments of the comparative are in accordance with MFRS 139.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014) (continued)

MFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities;
- 2) Impairment of financial assets; and
- 3) General hedge accounting.

Details of these new requirements as well as their impact on PIDM's financial statements are described below. PIDM has applied MFRS 9 in accordance with the transition provisions set out in MFRS 9.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which PIDM has assessed its existing financial assets and financial liabilities in terms of the requirements of MFRS 9) is 1 January 2018. Accordingly, PIDM has applied the requirements of MFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 January 2018 have not been restated.

All recognised financial assets that are within the scope of MFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are SPPI or returns on the principal amount outstanding, are measured subsequently at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI or returns on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, PIDM may make the following irrevocable election / designation at initial recognition of financial asset:

- PIDM may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- PIDM may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014) (continued)

Classification and measurement of financial assets (continued)

In the current year, PIDM has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

PIDM reviewed and assessed PIDM's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of MFRS 9 of its financial assets classified as held-to-maturity and loans and receivables under MFRS 139 that were measured at amortised cost continue to be measured at amortised cost under MFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist SPPI or return on the principal amount outstanding.

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

Financial assets / Liabilities	Note	Original measurement category under MFRS 139	Amount (RM)	New measurement category under MFRS 9	Amount (RM)
Cash and cash equivalents	4a	At cost and held-to-maturity	133,123	Amortised cost	133,123
Investments	5	Held-to-maturity	3,873,567	Amortised cost	3,873,567
Other financial assets	6a	Loans and receivables	41,770	Amortised cost	41,770
Payables	11a	At cost	(4,218)	Amortised cost	(4,218)

There were no reclassification and remeasurement of the financial assets and financial liabilities of PIDM arising from the adoption of MFRS 9.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014) (continued)

Expected credit loss impairment model

In relation to the impairment of financial assets, MFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under MFRS 139. The expected credit loss model requires PIDM to account for expected credit losses (ECL) and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before ECL are recognised.

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

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

The result of the assessment for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of MFRS 9 (i.e. 1 January 2018) is as follows:

Items existing as at 1 January 2018 that are subject to the impairment provisions of MFRS 9	Note	Credit risk attributes at 1 January 2018	Cumulative additional loss allowance recognised on 1 January 2018 (RM)
Placements of short-term money market and fixed deposits	4	These items are assessed to have low credit risk at each reporting date based on their respective external credit ratings. As such, PIDM assumes that the credit risk on these financial instruments has not increased significantly since initial recognition as permitted by MFRS 9 and recognises 12-months ECL for these assets.	–
Malaysian Government Securities and Bank Negara Malaysia Monetary Notes	5		–
Private Debt Securities	5		–

Apart from the consequential amendments to MFRS 7 which have resulted in more extensive disclosures about PIDM's exposure to credit risk in the financial statements (see Note 22(e) for details), the adoption has had no significant impact on PIDM's financial statements. The impairment allowance under the MFRS 139 incurred credit loss model as at 1 January 2018 was insignificant and it has remained insignificant upon reassessment on this date under the MFRS 9 expected credit loss model and throughout the current financial reporting period.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

MFRS 9 Financial Instruments (IFRS 9 as issued by IASB in July 2014) (continued)

Classification and measurement of financial liabilities

A significant change introduced by MFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, MFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under MFRS 139, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

This change in accounting policy has not affected PIDM as PIDM does not have any financial liabilities designated as at FVTPL. Apart from the above, the application of MFRS 9 has had no impact on the classification and measurement of PIDM's financial liabilities.

Disclosures in relation to the initial application of MFRS 9

There were no financial assets or financial liabilities which PIDM had previously designated as at FVTPL under MFRS 139 that were subject to reclassification or which PIDM has elected to reclassify upon the application of MFRS 9. There were no financial assets or financial liabilities which PIDM has elected to designate as at FVTPL at the date of initial application of MFRS 9. There were also no financial assets or liability that has been reclassified as a result of transition to MFRS 9.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The following pronouncement that have been issued by the MASB has been early adopted in the current financial reporting period and have been adopted by PIDM in these financial statements:

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

- MFRS 16 Leases

In the current year, PIDM, for the first time, has applied MFRS 16 Leases (as issued by the MASB on 15 April 2016) in advance of its effective date.

MFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 2.2(i). The impact of the adoption of MFRS 16 on PIDM's financial statements is described below.

The date of initial application of MFRS 16 for PIDM is 1 January 2018.

PIDM has applied MFRS 16 using the retrospective approach with the cumulative effect of initially applying the Standard recognised at the date of initial application with no restatement of the comparative information ("modified retrospective approach").

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

Impact of the new definition of a lease

PIDM has made use of the practical expedient available on transition to MFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with MFRS 117 and IC Int. 4 will continue to be applied to leases entered or modified before 1 January 2018.

The change in definition of a lease mainly relates to the concept of control. MFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

PIDM applies the definition of a lease and related guidance set out in MFRS 16 to all lease contracts entered into or modified on or after 1 January 2018 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of MFRS 16, PIDM has carried out an implementation project. The project has shown that the new definition in MFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for PIDM.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Impact on Lessee Accounting

Former operating leases

MFRS 16 changes how PIDM accounts for leases previously classified as operating leases under MFRS 117, which were off-balance-sheet.

Applying MFRS 16, for all leases (except as noted below), PIDM:

- (a) recognises right-of-use assets and lease liabilities in the Statement of Financial Position, initially measured at the present value of future lease payments;
- (b) recognises depreciation of right-of-use assets and lease of finance costs in the Statement of Profit or Loss; and
- (c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the Statement of Cash Flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under MFRS 117 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under MFRS 16, right-of-use assets are tested for impairment in accordance with MFRS 136 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as water dispenser), PIDM has opted to recognise a lease expense on a straight-line basis as permitted by MFRS 16. This expense is presented within miscellaneous expenses in the Statement of Profit or Loss.

PIDM used the following practical expedients when applying MFRS 16 to leases previously classified as operating leases under MFRS 117.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- Not recognise a right-of-use asset or lease liability to leases for which the lease term ends within 12 months of the date of initial application.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Impact on Lessor Accounting

MFRS 16 does not change substantially how a lessor accounts for leases. Under MFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, MFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets.

Under MFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under MFRS 117). PIDM does not have any leases as a lessor and as such do not have any impact on lessor accounting.

Financial impact of initial application of MFRS 16

On transition to MFRS 16, PIDM recognised an additional RM28.9 million of right-of-use assets and lease liabilities.

When measuring lease liabilities, PIDM discounted lease payments using its incremental borrowing rate at 1 January 2018. The weighted-average rate applied is 5.76%.

	1 January 2018 RM'000
Operating lease commitment at 31 December 2017 as disclosed in PIDM's financial statements	23,757
Discounted using the incremental borrowing rate at 1 January 2018	21,363
– Recognition exemption for short term leases	(57)
– Extension options reasonably certain to be exercised	8,924
– Modification of leases as at 1 January 2018	(159)
– Changes in service taxes	(1,209)
Lease liabilities recognised at 1 January 2018	28,862

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

- Amendments to MFRS 3 *Definition of a Business*

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

- MFRS 17 *Insurance Contracts*

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

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

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

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

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

PIDM does not expect that the adoption of the MFRS Standards listed above will have a material impact on the financial statements of PIDM in future periods, except as noted below:

Amendments to MFRS 9 Prepayment Features with Negative Compensation

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

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

PIDM does not anticipate that the application of the amendments in the future will have an impact on PIDM's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

- Calculate past service cost or gain or loss on settlement is calculated by measuring defined liability (asset) using updated assumptions. Entities are to ignore effect of asset ceiling.
- Calculate current service cost and net interest on the net defined benefit liability (asset) to be determined using updated assumptions.

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

PIDM does not anticipate that the application of the amendments in the future will have an impact on PIDM's financial statements.

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

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

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

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

PIDM does not anticipate that the application of the amendments in the future will have an impact on PIDM's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**2.4 Changes in presentation of Statement of Profit or Loss and Other Comprehensive Income**

During 2018, PIDM has changed the presentation of its analysis of expenses recognised in profit or loss using a classification based on function within PIDM as it would better provide information that is reliable and more relevant.

As a consequence, new line items of expenses have been introduced. The comparative Statement of Profit or Loss and Other Comprehensive Income have been re-presented. There is no impact arising from the change in presentation. The following table summarises line items affected in the Statement of Profit or Loss and Other Comprehensive Income of prior period before re-presentation.

	2018 RM'000	2017 RM'000
Employee benefits	62,853	68,661
Public relations and advertising	9,423	8,795
Depreciation of property and equipment	7,445	6,162
Operating leases	–	6,066
Other expenses	20,497	22,644
Total expenses	100,218	112,328

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of PIDM's financial statements does not generally require Management to make judgements, estimates and assumptions that affect the reported amounts except for the areas discussed below and the disclosure of contingent liabilities at the reporting date. Where judgements are required, uncertainty about the assumptions and estimates used could result in outcomes that would require a material adjustment to the carrying amount of the affected asset or liability in the future.

3.1 Judgements made in applying accounting policies

In the process of applying PIDM's accounting policies, Management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(a) Non-consolidation of investments in subsidiaries

In accordance with MFRS 10 *Consolidated Financial Statements*, consolidation of subsidiaries by a parent is required when the parent has 'control' over its subsidiaries. For control to be established, the investor must have the following:

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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 in order to run its operations, these expenses are limited and strictly governed by the PIDM Act.

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

(b) Classification of financial assets – business model assessment

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

(c) Lease commitments

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

3.2 Key sources of estimation uncertainty

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

Impairment losses on financial assets

The measurement of impairment losses under both MFRS 9 and MFRS 139 across all categories of financial assets requires judgement. In particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**3.2 Key sources of estimation uncertainty (continued)****Impairment losses on financial assets (continued)**

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

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

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

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

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

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

Defined benefit plan – LTRP

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

Right-of-use assets and lease liabilities

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

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



NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

4. CASH AND CASH EQUIVALENTS

a. Balances as at the end of the financial year

Operational banking accounts
Placements in short-term money market and
fixed deposits

Total cash and cash equivalents

2018		
Total RM'000	DIFs RM'000	TIPFs RM'000
1,088	566	522
132,035	113,630	18,405
133,123	114,196	18,927

Operational banking accounts
Placements in short-term money market and
fixed deposits

Total cash and cash equivalents

2017		
Total RM'000	DIFs RM'000	TIPFs RM'000
1,413	1,186	227
24,750	17,750	7,000
26,163	18,936	7,227

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

4. CASH AND CASH EQUIVALENTS (continued)

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

	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
Depreciation of right-of-use assets	–	–	–
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
Payment of lease finance cost	–	–	–
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)
Purchase of property and equipment	(7,774)	(5,276)	(2,498)
Net cash flows used in investing activities	(494,969)	(386,621)	(108,348)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	–	–	–
Net cash flows used in financing activities	–	–	–
Net increase 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

5. INVESTMENTS

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

	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
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 investments at amortised cost	3,498,582	1,963,042	1,535,540
Less : Allowance for expected credit losses	—	—	—
Total net investments	3,498,582	1,963,042	1,535,540

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

Impairment of investments

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

Arising from the assessment carried out on the adoption of MFRS 9, no allowance for expected credit losses was recognised for PIDM's investments recognised at amortised cost, due to its insignificant impact. Upon reassessment, it has remained insignificant for the current financial reporting year.

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

6. OTHER ASSETS

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

2017			
	Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial assets			
Investment income receivables	34,080	18,820	15,260
Deposits	2,273	2,120	153
Other receivables	665	419	246
Sub-total financial assets	37,018	21,359	15,659
b. Non-financial assets			
Prepayment	2,360	1,801	559
Other non-financial assets	213	154	59
Sub-total non-financial assets	2,573	1,955	618
Total other assets	39,591	23,314	16,277

Included in other receivables are inter-fund balances of RM0.03 million (2017: RM0.6 million) for day-to-day operational activities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

6. OTHER ASSETS (continued)

Impairment of other financial assets

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

Arising from the assessment carried out on the adoption of MFRS 9, no allowance for expected credit losses was recognised for financial assets recognised at amortised cost, due to its insignificant impact. Upon reassessment, it has remained insignificant for the current financial reporting year.

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

7. INVESTMENT IN SUBSIDIARIES

2018			
	Total RM'000	DIFs RM'000	TIPFs RM'000
At cost			
Unquoted shares	—*	—	—
Total investment in subsidiaries	—*	—	—
2017			
	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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

7. INVESTMENT IN SUBSIDIARIES (continued)

Details of the subsidiaries are as follows:

Name of subsidiary	Country of incorporation	Principal activities	Incorporation date	Effective ownership interest	Status
The Federal Asset Management Agency of Malaysia Berhad**	Malaysia	Asset management company	8 June 2012	100%	Dormant
The Federal Commercial Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The Federal Islamic Bank of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant
The National PIDM Insurance Corporation of Malaysia Berhad**	Malaysia	Bridge institution	20 June 2012	100%	Dormant
The Federal Takaful Corporation of Malaysia Berhad**	Malaysia	Bridge institution	22 June 2012	100%	Dormant

** Audited by an external audit firm, Messrs Khairuddin Hasyudeen & Razi.

The names of all Directors for all the subsidiaries in office during the financial year ended 31 December 2018 were:

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

7. INVESTMENT IN SUBSIDIARIES (continued)

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

Name of subsidiary	Objects / Purpose
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.
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 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	2018 RM	2017 RM
Audit fees	16,960	15,370
Tax consultancy fees	–	545
Secretarial fees	13,605	13,382
Total subsidiaries expenses	30,565	29,297

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. PROPERTY AND EQUIPMENT

	2018							
	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 2018	4,718	17,281	43,418	4,042	983	10,304	2,721	83,467
Additions	–	–	641	96	190	–	4,348	5,275
Reclassifications / Adjustments	–	–	5,629	–	–	–	(5,634)	(5)
Disposals	–	–	(23)	–	(3)	–	–	(26)
Retirement	–	–	(30)	–	–	–	–	(30)
Balance as at 31 December 2018	4,718	17,281	49,635	4,138	1,170	10,304	1,435	88,681
Accumulated depreciation								
Balance as at 1 January 2018	–	345	32,429	3,230	586	8,602	–	45,192
Charge for the year	–	346	6,211	150	175	563	–	7,445
Reclassifications / Adjustments	–	–	–	–	–	–	–	–
Disposals	–	–	(23)	–	(3)	–	–	(26)
Retirement	–	–	(30)	–	–	–	–	(30)
Balance as at 31 December 2018	–	691	38,587	3,380	758	9,165	–	52,581
Net carrying amount as at 31 December 2018	4,718	16,590	11,048	758	412	1,139	1,435	36,100

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. PROPERTY AND EQUIPMENT (continued)

	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	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



NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. PROPERTY AND EQUIPMENT (continued)

During the year, PIDM has traded-in an office equipment and a motor vehicle which have been fully depreciated to purchase new assets. The total trade-in value for these assets amounted to RM2,700. Gains from the trade-in of these assets were not disclosed separately in the Statement of Profit or Loss as it is immaterial.

Assets under construction amounting to RM1,434,996 (2017: RM2,721,556) consist of:

*** Assets under construction consist of:**

Risk Assessment System (RAS) version 2
Technology Assurance for RAS 2
Data Leak Protection
Industry Portal System
Other Information Technology (IT) systems

Total

2018 RM	2017 RM
714,011	951,801
–	576,667
–	418,617
318,310	–
402,675	774,471
1,434,996	2,721,556

Subsequent to initial recognition, the freehold land is stated at cost. As at 31 December 2018, 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 carried in the first year 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

Cost as at 1 January

Cost as at 31 December

Fair value as at 31 December

2018 RM	2017 RM
4,718	4,718
4,718	4,718
8,200	8,200

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

	2018							
	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 2018	3,155	14,046	35,701	3,829	824	9,234	1,912	68,701
Additions	–	–	505	76	150	–	2,821	3,552
Reclassifications / Adjustments	–	–	3,451	–	–	–	(3,451)	–
Disposals	–	–	(23)	–	–	–	–	(23)
Retirement	–	–	(30)	–	–	–	–	(30)
Balance as at 31 December 2018	3,155	14,046	39,604	3,905	974	9,234	1,282	72,200
Accumulated depreciation								
Balance as at 1 January 2018	–	280	28,971	3,173	509	7,889	–	40,822
Charge for the year	–	281	4,174	120	137	435	–	5,147
Reclassifications / Adjustments	–	–	–	–	–	–	–	–
Disposals	–	–	(23)	–	–	–	–	(23)
Retirement	–	–	(30)	–	–	–	–	(30)
Balance as at 31 December 2018	–	561	33,092	3,293	646	8,324	–	45,916
Net carrying amount as at 31 December 2018	3,155	13,485	6,512	612	328	910	1,282	26,284

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds (continued)

	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)
	–	–	(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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. PROPERTY AND EQUIPMENT (CONTINUED)

b. Takaful and Insurance Benefits Protection Funds

	2018							
	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 2018	1,563	3,235	7,717	213	159	1,070	809	14,766
Additions	–	–	136	20	40	–	1,527	1,723
Reclassifications / Adjustments	–	–	2,178	–	–	–	(2,183)	(5)
Disposals	–	–	–	–	(3)	–	–	(3)
Retirement	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	1,563	3,235	10,031	233	196	1,070	153	16,481
Accumulated depreciation								
Balance as at 1 January 2018	–	65	3,458	57	77	713	–	4,370
Charge for the year	–	65	2,037	30	38	128	–	2,298
Reclassifications / Adjustments	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	(3)	–	–	(3)
Retirement	–	–	–	–	–	–	–	–
Balance as at 31 December 2018	–	130	5,495	87	112	841	–	6,665
Net carrying amount as at 31 December 2018	1,563	3,105	4,536	146	84	229	153	9,816

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

	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								
Charge for the year	–	–	2,347	25	46	729	–	3,147
Reclassifications / Adjustments	–	65	1,131	32	31	161	–	1,420
Disposals	–	–	–	–	–	–	–	–
Retirement	–	–	(20)	–	–	–	–	(20)
Balance as at 31 December 2017	–	–	–	–	–	(177)	–	(177)
	–	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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

9. RIGHT-OF-USE ASSETS

PIDM leases several assets including building and office equipment.

PIDM has tenancy contract for the use of office space at Levels 11, 12, 13, 15 and 16, Axiata Tower, Kuala Lumpur Sentral. PIDM has renewed its tenancy agreement commencing on 1 January 2018 and expiring on 31 December 2021 with the option to renew for another 2 years (Third Term) at prevailing market rental rate, subject to maximum increase of 10%. There is no purchase option clause included in the contract. There are also no restrictions placed upon PIDM by entering into this tenancy contract.

PIDM has also entered into leases for various office equipment under non-cancellable lease contracts. These leases have lease terms of up to five years and include either a provision for an automatic renewal if PIDM does not serve termination notice three months before expiration of the primary terms or exclude a provision for an automatic renewal. For both type of lease terms, there are no purchase options or escalation clauses included in the lease contracts.

Right-of-use assets

		2018			
	Note	Building RM'000	Parking RM'000	Office Equipment RM'000	Total RM'000
Amount restated as at initial recognition	2.3	27,543	600	719	28,862
Depreciation of right-of-use assets	16	(4,591)	(100)	(247)	(4,938)
Net carrying amount		22,952	500	472	23,924

Lease related expenses charged to Profit or Loss

	Note	2018 RM'000
Depreciation of right-of-use assets	16	4,938
Lease finance costs	16	1,487
Expense relating to leases of low value assets*		8
Total lease related expenses		6,433

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

The total cash outflow for leases amounted to RM5,614,492, comprising payment of lease finance cost of RM1,487,473 and principal repayment of lease liabilities of RM4,127,019. Refer to the Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

10. LEASE LIABILITIES

	Note	2018 RM'000
Balance as at 1 January	2.3	28,862
Principal repayment of lease liabilities	9	(4,127)
Balance as at 31 December		24,735

	2018 RM'000
Maturity analysis	
Not later than 1 year	4,370
Later than 1 year and not later than 5 years	20,365
Later than 5 years	–
	24,735

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

Disclosure under the MFRS 117

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:

	2018 RM'000	2017 RM'000
Future minimum lease payments:		
Within 1 year	–	6,064
More than 1 year but less than 5 years	–	17,693
Total operating lease commitments	–	23,757

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

11. PAYABLES

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

		2017		
	Note	Total RM'000	DIFs RM'000	TIPFs RM'000
a. Financial liabilities				
Operational payable		8,710	6,870	1,840
Other payables		661	300	361
Sub-total financial liabilities		9,371	7,170	2,201
b. Non-financial liabilities				
Provision for unutilised leave	i	1,879	1,470	409
Provision for Long Term Retirement Plan liability	ii	894	705	189
Sub-total non-financial liabilities		2,773	2,175	598
Total payables		12,144	9,345	2,799

Included in other payables are inter-fund balances of RM0.03 million (2017: RM0.6 million) for day-to-day operational activities.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

11. PAYABLES (continued)

i. Provision for unutilised leave

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

	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

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

ii. Provision for Long Term Retirement Plan Benefit

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

11. PAYABLES (continued)

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

	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

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.

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

	Total		DIFs		TIPFs	
	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Balance as at 1 January	894	252	705	205	189	47
Included in profit or loss						
Current service cost	786	526	622	410	164	116
Past service cost	—	—	—	—	—	—
Interest / Financing cost	48	14	38	11	10	3
Included in other comprehensive income						
*Remeasurements	(113)	102	(89)	79	(24)	23
Balance as at 31 December	1,615	894	1,276	705	339	189

*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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

11. PAYABLES (continued)

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

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

Fair value of plan assets

Present value of unfunded obligations

2018 RM'000	2017 RM'000
1,615	894

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.

12. FUNDS AND RESERVES

a. Deposit Insurance Funds

Accumulated surpluses

Balance as at 1 January

Net surplus

Balance as at 31 December

2018		
Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
2,023,826	1,684,676	339,150
373,163	294,315	78,848
2,396,989	1,978,991	417,998

Balance as at 1 January

Net surplus

Balance as at 31 December

2017		
Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
1,655,200	1,388,304	266,896
368,626	296,372	72,254
2,023,826	1,684,676	339,150

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

12. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

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 DIF. Based on the level of TID as at 31 December 2017, the range in RM absolute terms is between RM2.6 billion and RM3.9 billion for the Conventional DIF and between RM661 million and RM992 million for the Islamic DIF. The Target Fund modelling was reviewed during the year as part of the annual review process, and the conclusion was that the existing Target Fund level is still current and relevant.

The current balance of DIFs as at 31 December 2018 as a percentage of TID compared to the Target Fund range are described in the following table:

Deposit Insurance Funds	Target Fund			
	2018 Actual RM Million / %	2017 Actual RM Million / %	Lower Range RM Million / %	Upper Range RM Million / %
Conventional Deposit Insurance Fund				
Balance	1,979	1,685	2,615	3,923
Percentage of Total Insured Deposits	0.45%	0.39%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	418	339	661	992
Percentage of Total Insured Deposits	0.38%	0.35%	0.60%	0.90%

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

Based on the current level of accumulated surpluses and premium rates, the lower range of the Target Fund (0.6% of TID) is expected to be achieved within the next 4 to 7 years.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

12. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds

Accumulated surpluses

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

	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

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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

12. 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. As at 31 December 2018, the Target Fund range in RM million are as follows:

	Target Fund			
	2018 Actual RM Million	2017 Actual RM Million	Lower Range RM Million	Upper Range RM Million
General Insurance Protection Fund				
Balance	1,253	1,217	289	361

Based on the above GIPF balance as at 31 December 2018, the current fund position has exceeded the upper range of the Target Fund. In this regard, PIDM has established the Fund Administration Framework, which incorporates the revision of levy rates or rebate of levy. In assessment year 2016, PIDM has revised the levy rates to be assessed on general insurer members for the assessment year 2016 onwards. Refer to Note 13(b)(i) for the details on the levy rates payable by insurer members.

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 2018, the Target Fund range in RM million are as follows:

	Target Fund			
	2018 Actual RM Million	2017 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Life Insurance Protection Fund				
Balance	346	283	532	798

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the insurance industry, the lower range of the Target Fund is expected to be achieved within the next 4 to 7 years.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

12. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

During the year, PIDM implemented the Target Fund framework for General Takaful Protection Fund (GTPF) and Family Takaful Protection Fund (FTPF). The Target Fund framework for GTPF has adopted the Target Fund levels at the range of 2.8% to 3.3% of the total general takaful liabilities¹. Based on the total general takaful liabilities as at 31 December 2018, the Target Fund range in RM million are as follows:

	Target Fund			
	2018 Actual RM Million	2017 Actual RM Million	Lower Range RM Million	Upper Range RM Million
General Takaful Protection Fund				
Balance	26	22	63	74

At the point of establishing the Target Fund for GTPF and taking into consideration the operating environment and impact to the takaful industry, PIDM had determined the reasonable time-to-fund to achieve the lower range of the Target Fund to be between 5 and 7 years.

The Target Fund framework for FTPF has adopted the Target Fund levels at the range of 1.0% to 1.5% of the total family takaful liabilities². Based on the total family takaful liabilities as at 31 December 2018, the Target Fund range in RM million are as follows:

	Target Fund			
	2018 Actual RM Million	2017 Actual RM Million	Lower Range RM Million	Upper Range RM Million
Family Takaful Protection Fund				
Balance	56	44	187	281

At the point of establishing the Target Fund for FTPF and taking into consideration the operating environment and impact to the takaful industry, PIDM had determined the reasonable time-to-fund to achieve the lower range of the Target Fund to be between 8 and 11 years.

¹ General takaful liabilities consist of claims liabilities and contribution liabilities of the general takaful fund.

² Family takaful liabilities consist of actuarial valuation liabilities of the participants' risk fund and the net asset value of participants' investment fund, excluding investment-linked funds' net asset value.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. PREMIUM AND LEVY REVENUES

a. Premium revenues from member banks

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

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

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 2011³ (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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. 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

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

	2017				
	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
First levies	–	–	–	–	–
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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. 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 Premium⁴ Systems in respect of Insurer Members) Regulations 2012⁵ (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	2018			
	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 2017 based on Premium Order – Insurer Members 2016, were 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%

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

13. PREMIUM AND LEVY REVENUES (continued)

b. Levy revenues from insurer members (continued)

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

The annual levies payable for 2018 were subject to minimum levies based on their levy category as follows:

Levy Category	2018			
	Minimum Annual Levy Amount (RM)			
	Insurance		Takaful	
	General	Life	General	Familiy
1	25,000	75,000		
2		150,000		
3		300,000		
4		600,000		

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	Familiy
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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

14. INVESTMENT INCOME FROM CASH AND INVESTMENT SECURITIES

a. Investment income according to investment securities

	2018		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Malaysian Government Securities and Investment Issues	108,577	62,051	46,526
Bank Negara Malaysia Monetary Notes	–	–	–
Private Debt Securities	10,346	6,174	4,172
Placements in short-term money market and fixed deposits	1,369	996	373
Total investment income from cash and investment securities	120,292	69,221	51,071

	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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

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

b. Investment income according to nature of income

Coupon and profit rate from investment securities
Returns from accretion of discounts from investment
securities (net of amortisation of premiums)
Returns from placements in short-term money market
and fixed deposits

Total investment income from cash and investment securities

2018		
Total RM'000	DIFs RM'000	TIPFs RM'000
123,770	71,127	52,643
(4,847)	(2,902)	(1,945)
1,369	996	373
120,292	69,221	51,071

Coupon and profit rate from investment securities
Returns from accretion of discounts from investment
securities (net of amortisation of premiums)
Returns from placements in short-term money market
and fixed deposits

Total investment income from cash and investment securities

2017		
Total RM'000	DIFs RM'000	TIPFs RM'000
110,916	57,257	53,659
(10,354)	(1,920)	(8,434)
518	390	128
101,080	55,727	45,353

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

14. 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	DIFs		TIPFs			
		Conventional	Islamic	General Insurance	Life Insurance	General Takaful	Family Takaful
2018	Cash equivalents and investments						
	MGSII and BNMI*	3.18%	3.23%	3.18%	3.16%	3.28%	3.28%
	Private Debt Securities	4.01%	3.88%	3.97%	4.02%	3.81%	3.84%
	Placements in short-term money market and fixed deposits	3.43%	3.42%	3.45%	3.44%	3.46%	3.43%
	Overall	3.24%		3.23%			
2017	Cash equivalents and investments						
	MGSII and BNMI*	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%			

The WAEYR presented above are based on the weighted average yield for each portfolio for the whole of the financial year 2018 and 2017.

* MGSII and BNMI as noted above consist Malaysian Government Securities and Investment Issues as well as Bank Negara Malaysia Bills and Negotiable Notes

NOTES TO THE FINANCIAL STATEMENTS

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15. HUMAN CAPITAL MANAGEMENT EXPENSES

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

15. HUMAN CAPITAL MANAGEMENT EXPENSES (continued)

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
a. Employee benefits			
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
Interest / financing cost of the LTRP	14	11	3
Other benefits	4,279	3,247	1,032
Sub-total – employee benefits	68,675	51,762	16,913
b. Other human capital related expenses			
Learning and development	2,634	2,117	517
Miscellaneous human capital related expenses	900	710	190
Sub-total – other human capital related expenses	3,534	2,827	707
Total employee benefits	72,209	54,589	17,620

The number of employees at the end of the financial year was 176 (2017: 171).



NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

16. OPERATIONS AND ADMINISTRATIVE EXPENSES

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

	2017		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees	33	26	7
Directors' fees and remuneration*	1,356	1,057	299
Amounts due from subsidiaries written-off	213	116	97
Depreciation of property and equipment	6,162	4,742	1,420
Depreciation of right-of-use assets	—	—	—
Lease finance cost	—	—	—
Rental of office space**	5,717	4,457	1,260
Telecommunication and computer systems	4,114	3,251	863
Utilities, office and vehicle maintenance and general insurance	2,184	1,704	480
Subscriptions and memberships	845	672	173
Publications and corporate collaterals	1,044	814	230
Parking space rental	653	509	144
Professional and consultancy fees	1,137	889	248
Postage, printing and stationery	295	231	64
Miscellaneous	1,045	865	180
Total operations and administrative expenses	24,798	19,333	5,465

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

** For the 2017 financial year, rental of office space was disclosed as part of operating leases. For the 2018 financial year, this expense is disclosed as part of depreciation of right-of-use assets and lease finance cost (arising from the adoption of MFRS 16).

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

17. INITIATIVES RELATED EXPENSES

Effective resolution regime

Operational readiness for intervention and failure resolution
Resolution planning

Sub-total effective resolution regime

Stakeholder engagement and corporate social responsibilities

Advertising
Public relations
Scholarship programme
Others

Sub-total for stakeholder engagement and corporate social responsibilities

Other initiatives related expenses

Total initiatives related expenses

2018		
Total RM'000	DIFs RM'000	TIPFs RM'000
1,089	20	1,069
176	172	4
1,265	192	1,073
7,224	5,597	1,627
1,259	997	262
924	732	192
1,199	809	390
10,606	8,135	2,471
166	132	34
12,037	8,459	3,578

2017

Effective resolution regime
Operational readiness for intervention and failure resolution
Resolution planning

Sub-total effective resolution regime

Stakeholder engagement and corporate social responsibilities

Advertising
Public relations
Scholarship programme
Others

Sub-total for stakeholder engagement and corporate social responsibilities

Other initiatives related expenses

Total initiatives related expenses

Total RM'000	DIFs RM'000	TIPFs RM'000
2,594	2,594	–
2,650	2,466	184
5,244	5,060	184
6,673	5,211	1,462
723	547	176
766	597	169
1,915	1,697	218
10,077	8,052	2,025
–	–	–
15,321	13,112	2,209

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

18. TAXATION

PIDM is exempted from income tax.

19. CAPITAL COMMITMENTS

Approved and contracted for:

Office equipment and computer systems

Total capital commitments

2018 RM'000	2017 RM'000
1,614	5,743
1,614	5,743

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.

20. RELATED PARTY DISCLOSURES

a. Transactions with related parties

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

	Note	Expenses		Payables	
		2018 RM'000	2017 RM'000	2018 RM'000	2017 RM'000
Bank Negara Malaysia	a	–	464	–	–
Kumpulan Wang Simpanan Pekerja	b	7,995	7,720	16	–
Pertubuhan Keselamatan Sosial	b	143	135	–	–

- Transaction mainly relate to rental of space for the Disaster Recovery Site.
- PIDM makes contributions to the statutory national pension scheme, the Kumpulan Wang Simpanan Pekerja (also known as the 'Employee Provident Fund') and the Pertubuhan Keselamatan Sosial (also known as the 'Social Security Organisation') as disclosed in Note 15.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

20. RELATED PARTY DISCLOSURES (continued)

b. Remuneration of key management personnel

	2018 RM'000	2017 RM'000
Short-term benefits	9,713	18,904
Post-employment benefits:		
Contributions to defined contribution plan	1,660	1,853
Total remuneration of key management personnel	11,373	20,757

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 16. Remuneration of key management personnel is also included in the employee benefits disclosure in Note 15.

21. SEGMENT INFORMATION

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

21. SEGMENT INFORMATION (continued)

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

* The amount is significantly below the rounding threshold.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

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	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 and equipment	8	38,275	22,798	5,081	2,252	6,475	566	1,103
Right-of-use assets	9	—	—	—	—	—	—	—
Total Assets		3,602,611	1,692,323	340,848	1,217,805	284,248	22,505	44,882
LIABILITIES								
Payables	11	12,144	7,647	1,698	1,070	1,175	198	356
Lease liabilities	10	—	—	—	—	—	—	—
Total Liabilities		12,144	7,647	1,698	1,070	1,175	198	356
FUNDS AND RESERVES								
Accumulated surpluses	12	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 2018

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

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

	Note	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Premium and levy revenues	13	468,179	299,179	81,698	5,942	64,968	3,838	12,554
Investment income from cash and investment securities	14	120,292	57,313	11,908	38,698	10,001	763	1,609
Total income		588,471	356,492	93,606	44,640	74,969	4,601	14,163
Human capital management expenses	15	64,544	40,887	9,657	4,913	6,949	685	1,453
Operations and administrative expenses	16	23,637	14,539	3,482	1,765	2,991	285	575
Initiatives related expenses	17	12,037	6,823	1,636	1,250	1,773	179	376
Total expenses		100,218	62,249	14,775	7,928	11,713	1,149	2,404
Net surplus for the year		488,253	294,243	78,831	36,712	63,256	3,452	11,759
Other comprehensive income								
Remeasurements of Long Term Retirement Plan liability	11ii	113	72	17	8	12	2	2
Total comprehensive income for the year	21	488,366	294,315	78,848	36,720	63,268	3,454	11,761

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

21. 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	13	474,338	320,508	79,506	5,445	52,219	5,329	11,331
Investment income from cash and investment securities	14	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
Human capital management expenses	15	72,209	44,669	9,919	5,947	9,017	957	1,700
Operations and administrative expenses	16	24,798	15,713	3,622	1,547	3,039	309	568
Initiatives related expenses	17	15,321	10,792	2,321	730	1,129	125	224
Total expenses		112,328	71,174	15,862	8,224	13,185	1,391	2,492
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	11ii	(102)	(65)	(14)	(8)	(12)	(1)	(2)
Total comprehensive income for the year	21	462,988	296,372	72,254	33,668	46,104	4,549	10,041

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

4a

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

21. 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)
Payment of lease finance cost		–	–	–	–	–	–	–
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)
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)
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal repayment of lease liabilities		–	–	–	–	–	–	–
Net cash flow used in financing activities		–	–	–	–	–	–	–
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 2018

22. FINANCIAL RISK

PIDM's financial risk management policy seeks to ensure that adequate financial resources are available for PIDM's activities whilst managing PIDM's currency, interest rate and rate of return, liquidity, market and credit risks. PIDM operates within guidelines that are approved by the Board of Directors and PIDM's Investment Policy is to only invest in short-term and medium-term Ringgit Malaysia denominated Government and Bank Negara Malaysia securities 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 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.

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

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

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

Conventional Deposit Insurance Fund	Note	WAEYR %	Within 3 months RM'000	4 – 12 months RM'000	13 – 36 months RM'000	37 – 60 months RM'000	61 – 120 months RM'000	Total RM'000
31 December 2018								
Fixed rate								
Cash and cash equivalents	4a	3.44	49,454	54,080	–	–	–	103,534
Investments	5	3.84	262,079	268,950	1,305,033	–	–	1,836,062
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
Islamic Deposit Insurance Fund								
31 December 2018								
Fixed rate								
Cash and cash equivalents	4a	3.49	2,562	8,100	–	–	–	10,662
Investments	5	3.90	6,378	155,220	237,852	–	–	399,450
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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

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

General Insurance Protection Fund	Note	WAEYR %	Within 3 months RM'000	4 – 12 months RM'000	13 – 36 months RM'000	37 – 60 months RM'000	61 – 120 months RM'000	Total RM'000
31 December 2018								
Fixed rate								
Cash and cash equivalents	4a	3.36	3,646	3,400	–	–	–	7,046
Investments	5	3.80	348,606	131,630	751,367	–	–	1,231,603
 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
 Life Insurance Protection Fund								
31 December 2018								
Fixed rate								
Cash and cash equivalents	4a	3.41	2,771	3,150	–	–	–	5,921
Investments	5	3.80	112,931	49,516	169,686	–	–	332,133
 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

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

General Takaful Protection Fund	Note	WAEYR %	Within 3 months RM'000	4 – 12 months RM'000	13 – 36 months RM'000	37 – 60 months RM'000	61 – 120 months RM'000	Total RM'000
31 December 2018								
Fixed rate								
Cash and cash equivalents	4a	3.47	741	1,620	–	–	–	2,361
Investments	5	3.80	4,704	3,942	14,188	–	–	22,834
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
Family Takaful Protection Fund								
31 December 2018								
Fixed rate								
Cash and cash equivalents	4a	3.50	749	2,850	–	–	–	3,599
Investments	5	3.85	6,438	9,176	35,871	–	–	51,485
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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

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

Based on PIDM's investment portfolio as at 31 December 2018, 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 2018	18,681	8,918	1,831	6,008	1,566	115	243
– 31 December 2017	16,817	7,929	1,450	5,957	1,192	97	192
50 basis points decrease							
– 31 December 2018	(18,681)	(8,918)	(1,831)	(6,008)	(1,566)	(115)	(243)
– 31 December 2017	(16,817)	(7,929)	(1,450)	(5,957)	(1,192)	(97)	(192)

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 22(c). The following table sets PIDM's short-term assets and liabilities maturity profile.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

c. Liquidity risk (continued)

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

	Note	2017					
		Less Than 30 Days RM'000	31 – 60 Days RM'000	60 – 90 Days RM'000	90 Days But Less Than 36 Months RM'000	More Than 36 Months* RM'000	Total RM'000
Cash and cash equivalents	4a	18,663	–	7,500	–	–	26,163
Investments	5	5,004	726,939	149,223	2,607,265	10,151	3,498,582
Other assets	6a	2,510	15,516	12,605	4,104	2,283	37,018
Payables	11a	(3,368)	(3,639)	(17)	(2,347)	–	(9,371)
Net short-term assets		22,809	738,816	169,311	2,609,022	12,434	3,552,392

* 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.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (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.

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

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.

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

e. Credit risk

PIDM invests primarily in Malaysian Government Securities and Investment Issues, Bank Negara 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 Monetary Notes, PIDM holds investments in PDS, 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.

2018

Investment in PDS

– Principal value (RM'000)

2017

Investment in PDS

– Principal value (RM'000)

PDS rating

Former IGSF	
20,000	10,000
25,000	20,000
AAA	Non-rated

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

e. Credit risk (continued)

Apart from the IGSF portfolio, PIDM also holds other PDS issued by government-related entities in accordance with its Investment Policy. As at 31 December 2018, the principal value of these PDS amounted to RM225 million.

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

e. Credit risk (continued)

The tables below detail the credit quality of PIDM's financial assets as well as PIDM's maximum exposure to credit risk by credit risk rating grades.

31 December 2018	Note	External credit rating	Internal credit rating	12-month or lifetime ECL
Malaysian Government Securities and Investment Issues	5	Sovereign	Performing	12-month ECL
Private Debt Securities	5	AAA	Performing	12-month ECL
Investment income receivables	6	Sovereign & AAA	Performing	12-month ECL
Deposits	6	Non Applicable	Performing	12-month ECL
Other receivables	6	Non Applicable	Performing	12-month ECL

Sensitivity analysis

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

22. FINANCIAL RISKS (continued)

e. Credit risk (continued)

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

		LGD increased 10% RM'000	LGD decreased 10% RM'000
	Note		
Malaysian Government Securities and Investment Issues	5	–	–
Private Debt Securities	5	(110)	(18)
Investment income receivables	6	(2)	(2)
Deposits	6	–*	–*
Other receivables	6	–*	–*
Increase / (decrease) in net surplus for the year ended 31 December 2018		(112)	(20)

* Impact of the movements in PD and LGD on the calculation for ECL for these financial assets class remains insignificant.

23. FAIR VALUES

PIDM has an appropriate framework and policies that provide guidance concerning the practical considerations, principles and analytical approaches for the establishment of prudent valuation for financial instruments measured at fair value.

The fair value of a financial instrument is the amount at which the instrument can be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale. The valuations of financial instruments are determined by reference to quoted prices in active markets or by using valuation techniques based on observable inputs or unobservable inputs. Management judgement is exercised in the selection and application of appropriate parameters, assumptions and modelling techniques where some or all of the parameter inputs are not observable in deriving fair value.

In addition, PIDM continuously enhances its design and validation methodologies and processes used to produce valuations. The valuation models are validated both internally and externally, with periodic reviews to ensure that the model remains suitable for its intended use.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

23. FAIR VALUES (continued)

Determination of fair value

i. Level 1: Quoted prices

This refers to financial instruments that are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, pricing service or regulatory agency and those prices that represent actual and regularly occurring market transactions on an arm's length basis. Such financial instruments include actively traded government securities.

ii. Level 2: Valuation techniques using observable inputs

This refers to inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices). Examples of Level 2 financial instruments include corporate and other government bonds.

iii. Level 3: Valuation techniques using significant unobservable inputs

This refers to financial instruments where the fair value is measured using significant unobservable market inputs. The valuation technique is consistent with Level 2. The chosen valuation technique incorporates PIDM's own assumptions and data. Examples of Level 3 instruments include corporate bonds in illiquid markets.

Classes and categories of financial instruments and their fair values

The following table combines information about:

- classes of financial instruments based on their nature and characteristics;
- the carrying amounts of financial instruments; and
- fair value hierarchy levels of financial assets and financial liabilities for which fair value was disclosed.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

23. FAIR VALUES (continued)

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

31 December 2018

	Carrying value	Fair value		
		Level		
		1	2	3
	RM'000	RM'000	RM'000	RM'000
Financial assets – amortised cost				
Investments (Note 5)	3,873,567	–	3,870,969	–
Cash and cash equivalents (Note 4)	133,123	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Other financial assets (Note 6a)	41,770			
Total financial assets	4,048,460			
Financial liabilities – amortised cost				
Other financial liabilities (Note 11a)	4,219	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Lease liabilities (Note 10)	24,735			
Total financial liabilities	28,954			

31 December 2017

	Carrying value	Fair value		
		Level		
		1	2	3
	RM'000	RM'000	RM'000	RM'000
Financial assets – amortised cost				
Investments (Note 5)	3,498,582	–	3,499,613	–
Cash and cash equivalents (Note 4)	26,163	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Other financial assets (Note 6a)	37,018			
Total financial assets	3,561,763			
Financial liabilities – amortised cost				
Other financial liabilities (Note 9a)	9,371	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Lease liabilities (Note 11)	–			
Total financial liabilities	9,371			

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

23. FAIR VALUES (continued)

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

The fair value of investments are slightly lower than their carrying amount due to the sensitivity of the price of these securities arising from the interest rate and rate of return movements, and is not due to credit deterioration of these securities held. As these investments are held to maturity, the risk exposure arising from interest rate and rate of return movements does not have material impact to the financial statements. Refer to Note 22 (b) on the disclosure of the management of interest rate risk and rate of return risk.

Fair value of financial assets and financial liabilities that are not measured at fair value (but fair value disclosures are required)

The fair values of financial instruments classified as Level 2 above were determined using observable inputs. In particular, for investments at amortised cost, the fair values disclosed are indicate of their market values as at the end of the financial year and were determined by reference to indicative market prices obtained from a bond pricing agency.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

24. CONTINGENT LIABILITIES**Exposure to losses**

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

During the year, there have been no significant events that would require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

As part of its mandate, PIDM undertakes risk assessment and monitoring of all member institutions and works closely with the supervisory authority to ensure that its concerns about the business and affairs of member institutions are addressed promptly.

If a member institution is deemed non-viable by the supervisory authority, PIDM is mandated and has the necessary powers to intervene and resolve the member institution in a manner that minimises loss to the financial system.

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

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

The main contractor responsible for the construction of PIDM's disaster recovery centre has made a claim against PIDM in an arbitration proceeding. PIDM has filed a defence and counterclaim in response to the main contractor's claim. The exposure of the claim to PIDM is approximately RM1.2 million. 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.

GLOSSARY OF TERMS

Takaful Certificate owner

The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Claims Management System

An internal PIDM system used to monitor the claims progress and amounts payable for takaful beneficiaries or insured persons 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

A system established by PIDM to protect depositors against the loss of their insured deposits placed with member banks and to resolve member banks, in the unlikely event of a member bank failure.

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.

Differential Levy Systems

A system where insurer members are charged levies at differential rates, based on their risk profiles.

Differential Levy Systems for Takaful Operators

A system where takaful operators are charged levies at differential rates, based on their risk profiles.

Differential Premium Systems

A system where member banks are charged premiums at differential rates, based on their risk profiles.

Enterprise Risk Management (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.

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 amounts paid under the coverage of a policy for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Intervention and failure resolution

Intervention refers to actions taken on a member institution by PIDM in order to address certain concerns with the member institution. These actions are usually taken prior to any failure resolution option being taken against the member institution.

Failure resolution refers to actions in dealing with a failed member institution that has been determined by Bank Negara Malaysia as non-viable.

Islamic Deposit Insurance Fund

All premiums received by PIDM from Islamic member banks or commercial member banks providing Islamic banking services and returns made minus the costs of operating the Islamic Deposit Insurance System.

GLOSSARY OF TERMS

Islamic Protection Funds

The Islamic Deposit Insurance Fund, General Takaful Protection Fund, and Family Takaful Protection Fund.

Life Insurance Protection Fund

All levies received by PIDM from insurer members conducting life insurance business and interest earned minus the costs of operating the Takaful and Insurance Benefits Protection System.

Member institutions

Members of PIDM comprising insurer members and member banks.

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 PIDM's website.

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 PIDM's website.

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.

Protection Funds

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.

Risk Assessment System

An internal PIDM system used to evaluate the member institutions' risk levels and controls and provides both a current (aggregate risk) and a prospective (direction of risk) view of the member institutions' risk. This is so that emerging risks can be identified and action is taken in a timely manner, before such risks materialise.

Shariah 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 and Insurance Benefits Protection System

A system established by PIDM to protect owners of takaful certificates and insurance policies from the loss of their eligible takaful or insurance benefits and to resolve insurer members, in the unlikely event of an insurer member failure.

Takaful benefits

The amounts paid under the coverage of a takaful certificate for which a takaful operator is liable to any person in the usual course of takaful business of the takaful operator.

Takaful Protection Funds

Takaful Protection Funds refer to General Takaful Protection Fund; and Family Takaful Protection Fund.

Target fund

A target fund, in general, is the level of accumulated funds required to adequately cover expected losses arising from intervention and failure resolution activities.

Total Insured Deposits

The sum of deposits insured by PIDM.



TECHNICAL REFERENCE

SOURCES OF FUND AND FINANCIAL ABILITIES

Funding Framework

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

Our funding framework explicitly highlights the need for adequate financial resources to effectively carry out our mandate as well as to address the risks to which we are exposed. The main objectives of its funding framework are to:

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

Internal Funding

Our internal funds are built through the accumulation of net surpluses from its operations. Annual net surplus is credited into and accumulated in the respective Funds as reserves to meet future obligations that may arise from providing the financial consumer protection systems. As noted earlier, expenses are credited against the respective Funds on the costs allocation basis as described in Note 2.2(f)(2) to the financial statements and there is no commingling between the Funds.

Target Fund Objectives and Guiding Principles

The term target fund or target reserve ratio generally refers to the level of internal funds we aim to accumulate over the long run to meet its objectives and fulfil its mandate. The target funds are established to cover the expected net losses arising from any intervention and failure resolution activities. The objectives of developing a target fund framework are to: (a) provide a basis in assessing the adequacy of the current levels of the Funds; and (b) identify a systematic approach to specify the target levels for the respective Funds.

The target fund frameworks for the Deposit Insurance Funds (DIFs), the General Insurance Protection Fund (GIPF) and the Life Insurance Protection Fund (LIPF) were established in 2011, 2015 and 2016 respectively. The target fund frameworks for the Takaful Protection Funds, for both the General Takaful Protection Fund (GTPF) and the Family Takaful Protection Fund (FTPF) were completed and implemented in 2018.

Target Fund Objectives and Guiding Principles (continued)

The development of the target fund frameworks for the DIFs, GIPF, LIPF, GTPF and the FTPF 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 we might incur arising from intervention and failure resolution activities.
- (c) **Third Principle:** Optimally, the determination of the target fund level should be balanced against the impact on stakeholders, both in terms of the target fund size and time frame for achieving the set target.
- (d) **Fourth Principle:** The target fund level should be specified as a “range” rather than an absolute amount.

Target Fund Modelling Approach

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

(a) Statistical modelling approach

We have adopted the Value-at-Risk (VaR) statistical model in developing the target fund framework. Under this statistical modelling approach, VaR is determined to assess our exposure to net losses based on estimates of the member institution’s default probability, exposure at default, correlations of default and the possible recoveries in any given intervention and failure resolution action on a non-viable member institution. To determine the sufficient level of funds to cover the net losses, given a specified confidence level, we leveraged on the Monte Carlo simulation used in the VaR statistical model. Simulations using a significant number of loss scenarios to build up a statistical loss distribution were run from the model to ascertain the target fund level that will be able to cover losses or to meet the costs of insolvency in a specified time horizon with a specified confidence level.

(b) Discretionary approach

In determining the target fund range, we also took into consideration other qualitative factors such as our mandate and legislative powers, the banking and insurance industry’s landscape and operating environment as well as the financial system’s regulatory and supervisory regime in Malaysia. These qualitative factors are either directly reflected within the statistical model or used in the determination of the target fund range.

TECHNICAL REFERENCE

Risks and Sensitivity of the Target Fund Modelling

The process of estimating the target fund level is subject to uncertainty as the inputs to the model are based on sets of assumptions. Hence, the model is predicated upon, and is sensitive to several key factors as follows:

Table 1: Key Sensitive Factors of the Target Fund Modelling

Operating environment - The model is based on the assumption that the environment in which member institutions operate does not deviate significantly in the foreseeable future. This includes economic conditions and the risk profile of individual member institutions, the financial industry's landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in a different target fund level within certain ranges than previously required. Nevertheless, the operating environment will be reviewed and validated against the model annually.

Mandate and powers - The mandate and powers are set out in the PIDM Act, which, among others, enable us to intervene and resolve a troubled member institution promptly to minimise losses to the financial system. The target fund modelling and estimation were made based on the current mandate and powers set out in the PIDM Act. Any significant changes to our mandate and powers may affect the modelling assumptions and therefore the estimation of the target fund level. However, no significant changes to its mandate and powers in the near future are expected.

The target fund is not static and is reviewed and validated annually to ensure its relevance and to reflect any changes in the assumptions or inputs used.

Key Input Variables for the Statistical Model

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

Table 2: Key Input Variables and Assumptions for the Target Fund Modelling

Key Input Variables	Funds				
	DIFs	GIPF	LIPF	GTPF	FTPF
Probability of Default (PD)	We use average failure rates as reported by External Credit Assessment Institutions in their annual default study. The average failure rates are then benchmarked against the most conservative risk rating between the member institutions' supervisory risk ratings and our internal rating assessments.				
Loss Given Default (LGD)	Considers the potential recoveries on the assumption of liquidation of a member institution after taking into account exposures on relevant risks, in particular credit and market risks during the recoveries of assets.				

TECHNICAL REFERENCE

Table 2: Key Input Variables and Assumptions for the Target Fund Modelling (continued)

Key Input Variables	Funds				
	DIFs	GIFF	LIPF	GTPF	FTPF
Exposure At Default (EAD)	<p>We consider the two broad approaches to intervention namely, a liquidation or a going-concern resolution approach.</p> <p>The Total Insured Deposits (TID) (at the limit of RM250,000 per depositor per member bank) and the potential re-capitalisation of member banks are applied as proxies for the EAD.</p>	<p>We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposure to us in the event of any general insurer member's failure.</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 operational risk exposures and potential costs involved in the event of liquidation of a general insurer member.</p>	<p>We consider the Actuarial Valuation Liability (AVL) of the life insurer members as the proxy in determining the EAD, regardless of the insurance benefits protected by PIDM.</p> <p>The EAD reflects the 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>We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposures to PIDM in the event of any takaful member's failure.</p> <p>The proxy for EAD aims to minimise takaful members' risk of any under-estimation of the takaful liabilities and adverse claims experience, over and above the amount of reserves already provided.</p> <p>The EAD also considers the operational risks exposures and potential cost involved in the event of liquidation of a takaful member.</p>	

TECHNICAL REFERENCE

Table 2: Key Input Variables and Assumptions for the Target Fund Modelling (continued)

Key Input Variables	Funds				
	DIFs	GIPF	LIPF	GTPF	FTPF
Exposure At Default (EAD) (continued)				The EAD considers the sum of liabilities of the participants' general takaful fund and operator's fund expense liabilities. With regard to the general takaful fund liabilities, this include claim liabilities and contribution liabilities of the Participant Risk Fund (PRF) as adopted in the Risk-Based Capital Framework for Takaful Operators.	We consider the sum of the liabilities of the participants' family takaful fund and operator's fund expense liabilities as the proxy in determining the EAD, regardless of the insurance benefits protected by us. The exposures calculated with regard to the participants' family takaful fund comprise AVL of the PRF and accumulated value in the Participant Investment Fund (PIF) (for certificates other than investment-linked).

Management of Funds upon Reaching Target Fund Level

Upon reaching the upper target fund level, we may consider a reduction in the premium or levy rates or a rebate of the premiums or levies, based on among others, an assessment of the economic environment and industry conditions. In the management of the accumulation of the Funds, it is important for us to ensure that the Differential Premium Systems framework for member banks or the Differential Levy Systems framework for insurer members, continue to incentivise member institutions to improve their risk profiles and that the new entrants will pay premiums or levies on the deposits or benefits that are protected by us.

External Funding

We may raise external funds through either borrowing from the Government, capital markets or such other sources as deemed necessary and appropriate. The PIDM Act empowers the Minister of Finance to provide loans to us to meet our obligations. Such borrowings would be based on such terms and conditions as the Minister of Finance will determine. Funding from the capital markets, namely through the issuance of debt securities by us, is also an option when the environment or market is conducive to do so.

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