PIDM

Perbadanan Insurans Deposit Malaysia

Protecting Your Insurance And Deposits In Malaysia

ANNUAL REPORT 2021

PREFACE

The year 2021 proved to be another challenging year for Malaysians, as we continued to grapple with the uncertainty caused by the COVID-19 pandemic. Nevertheless, challenges come with opportunities, and we have witnessed remarkable displays of determination, resilience and innovation among Malaysians, as they strive to do their best to not only survive, but thrive, under these circumstances. However, opportunities come with risks, and the m enacing shadow cast by t he pandemic continues to loom large over people, especially those who are more vulnerable, threatening their lives and livelihoods.

Against this backdrop, the Perbadanan Insurans Deposit Malaysia (PIDM) Annual Report 2021 tells the story of the role that we play, especially in the context of protecting financial consumers in Malaysia, what we have achieved in 2021, and how we plan to continue contributing well into the future. Starting with the insights from the lenses of the **Chairman** and the **Chief Executive Officer** on PIDM's state of affairs and performance, we will lead you into **Part I: How PIDM Protects Financial Consumers.** Here, you will be given an in-depth look into PIDM's role and the various ways we protect financial consumers in Malaysia, i.e. by protecting their deposits and takaful and insurance and benefits, promoting public awareness and trust, providing incentives for sound risk management, ensuring an effective resolution regime, and actively preparing for crisis. We also highlight our efforts to promote financial resilience among Malaysians, as part of the Financial Education Network.

Under **Part II: PIDM@Work,** you will find an overview of who we are, what we have been mandated to do and how we have put in place the requisite systems and structures to create value to our stakeholders and address our key risks, as we strive to deliver on our mandate. We also highlight our achievements in 2021, both performance and financial-wise, based on our Corporate Plan 2021 - 2023, themed "Investing in Heightened Responsiveness", as well as our active involvement in the global arena of deposit insurers and insurance guarantee schemes.

We then give you a glimpse into the future under **Part III: Our Way Forward,** where we share with you our strategy for 2022 and beyond. We also give you a bird's eye view of PIDM's sustainability journey, which is evolving from governance to giving, to going green, as well as our cybersecurity efforts. Finally, we present in **Part IV of this report, our financial statements as at 31 December 2021.**

We sincerely hope you will find that this report bears testimony to PIDM's efforts, commitment and aspiration as a trusted government authority that continuously innovates to strengthen our role of protecting financial consumers in Malaysia and promoting financial system stability.

Corporate Communication Department
PIDM

The interactive PDF allows you to access information easily, search for a specific item, view a webpage or navigate between pages, sections and links.

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GOVERNING REGULATIONS AND GUIDELINES
The financial statements as at 31 December 2021 have been prepared in accordance with the Malaysia Deposit Insurance Corporation Act (PIDM Act) and the Malaysian Financial Reporting Standards (MFRS). They also comply with the International Financial Reporting Standards (IFRS). When developing this Annual Report, we referred to the International Integrated Reporting Framework, published by the International Integrated Reporting Council. The Boa rd has reviewed and approved the Ann ual Report and financial statements. It has obtained management representations as well as internal control and risk assurances to ensure that the Annual Report and financial statements accurately represent the performance and the state of affairs of PIDM. The Board has also provided oversight to ensure the identification and evaluation of material matters for value creation by PIDM.

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

INSIDE THIS REPORT

FROM OUR LEADERSHIP

TAN SRI DR. RAHAMAT BIVI YUSOFF
Chairman

RAFIZ AZUAN ABDULLAH
Chief Executive Officer

In retrospect, the year 2021 was the year of the 'vaccine' – a year in which the world witnessed a vaccine rollout unprecedented in its scale and speed. A vaccine can be described as a preparation that is used to stimulate the body's immune response against diseases. Similarly, at PIDM, the various corporate initiatives we have undertaken in 2021 – to enhance the skills of our people, to streamline our resources and to solidify our infrastructure and operations internally – were all designed with the aim to stimulate our ability to withstand and respond against further unforeseen disruptions that may come our way in the near future. Hence, the theme **"Investing in Heightened Responsiveness"** was chosen for our Corporate Plan 2021 - 2023.

Over the past two years, the debate between "just-in-case" and "just-in-time" has gained momentum. The world before COVID-19 emphasised an efficiency-driven minimalist way of work under the "just-in-time" mantra. Less attention was given to creating the buffers found in the "just-in-case" model, which prioritises contingency planning and early preparation. Now, as we begin to emerge from this crisis "post-vaccine", the lessons learned in the past two years have shown us the importance of striking a balance between these two philosophies.

PIDM is in fact a "just-in-case" setup. We are steadfast in fulfilling our mandate to protect deposits and takaful and insurance benefits of financial consumers, as well as to resolve our member institutions in the event of a failure. Our ultimate stakeholders are the depositors and takaful certificate or insurance policy owners.

In order to be an effective ''just-in-case'' deposit insurance and resolution authority, a lot of preparatory work needs to be done well beforehand and constantly updated over time for us to deliver on our mandate when the time comes. There is a lot that we have done in this regard and we have made good progress on our key focus areas in 2021.

RESOLUTION PLANNING AND CRISIS PREPAREDNESS

One of the corporate initiatives we have embarked on towards achieving a high state of readiness is the resolution planning (RSP) framework for our member institutions. The RSP framework is an important component of the Recovery and Resolution Planning (RRP) framework. In 2021, we completed the RSP pilot exercise with selected pilot banks. We are now on track to roll out the RSP framework in 2023, in a phased approach after the submission of the recovery planning data by member banks to Bank Negara Malaysia in 2022.

Close collaboration with key domestic financial safety net players is crucial to ensure we are able to coordinate our responses as swiftly and smoothly as possible, in the event a crisis happens. In 2021, we have progressed well in our crisis preparedness efforts, putting our preparatory work to the test. Continuing from previous years, we conducted several crisis communication simulation exercises and an inter-agency simulation exercise among the key financial safety net players. More work is being progressed to further enhance the inter-agency coordination and collaboration on crisis management both at senior and working levels.

BUILDING TRUST AND CONFIDENCE

We have seen in recent times, the importance of the public's trust and confidence in those who are tasked to deal with crises. Building that credibility during good times provides the leverage to better manage situations during a crisis, and we aimed to achieve this through our comprehensive awareness and stakeholder engagement plans. In 2021, we have achieved the highest results to-date for our public awareness index at 81%. This was achieved amidst the challenging pandemic environment and a conscientious decision to increase focus on digital and social media platforms, as well as refocusing our traditional media to reach out to rural and suburban areas. We also launched new sets of contemporary and relatable content, for the public to relate themselves to during this challenging time. We will continue our efforts to heighten comprehension and advocacy of PIDM's mandate, role and responsibilities – to transcend from awareness to trust.

ENHANCING FINANCIAL RESILIENCE

While building our resilience internally, we paid close attention to the after-effects of the pandemic on financial consumers in Malaysia. In our effort to help build financial resilience, especially among millennials, we launched our inaugural financial resilience campaign, themed #SediaPayungKewangan. We also completed two behavioural studies in collaboration with our research partner that provide insights into how financial consumers in Malaysia behave, and one of the key findings indicate that Malaysians may not be well-equipped to deal with financial shocks. Armed with the insights gleaned from these studies, we are hopeful that we can "move the needle" to improve the level of financial resilience among financial consumers in Malaysia, especially if we can successfully apply the key findings from our studies to the activities that we carry out.

RESPONDING TO THE CURRENT NORMAL AND THE FUTURE WAY OF WORK

Responding to the current operating environment, we started embracing a new way of work. We adopted a hybrid workplace approach not only as a response to the threat of the pandemic, but also in an effort to keep us agile and nimble while catering to our employees' well-being. We charted the roadmap for our digitalisation plans, with efficiency and innovation as our strategic focus, leveraging on technologies such as artificial intelligence, data analytics and cloud computing. We also ramped up our cyber defences in the face of a potentially higher risk of cyber vulnerabilities following remote working arrangements, in order to ensure continued operational resilience. In December 2021, PIDM was officially awarded the ISMS - ISO/IEC 27001:2013 certificate by CyberSecurity Malaysia for our data centres at the Axiata Tower and the Disaster Recovery Centre, as well as the cybersecurity operations and services managed by our IT Services Department. This is an important validation that our cyber and information security functions and processes are aligned with internationally accepted and recognised standards.

Was the year 2021 challenging? It certainly was. But we remained resolute and unwavering on the direction we intended to go forth, as we navigated the uncertainties and responded to the challenges that threatened to throw us off course. Hence, we are pleased that PIDM ended the year with much being achieved as the result of the effort, commitment and resilience demonstrated by our employees, to whom we would like to express our utmost gratitude. We would also like to thank the Board for their strategic views, guidance and support.

Nevertheless, being the "just-in-case" type of setup that we are, our work is never really quite done. Indeed, the work of preparedness and readiness is a marathon. We will continue to leverage on the solid foundation that we have built to propel us to even greater heights in the future.

TAN SRI DR. RAHAMAT BIVI YUSOFF

RAFIZ AZUAN ABDULLAH

"JUST-IN-CASE" PROTECTION SYSTEMS: JUST IN TIME TO SAVE LIVES

"No, they cannot lose their Dad today" [1]
- Romain Grosjean, Formula 1 racing driver

During the 2020 Bahrain Formula 1 (F1) Grand Prix, Grosjean survived a near fatal crash. A barrier collision saw his race car split into two, engulfed in flames.[2] Unknown to many, the seemingly miraculous nature of his escape would not have been possible before the turn of the millennium. F1 fans may recall the tragic events of the 1994 San Marino Grand Prix in Imola, where three-time world champion Ayrton Senna and Roland Ratzenberger both lost their lives from skull fractures.[3] Imola proved to be the catalyst for widespread changes to safety measures for F1 racing. This included the introduction of a "Halo" head protection gear, which was credited to have saved Grosjean's life.

The experience of F1 resonates well with the financial system. Following the Asian Financial Crisis in 1997/98, Bank Negara Malaysia (BNM) implemented many structural and institutional reforms that led to the strong and stable financial system experienced today. Such reforms included the establishment of Perbadanan Insurans Deposit Malaysia (PIDM) in 2005 to protect the interests and savings of bank depositors via the Deposit Insurance System (DIS). In 2010, the scope of protection was expanded to cover takaful certificate and insurance policy owners under the Takaful and Insurance Benefits Protection System (TIPS).

In essence, these systems act as the equivalent of the "Halo" in F1 racing. The "life-saving" DIS and TIPS mechanisms ensure that the savings of depositors and benefits of takaful certificate and insurance policy owners are intact in a crash or failure of any PIDM member bank or insurer member. As a result, financial consumers can remain assured and confident in the Malaysian financial system during good times or when a crisis strikes.

THE CASE FOR "JUST-IN-CASE" PROTECTION SYSTEMS

In F1, there are "just-in-time" measures like making the necessary repairs, replacements or adjustments during a pit stop, where the service is received as close as possible to when they are actually needed by the F1 car, and by extension, the driver. However, many other safety measures and actions are preventive in nature and involve multiple stakeholders. These "just-in-case" measures ensure that key risks relating to the cars, tracks and other elements are mitigated well in advance to support safe and optimal racing conditions.

Similarly, there are three important anticipatory, or "just-in-case" features, underpinning PIDM's protection systems.

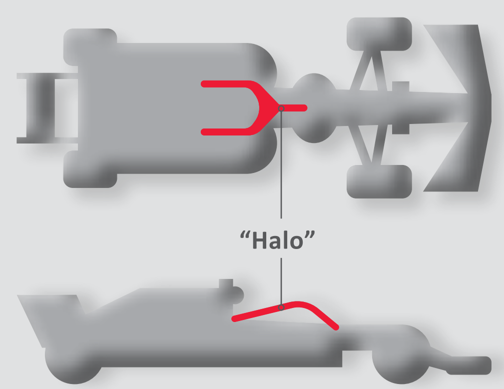
First is PIDM's risk-based differential premium and levy systems (DPS and DLS). The design of PIDM's protection systems includes the collection of funds from member banks and insurer members before a potential crisis occurs. The collection rates are determined by the individual risks exhibited by these member institutions, forming virtuous incentives - the better the risk profile, the lower the contributions, and vice versa. PIDM continually reviews and consults member institutions on the DPS and DLS parameters in light of changing risks in the financial system, including recent proposals to include forward-looking criteria relating to resolution. Through these measures, PIDM fulfils our aim to promote sound risk management in the financial system.

[1] Straw, Edd. December 4 2020. "'I'm at Peace, I'm Dying': Grosjean Tells Full Story of Crash" at www.the-race.com
[2] Ibid
[3] McDonagh, Connor. 5 April 2021. "Senna's Legacy and the Impact of F1's Darkest Weekend at Imola" at www.crash.net

Second is PIDM's role as resolution authority for member banks and insurer members, which contributes to financial stability. PIDM has a wide range of legislative powers and tools which enable it to intervene early and resolve any troubled member institution in a manner that minimises costs to the financial system. This supports PIDM's strategic priority to develop an effective resolution regime for Malaysia, where orderly resolution of such institutions can take place without disrupting the financial system as a whole.

Third is the financial safety net structure, which seeks to prevent as well as deal with the failures of financial institutions. In Malaysia, BNM, PIDM and the Ministry of Finance form a comprehensive financial safety net. This system is backed by collaborative arrangements between PIDM and other authorities for effective policy coordination and joint efforts to improve crisis preparedness.

These three components enable us to not only address the present needs of specific stakeholders but more importantly, to consistently bring forth values for the public good in the long-term.



YOU HAD ME AT "HALO"?

Upon its debut in 2018, the "Halo" was poorly received by F1 drivers. It was deemed to be unnecessary, aesthetically unappealing, disrupting the balance and aerodynamics of cars, as well as opposing the spirit of risk-taking at the core of motorsport. A fundamental criticism was the rarity of severe accidents for which the "Halo" was designed to withstand against, and protect drivers.[4]

Other examples reveal a similar experience, including that of the V-type three-point safety belt. This was invented in 1959 by Nils Bohlin, an engineer at Volvo. Its life-saving advantage was so significant (relative to the then common two-point waist restraint) that Volvo decided to share its patent design with other car manufacturers. However, measures to make it compulsory were met with opposition over many years. Eventually this safety feature was adopted by automakers, the public, and lawmakers, and has since been recognised to have saved more than a million lives.[5]

Similarly, a longer term perspective is required to appreciate the value of societal protection systems, which serve to insure individuals and households against "low likelihood, high impact" events – just in case it happens. In the case of the Malaysian financial system, it remains strong and resilient without any failure of PIDM member institutions to-date. Nevertheless, PIDM strives to maintain a high level of readiness to activate our protection systems for financial consumers and maintain public confidence in the financial system should a crisis transpire over the longer term.

FORESIGHT IS BETTER THAN HINDSIGHT

Hindsight is a wonderful thing but foresight is better, especially when it comes to saving life, or some pain.
- William Blake, English poet

While recuperating in his hospital bed, Grosjean recorded a video for his fans and admitted, ***"I wasn't for the "Halo" some years ago but I think it's the greatest thing we brought to F1 and without it, I wouldn't be able to speak to you today"***.[6]

Grosjean was speaking, of course, with the benefit of hindsight. However, it was the foresight of the engineers, campaigners and regulators who believed in the "Halo" which saved his life. The same goes for those who are indebted to Bohlin's life-saving three-point seatbelt. As for the millions of financial consumers in Malaysia, these resilient protection systems born out of foresight will ensure that in case the unexpected happens, life can go on for them and their loved ones.

[4] Crebolder, Finley. December 2, 2020. "The Halo Debate is Now Over, Once and For All" at www.planetF1.com
[5] Bell, Douglas. August 13, 2019. "Volvo's Gift to the World, Modern Seat Belts Have Saved Millions of Lives" at www.forbes.com
[6] Ryan, Nate. November 30,2020. "Romain Grosjean Praises Halo and Thanks Fans in Video Message from Hospital Bed" at www.yahoo.com

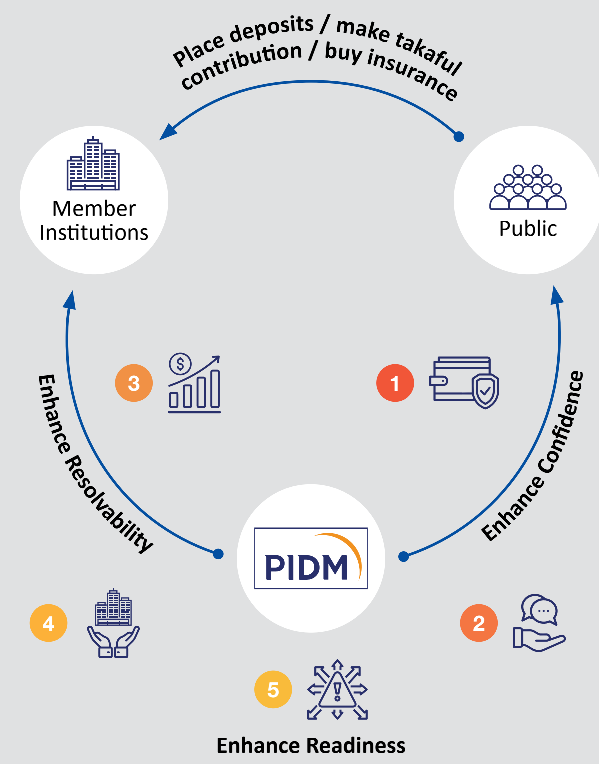
PART I

HOW PIDM PROTECTS FINANCIAL CONSUMERS

HOW PIDM PROTECTS FINANCIAL CONSUMERS

PIDM is a statutory body established in 2005 under the Malaysia Deposit Insurance Corporation Act[1] (PIDM Act).[2] In fulfilling our mandate as a financial consumer protection authority and resolution authority for our member institutions, PIDM protects financial consumers in Malaysia by:

1. Protecting deposits and takaful and insurance benefits
2. Creating awareness and enhancing trust
3. Providing incentives for member institutions to remain safe and sound
4. Ensuring member institutions can be resolved effectively
5. Enhancing readiness for crisis



1 PIDM PROTECTS DEPOSITS AND TAKAFUL AND INSURANCE BENEFITS

PIDM protects deposits as well as takaful and insurance benefits of ***financial consumers*** in the event a member institution fails. This protection is automatic, and financial consumers need not pay a single 'sen' for it. PIDM has 42 member banks and 50 insurer members.

PIDM Protection for Depositors in Member Banks

PIDM protects up to RM250,000 per depositor per member bank. There is separate protection for conventional and Islamic deposits held by individuals, joint owners, sole proprietorships, trustees, partnerships and companies.

PIDM deposit coverage protects 96% of depositors in full. PIDM coverage remains high and is above the recommended coverage level in the ***International Association of Deposit Insurers' (IADI)*** Core Principles for Effective Deposit Insurance Systems. IADI recommends that the deposit insurance coverage level be at least 80% of total depositors (person) and at 20% - 30% of total deposits (value).

> ***Who are financial consumers?***
>
> *They are customers of PIDM member institutions:*
> - *who place their monies in banks; and*
> - *who hold takaful certificates or insurance policies in Malaysia.*

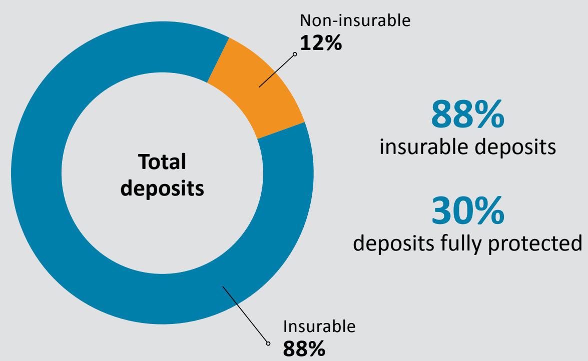
> ***What is IADI?***
>
> ***IADI** is a non-profit organisation formed in May 2002 to enhance the effectiveness of deposit insurance systems by promoting guidance and international cooperation.*
>
> *PIDM is an active member of **IADI**.*

[1] *The Malaysia Deposit Insurance Corporation Act 2005*
[2] *The latest Act following various amendments is the Malaysia Deposit Insurance Corporation Act 2011*

HOW PIDM PROTECTS FINANCIAL CONSUMERS

96% of depositors protected in full

96%
depositors fully protected



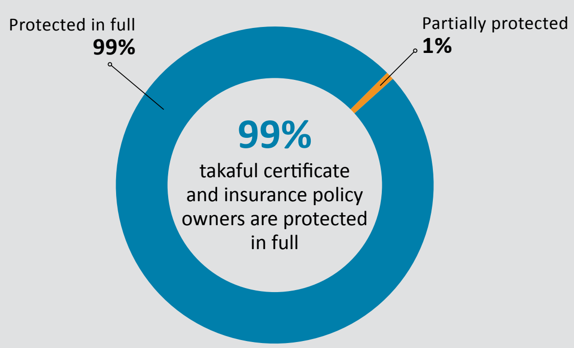
Individuals	Joint owners	Trustees	Sole proprietorships	Partnerships	Companies
97%	93%	97%	96%	95%	84%

Source: PIDM

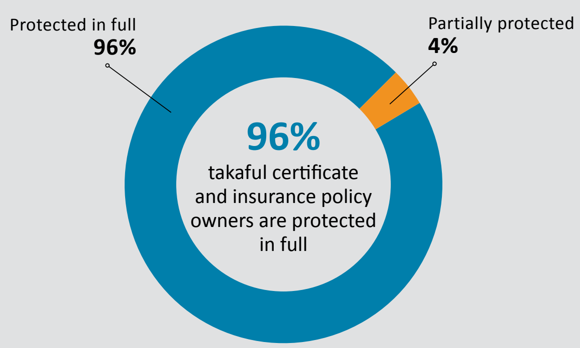
PIDM Protection for Takaful Certificate and Insurance Policy Owners of Insurer Members

For takaful certificate and insurance policy owners, PIDM protects eligible takaful or insurance benefits up to RM500,000. This protection covers 99% of family takaful certificate and life insurance policy owners, and 96% of general takaful certificate and general insurance policy owners, in full. There is separate protection for takaful certificates and insurance policies held by individuals and groups, as well as for own damage and third-party claims.

Family Takaful and Life Insurance



General Takaful and General Insurance



Source: PIDM Survey

Enhanced Protection in 2021

Effective from 1 January 2021, PIDM enhanced our protection for takaful certificate and insurance policy owners further and now protects almost all types of benefits under eligible certificates and policies (subject to conditions and limits specified in the respective takaful and policy contracts). The diagram below depicts the change:

	Prior to 1 January 2021	1 January 2021 onwards
Non investment-linked certificate or policy	Certain takaful or insurance benefits, such as loss in relation to intellectual property, loss of profit under commercial line products and damages to unique property, are not included in the scope of protection.	All takaful or insurance benefits under an eligible certificate or policy are protected.
Investment-linked certificate or policy	• Misfortune benefits, such as death benefits, are protected; and • Benefits payable from the unit portion of investment-linked certificate or policy are excluded.	• Misfortune benefits, such as death benefits, continue to be protected; and • Only maturity benefits, surrender benefits and income benefits that are payable from the unit portion of investment-linked certificate or policy are excluded.

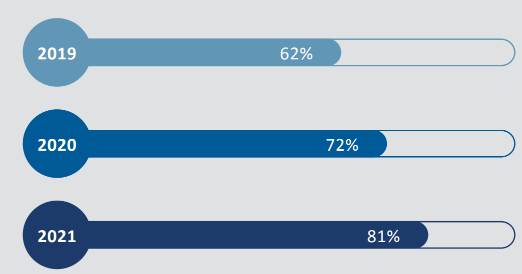
Limits of protection (subject to conditions and limits specified in the respective takaful and policy contracts)

100%	Healthcare; refund of prepaid contributions or premiums for healthcare and compulsory insurance
RM 500,000	Other protected benefits

2 PIDM CREATES AWARENESS AND ENHANCES TRUST

PIDM carries out extensive public awareness activities to ensure that consumers are aware that our protection systems exist and understand their benefits and limitations. This is crucial in providing financial consumers with clarity, reassurance and confidence towards these financial protection systems in order to mitigate the risk of runs on our member institutions during situations of stress or uncertainty. Our public awareness efforts also seek to build financial resilience among Malaysians and enhance confidence in our ability to carry out our mandate, including our role as a resolution authority, as we strive to transcend from mere awareness to trust, in the eyes of the public.

PIDM Public Awareness Level (2019 - 2021)



Public awareness of PIDM has increased significantly in the past three years,[3] from 62% in 2019 to an all-time high of **81% in 2021**, a testament to the effectiveness of the public communications strategy and efforts that we have been carrying out throughout the years.

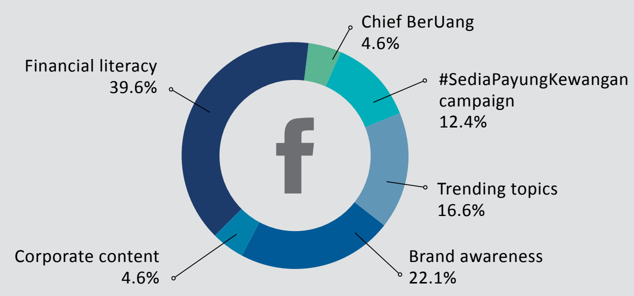
[3] *From the results of PIDM's nationwide public awareness survey which is conducted annually*

HOW PIDM PROTECTS FINANCIAL CONSUMERS

HOW PIDM PROTECTS FINANCIAL CONSUMERS

In 2021, we shifted towards a more targeted approach, from our previous focus on traditional advertising to a more sustainable and long-term financial education approach, which led to the introduction of PIDM's good financial management icon, "Chief BerUang", and the launch of our financial resilience campaign – #SediaPayungKewangan (#SPK).[4] Riding on the digital wave that was amplified by the pandemic, we increased our media buy allocation in digital and social media platforms, and focused on developing and sharing more content via Facebook, YouTube and LinkedIn.

PIDM Facebook Content Breakdown in 2021



In addition to brand awareness via radio, print and digital advertisements, we continued to promote understanding of our protection systems through collaborations with media partners, online publishers via written articles, podcasts and video content about the key features of the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS). Highlights of our public awareness efforts and achievements in 2021 can be found in the Performance section.

A key objective of PIDM's communications strategy is to generate long-term public trust and confidence in PIDM through content and methods of communication. We have started to diversify our content by featuring our corporate social responsibility and other corporate activities to build more sustainable and longer-term recall for PIDM. We have also developed human-interest stories of our employees and scholars, who shared their personal life experiences with the audience. The overall objective is to use relatable content to help amplify PIDM's presence, while at the same time, achieve more visibility and greater awareness and understanding about PIDM and our protection systems. Moving forward, we are also striving for increased public advocacy levels.

Public awareness regarding PIDM and our role has led to better familiarity and increased trust in PIDM. This is crucial as all the efforts we have expended and the systems we have put in place to protect financial consumers would not be impactful if the public is not aware of such protection or do not trust us to carry out our mandate. Therefore, PIDM will continue to work hard to ensure that the public knows – not only who we are, what we do and how we do it – but more importantly, that they can rely on us to protect them in their time of need.

3 PIDM PROVIDES INCENTIVES FOR MEMBER INSTITUTIONS TO REMAIN SAFE AND SOUND

PIDM supports overall financial stability by promoting the safety and soundness of our member institutions by giving incentives for sound risk management through the Differential Premium System framework for member banks (DPS), the Differential Levy System framework for insurance companies (DLS) and the Differential Levy System framework for takaful operators (DLST).

PIDM collects premiums from member banks and levies from insurer members, annually. Member institutions are charged based on their risk profiles under the DPS, DLS and DLST. The premiums and levies collected are on an ***ex-ante funding mechanism***.

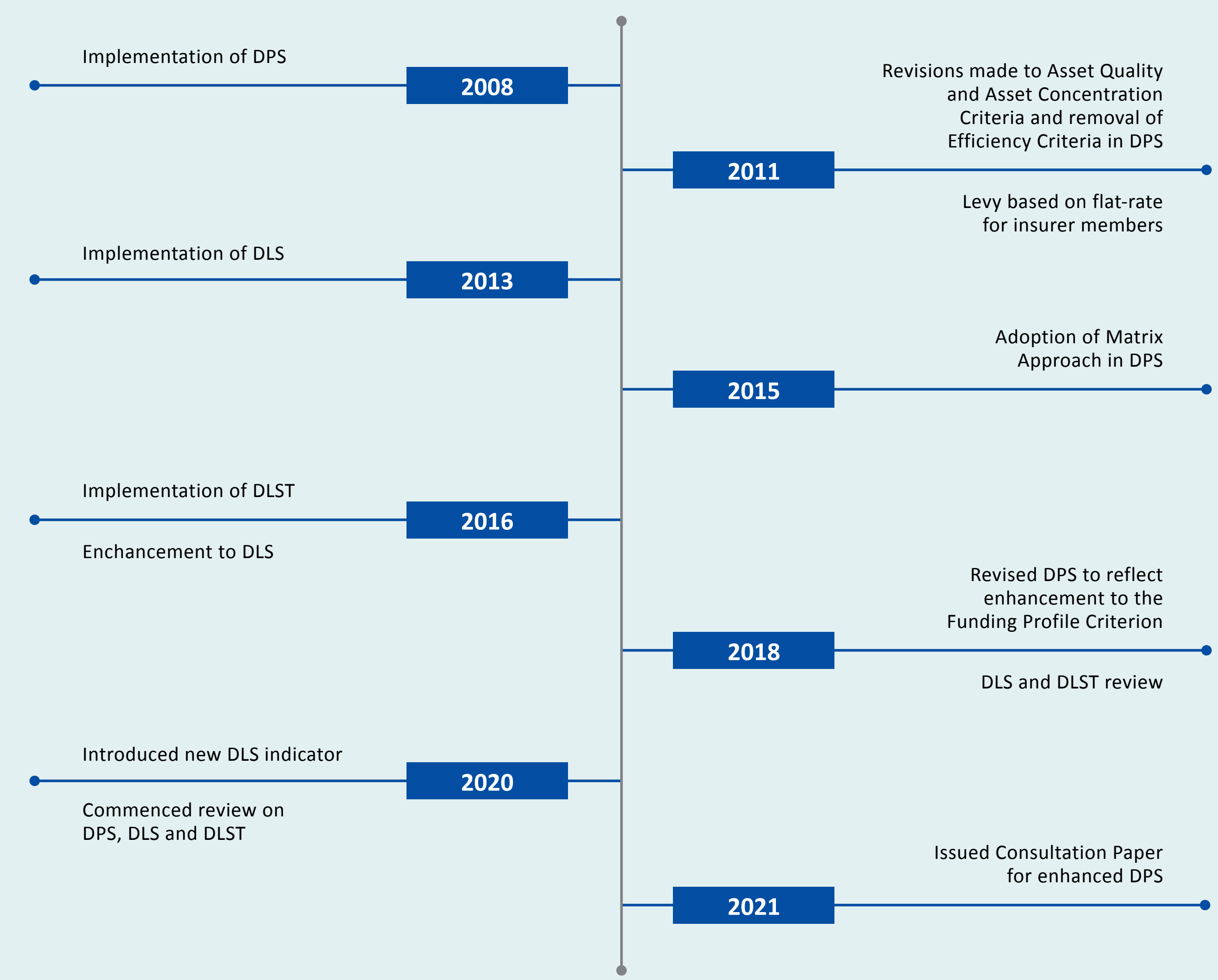
What is ex-ante funding mechanism?

It is where we collect funds in the form of premiums and levies from our member institutions in advance, during business as usual.

Differential Premium and Levy Systems

The DPS, DLS and DLST have gone through various stages of maturity and are enhanced progressively to remain effective and relevant. The introduction of the DPS in 2008, the DLS in 2013 and the DLST in 2016, enabled the collection of premiums and levies to be differentiated according to the risk profile of each member institution. Member institutions with a higher risk profile are required to a pay higher premiums or levies than those with a lower risk profile. These frameworks incentivise member institutions to enhance their risk management practices, thereby increasing their resilience and preventing failure, while at the same time promoting stability in the financial system.

The Evolution of Our DPS, DLS and DLST

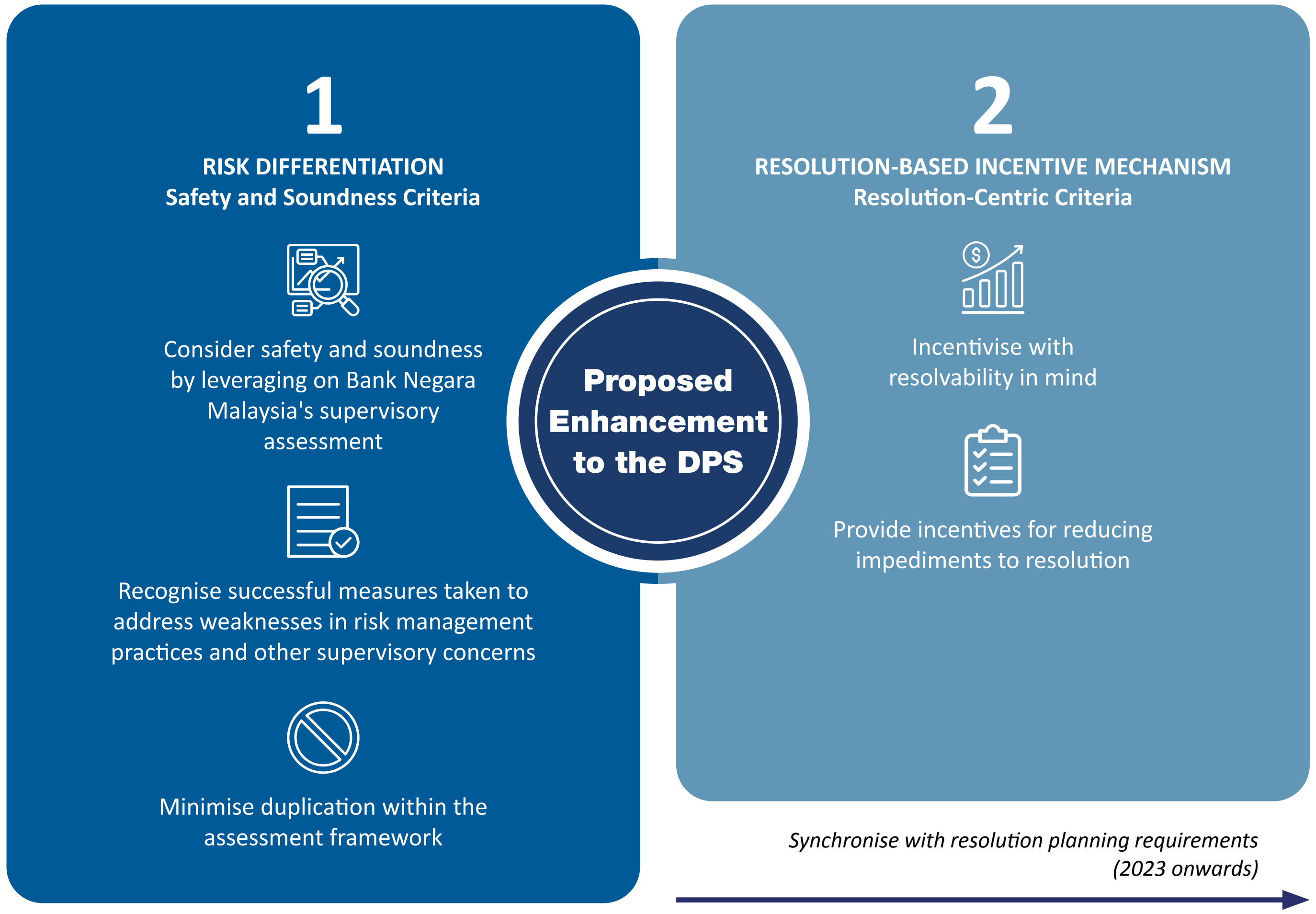


[4] *Read more about this campaign under "In Review: Communicating Financial Resilience for Sustainable Living" in this Part*

HOW PIDM PROTECTS FINANCIAL CONSUMERS

DPS - Moving Forward

To adapt to the changes in the operating environment and the regulatory landscape, PIDM has issued a consultation paper on the proposed enhancement to the DPS in August 2021. The proposed enhancement is envisaged to continue to promote sound risk management practices across the financial system, while at the same time provide meaningful incentives towards orderly resolution of member institutions. A similar review of the DLS and DLST will follow suit. Ultimately, outcomes of future enhancements look to contribute to the overall stability of the financial system.



4 PIDM ENSURES MEMBER INSTITUTIONS CAN BE RESOLVED EFFECTIVELY

PIDM, in line with our mandate to ensure prompt and effective resolution that minimises cost to the financial system, embarked on a journey with Bank Negara Malaysia (BNM) to develop a robust ***Recovery and Resolution Planning (RRP)*** framework.

> ***What is RRP?***
>
> ***RRP*** *consists of recovery planning (RCP) and resolution planning (RSP), two separate but inter-related components aimed at enhancing the supervisability, recoverability and resolvability of financial institutions.*

The RRP Journey in Malaysia

PIDM and BNM jointly commenced the RRP initiative for the industry in the year 2017, with BNM leading the ***RCP*** process and PIDM leading the ***RSP*** process.

> ***What are RCP and RSP?***
>
> ***RCP*** *seeks to ensure that financial institutions prepare and maintain a recovery plan that sets out options to restore their financial health back to acceptable levels when under severe stress.*
>
> ***RSP*** *seeks to facilitate a prompt and orderly resolution by enabling the development of a feasible and credible resolution plan for financial institutions during business-as-usual.*

2017
- Joint-commencement of RRP initiative by BNM and PIDM

Q3 2017
- BNM rolls out Recovery Planning Pilot Exercise (RCP Pilot)

Q1 2019
- Completion of RCP Pilot
- PIDM commences Resolution Planning Pilot Exercise (RSP Pilot)

RSP Pilot

PIDM completed the RSP Pilot with three pilot banks in Q2 2021. This exercise provided us with some practical insights which are instructive in the impending RSP rollout:

The need for active engagements and collaborative working arrangements with member institutions	Interactive engagements between pilot banks and PIDM through a series of workshops and meetings throughout the RSP Pilot proved helpful in clarifying PIDM's information requirements and expectations.
The need for streamlined information requests	Close engagement between BNM and PIDM, aimed to minimise potential overlap in information requests between RSP and RCP, managed to reduce regulatory burden. Moving forward, information requirements for RSP will focus on specific information needs, while leveraging significantly on information submitted for RCP.
The need for proportional application of requirements	The scope, extent and timeline of RSP information requirements to be proportionately customised, tailored and targeted to the member institution's strategy, issues, size and complexity.

RSP – What to Expect Next?

The RSP process in Malaysia is expected to be on an iterative basis, driven by member institutions' progress and readiness.

As we aspire towards an effective resolution regime, we are cognisant that collaboration and coordination with key stakeholders – in particular member institutions – is essential. To prepare for a smooth RSP journey ahead, early planning and commitment is necessary. Over the next two years, member institutions can expect the issuance of a consultation paper on the RSP Framework, which will be followed by the issuance of the RSP Guidelines, and finally the rollout of RSP. Similar to RCP, the RSP process is envisaged to be implemented in phases.

2019 - 2021
RSP Pilot Exercise

2022
Industry Consultation on RSP Framework
Finalise RSP Framework
Issue RSP Guidelines

2023 onwards
Roll out RSP to banks in phases
Development of resolution plans

In the longer term, PIDM expects to work collaboratively with member institutions to develop the ***operational plan*** in support of the effective implementation of their ***resolution strategy***. A credible resolution plan entails identifying and addressing impediments while building the necessary operational capability for the implementation of the resolution strategy.

> ***What is a resolution strategy and an operational plan?***
>
> *A **resolution strategy** sets out the key elements of the proposed approach to resolution while an **operational plan** sets out the arrangements to implement the preferred resolution strategy.*

> Just as a pilot steers an aircraft safely towards its intended destination, the lessons learned from the pilot exercise will put us, and our member institutions, in good stead to navigate the complexities of the RSP process, as we propel forward in our journey towards resolution readiness.

5 PIDM ENHANCES READINESS FOR CRISIS

In times of crisis, there is no time to lose. Quick response time is often expected. However, responding without preparedness and sound judgement might compromise an organisation and put it in a disadvantageous position, delaying any attempt for recovery. It is crucial therefore, for an organisation to prepare its best for crisis scenario possibilities.

At PIDM, our organisational resilience journey is essentially premised on a "just-in-case" concept where we start building organisational resilience to prepare for any eventuality, way before it happens. This can be contrasted with a "just-in-time" approach, where action is taken only as needed.

Annual Report 2021
HOW PIDM PROTECTS FINANCIAL CONSUMERS

In managing a crisis, carrying out a ***crisis management plan (CMP)*** requires knowing roles and responsibilities, when to escalate, when to act, and what (and what not!) to do. To ensure that PIDM is ready, in 2021 we put our CMP to test via a series of simulations, with a focus on crisis communication.

> ***What is a CMP?***
>
> *PIDM's **CMP** maps out roles and responsibilities, interactions between parties, escalation measures and a decision matrix, activating involvement, messaging and reporting for future mitigation efforts and initiatives.*

Putting Plans to the Test, Like Full-Dress Rehearsals

> ***All the world's a stage, and all the men and women merely players...and one man in his time plays many parts.***[5]
> *- William Shakespeare*

Just as it is necessary for actors to undergo gruelling rehearsals to ensure they know their parts well and deliver their lines smoothly and on cue, our financial safety net players also have to make the necessary preparations, including simulations, to ensure that they are familiar with their respective roles. Prior to opening night, theatre productions would typically conduct full-dress rehearsals, where everything comes together on stage as if the real show is actually happening, without the audience. Similarly, it is also crucial for PIDM and other safety net players to conduct joint simulations, as a means to understand each other's roles and coordinate their responses.

To this end, PIDM has conducted several crisis simulations in 2021, including an inter-agency simulation exercise among the key financial safety net players. In the coming years, we plan to conduct annual simulations testing different areas of intervention and failure resolution, so that when it's showtime – after the curtains are raised and the spotlights come on – together, we will be able to put on a sterling performance.

Seamless Reimbursement and Adoption of DuitNow Payment Option

In contributing towards crisis preparedness, we have also ***enhanced our reimbursement capabilities*** in the event we are required to undertake reimbursement to depositors.

> ***What are enhanced reimbursement capabilities?***
>
> ***Enhanced reimbursement capabilities** for us is to ensure that depositors will be reimbursed seamlessly and that depositors have quicker access to their funds, with minimal inconvenience and disruption, in the event of a bank failure.*

In pursuit of this goal, PIDM was admitted as a direct member of the PayNet Real Time Retail Payments Platform in 2021. As a member, PIDM will be able to undertake bulk reimbursement in a swift and secure manner, referencing depositors' proxy of national identification number and business registration number under DuitNow transfer. The collaboration with PayNet will also allow PIDM to tap into future retail payment facilities offered by PayNet.

The DuitNow payment method will be in addition to PIDM's existing payment channels of inter-bank transfers and cheque payment.

As part of our efforts for crisis preparedness, moving forward, PIDM will consider initiatives to instil greater public awareness among depositors, and for them to be better informed during a crisis or bank failure. PIDM will also continue our efforts to upgrade the reimbursement infrastructure to allow for more user-friendly customer interfaces, enhanced request management functions, as well as more secure online authentication with the capability to incorporate an electronic Know-Your-Customer solution.

[5] *As You Like It, Act II, Scene VII*

In Focus: Amid Fundamentally Solid Member Institutions, the Focus on Resolution Planning and Crisis Preparedness Continues to Be a Priority in Preparation for Any Eventuality

Two years into the COVID-19 pandemic, our member institutions remained resilient. Their sound fundamentals and strong buffers allowed them to continue supporting households and businesses impacted by the pandemic.

MEMBER BANKS

Common Equity Tier 1 (CET1) Capital Ratio	Liquidity Coverage Ratio	Net Impaired Loans Ratio	Loan Loss Reserves Coverage Ratio	Return on Risk-Weighted Assets
14.4% (2020: 14.9%)	**153%** (2020: 147%)	**0.89%** (2020: 0.96%)	**143%** (2020: 129%)	**2.1%** (2020: 1.79%)

Source: PIDM, Bank Negara Malaysia

- Member banks continued to lend
- Asset quality proactively managed and preserved, with loan repayment assistance in place
- Healthy funding and liquidity positions
- Better earnings performance
- Credit cost above pre-pandemic levels as member banks build up provisions against a potential rise in credit risk
- Strong capital position supports member banks' loss-absorbing capacity

INSURER MEMBERS

	Insurers	Takaful Operators
Capital Adequacy Ratio	**222.5%** (2020: 217.7%)	**221.8%** (2020: 225.4%)
Total Asset Growth	**2.5%** (2020: 7.3%)	**9.6%** (2020: 14.7%)

Net Premium Growth (Life Insurance and Family Takaful)	Gross Premium Growth (General Insurance and General Takaful)
7.6% (2020: 3.0%)	**4.0%** (2020: 0.1%)

Source: PIDM, Bank Negara Malaysia

- Better gross premiums / contributions growth for general insurers and takaful operators
- Healthy net premiums / contributions growth in line with higher consumer awareness for life insurers and family takaful operators
- Asset growth moderated
- Sound capital positions to sustain new business growth and withstand potential shocks

Looking ahead, solid fundamentals and ample buffers would allow member institutions to continue supporting financial intermediation as the economy recovers further, and weather any potential challenges.

Member Institutions' Outlook

RISKS

Member Banks
- Credit risk from vulnerable borrowers impacting profitability and asset quality
- Funding cost pressure from tighter financial conditions and potential deposit competition

Insurer Members
- Profitability pressure from normalisation of claims experience to pre-pandemic levels and medical cost inflation
- Heightened volatility in financial markets impacting investment yields

BUFFERS

- Solid fundamentals
- Ample capital and liquidity buffers
- Sustained domestic economic recovery
- Prudent loan provisioning

MEDIUM-TERM OPPORTUNITIES AND CHALLENGES

- Evolution on Fintech front
- Post-pandemic transformational changes
- Climate change

PIDM member institutions have been able to support financial intermediation amid the adverse economic and financial shocks during the pandemic. Nonetheless, the RSP and crisis preparedness initiatives are aimed at enhancing operational resolution readiness in preparation for any eventuality or financial crisis.

> ***Everything we do before a pandemic will seem alarmist. Everything we do after a pandemic will seem inadequate. This is the dilemma we face, but it should not stop us from doing what we can to prepare. We need to reach out to everyone with words that inform, but not inflame. We need to encourage everyone to prepare, but not panic.***
> *- Michael O. Leavitt, the former Secretary of the US Department of Health and Human Services*

Just replace "pandemic" with "crisis" and the words of wisdom above will apply equally to the challenge that we face, as we strive to protect financial consumers in Malaysia.

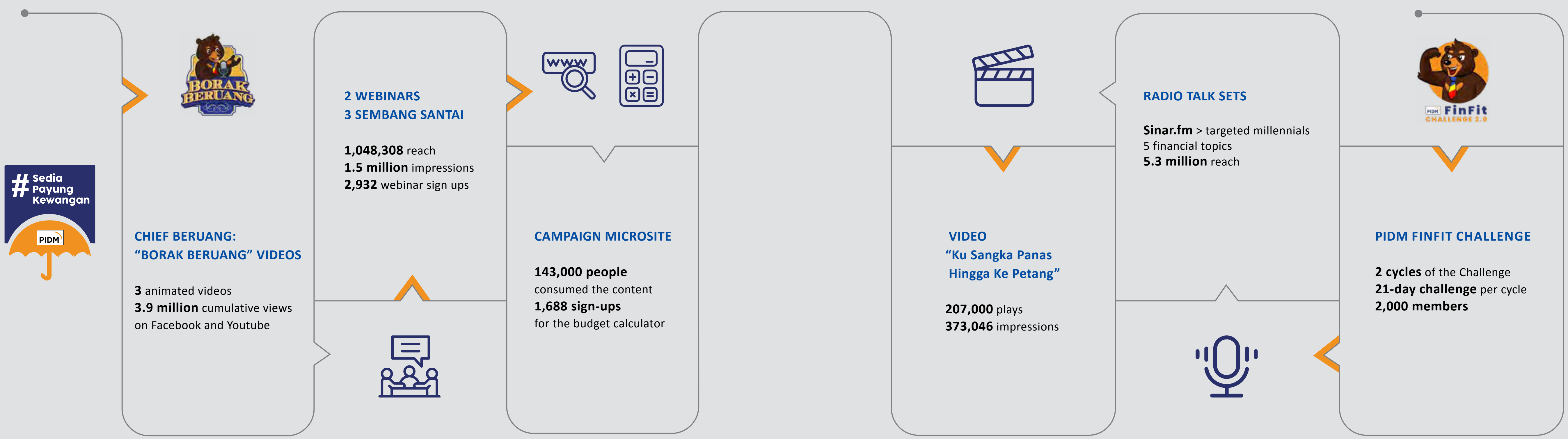
COMMUNICATING FINANCIAL RESILIENCE FOR SUSTAINABLE LIVING

The COVID-19 pandemic has heavily impacted the well-being and finances of many. As Malaysians' savings fall under the threat of being depleted, PIDM recognises that financial literacy can build the resources needed to cope with and to overcome financial shocks, leading to sustained improvements in living standards and better financial resilience. With this in mind, we had decided to ramp up our efforts in 2021 to contribute towards increasing Malaysians' level of financial resilience, especially among millennials.

In conjunction with the Financial Literacy Month organised by the Financial Education Network (FEN),[1] we held our inaugural **#SediaPayungKewangan (#SPK)** financial resilience campaign, which commenced in May 2021 and peaked in October 2021. The #SPK campaign managed to draw an impressive reach of 9.5 million people via a spectrum of digital channels. The diagram below depicts key initiatives and achievements of the #SPK campaign.

PIDM's efforts as an advocate of financial resilience also stem from our involvement as a member of FEN, which formulated the National Strategy for Financial Literacy in July 2019 to elevate financial literacy and promote responsible financial behaviour among Malaysians. As the lead of the Research and Development function within FEN, PIDM established a Financial Literacy Research Advisory Panel (RAP)[2] in April 2021. RAP, in essence, is a think tank of industry experts for applied research in the area of financial literacy in Malaysia, with the objective to gather, share and provide input on studies and research by member organisations and work on evidence-based approaches for improving the state of financial literacy of Malaysians.

#SPK Campaign Activities and Achievements



In October 2021, PIDM co-organised with Bank Negara Malaysia, the inaugural FEN Community of Practice Virtual Panel Discussion. Speakers and panellists comprised international and domestic subject matter experts covering the themes of "Global Insights on Measurement and Evaluation of Financial Education and its Effectiveness" and "Harnessing Research to Improve Malaysia's Financial Literacy".

We also collaborated with The Behavioural Insights Team (BIT) to complete two studies that provide insights into how Malaysians behave when it comes to savings and how urban millennials behave in relation to life and health insurance. These studies were conducted through online surveys and behavioural experiments involving approximately 2,500 Malaysians to help them develop financial resilience by "building back better" for challenging times ahead. They also help us understand how financial consumers think and may be susceptible to different biases, as well as how to overcome them. These include how present bias can influence the level of emergency savings and the impact social influence can have on the choice of insurance. We are hopeful that the recommendations highlighted pursuant to these studies can be used by regulators, financial institutions and practitioners for better policies, design of financial products, and practices, tailored for different groups of Malaysians. You can read more about these studies at www.pidm.gov.my.

Moving forward, we will intensify our efforts to promote financial resilience. We will continue to conduct, share and discuss studies and research that have the potential to create a positive impact and "move the needle" with regard to Malaysians' financial resilience level, by applying the findings of such studies through initiatives such as our #SPK campaign, which we intend to continue for the upcoming years as our signature financial resilience campaign.

[1] *An inter-agency grouping co-chaired by Bank Negara Malaysia (BNM) and the Securities Commission Malaysia with its members comprising the Ministry of Education, the Ministry of Higher Education, the Employees Provident Fund, Agensi Kaunseling dan Pengurusan Kredit (AKPK), Permodalan Nasional Berhad and PIDM*

[2] *RAP is chaired by PIDM and comprises representatives from BNM, AKPK, RinggitPlus, Khazanah Research Institute, United Nations Capital Development Fund, Fi Life, and Universiti Malaya*

PART II

PIDM@WORK

GOVERNANCE

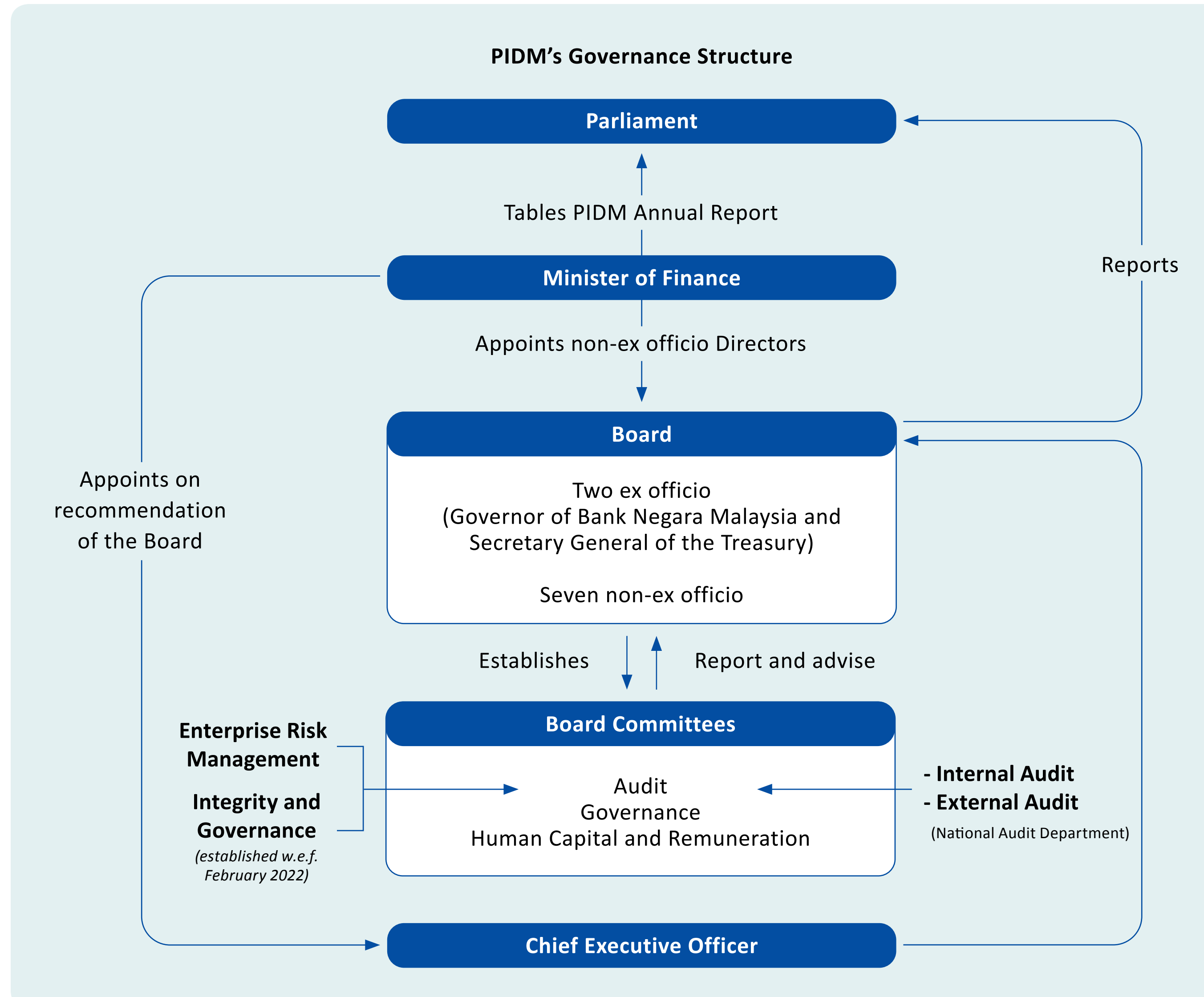
OVERVIEW

PIDM's statutory objects are clearly set out in section 4 of the Malaysia Deposit Insurance Corporation Act (PIDM Act).

To administer	To provide	To provide	To promote
a deposit insurance system and a takaful and insurance benefits protection system	protection against the loss of part or all of deposits or the loss of part or all of takaful or insurance benefits	incentives for sound risk management in the financial system	or contribute to the stability of the financial system

Out of PIDM's nine directors, two are ex officio directors namely, the Governor of Bank Negara Malaysia (BNM) and the Secretary General of the Treasury. The rest of the Board members, drawn from public and private sectors, are appointed by the Minister of Finance. The Board reports to Parliament through the Minister of Finance.

PIDM's governance structure is shown in the diagram below:

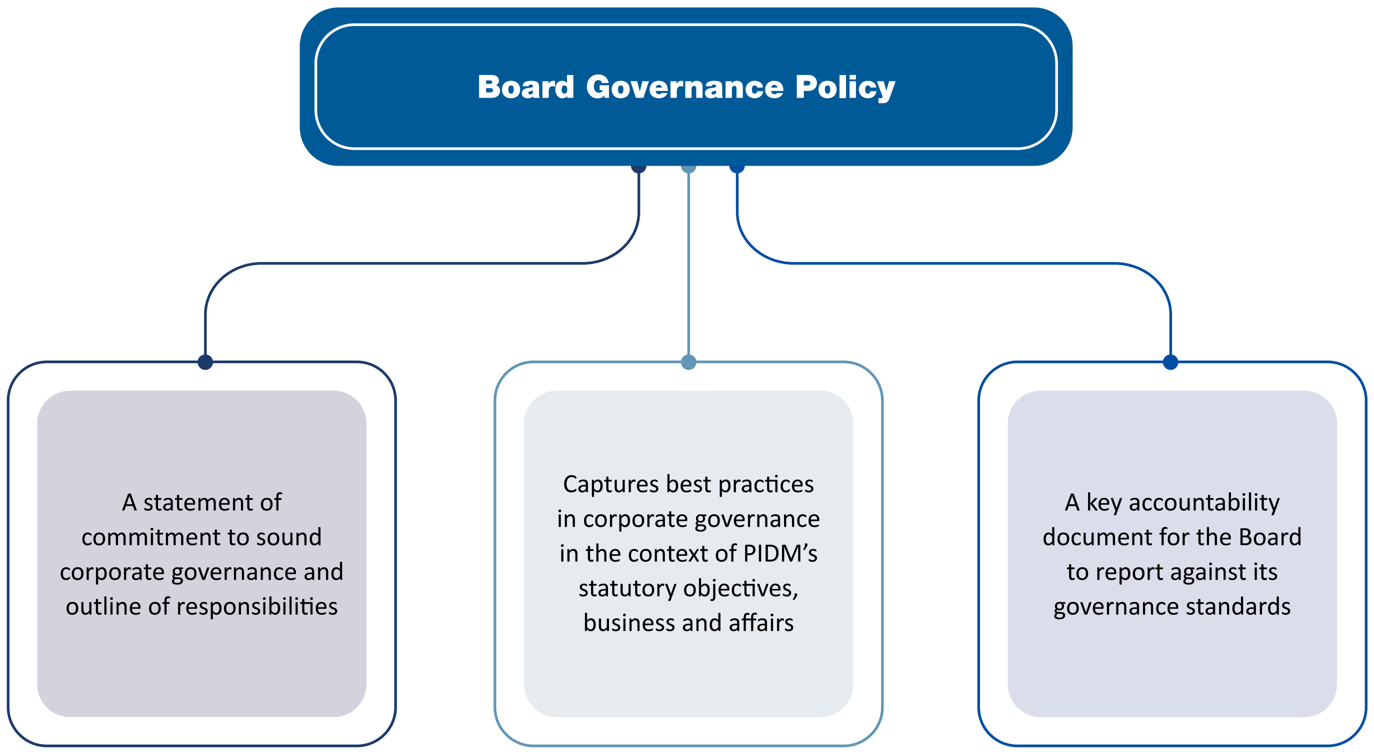


GOVERNANCE

Framework

At PIDM, we voluntarily benchmark our governance practices against best practices such as the International Federation of Accountants' Good Governance in the Public Sector and the International Association of Deposit Insurers' Core Principles for Effective Deposit Insurance Systems.

We report against our Board Governance Policy, which sets out the roles and responsibilities of the Board and Management with regard to corporate governance. The Board Governance Policy is benchmarked against applicable best practices and serves to articulate the Board's expectations of Management, and the Board's role in setting the direction and control of PIDM.



The report on the performance against the standards in the Board Governance Policy is made annually and can be found in the Statement on Governance at www.pidm.gov.my.

The Board and senior management provide ethical leadership within PIDM. All Board members and employees are bound by the Conflict of Interest Code and the Code of Business Conduct and Ethics. They are required to make annual declarations of compliance with the same. The Board through the Audit Committee receives reports on compliance from Management including reports on the results of the compliance test, which is mandatory for all employees. PIDM also has a whistleblowing policy and the Audit Committee receives reports from Management of any whistleblower complaints.

Board Attendance

In 2021, the meeting attendances of Board members were as follows:

BOARD MEMBER	MEETING ATTENDANCES			
	BOARD	AUDIT COMMITTEE	GOVERNANCE COMMITTEE	HUMAN CAPITAL AND REMUNERATION COMMITTEE
Tan Sri Dr. Rahamat Bivi Yusoff	7/7	-	2/2	-
Tan Sri Nor Shamsiah Mohd Yunus	7/7	-	-	-
Datuk Seri Asri Hamidin @ Hamidon	3/7	-	-	-
Datuk Dr. Yacob Mustafa	7/7	5/5	-	-
Puan Suhara Husni[1]	6/7	-	1/1	-
Dato Dr. Nik Ramlah Mahmood	7/7	-	2/2	2/2
Dato' Dr. Gan Wee Beng	5/7	5/5	-	2/2
Ms. Gloria Goh Ewe Gim	7/7	5/5	2/2	-
Mr. Lee Kong Eng[2]	6/6	4/4	-	2/2

Board Committees

The composition of the Board Committees and their activities in 2021 were as follows:

Governance Committee

2 Meetings

Chair:
Dato Dr. Nik Ramlah Mahmood

Members:
Tan Sri Dr. Rahamat Bivi Yusof
Ms. Gloria Goh Ewe Gim
Puan Suhara Husni

In 2021, reviewed:
- corporate governance disclosures
- governance approach
- governance policies and procedures including the Code of Business Conduct and Ethics for Directors, Board Governance Policy, Board profiles, Board Committee charters, Corporate By-Law and the Policy for Appointment and Rotation of Board Committee Members
- action plans arising from the Board assessment results
- proposal to establish an Integrity and Governance Department (IGD)
- Board education programme and Board succession planning

Audit Committee

5 Meetings

Chair:
Ms. Gloria Goh Ewe Gim

Members:
Datuk Dr. Yacob Mustafa
Dato' Dr. Gan Wee Beng
Mr. Lee Kong Eng

In 2021, reviewed:
- Financial Statements 2020 and Annual Report 2020
- Enterprise Risk Management reports
- Statement on Risk Management and Internal Control
- Charter of the Audit and Consulting Services Division and its plan for 2022 - 2024
- Policy and Procedures on Public Disclosure of Information
- Revisions to the Investment Policy
- proposal to establish an IGD
- Compliance with laws, internal audit plan and reports
- Reports on expenses, investments and cash management
- updates on the Corporate Plan and Financial Plan, reports on procurements

Human Capital and Remuneration Committee

2 Meetings

Chair:
Dato' Dr. Gan Wee Beng

Members:
Dato Dr. Nik Ramlah Mahmood
Mr. Lee Kong Eng

In 2021, reviewed:
- key human capital initiatives, bonus and increments for employees
- the CEO's key performance indicators
- compliance with human capital policies and legal requirements
- succession planning for key senior management
- report on PIDM's scholarship programme

[1] Puan Suhara Husni was appointed to the Governance Committee on 7 May 2021
[2] Mr. Lee Kong Eng was appointed to the Board on 1 February 2021

Risk Management and Internal Control

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

The Board ensures that it obtains an understanding of key risks and ensures that they are appropriately managed. PIDM's risks are identified with both bottom-up and top-down approaches. They are discussed extensively with employees in enterprise risk management (ERM) workshops. An annual ERM Board Risk Report that contains a detailed annual assessment of PIDM's risks and action plans is presented to the Board. The Chief Internal Auditor and Chief Risk Officer report to the Board through the Audit Committee. The independent internal audit function provides reasonable assurance that internal control and risk management systems are effective.

In 2021, there were some movements in risk ratings and trends compared to 2020 due to the continuing COVID-19 pandemic. The trend for people risk has increased due to the potential impact from protracted work from home arrangements on productivity, mental health and employee morale, whilst insurance risk remains elevated as the current economic uncertainty persists. Cyberattacks are an emerging risk that is trending upward given the need for remote working arrangements. Risk factors were considered across various risk categories and the more significant risks were scrutinised to determine if there was a need to reassess risk ratings. These are discussed under the Material Matters section of this Annual Report and also in the Statement on Risk Management and Internal Control which can be found at www.pidm.gov.my.

Related Party Transactions

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

External Audit

PIDM's financial statements are audited by the Auditor General in accordance with the Audit Act 1957. The Board approves the release of the unaudited financial statements to the National Audit Department, which examines PIDM's unaudited financial statements in accordance with the Approved Standards on Auditing in Malaysia and the International Standards of Supreme Audit Institutions effective for the financial year ended 31 December of each year. Representatives from the National Audit Department are invited to attend all Audit Committee meetings and receive, as a matter of course, all the relevant documentation prior to the Audit Committee meetings.

Human Capital

The Board ensures that the human capital strategy is aligned with the corporate objectives and supports the organisation's long-term sustainability. The Human Capital and Remuneration Committee supports the Board and has oversight of the state of key human capital strategies as well as monitors the overall health of PIDM's human capital.

Despite the COVID-19 pandemic, safety and health is a priority and trainings continued, where necessary, virtually.

There were regular communications with employees to ensure people engagement and productivity.

Social Capital and Stakeholder Engagements for Effective Decision-Making

The Board considers stakeholder engagement highly important to the achievement of PIDM's end objectives. PIDM continued to adopt processes to ensure the appropriate consideration of significant stakeholder views especially in the development of effective regulatory policies. Similar to 2020, in 2021, in view of the COVID-19 pandemic, the Board also supported the granting of relief measures in respect of PIDM's requirements and reductions in premiums and levies, in order to help support the financial services industry during these times of economic stress.

APPROACH TO DIVERSITY AND INCLUSION

PIDM subscribes to the principles of diversity and inclusion and recognises the immense benefits brought to it by having a diverse multi-cultural and multi-disciplinary workforce. We respect and value the different cultures, genders, religions and uniqueness of others. These principles are set out in the Code of Business Conduct and Ethics for Directors and Employees.

The current Board comprises 55.5% female and 44.5% male Directors. Board members are drawn from the public and private sectors, and possess a diverse mix of skills and experience including legal, accounting, economics, corporate finance, mergers and acquisitions, interventions and insolvency, takaful and corporate governance.

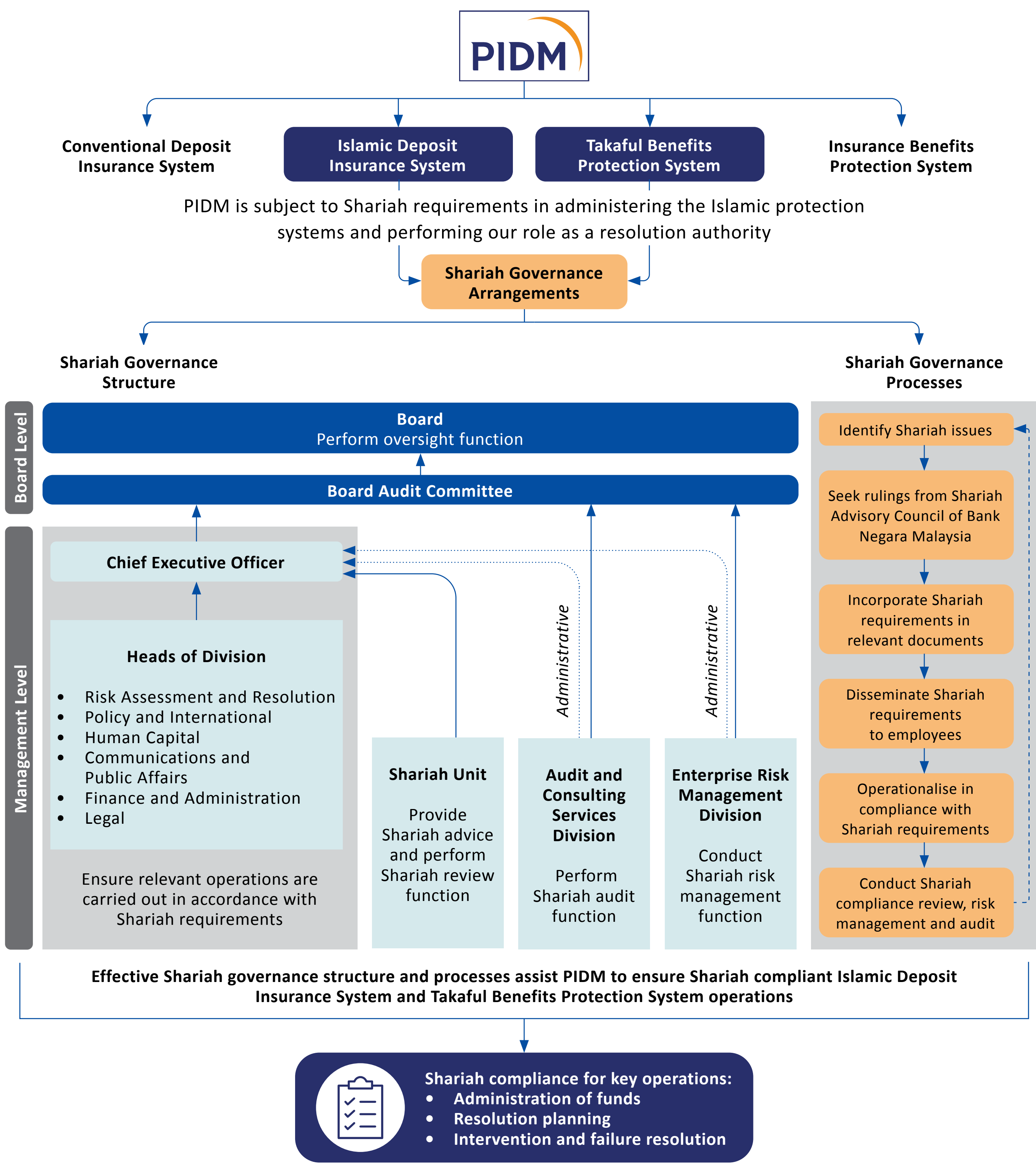
PIDM's workforce comprises people from different cultures and disciplines as well as employees with special needs. Our senior management comprises 44.8% female and 55.2% male, and the average age of our employees is 42.

APPROACH TO GOVERNANCE AND ACCOUNTABILITY

Transparency of our progress against planned initiatives enables key stakeholders to make an informed assessment of our performance and our ability to meet our statutory obligations. We publish our corporate plan on an annual basis, and report our progress against the plan in our annual report. Aside from building important social and intellectual capital, PIDM's adoption of governance practices is also important to ensure accountability during an intervention and failure resolution.

SHARIAH GOVERNANCE ARRANGEMENTS

At PIDM, we are subject to Shariah requirements when performing our functions and discharging our duties with respect to the Islamic Deposit Insurance System and the Takaful Benefits Protection System. We are also responsible for the implementation of prompt intervention and failure resolution actions for Islamic member institutions. To ensure compliance with the Shariah requirements when managing and operating these protection systems, we are guided by the rulings of BNM's Shariah Advisory Council (SAC). PIDM's Shariah governance arrangements are depicted in the following diagram:[3]



[3] As at 31 December 2021. Effective from 1 January 2022, PIDM's Shariah governance arrangements are as depicted in the diagram at www.pidm.gov.my

Annual Report 2021
GOVERNANCE

BOARD OF DIRECTORS – MEMBERS AND PROFILES

TAN SRI DR. RAHAMAT BIVI YUSOFF

Chairman

Appointed to the Board: January 2012

Appointed as Chairman of the Board: August 2017

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

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

Area of Expertise
- Economics

Current Appointment
- Chairperson, Board of Governors, Multimedia University, Malaysia

Directorships
- Co-Chairperson, Malaysia-Thailand Joint Authority
- Independent Non-Executive Director of Ekuiti Nasional Berhad
- Independent Non-Executive Director of IOI Corporation Berhad

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

TAN SRI NOR SHAMSIAH MOHD YUNUS

Ex Officio Director

Appointed to the Board: July 2018

Membership of Board Committees
- Nil

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

Professional Membership
- CPA Australia
- Malaysian Institute of Accountants

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

Current Appointment
- Governor, Bank Negara Malaysia

Directorships
- Chairman, Board of Directors, The South East Asian Central Banks (SEACEN) Research and Training Centre
- Chairman, Board of Directors, Bank Negara Malaysia

Past Experience
- Chairman, Board of Directors, International Centre for Education in Islamic Finance (INCEIF)
- Assistant Director, Monetary and Capital Markets Division, International Monetary Fund
- Deputy Governor, Bank Negara Malaysia

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

GOVERNANCE

BOARD OF DIRECTORS – MEMBERS AND PROFILES

DATUK SERI ASRI HAMIDIN @ HAMIDON

Ex Officio Director

Appointed to the Board: May 2020

Membership of Board Committees
- Nil

Qualifications
- Harvard Premier Business Management Program
- Masters in Economics, Hiroshima University, Japan
- Bachelor in Economics (Hons), University Malaya, Malaysia
- Diploma in Public Administration, the National Institute of Public Administration, Malaysia

Area of Expertise
- Economics

Current Appointment
- Secretary General of Treasury, Ministry of Finance

Directorships
- Chairman, Board of Directors, Retirement Fund (Incorporated) (KWAP)
- Chairman and Director, 1Malaysia Development Berhad
- Non-Independent and Non-Executive Director, DanaInfra Nasional Berhad
- Director, Aset Tanah Nasional Berhad
- Director, GovCo Holdings Berhad

Past Experience
- Deputy Secretary General (Policy) of Treasury, Ministry of Finance
- Assistant Director, Economic Planning Unit (EPU)

DATUK DR. YACOB MUSTAFA

Public Sector Director

Appointed to the Board: November 2019

Membership of Board Committees
- Member of Audit Committee

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

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

Area of Expertise
- Economics, accounting

Current Appointment
- Accountant General of Malaysia

Directorships
- Director, Lembaga Hasil Dalam Negeri
- Director, Retirement Fund (Incorporated) (KWAP)
- Director, Lembaga Pembiayaan Perumahan Sektor Awam
- Director, Prasarana Berhad
- Director, DanaInfra Nasional Berhad

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

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

PUAN SUHARA HUSNI

Public Sector Director

Appointed to the Board: August 2020

Membership of Board Committees
- Member of Governance Committee

Qualifications
- Master of Business Administration, Universiti Kebangsaan Malaysia
- Bachelor of Laws (Honours), International Islamic University of Malaysia
- Bachelor of Laws (Shari'ah) (Honours), International Islamic University of Malaysia
- Diploma in Public Administration, the National Institute of Public Administration, Malaysia

Area of Expertise
- Public finance and budgeting

Current Appointment
- Head of Disbursement, Monitoring and Loan Recovery Sector, Strategic Investment Division, Ministry of Finance

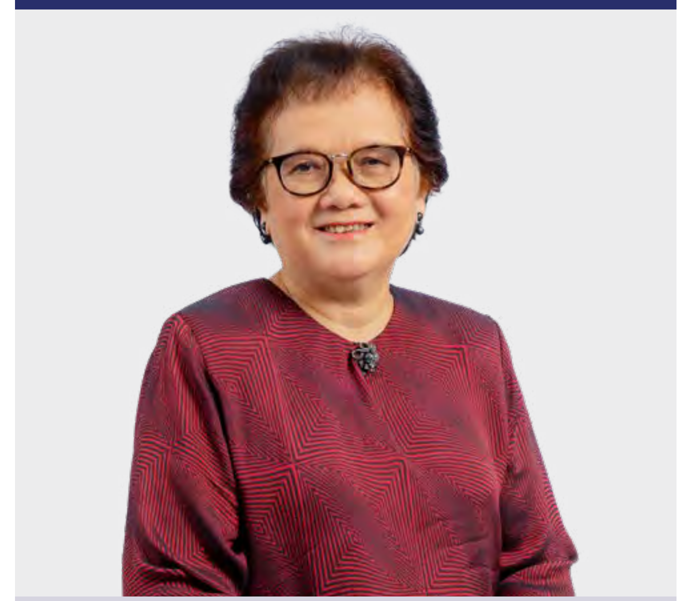
Directorships
- Director, Universiti Sains Islam Malaysia

Past Experience
- Registrar of the Registrar Office of Credit Reporting Agencies, Ministry of Finance
- Principal Assistant Secretary, Department of Higher Education, Ministry of Higher Education
- Assistant Secretary, Prime Minister's Department

DATO DR. NIK RAMLAH MAHMOOD

Private Sector Director

Appointed to the Board: August 2016



Membership of Board Committees
- Chairman of Governance Committee
- Member of Human Capital and Remuneration Committee

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

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

Directorships
- Director, Institute Capital Market Research
- Director, International Centre for Education in Islamic Finance (INCEIF)
- Director, Permodalan Nasional Berhad
- Director, Amanah Saham Nasional Berhad
- Independent Non-Executive Director, Axiata Group Berhad
- Independent Non-Executive Director, United Malacca Berhad
- Chairman, edotco Group Sdn Bhd

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

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

Annual Report 2021
GOVERNANCE

BOARD OF DIRECTORS – MEMBERS AND PROFILES

DATO' DR. GAN WEE BENG

Private Sector Director

Appointed to the Board: August 2016

Membership of Board Committees
- Chairman of Human Capital and 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

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

MS. GLORIA GOH EWE GIM

Private Sector Director

Appointed to the Board: February 2017

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

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

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

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

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

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

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

MR. LEE KONG ENG

Private Sector Director

Appointed to the Board: February 2021

Membership of Board Committees
- Member of Audit Committee
- Member of Human Capital and Remuneration Committee

Qualifications
- Bachelor of Arts (Honours), University of Lancaster, United Kingdom

Professional Membership
- Associate Member, Institute of Chartered Accountants in England and Wales
- Malaysian Institute of Accountants

Area of Expertise
- Audit, finance and accounting, corporate restructuring, mergers and acquisitions

Past Experience
- Partner, Ernst & Young, Malaysia

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

EXECUTIVE MANAGEMENT COMMITTEE

PIDM's Executive Management Committee[4] executes strategies, drives performance and organisational synergies. It also supports the Board in fulfilling its governance responsibilities.

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1 **RAFIZ AZUAN ABDULLAH**
Chief Executive Officer

2 **LIM LEE NA**
Corporate Secretary and General Counsel

3 **WAN AHMAD IKRAM WAN AHMAD LOTFI**
Chief Financial Officer

4 **JAZIMIN IZZAT WAN ZOOLKIFLI**
Chief Internal Auditor

5 **ZUFAR SULEIMAN ABU BAKAR**
Chief Risk Officer

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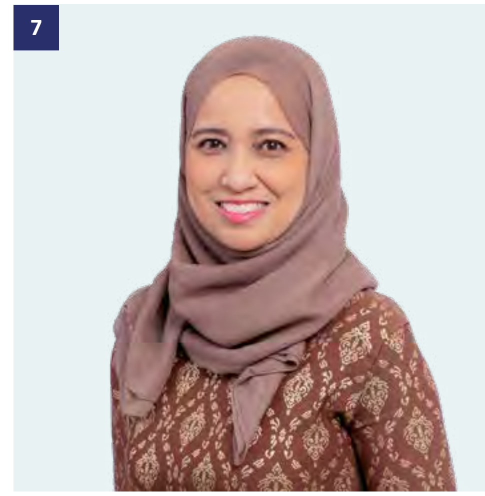
7 

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6 **LEE YEE MING**
Senior General Manager, Risk Assessment and Resolution

7 **AFIZA ABDULLAH**
General Manager, Policy and International

8 **HELENA PREMA JOHN**
General Manager, Human Capital

9 **IVLYNN YAP CHENG THENG**
General Manager, Communications and Public Affairs

10 **LIM KONG KUAN**
General Manager, Membership and Reimbursement

11 **SOH SHEY YIN**
General Manager, Legal

[4] As at 31 December 2021. Effective from 1 January 2022, the profiles of PIDM's Executive Management and Governance Leads have been updated in line with PIDM's latest Organisation Structure, which can be found at www.pidm.gov.my

STAKEHOLDERS

STAKEHOLDERS

ENHANCING COLLABORATION

Engagement remained a key priority for PIDM to engender stakeholder trust and confidence while effectively delivering our mandate. According to a United Nations study, COVID-19 was seen as "impacting heaviest on the most meaningful and inclusive forms of stakeholder engagement".[1] In this environment, PIDM intensified our focus on digital strategies to reach, communicate, consult and engage with various stakeholder groups.

In 2021, we kept a steady momentum of engagements optimised through hybrid (virtual and in-person) interactions with key corporate stakeholders, as well as leveraged digital channels for more inclusive and broad-based outreach to the public. Our overall approach is described below, with more details available in the Performance section.

KEY STAKEHOLDER	FEEDBACK MECHANISMS	WHAT ARE THEIR INTERESTS?	HOW DO WE RESPOND?	FUTURE PLANS
Members of the public	• Awareness and trust index survey • Surveys or questionnaires • Media interest • Focus group feedback	**Mandate fulfilment** For PIDM to fulfil our statutory mandate with accountability and transparency.	Our progress against our corporate plan initiatives is reported in our annual report. Financial statements are laid in Parliament through the Minister of Finance each year. All of our corporate plans and annual reports are publicly available on our website.	We will continue our current practices, and comply with the Malaysia Deposit Insurance Corporation Act (PIDM Act).
			We have a consultation process for feedback from our stakeholders on important matters such as draft regulations.	Our consultation papers will continue to be publicly available on our website.
		Financial system stability According to our consumer awareness surveys, those who were aware of deposit insurance felt that PIDM protection was relevant to them. **Value creation** Awareness and trust in PIDM promote confidence in the stability of the financial system. A stable financial system allows member institutions to perform their businesses and their functions within the economy.	We carry out public awareness initiatives and programmes about PIDM and our protection systems through multiple channels. We also promote financial literacy to the public as a foundation to greater understanding as well as to provide valuable content.	We will continue to focus on our social media presence and more targeted engagements, as well as carry out initiatives to promote and support financial resilience among the public.
			The Deposit Insurance System Information Regulations require member banks to display information about PIDM at their premises, websites, social networking sites and provide information to relevant customers.	Similar requirements under the Takaful and Insurance Benefits Protection System will be imposed on insurer members.
Member institutions and industry associations	• Consultations • Industry engagements (e.g. dialogues, briefings, focus groups) • One-to-one engagements at senior levels of member institutions and industry associations • Stakeholder perception audit • Post-event surveys	**Key insights from feedback** • Expectations are for PIDM to demonstrate competence, effectiveness and efficiency as a regulator. • Industry associations have requested for more collaboration with PIDM in areas of common interest. **Value creation** By carrying out stakeholder consultations and briefings, PIDM promotes effective policy-making, regulations and regulatory solutions.	We consult on proposed policies or frameworks impacting member institutions including on our revised Differential Premium System (DPS) framework in 2021. We also enhanced our Guidelines on Validation Programme for DPS and Differential Levy Systems (DLS) in response to industry feedback.	We will continue to engage the industry and consult on policies and frameworks that impact them. In 2022, our consultation and engagements will be focused on resolution planning.
			We conduct knowledge sharing sessions with our member institutions about PIDM, our protection systems and provide training on resolution planning.	We will continue to conduct knowledge sharing sessions and provide training to our member institutions through established channels, and as and when requested.
			In 2021, PIDM extended the deadlines for compliance with regulatory requirements, in order to reduce regulatory burdens on member institutions.	
			PIDM publishes our financial statements in line with appropriate reporting standards, so that we may account for our expenditure.	

[1] *United Nations, 2021. "The Impacts of COVID-19 on Stakeholder Engagement for the SDGs" at sdgs.un.org*

Annual Report 2021
STAKEHOLDERS

KEY STAKEHOLDER	FEEDBACK MECHANISMS	WHAT ARE THEIR INTERESTS?	HOW DO WE RESPOND?	FUTURE PLANS
Financial safety net players and Government agencies	• Bank Negara Malaysia (BNM) Strategic Alliance Agreement Liaison Committee • Ex officio Board members • One-to-one engagements with other agencies • Engagements with senior officials in the Government • Feedback at working levels • Stakeholder perception audit	**Financial system stability** Ministry of Finance and BNM share the same public policy objective as PIDM, which is financial system stability.	We have a Strategic Alliance Agreement with BNM that is regularly reviewed. The Secretary General of the Treasury and the Governor of BNM are ex officio Board members of PIDM, to help support coordination among the financial safety net players. We consult relevant agencies prior to any amendments to the PIDM Act. We build relationships through, for example, secondments.	We will continue to work closely and strengthen relationships with key financial safety net players.
		Clear regulatory roles and responsibilities There must be effective communications and collaborations to address concerns about stability in the financial system. There should be clarity of roles and responsibilities especially during a crisis. **Value creation** Effective policy and crisis coordination, collaboration and clarity of roles and responsibilities among financial safety net players.	In 2021, we carried out a simulation among the financial safety net players on crisis communication, as part of broader crisis management arrangements and protocols. We also organised relevant knowledge sharing sessions during the course of the year. We participate in inter-agency information-sharing sessions and regulatory coordination. Our Chief Executive Officer is a member of the Financial Stability Executive Committee established under the Central Bank Act 2009.	We will continue to coordinate regulatory measures and conduct simulations to test and strengthen coordination arrangements among the financial safety net players.
		Promotion of financial literacy among the public **Value creation** Financial literacy and better understanding about PIDM and our protection systems promote public confidence.	We work on promoting financial resilience, finding opportunities to collaborate with strategic partners and leverage on our Financial Education Network (FEN) partners.	We will continue to support the work of FEN to advance financial literacy and education.
		Adherence to national reporting standards The National Audit Department (NAD) obtains information from PIDM to carry out its statutory audit. Its interest is to ensure that we adhere to the Malaysian accounting standards and maintain internal controls and effective risk management.	We cooperate with NAD on its external audits.	We will continue to work closely with NAD on their external audits to ensure adherence to the Malaysian Financial Reporting Standards, and we will continue to maintain strong internal controls and risk management.
Media	• Stakeholder perception audit • Media engagement sessions	**Provide clear and accurate information** The media plays a significant role in shaping public opinion. The media expects PIDM to provide clear and accurate information to the public. **Key insights from feedback** Current media interest in PIDM tends to be skewed towards scam-related stories and profiles of leaders, rather than on the specific topic of deposit insurance or insurance guarantee schemes. **Value creation** Good understanding of PIDM and our work, as well as relationships with PIDM will help support PIDM during a crisis event including an intervention and failure resolution.	We engage with senior management and working levels of the media to establish good relationships. This is to help enable the appropriate profiling for PIDM among the public, and to help maintain our reputation and image.	We will continue to build relevant content on PIDM's public awareness initiatives as well as on intervention and failure resolution, to engage the media. We will also work on finding new opportunities to engage with senior editors and journalists through a targeted approach.
			We engage with relevant media oganisations to promote and create awareness on topics and information that relate to PIDM and are beneficial and relevant to public interest.	We will continue to engage the media through one-on-one engagements with our spokespersons, and other approaches including content collaboration and campaigns that can leverage on their reach and engagement with the public through social media.

STAKEHOLDERS

KEY STAKEHOLDER	FEEDBACK MECHANISMS	WHAT ARE THEIR INTERESTS?	HOW DO WE RESPOND?	FUTURE PLANS
International counterparts	• Requests for knowledge sharing by other deposit insurers, resolution authorities or insurance guarantee schemes (IGS) • Appointments onto executive and other committees of international institutions • Hosting of international webinars and conferences, as well as senior-level invitations to speak at international events • Post-event surveys • Offers for secondments to international organisations or counterpart organisations • Participation in conferences and crisis management groups • Hosting of resolution focus groups on cross border coordination • Stakeholder perception audit	**Knowledge sharing and support network** International networks allow for effective knowledge sharing, the development of best practices, data collection, research and thought leadership.	We execute memoranda of understanding for knowledge and expertise sharing. We have also established agreements with resolution authorities to facilitate cross-border resolution.	We will continue to maintain good relationships with other deposit insurers and IGS through the International Association of Deposit Insurers (IADI), International Forum of Insurance Guarantee Schemes (IFIGS) and bilateral engagements.
			We participate actively in IADI and IFIGS events and conferences. We also contribute to the work of the Study Group on Resolution of the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP). Where relevant our senior personnel participate as executive or management committee members, relevant committees or subcommittees members.	We will continue to participate actively in relevant IADI, IFIGS and EMEAP events and workstreams, as well as those relating to other multilateral institutions such as the Financial Stability Institute (FSI), The World Bank and others. These engagements include our senior level executive appointed to serve as the Chair of IFIGS for a one-year term in 2022.
		Coordination in respect of resolution plans for member institutions with cross-border presence To deal with cross-border member institution failures, many jurisdictions are working on ensuring robust mechanisms for resolution and cross-border cooperation. This is with the view to achieving orderly resolution of financial groups operating across borders. PIDM has been invited to participate in relevant crisis management groups and to host resolution focus groups for foreign authorities (with respect to relevant PIDM member institutions). **Value creation** With these engagements, we have been able to contribute to international policy benchmarks, global standards and thought. We are also able to participate in coordination and planning with foreign resolution authorities on cross-border resolution.	We engage with other international organisations, especially those involved in deposit insurance, IGS, resolution and the promotion of financial regulation, development and stability, and provide views on matters relevant to our mandates. We also engage with foreign authorities and participate in crisis management groups in relation to cross-border resolution planning.	We will continue to have ongoing discussions with foreign authorities bilaterally, and through the platform of crisis management and resolution focus groups. We will host resolution focus group for foreign authorities with respect to the cross-border presence of relevant PIDM member institutions. In addition, we will participate in several regional simulations organised by multilateral organisations to enhance crisis preparedness.
Strategic service providers and partners	• One-to-one senior level engagements with leaders of service providers • Participation in PIDM's training and knowledge sharing sessions • Stakeholder perception audit	**Strategic partnerships with service providers** Understanding of PIDM's business will allow service providers to provide quality and effective services. Service providers also expect PIDM to follow a transparent and fair selection process. PIDM has Board-approved procurement policies supported by best practice procedures. **Value creation** Working with external service providers as strategic partners and familiarising them with PIDM's business and affairs will allow PIDM to leverage on these providers for capacity in the event of an intervention and failure resolution.	We engage to familiarise them on relevant matters such as our legislation, mandate, approaches and processes and maintain resolution readiness. As part of our simulation exercise, we conduct training and knowledge sharing sessions to enhance the readiness of our service providers.	We will actively engage with a broader range of strategic partners and service providers to build and deepen their understanding of PIDM's role and corporate initiatives such as resolution planning.
Employees	• Senior management-led town hall engagement sessions • Employee surveys on engagement, learning, risk maturity levels, crisis preparedness and others • 360-degree assessment (on leadership) • Enterprise Risk Management workshops • Management audits and talent reviews	For employee engagement, employees have an interest to: • understand and align their performance in line with PIDM's goals; • contribute to PIDM's successes; • have learning and growth opportunities; and • have a safe and conducive work place. **Value creation** Engagements with employees are important to build culture, a common vision and clarity of objectives, as well as to create a conducive work environment that will help retain talents within PIDM.	We carry out regular engagements with employees, and actively communicate through various platforms such as town hall sessions, PIDM's Kelab Sukan, Rekreasi dan Kebajikan activities and others. Our other priorities included the health, safety and wellness of our employees, as well as fostering a learning culture via the launch of a new virtual learning platform. In 2021, we also focused on implementing a multi-year talent programme to build our talent pipeline, and our staff were provided with opportunities for secondment.	We will continue to carry out these engagements, conduct internal communication sessions and encourage open communication between employees and management. Other areas of focus are talent and succession management, as well as leadership development.

MATERIAL MATTERS

PIDM identifies and prioritises material matters. These are issues that can or have the potential to substantially affect our strategies, business model, or certain forms of our resources or capitals,[1] over the short, medium or long term. Material matters are also matters that arise from our assessment of key risks affecting PIDM and which are discussed at Board level.

MANDATE AND BOUNDARIES

Mandate and Statutory Objects

- Protect depositors, takaful certificate and insurance policy owners in relation to a member institution failure
- Administer the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS)
- Provide incentives for sound risk management in the financial system
- Promote or contribute to financial system stability

Preamble to the Malaysia Deposit Insurance Corporation Act (PIDM Act)

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

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

Value Drivers

- Clear legislative mandate and wide powers
- Corporate governance (accountability)
- Talents (competence and agility)
- Stakeholder engagement

Reporting Boundaries

As permitted under the PIDM Act, and for readiness, PIDM has incorporated subsidiaries that will serve as a bridge institution and an asset management company that will however not be operational unless there is an intervention and failure resolution. Refer to the Financial Statements on our financial reporting practices with regard to these subsidiaries.

[1] *Section 2C of the revised International Integrated Reporting <IR> Framework (January 2021) defines capitals as resources or "stock of values" that increases, decrease or transform through the activities and outputs of an organisation. For example, an organisation's financial capital is increased when it makes profit or surpluses, and the quality of its human capital is improved when employees become better trained*

MANAGING RISKS IN 2021 AMIDST THE ONGOING COVID-19 SETTING

As Malaysia and other countries around the world continue to grapple with waves of new COVID-19 variants and infections, and the resulting control measures put in place by governments, the industry and PIDM needed to quickly adapt to remote as well as hybrid working arrangements. Whilst these helped to somewhat mitigate the operational constraints, it also increased the areas of exposure and vulnerabilities for cyberattacks on PIDM and will continue to remain as a threat as we move into the digital environment.

As uncertainties and volatilities in the environment continue to prevail, PIDM has intensified our monitoring and heightened our focus on our state of readiness, so that we can quickly move into position if PIDM were called upon to deploy our powers.

PIDM also acknowledges the impact of the pandemic on our key assets – our people. Greater effort had been put into the management of employee welfare and mental health as employees continue to work remotely and in insolation over a prolonged period of time.

A summary of our principal risks for the year 2021 is set out in the table below.

PRINCIPAL RISKS	CONTEXT
Entering a More Cyber and Digital Landscape **– Operational Risk**	COVID-19 pandemic-related risks include: • increased potential cyber vulnerabilities from virtual working arrangements and access, in an environment which is seeing an increasing number of cyberattacks; • adapting operational processes and procedures to a virtual and hybrid platform; • accelerated need for digital transformation arising from a fast changing operating environment; • safeguarding of information security in work from home arrangements; and • ensuring a safe working environment and the physical safety of employees.
Heightened Readiness to Perform Our Mandate **– Insurance Risk**	COVID-19 pandemic-related risks include uncertainties about the recovery of the global and Malaysian economy and its impact on the public, as well as on enterprises and industries if the crisis is prolonged.
Human Capital **– People Risk**	The COVID-19 pandemic raised risks to the morale and performance of employees, some of whom might have been affected by the need to manage uncertainties or to balance personal and professional commitments while working from home. Other challenges include maintaining the desired employee culture and team spirit within the organisation in a fully remote work arrangement setting.
Damage to Image and Reputation **– Reputation Risk**	PIDM's credibility as a statutory body depends upon the trust and confidence of a diverse group of stakeholders, especially during an intervention and failure resolution. Sufficient support from key stakeholders is also important for PIDM to fulfil our corporate initiatives and mandate effectively. PIDM has also explored alternative platforms to continue our efforts to enhance relationships with stakeholders, including elevating the importance of online and social media as a means of communicating and engaging with stakeholders.

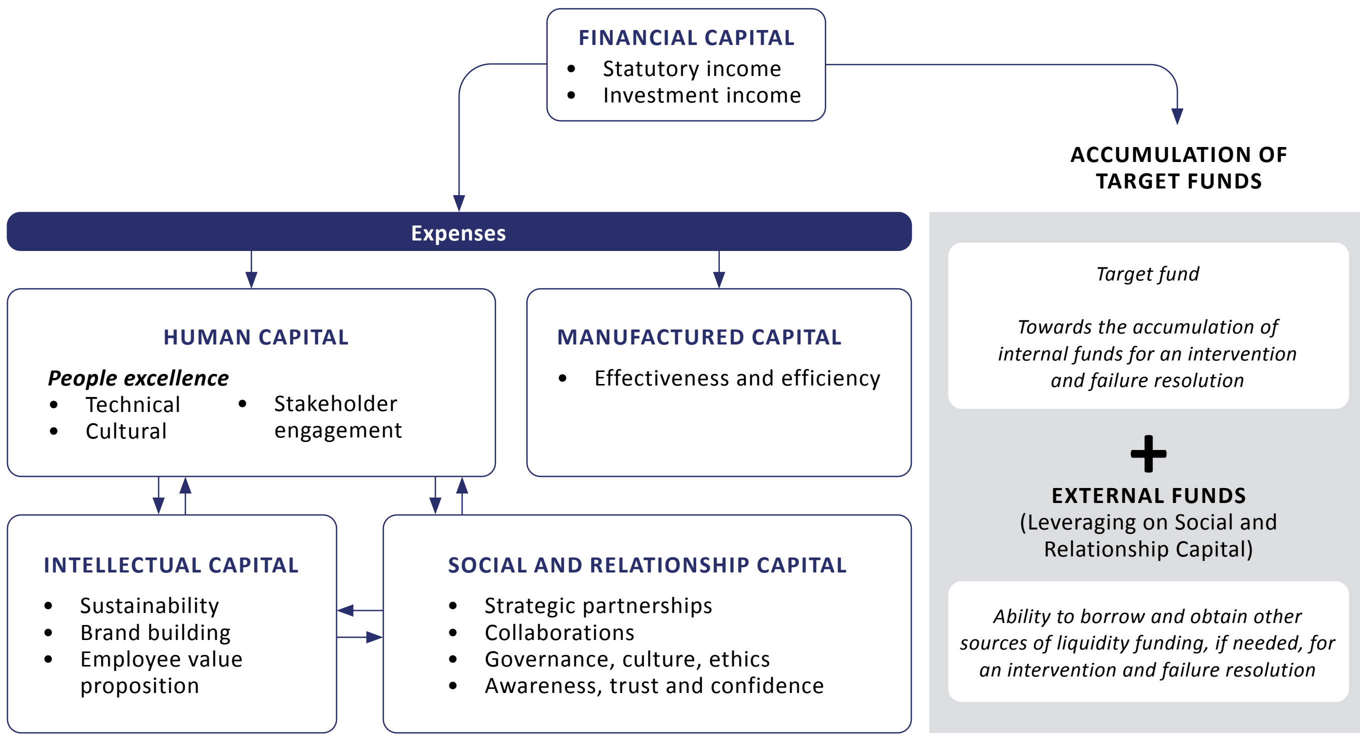
PIDM's risk philosophy is fundamentally focused on anticipating and being prepared to minimise risks that threaten the protection of financial consumers' savings in Malaysia and the stability of the financial system.

DETERMINING MATERIALITY

Material matters are considered from the perspectives of significant value drivers, stakeholder interests, external and internal factors, current performance, our principal risks and our capitals. We then assess how all these factors impact our ability to create value, i.e. whether they increase or transform the various resources or capitals of PIDM.

OUR CAPITALS AND HOW THEY ARE INTERLINKED AND TRANSLATED TO ACHIEVE OUR MANDATE

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



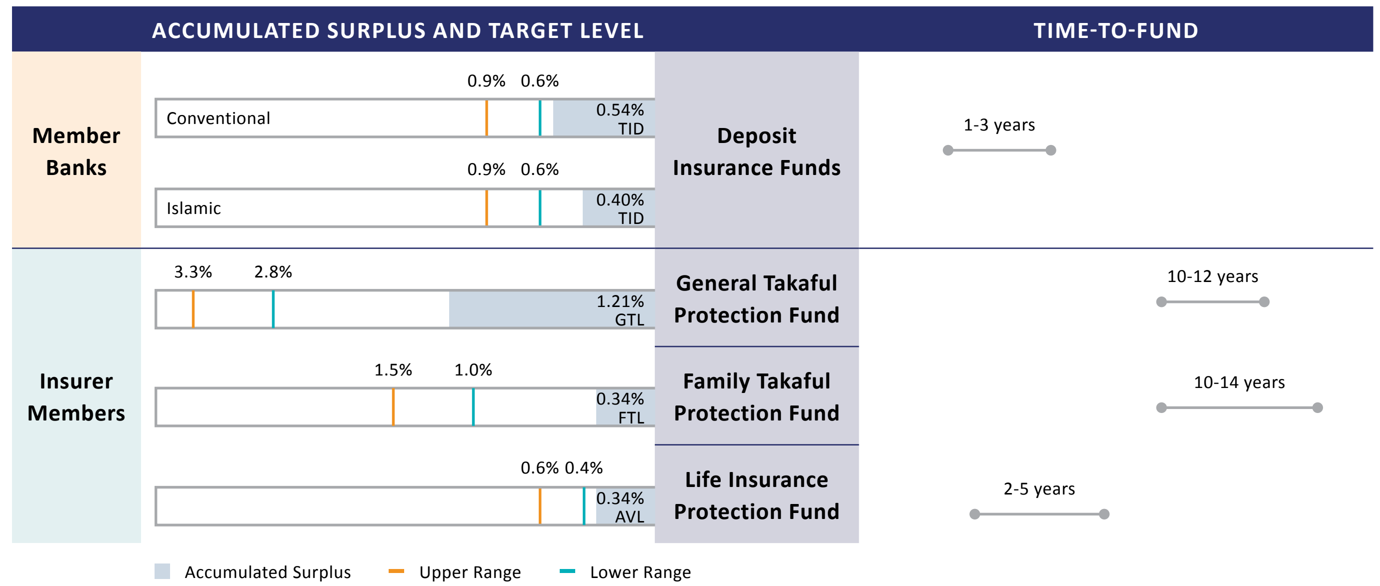
Mandate
- *Administer DIS and TIPS*
- *Provide protection against the loss of deposits in member banks, and takaful or insurance benefits in respect of insurer members*
- *Provide incentives for sound risk management*
- *Contribute to or promote stability in the financial system*

Source of Financial Capital

PIDM's primary source of financial capital is the premiums or levies imposed on member institutions, and the investment income from the funds. The premium and levy rates are decided by the Minister of Finance on PIDM's recommendations.

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

In 2021, accumulated surplus, target levels and time-to-fund of the DIS and TIPS funds are depicted in the chart below. While the general insurance protection fund target level has been met in 2015, PIDM remains on track to meet the lower range of the other current target fund levels for the DIS and TIPS funds. Also refer to Note 12 of the financial statements for details of respective funds.



Notes:
The General Insurance Protection Fund has met its target level of 80% - 100% of Total Net Expected Loss
TID: Total Insured Deposits — *FTL: Family Takaful Liabilities*
GTL: General Takaful Liabilities — *AVL: Actuarial Valuation Liabilities*

Source: PIDM

Financial and Relationship Capitals are Translated into Intellectual, and Other Capitals for Creation of Value

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

Knowledge – which involves experience, research and learning – is a main capital for PIDM. For knowledge to be a valuable asset, PIDM continues to build on our intellectual capital.

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

Manufactured capital, such as our information technology (IT) infrastructure, is important for effectiveness and efficiency. PIDM's plans going forward include a digital transformation plan to help guide how we manage and use the data and information we collect (e.g. from member institutions, Bank Negara Malaysia (BNM) and other resolution authorities), and to carry out more research, in particular on data and information that we and others can analyse and use, with a view to facilitating the creation of value for society.

MATERIAL MATTERS

MATERIAL MATTERS

As highlighted below, material matters include concerns that may correspond with some of the risks in the earlier section. The material matters are discussed in order of priority, taking into account the impact of the matter on PIDM's ability to perform our statutory functions.

Capitals

Human capital | Social and relationship capital | Financial capital | Intellectual capital | Manufactured capital

MATERIAL MATTER	DEFINITION	STAKEHOLDER / CAPITAL AFFECTED / PRINCIPAL RISKS	STRATEGY
Preparedness	Achieving a high-level state of preparedness to enable PIDM to meet our mandate effectively and efficiently, from the perspectives of: • legislative framework, systems and processes; • competence and capability of our people; • financial safety net coordination and cooperation; and • funding.	**Stakeholders** • Government • BNM • Public • Strategic partners **Capitals** **Principal risks** • Insurance risk • People risk • Reputation risk • Operational risk	Ensure protocols and arrangements among key financial safety net players and strategic partners to enhance coordination, and continue to simulate and test various aspects of PIDM's contingency plans. Ensure alignment of people, processes and systems to the changing industry landscape – digital transformation.
	Related to preparedness, resolution planning refers to "a plan intended to facilitate the effective use of Resolution Powers by the Resolution Authority, with the aim of making feasible the resolution of any financial institution without severe systemic disruption … while protecting systemically important functions."[2]	**Stakeholders** • Industry • BNM • Financial consumers of member institutions • Foreign counterparts • Employees • Shareholders and creditors of member institutions **Capitals** **Principal risks** • Insurance risk • People risk • Reputation risk	Early engagement and buy-in from relevant stakeholders.
Awareness, trust and confidence, and crisis communication	Achieving public awareness and understanding, and trust, so that there can be confidence among depositors and other financial consumers in the stability of the financial system, and sufficient credibility to help calm the public during times of uncertainty. Having contingency plans so that PIDM is in a state of readiness to communicate effectively in crisis situations to avert or mitigate risks.	**Capitals** **Principal risks** • Reputation risk • Insurance risk	Increase visibility and understanding among the public as well as targeted stakeholders, to elevate PIDM's reputation and credibility, as well as preparedness for crisis communication, working with strategic partners.
Leadership, employee engagement and development	Commitment to employee engagement, succession planning and skills development for current and future needs.	**Capitals** **Principal risks** • People risk • Operational risk	Ensure that human capital strategy and plans are aligned with PIDM's strategic direction, corporate objectives, and needs. Ensure ongoing employee engagement and management of employee welfare. Ensure alignment of people, processes and systems to the changing operating environment – digital transformation.
Corporate governance	Commitment to transparency, accountability and integrity, and ensuring strategic management and sound management practices.	**Capitals** **Principal risks** • Operational risk • Reputation risk	**Adopt best practice management** Ensure data and knowledge are organised effectively, leveraging on technology whilst ensuring IT and cybersecurity. **Strategy focus** Other opportunities for value creation including in partnership with others.

Looking forward, the principal risks are also mapped to the corporate plan initiatives for the planning period 2022 - 2024. Details can be found at www.pidm.gov.my.

[2] *International Association of Deposit Insurers definition at www.iadi.org*

PERFORMANCE

PERFORMANCE

In 2021, continuing uncertainties compelled us to focus on intensifying our work on readiness, so as to heighten our state of responsiveness. The COVID-19 pandemic has changed the way we work and accelerated the shift towards our digital transformation agenda. PIDM continues to implement remote working arrangements to ensure the health and well-being of our employees. By leveraging on the available infrastructure and technology, as well as the lessons learned from the COVID-19 pandemic, we were able to operate effectively and continue to serve our key stakeholders.

The financial relief measures that were implemented in 2020 to ease regulatory burden, i.e. the 50% reduction of annual premium and levy rates, as well as the minimum annual premium and levy amount, were extended and continued to be in effect for assessment year 2021. While the path towards economic recovery going forward is generally positive for our member institutions, we remain vigilant of risks arising from the lagging effect of the pandemic, and will continue to actively monitor the economy and financial markets, and consider potential risks to our member institutions, including in worst-case scenarios.

2021 – Investing in Heightened Responsiveness

PIDM has consistently fulfiled our regulatory duties through the strategy articulated in yearly corporate plans. This section highlights our achievements in 2021, based on our Summary of the Corporate Plan 2021 - 2023, themed "Investing in Heightened Responsiveness". Apart from continuing with our long-term strategic direction of our role as a resolution authority, our strategic objectives in 2021 also took into account the impact arising from the COVID-19 pandemic, in navigating PIDM towards greater resilience and agility. Based on our strategic objectives, the key result areas (KRAs) and the corporate initiatives in our Corporate Plan 2021 - 2023 are as follows:

✔ Target achieved; initiative completed
◷ Progressing as scheduled; and / or within budget

Strategic Objectives	Corporate Initiatives (Refer to following pages for details)	Target 2021	Status
Resolution Readiness Heightening operational readiness and vigilance, and supporting financial system resilience	**KRA 1: Crisis preparedness** • Enhance PIDM's crisis preparedness with the execution of a risk-based, multi-year programme that identifies and prioritises activities for periodic testing and training.	• Conduct external and internal simulation exercises, including inter-agency crisis communication simulation with Ministry of Finance (MOF) and Bank Negara Malaysia (BNM).	✔
	KRA 2: Member institutions' premium and levy assessment and resolution plan • Continue the current resolution planning exercises with the pilot banks and refine the resolution planning guidelines. • Review and enhance the differential premium and levy system frameworks.	• Complete resolution planning pilot exercises, maintain relationships with foreign authorities and develop plans for the establishment of a resolution focus group. • Conduct industry consultation on the Differential Premium Systems framework (DPS).	✔
	KRA 3: Reimbursement readiness • Continue the development of an electronic payment platform to allow for insured deposit payments by PIDM to be made electronically without the active involvement of the depositors.	• Complete system integration of reimbursement system to PayNet Retail Payment Platform, automate post-payment request procedures, and continue to explore developments in electronic payment platforms.	◷

Strategic Objectives	Corporate Initiatives (Refer to following pages for details)	Target 2021	Status
Trust and Confidence in PIDM Strengthening trust and confidence in PIDM through public awareness initiatives, and enhancing PIDM's visibility among relevant stakeholders	**KRA 4: Public awareness, trust and confidence** • Carry out public awareness initiatives through multiple channels, including a financial resilience campaign for the public, as well as collaborations with the Financial Education Network (FEN) and other strategic partners.	• Maintain public awareness index of PIDM at a minimum of 65%. • Promote financial resilience and literacy targeting millennials.	✔
	KRA 5: Visibility and reputation • Enhance PIDM's visibility and reputation among relevant stakeholders through appropriate content. • Continue to engage key stakeholders on crisis preparedness and the resolution of financial institutions, through diverse channels.	• Engage key stakeholders on crisis preparedness and resolution, develop and publish resolution case studies, research paper on Fintech and behavioural studies. • Position PIDM among key stakeholder groups through collaborations on content development, marketing and sponsorship.	◷
Organisation Capacity Evolving the Corporation, and continuing to build organisational capacity	**KRA 6: Secure and efficient operations** • Continue to monitor and enhance cybersecurity and infrastructure and achieve Information Security Management System (ISMS) ISO/IEC 27001 certification. • Develop and implement a digital transformation roadmap and continue to enhance data collection, visualisation and analytics capabilities.	• Implement and achieve ISMS ISO/IEC 27001 certification, conduct cybersecurity operational assessment, and conduct comprehensive employees awareness programme. • Identify areas (functions, processes and capabilities) and determine end goal for digital transformation.	✔
	KRA 7: Productive, agile and sustainable workforce • Continue talent management initiatives for bench strength and succession planning. • Continue to nurture an agile mindset through a culture of learning and growth.	• Implement multi-year talent management programmes (high potential talent, resolution trainee and secondment, coaching). • Enhance leadership capabilities in line with the unique leadership competency of "engaging employees".	◷

Our Key Achievements in 2021

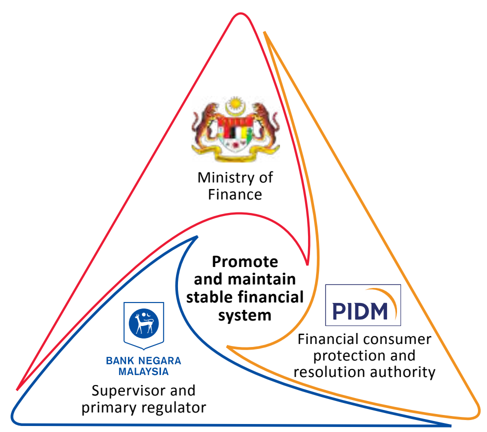
The following highlights our achievements in 2021 against our three strategic objectives and KRAs.

- KRA 1 Crisis preparedness
- KRA 2 Member institutions' premium and levy assessment and resolution plan
- KRA 3 Reimbursement readiness
- KRA 4 Public awareness, trust and confidence
- KRA 5 Research and visibility
- KRA 6 Secure and efficient operations
- KRA 7 Productive, agile and sustainable workforce

STRATEGIC OBJECTIVE: RESOLUTION READINESS | KEY ACHIEVEMENTS

KRA 1: Crisis preparedness

Enhanced inter-agency coordination. In 2021, we have further enhanced the inter-agency coordination and collaboration on crisis management. We have established an Inter-Agency Committee (IAC) comprising of representatives from the senior levels of MOF, BNM and PIDM, to agree on strategic plans and chart strategic direction for the tripartite simulation exercise. The IAC is supported by the Inter-Agency Simulation Working Group, at the working level, on tactical and operational details. In collaboration with the other agencies, we have completed four (tripartite and bilateral) inter-agency simulation exercises and four knowledge sharing sessions with a focus on crisis communication.



Completed planned simulation exercises. We continued to conduct our annual internal simulation exercises, and have completed the planned simulation exercises relating to an Islamic bank resolution, a data leak event and COVID-19 cases in the office. We also conducted internal sharing of experiences in handling crisis communication from a regulator's stand point and a public relations firm's perspective. Learnings from these simulation exercises will be used to enhance our internal policies and procedures. With regard to the Financial Stability Institute's regional crisis simulation exercise, discussions and preparation are ongoing for the simulation exercise scheduled in 2022.

KRA 2: Member institutions' premium and levy assessment and resolution plan

Concluded the resolution planning pilot exercises. We have concluded the resolution planning pilot exercises, which tested the reasonableness of our draft resolution planning requirements. Refinements will be made to the resolution planning guidelines based on the feedback received from the pilot banks.

Signed MOU with MAS. In November 2021, we signed a Memorandum of Understanding (MOU) with the Monetary Authority of Singapore (MAS). This MOU facilitates the exchange of information and cooperation arrangements in connection with resolution planning and crisis management involving financial institutions under the purview of PIDM in Malaysia and MAS in Singapore.

Conducted industry consultation on the enhancements to the DPS Framework. As part of our review of the DPS Framework, we have proposed certain enhancements which are envisaged to continue to promote sound risk management practices across the banking system, while at the same time provide meaningful incentives towards resolvability. This is also in line with our mandate as the resolution authority for our member institutions. The key feature proposed was the assessment of member banks based on two criteria namely, safety and soundness, as well as resolution centric. We have conducted industry consultation and the feedback received will be reviewed and considered.

KRA 3: Reimbursement readiness

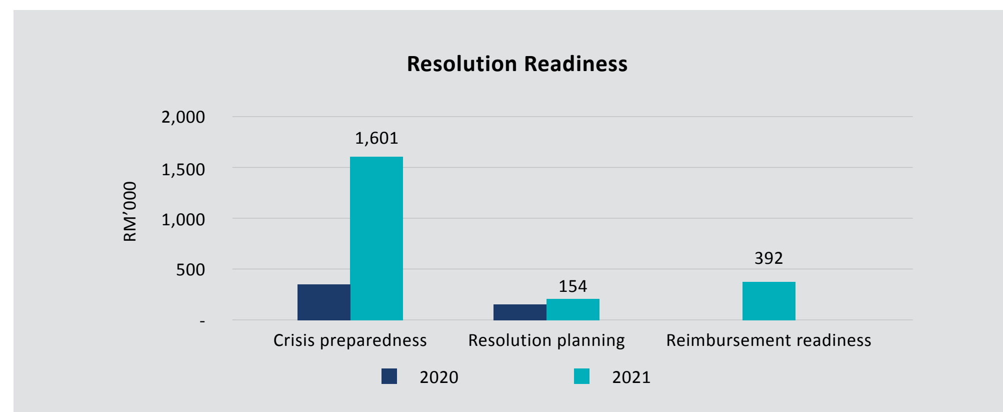
Continuous enhancements to reimbursement capabilities. Over the years, we continuously improve our reimbursement process to leverage on technology via electronic deposit reimbursements in the event of a bank liquidation without requiring active involvement of the depositor in the transaction.

In 2021, we have completed the development and integration of an electronic payment infrastructure for deposit reimbursements. In addition, we have also commenced refining the features in our processes to ensure responsiveness to depositors' requests during a reimbursement.

FINANCIAL REVIEW

Key cost drivers

- Crisis management table-top reviews and simulations, including inter-agency simulations
- Capacity building programmes including trainings and knowledge sharing sessions
- Workshops and education sessions for resolution planning industry rollout
- Development of an electronic payment platform and integration to the reimbursement systems



MOVING FORWARD

In the next planning period, resolution readiness remains our utmost priority and will continue to be our core deliverable.

Refer to the Strategy section for an overview of our plans moving forward.

STRATEGIC OBJECTIVE: TRUST AND CONFIDENCE IN PIDM | KEY ACHIEVEMENTS

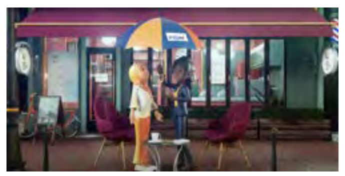
KRA 4: Public awareness, trust and confidence

Achieved highest results of PIDM public awareness index. To gauge the level of awareness among the public about PIDM and our financial consumer protection systems, an annual nationwide public awareness survey is carried out through an independent research agency. In 2021, we achieved a public awareness level of 81% (2020: 72%), the highest results thus far based on the survey that was conducted via a hybrid approach combining online (70%) and face-to-face interviews (30%), with 1,003 respondents across Malaysia.

Continued to leverage on digital and social media. In maintaining the public awareness levels of PIDM, we continued to leverage on digital and social media as key channels for our awareness efforts.

- We launched a new set of advertising materials on the Deposit Insurance System (DIS) and the Takaful and Insurance Benefits Protection System (TIPS) in animation format to educate the public about PIDM's protection systems. The new materials focused on the concept that PIDM will ensure depositors' continued access to their savings in the banks and will ensure continued coverage for takaful certificate and insurance policy owners in the event of a member institution failure. These new advertising materials achieved a cumulative 4.5 million views on YouTube and Facebook.
- We also continued to broadcast the PIDM jingle on popular radio stations to continue to raise awareness about PIDM and our protection systems.

Significant increase in the number of Facebook and LinkedIn followers by approximately 41% and 48% respectively from 2020 to a total of 67,706 followers.



Successful launch of financial resilience campaign – #SediaPayungKewangan. The #SediaPayungKewangan (#SPK) campaign targeting the millennial audience was conducted from May to October 2021, in conjunction with FEN's Financial Literacy Month.

- Chief BerUang – PIDM's good financial management icon was featured in three animated videos under the "Borak Bersama Chief BerUang" series, which garnered 3.9 million cumulative views on Facebook and YouTube. This Chief BerUang campaign successfully bagged the Bronze Award for "Excellence in Public Sector / Non-Profit Marketing" at Marketing-Interactive's Marketing Excellence Awards 2021.
- #SPK campaign microsite – informative site with budget calculator, credit score check, financial literacy-related articles and videos.
- #SPK webinars – five 'live' discussion sessions with local celebrities and Olympians, who shared their personal financial management journey and experiences.
- PIDM FinFit Challenge – financial management-related daily challenges and quizzes in a Facebook community group to cultivate good money habits with peer support from other like-minded people.

Refer to the article in Part I: How PIDM Protects Financial Consumers for more details on the #SPK campaign.

KRA 5: Research and visibility

Completed behavioural studies on savings and insurance. We completed two behavioural studies on savings and insurance in collaboration with a research partner. This provided us with behavioural insights that we can share with key partners, in order to help identify possible effective solutions to improve the resilience of financial consumers in Malaysia. The studies were conducted through online surveys and behavioural experiments involving approximately 2,500 Malaysians. The outcomes and recommendations from the studies were discussed by the Research Advisory Panel, and shared at the FEN Community of Practice Virtual Panel Discussion in October 2021 to catalyse more behavioural and multidisciplinary research on financial literacy. We co-organised this inaugural FEN Community of Practice in conjunction with the Financial Literacy Month together with BNM.

The Financial Literacy Research Advisory Panel functions as an expert panel for applied research in the area of financial literacy in Malaysia. It aims to gather, share and provide input on studies and research by member organisations.

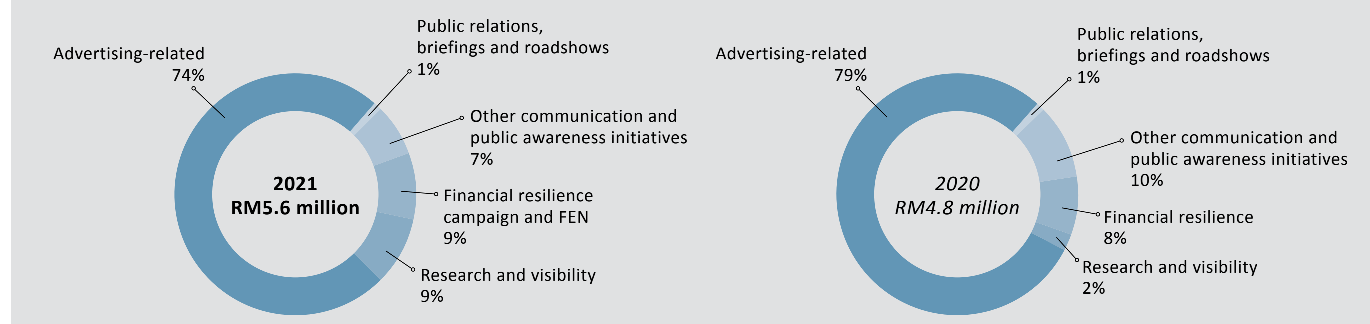
Enhanced international stakeholder positioning of PIDM. In 2021, we hosted the 19th International Association of Deposit Insurers Asia-Pacific Regional Committee (APRC)'s International Conference themed "COVID-19 Legacy and Beyond: Building Operational Resilience and Recalibrating the Role of Deposit Insurance", attended by approximately 250 participants from 17 APRC members. The conference was followed by the Annual General Meeting and Chief Executive Officer Dialogue.

Throughout 2021, we also co-hosted three webinars and delivered speaking engagements on problem bank resolution, climate-related risks, Fintech for deposit insurers, and tackling non-performing loans in COVID-19 times.

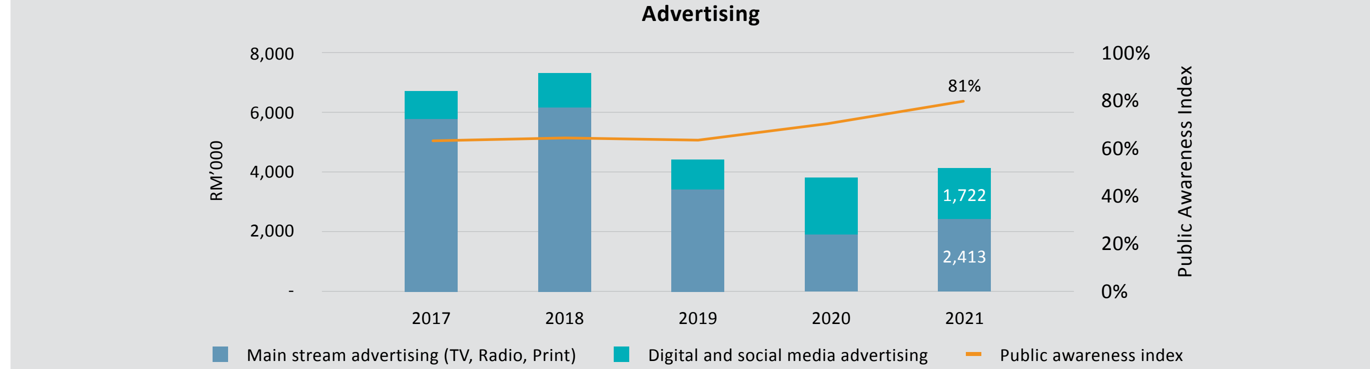
FINANCIAL REVIEW

Key cost drivers
- Financial resilience campaign – #SediaPayungKewangan
- Advertising activities with continued focus on social media and the digital space
- Dialogues, webinars, workshops and international conferences

Trust and Confidence in PIDM



Advertising



MOVING FORWARD

In the next planning period, stakeholder trust is the key success factor and we aspire to transcend from awareness to trust, engendering confidence in PIDM's credibility in building reputational capital during good times.

Refer to the Strategy section for an overview of our plans moving forward.

STRATEGIC OBJECTIVE: ORGANISATION CAPACITY | KEY ACHIEVEMENTS

KRA 6: Secure and efficient operations

ISO/IEC 27001:2013 certified. The adoption of ISO/IEC 27001:2013 into PIDM's information security and data centre operations, as well as being awarded the ISMS certification in 2021 have enabled us to recalibrate and realign our information security risk management practices that resulted in a more holistic implementation of effective continual improvement exercises.

Further, the establishment of the Information Governance and Security Management Committee has also strengthened PIDM's information security governance and oversight function, which is critical to ensure the achievement of PIDM's overall cybersecurity resilience objective. These would ultimately support the aspiration to achieve the desired cybersecurity maturity level by 2023 and further enhance trust and confidence among relevant stakeholders.

Developed PIDM's DX roadmap. In 2021, we embarked on our digital transformation (DX) journey and developed a roadmap that outlines the vision that defines our digitalisation goals. The roadmap sets out two strategic focus of actions – ongoing efficiency and innovation – as the key drivers towards digital readiness.

In developing the roadmap, we adopted a holistic approach in understanding our internal needs and linking the transformation to PIDM's mandate and vision, while benchmarking against the local and global landscape. Engagement activities with senior management and employees were conducted with the objective of information gathering to identify cross-divisional information flow and dependencies as well as common challenges and desired future state from the perspective of data, process, infrastructure and culture.

Detailed plans will be developed for the roadmap to be implemented by stages in the following years.

DX Vision

An agile and data-driven organisation to heighten PIDM's readiness in meeting our mandate and objectives

DX Mission

- Inculcate agility in the operating model through business and digital optimisation and transformation
- Capitalise on digital and data insights for value creation to internal and external stakeholders

DX Pillars

Mechanism for implementation | Technology and infrastructure | Capability and culture

DX Values

Enhance efficiency | Better insights | Greater agility

KRA 7: Productive, agile and sustainable workforce

Implementing multi-year talent management programmes to build talent pipeline. As part of our efforts in building a talent pipeline of leadership and technical talent, we have been implementing measures for talent management and development.

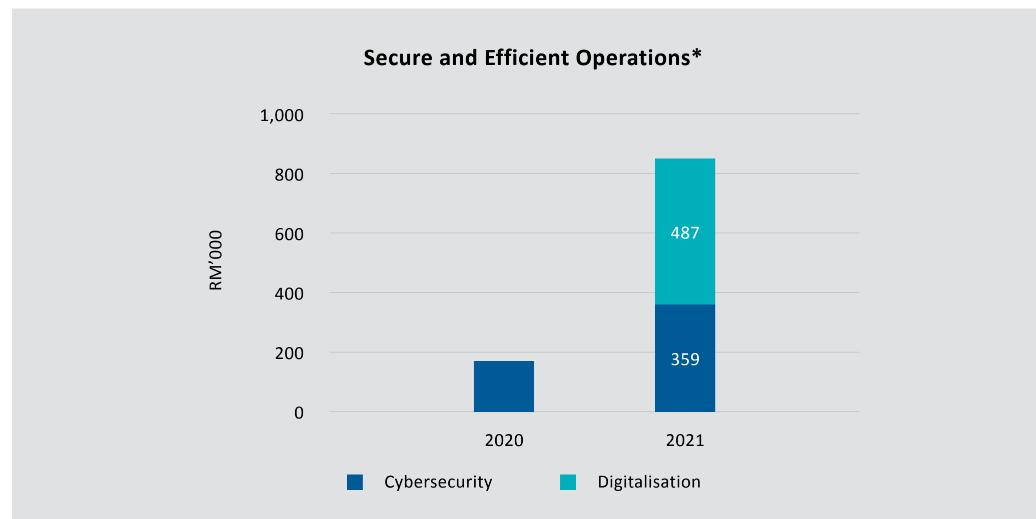
- In 2021, we implemented the Resolution Trainee Programme. Five successful candidates, who were selected from a pool of 244 applicants, joined PIDM on 1 July 2021 as resolution trainees. They are attached to the Risk Assessment and Resolution Division for a period of two years, where they will undergo a structured training programme covering technical and soft-skills training. Upon successful completion of the programme, these trainees may be absorbed as permanent analysts.
- Several employees who were seconded to a strategic partner in 2020 to support and contribute to its work, build networks and gain experience, have completed their secondment. The secondment programme provided our employees with valuable experience and learning opportunities.
- In enhancing leadership and engagement capabilities, training sessions for senior management were completed as planned.

Ensuring employee development and well-being. Given the onset of the COVID-19 pandemic, and the prolonged period of remote working, we placed significant emphasis on employees' well-being as well as their training and development. In line with the new normal working environment, we launched a virtual learning platform, Great2Learn, for all employees. This platform allows employees to be self-directed to learn online and at their own pace. We also continued with the virtual employee engagement sessions and wellness programmes including quarterly town hall sessions, monthly PIDM Talks, physical health talks, advisory by a clinical psychologist, physical step challenges, and activities organised by Kelab Sukan, Rekreasi dan Kebajikan PIDM.

FINANCIAL REVIEW

Key cost drivers

- Cyber defence and cybersecurity infrastructure
- Digital transformation roadmap
- Increased manpower for bench strength and enhanced capacity particularly for resolution function
- Talent management initiatives, including development of a virtual learning platform



* The related expenses were part of operations and administrative expenses

MOVING FORWARD

In the next planning period, we will continue to enhance our organisational capabilities in various aspects, from people, processes and technology. These are key enablers for PIDM to be an organisation that is agile and ready for the future.

Refer to the Strategy section for an overview of our plans moving forward.

FINANCIAL REVIEW

Summary of Financial Performance

Total Income
RM439.9 million
(2020: RM388.8 million)
Projection 2021: RM475 million
Variance against projection:
-RM35.1 million

Total Operating Expenses
RM98.4 million
(2020: RM95.2 million)
Budget 2021: RM108 million
Variance against budget:
+RM9.6 million

Total Comprehensive Income
RM343.9 million
(2020: RM293.9 million)
Budget 2021: RM367 million
Variance against budget:
-RM23.1 million

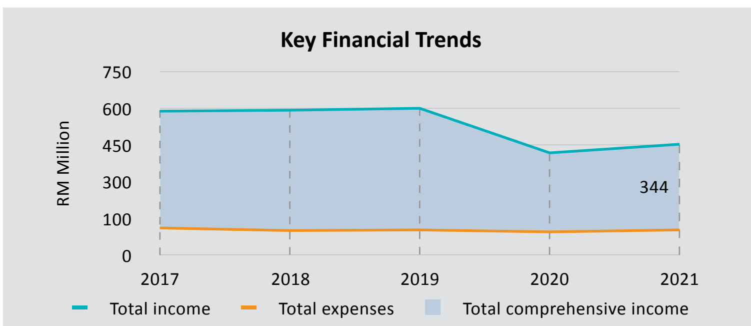
Total Protection Funds
RM5.2 billion
(2020: RM4.9 billion)
Projection 2021: RM5.2 billion
Variance against projection:
Nil

Total Assets
RM5.2 billion
(2020: RM4.9 billion)
Projection 2021: RM5.3 billion
Variance against projection:
-RM0.1 billion

Total Liabilities
RM19.2 million
(2020: RM26 million)
Projection 2021: RM20 million
Variance against projection:
+RM0.8 million

At a Glance

In spite of the ongoing pandemic challenges, we were able to carry out most of our key initiatives as planned. There was some reprioritisation predominantly due to the prolonged restrictions arising from the resurgence of the COVID-19 infection and the tightened movement control orders during the year. Our overall expenditure remained stable year-on-year, as we continue to practise prudent financial management and optimise available resources.

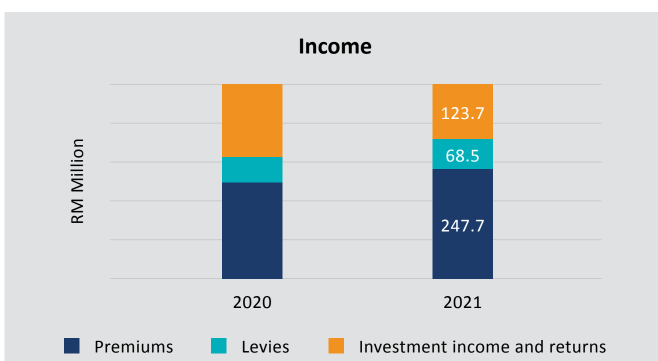


Total comprehensive income for the year was 6.3% lower than budget, primarily attributed to the lower investment income, offset by the lower operating expenses. With the accumulated surpluses during the year, our Protection Funds as at 31 December 2021 amounted to RM5.2 billion.

Income

For 2021, we continued to provide financial relief measures for our member institutions. Our total income for the year of RM439.9 million was higher by 13% compared to the previous year, mainly due to the assessment base for premiums and levies.

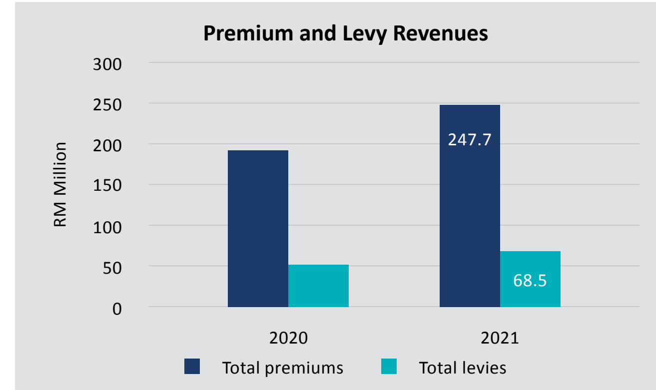
Our investment income and returns for the year were lower than the previous year, largely due to the continued low interest rate environment. Nevertheless, our investment income and returns continued to cover our operating expenses.



Premium and levy revenues

Our Differential Premium Systems and Differential Levy Systems frameworks provide incentives for member institutions to enhance their risk management practices.

For the assessment years 2020 and 2021, PIDM had provided regulatory relief measures in response to the COVID-19 pandemic and in line with the Government's responses to address the impact of the pandemic which, among other things, led to the lower collection of premiums and levies. Notwithstanding the relief measures provided, the differential premium and levy systems continued to apply.

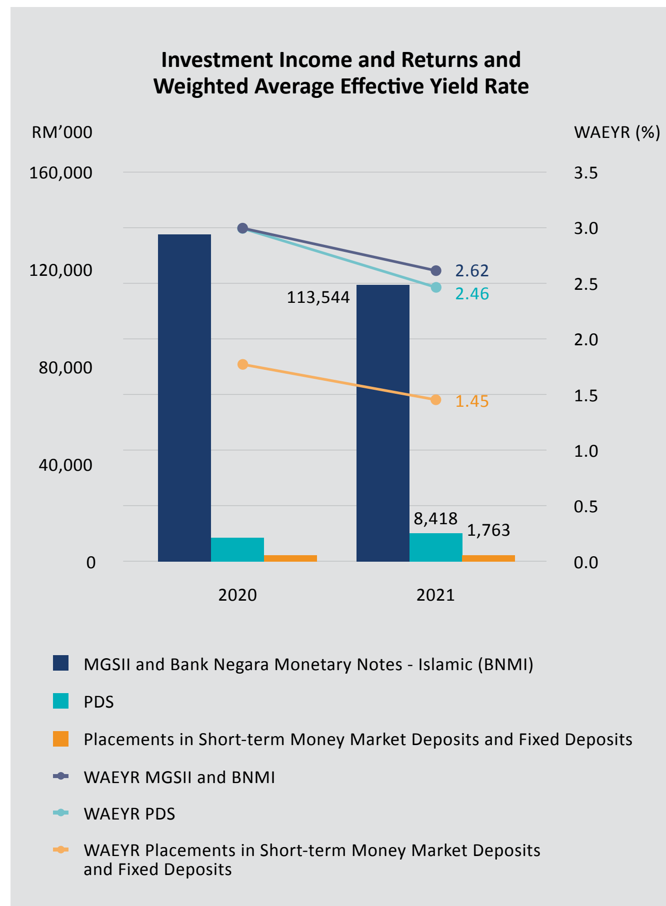


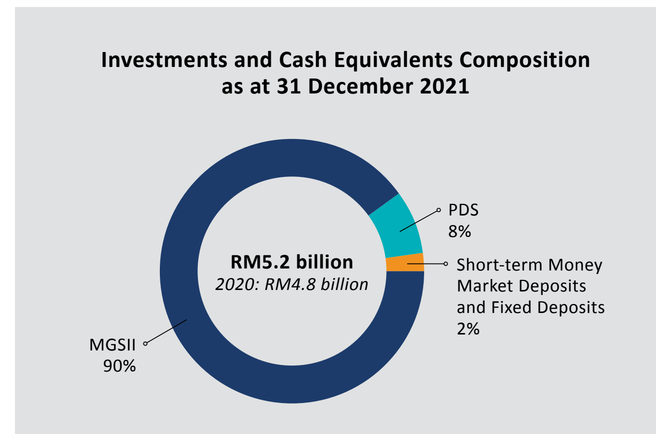
Investment income and returns

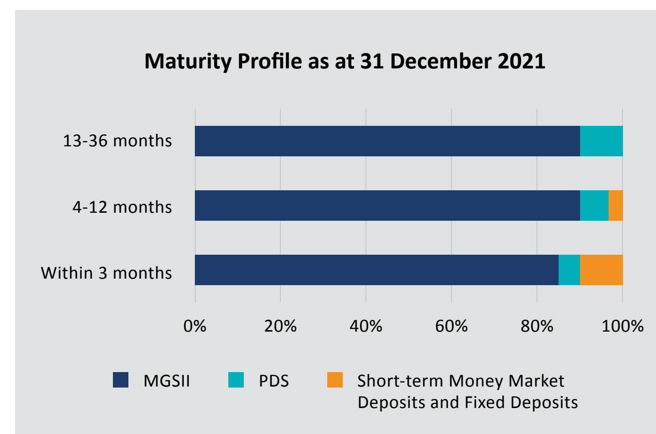
Our investment philosophy continues to be conservative, with the view to preserving capital and maintaining sufficient liquid financial assets to meet our financial obligations as and when they arise.

The main source of our investment income and returns is from secured investment securities namely, Malaysian Government Securities and Investment Issues (MGSII) as well as Private Debt Securities (PDS) of AAA rating issued by a Government-related entity.

Investment income for 2021 continued to be impacted by the low rate environment, as reinvestments of the investment portfolio as well as new investments from premiums and levies received in 2021 were invested in low yield short-term investment securities. Our investment income and returns for 2021 was RM123.7 million, RM20.7 million or 14.3% lower than the previous year.

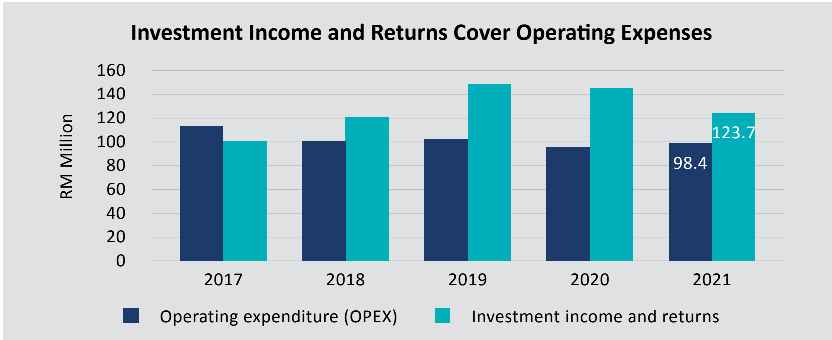






Investment income and returns against operating expenses

Since 2018, all premiums and levies collected from member institutions contributed directly towards the accumulation of the Protection Funds. For the assessment years 2020 and 2021, PIDM's premiums and levies collected were halved due to the financial relief measures which provided for a 50% reduction in the premium and levy rates assessed on member institutions. Nevertheless, our investment income and returns continued to cover our operational expenses.

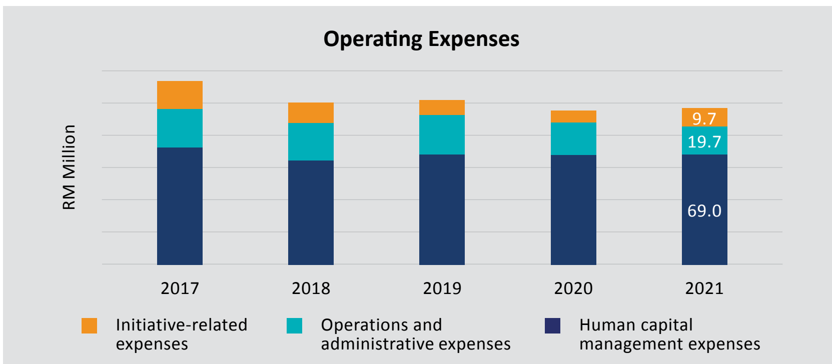


RM Million	2020	2021
Excess of investment income and returns / OPEX	49.2	**25.3**

Operating Expenses

Amid the ongoing pandemic, we continued to operate at a consistent level with our expenses for 2021 totalling RM98.4 million, a slight increase of 3.4% compared to RM95.2 million in 2020. This is RM9.6 million or 8.9% lower than budget.

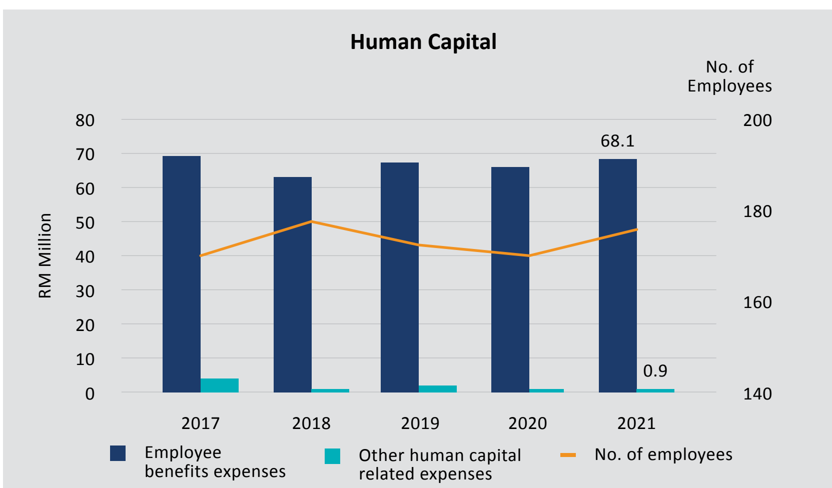
Despite the challenges, we were able to continue our daily operations with minimal disruption and carried out most of the planned work and initiatives for the year.



Human capital management expenses

Given the nature of our business, human capital management expenses continued to be the most significant expense item, representing approximately 70% of our total expenditure. Our manpower strength increased to 176 as at the end of 2021 compared to 169 in the previous year. However, the full cost impact for new hires in 2021 will only be fully reflected in 2022.

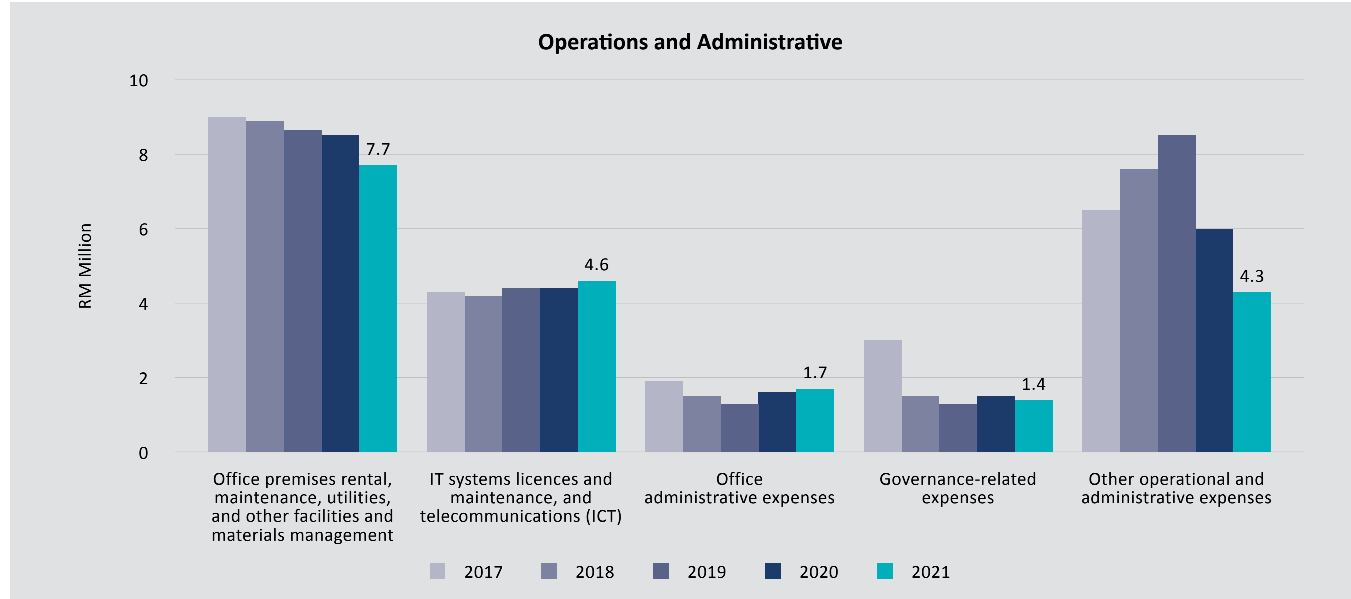
Refer to Our Key Achievements in 2021 in this section for details.



Operations and administrative expenses

Our operations and administrative expenses remained stable year-on-year. Overall, it decreased by RM2.3 million or 10.5% compared to the previous year. This was predominantly due to lower depreciation expenses as there were more assets that have been fully depreciated coupled with reprioritisation or change of approach for several initiatives during the year.

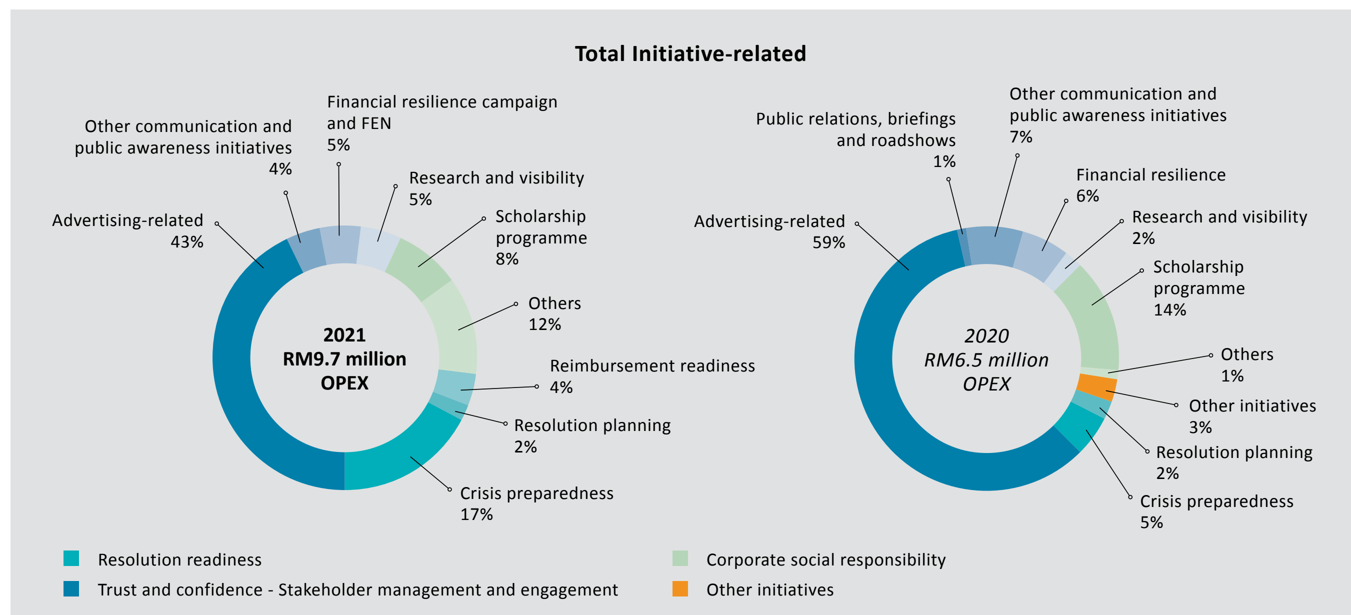
Notwithstanding the overall decrease in operating expenses, there was increase in the ICT-related expenses as we continue to invest and maintain our key IT system applications as well as further strengthen our IT security and cyber defence.



Against the budget, our operations and administrative expenses were RM5.7 million or 22.4% lower, mainly due to the reprioritisation of some operational work and initiatives as a result of the pandemic.

Initiative-related expenses

Our expenses also support the implementation of corporate initiatives in line with our strategic objectives and key result areas. On aggregate, initiative-related expenses were lower by RM3.1 million or 24.2% than budget predominantly due to a more cost effective approach adopted for certain initiatives as well as reprioritisation of some initiatives mainly due to the pandemic.

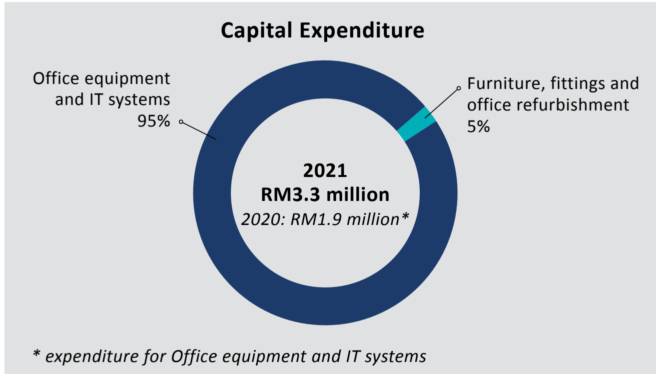


Refer to Our Key Achievements in 2021 in this section for more details and corporate initiatives carried out in 2021.

PERFORMANCE

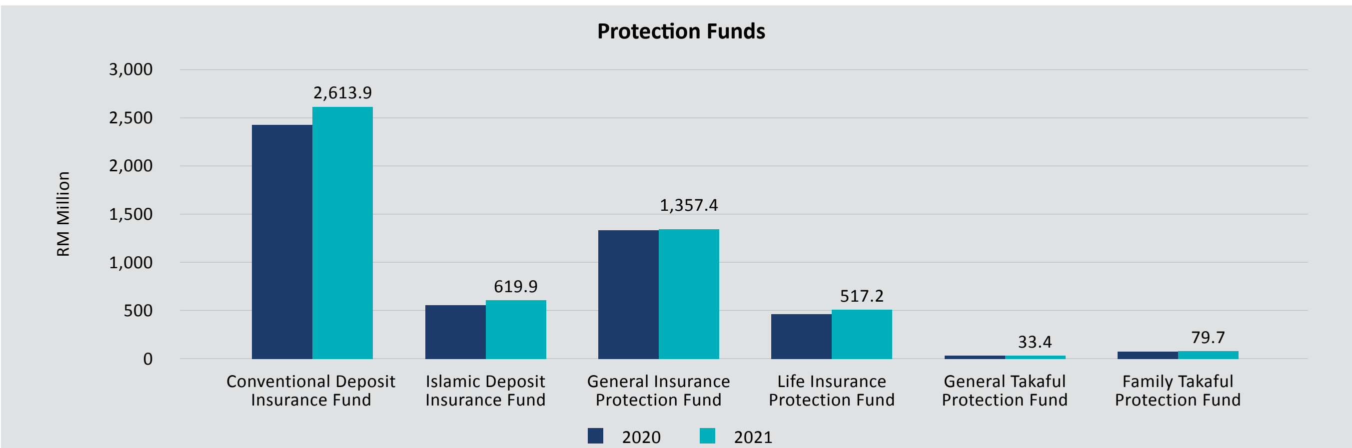
Capital Expenditure

As at 31 December 2021, we contracted RM3.3 million for capital expenditure, representing 56.9% of the capital expenditure budgeted for 2021 of RM5.8 million. Expenditures were primarily for the continuation of enhancement to PIDM's reimbursement readiness capabilities as well as building of a Resolution Technology (ResTech)[1] platform. By recognising cybersecurity as an increasing risk, we also strengthened our cyber resilience infrastructure.



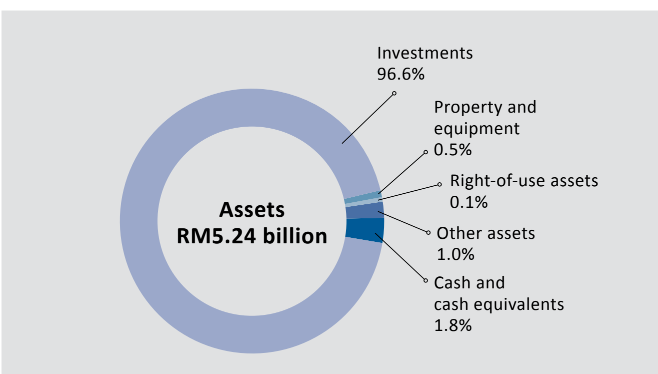
Statement of Financial Position

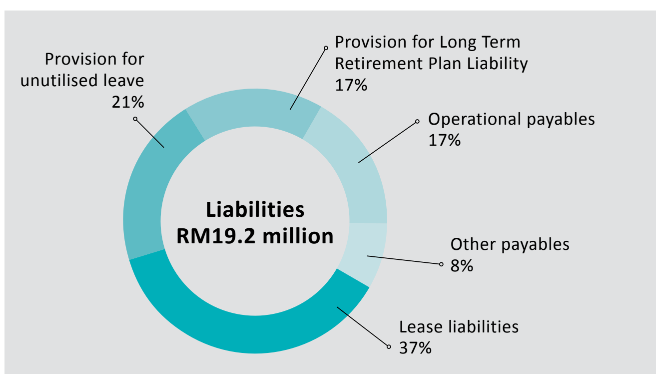
PIDM's Total Protection Funds as at 31 December 2021 amounted to RM5.22 billion, on the back of total assets of RM5.2 billion and net of liabilities of RM0.02 billion.



Our assets remained liquid, with financial assets comprising cash, cash equivalents, investments as well as other financial assets. These financial assets stood at RM5.21 billion, representing 99.4% of our total assets as at 31 December 2021. The remaining non-financial assets related to property and equipment, which amounted to RM0.02 billion as well as RM0.01 billion of 'right-of-use assets' for the lease of our corporate office and office equipment.

Liabilities, on the other hand, encompassed payables and lease liabilities. Payables were primarily for operations in relation to goods and services acquired by PIDM, as well as to provide for unutilised leave and PIDM's Long Term Retirement Plan.





Details of the items within the Statement of Financial Position are in the Notes to the Financial Statements, which can be found under Part IV of this Annual Report.

[1] *Modern technology to resolution activities to increase efficiency, improve strategic analysis and decision making*

ON CLOSE WATCH

ENGAGING ON GLOBAL TRENDS AND ISSUES

In 2021, PIDM kept a steady momentum of bilateral and multilateral engagements with international stakeholders in various fora. These include the International Association of Deposit Insurers (IADI), International Forum of Insurance Guarantee Schemes (IFIGS), Financial Stability Institute (FSI), Financial Stability Board (FSB), The World Bank, the Study Group on Resolution of the Executives' Meeting of East-Asia Pacific Central Banks (EMEAP), and The South East Asian Central Banks (SEACEN) Research and Training Centre.

PIDM actively contributed to global policy developments by engaging our international stakeholders in virtual meetings, conferences, and workshops on various topics. We served in leadership roles as Chair of the IADI Asia Pacific Regional Committee Research Technical Committee and First Vice Chair of IFIGS, and were members in IADI technical committees on Fintech and Islamic deposit insurance.

During the year, PIDM organised various webinars, and an international conference and Chief Executive Officer (CEO) Dialogue among deposit insurers in the Asia Pacific region.[1] These forums discussed the strategic implications of COVID-19 and medium to long-term trends – such as climate-related risks and Fintech – on deposit insurance systems, bank resolution and the stability of financial systems. Of significance, deposit insurers, Insurance Guarantee Schemes (IGS) and resolution authorities contemplated new business strategies to tackle future challenges. PIDM also contributed to research on bank resolution conducted by multilateral institutions and shared our experiences with international counterparts, among others in the areas of crisis preparedness, Islamic deposit insurance systems, and IGS design.

Another key dimension of PIDM's engagements was centred on the theme of simulations, as part of enhancing our crisis and resolution preparedness. We benefited from experience sharing sessions by international peers and multilateral institutions on simulation programmes and crisis communication, as well as on resolution policies, depositor reimbursements during COVID-19, and organisational strategies on digitalisation. To strengthen cross-border resolution coordination arrangements, we continued to engage with foreign counterparts on a bilateral basis, through crisis management groups established for our member institutions and the EMEAP resolution forum, as well as signed a memorandum of understanding with the Monetary Authority of Singapore.

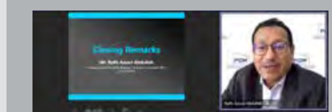
Collectively, these initiatives enabled PIDM to stay close to the forefront of global policy developments on protection systems and the resolution of financial institutions, while gaining valuable lessons from the diverse experiences of other jurisdictions in crisis preparedness and management. Advancing PIDM's international engagements will remain as a key priority in 2022. This includes assuming the role as Chair of IFIGS, participating in regional simulation exercises, establishing resolution focus groups for Malaysian banking groups with cross-border operations, conducting research on emerging topics, and other efforts towards achieving an effective resolution regime for the Malaysian financial system.

[1] *The international conference was attended by 250 representatives from 17 jurisdictions, while the CEO Dialogue saw the participation of about 50 senior officials from deposit insurers and resolution authorities across the Asia Pacific region*

PIDM @ International Events 2021[2]

30 MAR Webinar: A Race Against Time - Climate-Related Risks and Financial Stability Implications

2 JUN Webinar: Core Principles for Effective Islamic Deposit Insurance Systems



2 JUN Webinar: Fintech and Changing Dynamics of Deposit Insurance

8 JUL Webinar: Enhancing Crisis Preparedness Through Simulation Exercises

3-4 AUG Virtual conference: COVID-19 Legacy and Beyond - Building Operational Resilience and Recalibrating the Role of Deposit Insurance

14 SEP Webinar: Effective and Coordinated Communications in Times of Crisis

27 OCT Webinar: Non-Performing Loans in East Asia and the Pacific - Practices and Lessons in Times of COVID-19

8 DEC Virtual Workshop: Resolution Issues in New Normal Times

[2] *Visit www.pidm.gov.my for more details on these events*

PART III

OUR WAY FORWARD

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 our community and our employees

Strategy

Our Journey

At our inception in 2005, PIDM focused on building a strong foundation in governance and operations. We also worked on ensuring the implementation of the right design for our deposit insurance system by benchmarking against international experiences. Following the exit from the Government Deposit Guarantee in 2010, PIDM's mandate was expanded by legislation. We were tasked with also providing protection for takaful certificate and insurance policy owners in the event of an insurer member failure. In 2016, together with Bank Negara Malaysia (BNM), we formulated our plan to achieve an effective resolution regime for Malaysia. Recognising that this would likely be a long-term journey, we crafted medium to long-term strategies that will ultimately bring to the fore our mandate, vision and mission.

The following depicts the key stages of our development towards our long-term strategic priorities.

2005 Foundation

Deposit Insurance System

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

2010 Recognition

Takaful and Insurance Benefits Protection System

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

2016 onwards Evolution

Long-Term Strategic Direction

Enhancing our role as a resolution authority

The following is an overview of PIDM's strategy since establishment.

	Foundation 2005	Recognition 2010	Evolution 2016	2017	2018	2019 / 2020	2021[1]
Resolution Readiness	Developed a comprehensive intervention and failure resolution framework and built the foundation for an effective resolution regime		Embarked on the effective resolution regime journey	Established readiness and introduction of resolution planning to the industry		Conducted resolution planning pilot exercises	**Heightening operational readiness and vigilance, and supporting financial system resilience**
Simulations and continuous improvements →							
Stakeholder Trust	Built public awareness and engagement with key stakeholders • Channels of communication focused on traditonal media and corporate outreach programmes				Built foundations towards trust and confidence • Intensified efforts for greater understanding about PIDM and our systems, including engaging in on-ground activities in various states	Establish trust and confidence • Diversified channels of communication, including in the digital space	**Strengthening trust and confidence in PIDM through public awareness initiatives and enhancing PIDM's visibility among relevant stakeholders**
Best practices in corporate governance →							
Organisation Capacity	Designed and established the human capital model, philosophy and key policies	Focused on employee and leadership development and succession planning	Embarked on the learning organisation journey	Realigned human capital in line with strategic priorities	Enhanced leadership, communication and culture	Realigned human capital to meet future demands of PIDM	**Evolving PIDM, and continuing to build organisational capacity**
Conducive work environment →							

[1] *Refer to the Performance section for details on the 2021 strategy and key result areas*

STRATEGY

Strategic Focus 2022 - 2024 | Present-Focused, Future-Ready

As part of our future planning for 2022 - 2024, we continue to heighten our responsiveness, following through from our work in 2021 as well as incorporating new priorities to respond to future strategic shifts. In an environment of significant uncertainty, PIDM aims to be steadfast in focusing on the current path, that is, reinforcing the confidence of financial consumers in Malaysia and promoting financial system stability through being resolution-ready, while supporting economic recovery. Cognisant that the shape and structure of the financial system is rapidly evolving, PIDM will ensure that we consider the impact of new financial and digital innovations, and emerging risks on our mandate and outcomes; as well as continue to modernise our operations and resources for the future.

The Corporate Plan 2022 - 2024 themed "Present-Focused, Future-Ready" is anchored upon three strategic pillars namely Resolution Readiness, Stakeholder Trust and Organisational Capabilities. The three strategic pillars contemplate continuing most of PIDM's ongoing initiatives while incorporating new priorities to respond to future strategic shifts. In doing so, investment must be made for PIDM to remain agile and ready, now and into the future. The supporting financial plan is developed to cater for manpower with new and more specialised skills, new transformational initiatives, as well as to continue working on existing plans.

The following is an overview of PIDM's strategy for the 2022 - 2024 planning period.

Strategic Pillars

RESOLUTION READINESS
Core deliverables as resolution authority
Aspires to build collaborative and complementary readiness to resolve troubled member institutions

STAKEHOLDER TRUST
Key success factor in promoting financial system stability
Aspires to transcend from awareness to trust, engendering confidence in PIDM's credibility by building reputational capital during good times

ORGANISATIONAL CAPABILITIES
Key enablers for PIDM to fulfil its mandate
Aspires to transform PIDM into an organisation that is agile and ready for the future

Key Components

Preparedness Plan
- Crisis preparedness

Resolution Plan
- Resolution planning
- Service providers and payment system operators' readiness
- Reimbursement readiness

Awareness Plan
- Public awareness and advocacy
- Financial literacy

Research and Visibility Plan
- Research and content development
- Stakeholder engagement

Organisational Transformation Plan
- Digitalisation and cybersecurity
- Deposit insurance operations and enhancement
- Strategic human capital
- Sustainability and corporate social responsibility

Refer to our Summary of the Corporate Plan 2022 - 2024 at www.pidm.gov.my for details.

IN FOCUS

CYBERSECURITY – FORGING AHEAD WITH PROACTIVE PROTECTION

Businesses and organisations around the world, including those in the finance industry, are undergoing a profound digital transformation accelerated by the COVID-19 pandemic. However, the rapid adoption of digital technology has also given rise to an increase in cases of cyberattacks and breaches. A recent survey revealed that 81% of global organisations experienced increased cyber threats during the pandemic.[1] This highlights the vulnerabilities of modern cyber infrastructures and the importance of cybersecurity as an integral element of an organisation's digital transformation strategy.

THE SYSTEM – CERTIFIED, TESTED AND WELL-GOVERNED

At PIDM, as we embark on our own digital transformation journey, we are aware of the imminent need for us to prioritise and strengthen our cybersecurity architecture. As a demonstration of our commitment to continually improve our cybersecurity posture and protect our information and sensitive data, we have obtained the ISO/IEC 27001:2013[2] – Information Security Management System (ISMS) certification in 2021. The adoption of this management system has enabled us to recalibrate and realign our information security risk management practices into more holistic implementation of effective continual improvement exercises.

The effectiveness of this management system is assessed and validated by the regular technical penetration testing and vulnerability assessment exercises which result in strengthening the relevant controls. A cybersecurity simulation exercise was also successfully conducted to improve the response and recovery processes of information security incidences, and at the same time, elevate the awareness and readiness of relevant parties. We have also established the Information Governance and Security Management Committee to strengthen our information security governance and oversight function, which is critical to ensure the achievement of our overall cybersecurity resilience objective.

THE TECHNOLOGY – OFFENCE AS THE BEST DEFENCE

In countering the threats to our information and information assets, we do not merely respond to breaches, under the "react and defend" approach. As the traditional approach of building bigger fences may no longer be adequate, we have also gone on the offensive - and by that, we mean adopting more proactive approaches such as "threat hunting", which involves actively searching for compromises before alarm bells go off and combing through our networks to discover hidden threats. By regularly evaluating our networks for threat activities, we can detect attacks in progress and stop them.

This proactive approach relies on sophisticated tools such as automation, threat intelligence, threat analytics and artificial intelligence, that can identify threats at machine speed. Some of the key initiatives undertaken to reinforce cybersecurity resilience include the operationalisation of the endpoint detection and response system that will continually monitor, respond and mitigate cyber threats. We have also enhanced our data leak prevention system to preserve the confidentiality, integrity and availability of our information. These initiatives would ultimately support the aspiration to achieve the desired cybersecurity maturity level and elevate trust and confidence among PIDM's stakeholders.

[1] *Survey report by McAfee Enterprise and FireEye "Cybercrime in a Pandemic World: The Impact of COVID-19", November 2021*
[2] *An internationally recognised information security standard's processes and practices*

IN FOCUS

THE PEOPLE – OUR HUMAN WALL

However, even the best of systems and technologies will be futile in countering cyber threats if our employees fall prey to the deceptive tricks of cyber criminals who leverage on the weakest point of any security system - the end user. Using the elements of human psychology such as curiosity, fear and greed, a malicious actor can gain access to personal, private or business information, through what is termed "social engineering".

Therefore, in tandem with our efforts to ramp up our cyber defences from the technological aspect, we have also heightened awareness among our employees to ensure that we have a "human wall" to keep our systems and information secure. We do this by conducting training or sharing sessions and issuing regular cybersecurity alerts and advisories to warn our employees on phishing, spoofing, ransomware and other forms of cybercrime tactics used by cyber criminals. We measure the effectiveness of these activities via social engineering assessments which validate the awareness level of our employees.

Just as practising good hygiene, such as washing or sanitising our hands has been vital in protecting us from the COVID-19 virus, it is equally important for us to inculcate good cyber hygiene habits among our employees to protect our digital assets and information.

THE FUTURE IS NOW

As we strive to enhance our organisational capabilities for 2022 and beyond, we have developed a digital transformation roadmap which encapsulates our strategy and focus on digitalisation. Guided by this roadmap, PIDM will gear towards strengthening the foundation of our operational infrastructure, enhancing process efficacy and inculcating innovation, while ensuring that robust cybersecurity measures are put in place to support and protect our systems and operations. This is key to ensuring we can achieve our aspiration to transform into an organisation that is agile and ready for the future.

IN REVIEW

OUR SUSTAINABILITY JOURNEY – FROM GOVERNING TO GIVING, AND GOING GREEN

SUSTAINABLE DEVELOPMENT GOALS

Lying at the heart of the United Nation's 2030 Agenda for Sustainable Development are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries to end poverty and promote peace and prosperity, while protecting the earth's environment and climate.[1] In Malaysia, efforts to mainstream the SDGs were undertaken primarily via the incorporation of these SDGs into the nation's five-year national development plan since 2015.[2]

In line with the Government's sustainability efforts and aspirations, PIDM is committed to operationalising our governmental and regulatory affairs in a socially responsible, sustainable and meaningful way, taking into account good governance, the environment and society at large. Looking through the environment, social and governance (ESG) lens, PIDM has transcended from solidifying governance to assisting societal needs over the years.

Since our inception, we have worked hard to establish a sound governance framework that adheres to the highest standards and best practices in corporate governance. This laid the foundation for a sustainable protection systems to protect financial consumers in the unlikely event of a member institution failure and promote financial system stability. Strong governance is embedded in our day to day operations, which enables us to have effective decision-making, accountability, and ultimately, credibility, as a strong and well-governed institution, as well as enable us to continue to deliver our mandate.

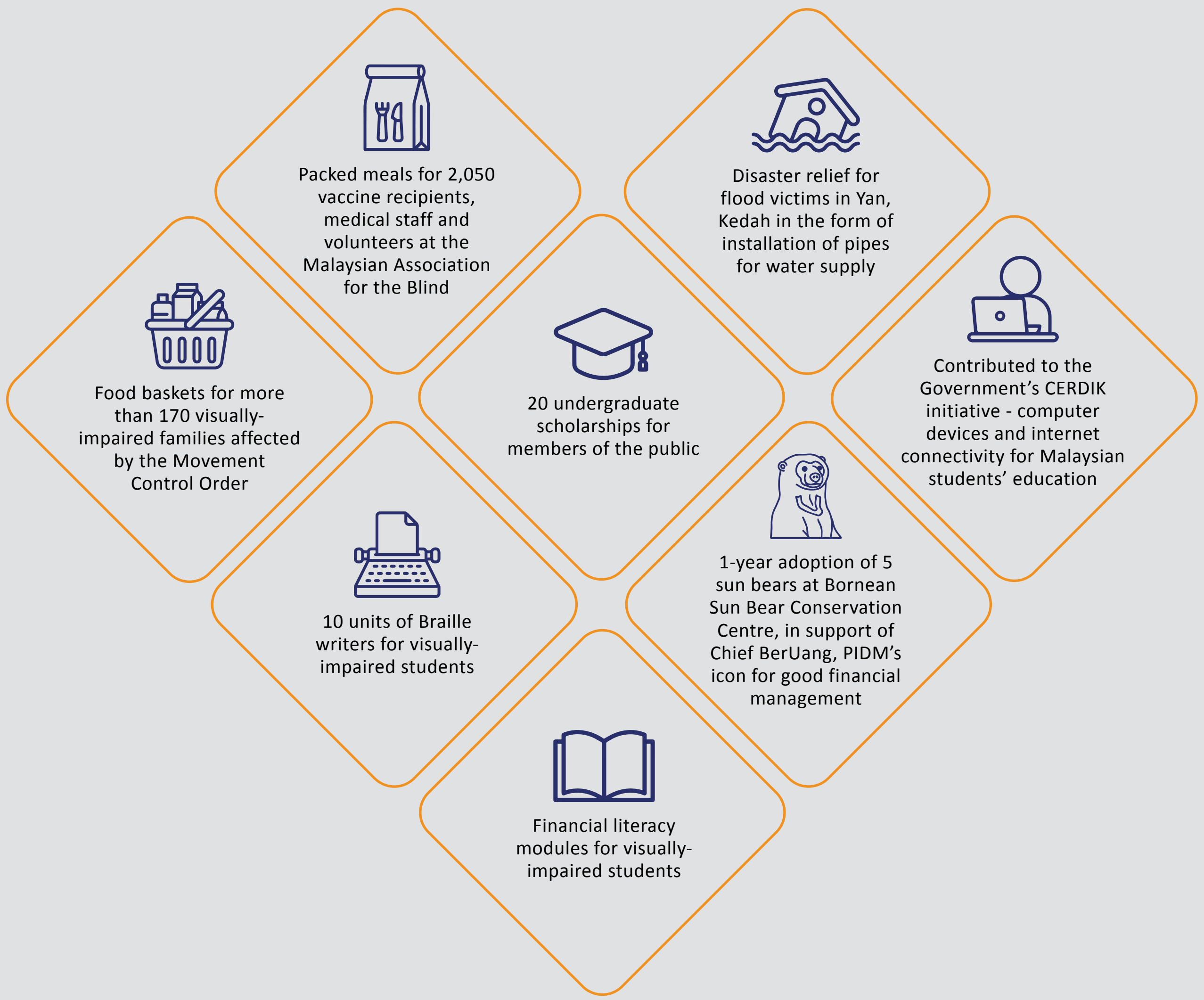
PIDM has also developed our Organisational Anti-Corruption Plan (OACP) 2020 - 2024 as part of the National Anti-Corruption Plan (NACP), an integrated anti-corruption policy that reflects Malaysians' expectations for a greater corrupt-free nation that promotes transparency, accountability and integrity. We also promote sound risk management in our member institutions through our risk-based assessment systems and our liaison with FIDE FORUM, a platform where directors and C-suites of member institutions congregate for knowledge sharing. Further details about PIDM's governance framework and structure can be found in the Governance section.

[1] Refer to sdgs.un.org
[2] Refer to www.epu.gov.my

As we continue to strengthen our governance and heighten our resolution readiness, we expanded our sustainability horizon to assist societal needs through our corporate social responsibility (CSR) initiatives. Our core CSR initiative, the PIDM Undergraduate Scholarship Programme launched in 2010, has to date benefited 184 scholars from all over Malaysia. This Scholarship Programme has proven to be a credible "go-to" platform for deserving, talented and financially-challenged students to obtain the necessary financial aid to pursue their tertiary education in Malaysia.

We also carried out the following initiatives to help the underserved communities and those in need in 2021.

CSR Initiatives 2021



We have also been actively involved i n financial literacy efforts as a m em ber of the Fin ancial Education Network (FEN), an inter-agency grouping which was formed in 2016 to educate and encourage Malaysians to adopt a healthy financial lifestyle. F inancial literacy can i mpact poverty by affecting an individual's abi lity to manage the ir financial resources, and by influencing financial behaviour an d de cision-making in th ose areas that are particularly crucial for the poor to improve their economic well-being.

Further details about our efforts as the lead in the Research and Development function within FEN, as well as our financial literacy "#SediaPayungKewangan (#SPK)" campaign, can be found in "In Review: Communicating Financial Resilience for Sustainable Living", under Part I of this Report.

In light of the COVID-19 pandemic, PIDM also adopted a more cautious stance in enhancing the skills and ensuring the well-being of our people, both physically and mentally. We adopted a hybrid and "work bubble" approach to our working conditions and introduced and encouraged virtual learning through an interactive e-learning platform, which allows our employees to learn and enhance their skills from the comfort of their homes. We are cognisant of the need for our employees to balance work with their personal health and mental well-being at the same time. We conducted virtual fitness sessions, held virtual talks on a variety of topics, provided mental health outreach programmes and organised virtual recreational activities.

We have also demonstrated gender equality, as evidenced by the balanced gender distribution at both senior management and Board level. Our current Board comprises 55.5% female and 44.5% male Directors, while the composition of our senior management is 44.8% female and 55.2% male.

Moving forward, we intend to progress towards the adoption of broader sustainable practices, such as safe environmental practices, as an expansion of the CSR-focused activities we are currently undertaking.

For the purpose of meeting environmental objectives in the near term, we will manage our own carbon footprint internally. We will identify the current state or baseline of our carbon footprint and develop long-term targets with various action plans. This would enable us to implement our initiatives effectively and consistently to achieve the desired sustainable outcomes.

In the medium to long-term, PIDM intends to assess and if appropriate, incorporate into our regulatory framework, the necessary measures to address the impact of climate-related exposures on our member institutions. As it is, we are already involved in discussions in this area in the international arena and have co-organised a webinar with the Korea Deposit Insurance Corporation on climate-related risks and financial stability implications in early 2021. Domestically, we observe that regulatory developments on climate change risk are progressing steadily. We will keep abreast with developments in this area, including our member institutions' adoption or implementation of climate-related initiatives. Where consistent with our investment policy, we will also invest our growing protection funds into ESG-compliant investments, particularly green financial instruments.

As we advance in our sustainability journey and venture into more environmental-related pursuits, we will continue to leverage on the strong foundation in governance that we have worked so hard to establish and continue to contribute towards the fulfilment of societal needs via our CSR and financial resilience efforts. To this end, we will undertake a holistic review and update our policies where necessary to achieve enhanced governance and to ensure more objective outcomes can be achieved. Ultimately, we strive to bring forth the ESG values, which are critical in today's changing government and business climate, within and without our organisation.

PART IV

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Perbadanan Insurans Deposit Malaysia (PIDM) for the financial year ended 31 December 2021.

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).

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

The PIDM Act provides for separate protection coverage for:

i. Islamic and conventional deposits; and

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

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

FINANCIAL RESULTS

	2021 RM'000	2020 RM'000
Total Comprehensive Income for the financial year:		
Deposit Insurance Funds	**253,160**	209,837
Takaful and Insurance Benefits Protection Funds	**90,744**	84,109
	343,904	293,946

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

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

FINANCIAL RESULTS (continued)

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

	2021 RM'000	2020 RM'000
Deposit Insurance Funds:		
Conventional Deposit Insurance Fund	**2,613,909**	2,424,703
Islamic Deposit Insurance Fund	**619,880**	555,926
Total Deposit Insurance Funds	**3,233,789**	2,980,629
Takaful and Insurance Benefits Protection Funds:		
General Insurance Protection Fund	**1,357,402**	1,331,141
Life Insurance Protection Fund	**517,212**	461,368
General Takaful Protection Fund	**33,372**	31,111
Family Takaful Protection Fund	**79,651**	73,273
Total Takaful and Insurance Benefits Protection Funds	**1,987,637**	1,896,893

DIRECTORS

The names of the Directors of PIDM in office during the financial year ended 31 December 2021 were:

- Tan Sri Dr. Rahamat Bivi binti Yusoff (Chairman)
- Tan Sri Nor Shamsiah binti Mohd Yunus
- Datuk Seri Asri bin Hamidin @ Hamidon
- Dato Dr. Nik Ramlah Mahmood
- Dato' Dr. Gan Wee Beng
- Ms. Gloria Goh Ewe Gim
- Datuk Dr. Yacob bin Mustafa
- Puan Suhara binti Husni
- Mr. Lee Kong Eng (appointed on 1 February 2021)

Datuk Seri Asri bin Hamidin @ Hamidon and Tan Sri Nor Shamsiah binti Mohd Yunus are *ex officio* Directors by virtue of their office, in accordance with subsection 11(2) of the PIDM Act. Members of the Board of Directors of PIDM other than *ex officio* Directors are appointed by the Minister of Finance in accordance with subsection 11(2) of the PIDM Act.

DIRECTORS' BENEFITS

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

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

IMPAIRMENT AND VALUATION METHODS

Before the Statement of Profit or Loss and Other Comprehensive Income as well as the Statement of Financial Position of PIDM were completed, the Directors have satisfied themselves that Management had taken proper action to ensure that there is no known significant impairment nor were they aware of any circumstances which would require such action, other than those which have been recognised and disclosed in Note 16(i) to the financial statements. At the date of this report, the Directors are not aware of any other 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

Following the declaration of the COVID-19 pandemic by the World Health Organisation in March 2020, Malaysia continued to deal with the matter as it evolved. While there was some relaxation of restriction under the Movement Control Order ("MCO") at the beginning of the year 2021, due to a resurgence of infected cases, a total nationwide lockdown was imposed on 1 June 2021. Subsequently, the Government announced the 4-phased National Recovery Plan in mid-June 2021. All states in Malaysia have reached the 3rd and 4th recovery phases by the end of 2021.

Whilst the pandemic and the MCO containment measures have significantly impacted the economy and businesses in general, PIDM has continued to leverage on its digital transformation, virtual operating platforms as well as robust business continuity plans to enable it to effectively operate on the "work from home" mode of operation and allowed it to continue to serve its key stakeholders.

The current interest rate environment has led to the continued low investment return for PIDM. PIDM also continues to monitor the credit risk of investments arising from the uncertainty in the operating environment, of which, PIDM does not expect the impact on its investment portfolio to be significant given the short-term nature of its investments and the conservative investment policy governing its investment strategies.

Pursuant to PIDM's regulatory relief measures provided in 2020, the reduced premium and levy rates continued for the assessment year 2021 as described in Note 13 to the financial statements. Nevertheless, despite the reduced premium and levy revenues and the lower investment income, PIDM expects to continue to accumulate annual net surpluses in building its Protection Funds.

PIDM had also assessed its operational requirements and the effective mode of operations, including its office space. PIDM has therefore established plans to optimise its office space utilisation and manage its costs through space rationalisation and renegotiation of the terms of leases.

Apart from the above, 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

DIRECTORS' REPORT

CONTINGENT LIABILITIES

Exposure to losses in administering the Protection Systems

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.

As at the date of this report, the COVID-19 pandemic outbreak is ongoing and the Government and its agencies are continuing to address its impact. In this regard, PIDM continues to undertake risk assessment and monitoring of all member institutions. As at the date of this financial statements, there have been no specific events involving PIDM's member institutions that would require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

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

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

If the relevant Protection Fund is insufficient to meet obligations, PIDM as a statutory body has the authority to raise funds as it deems fit including borrowing from the Government or issuing public debt securities, as well as assessing and collecting higher premiums or levies with the approval of the Minister of Finance.

Other contingent liabilities

Based on the representation made by Management, the Directors are of the opinion that other than the matters discussed above, there does not exist:

(i) any contingent liability which has arisen since the end of the financial year; and

(ii) any contingent or other liability that has become enforceable or is likely to become enforceable within the period of 12 months after the end of the financial year which will or may affect the ability of PIDM to meet their obligations when they fall due.

INVESTMENT IN SUBSIDIARIES

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

RESPONSIBILITY FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors, in providing the opinion on the financial statements, relied on written representations by Management of their compliance with internal processes and their system of internal controls as well as the internal and external audit functions designed to ensure that:

(i) the financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS) and comply with the International Financial Reporting Standards (IFRS), so as to give a true and fair view of the financial position of PIDM as at 31 December 2021, 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
17 March 2022

STATEMENT BY DIRECTORS

We, Tan Sri Dr. Rahamat Bivi binti Yusoff and Ms. 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 2021, 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
17 March 2022

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 2021, 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 17 March 2022.

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 above named at Kuala Lumpur on 17 March 2022

Rafiz Azuan bin Abdullah
Chief Executive Officer

Wan Ahmad Ikram bin Wan Ahmad Lotfi
Chief Financial Officer
CA (M) 24850

Before me,
Commissioner for Oaths

PESURUHJAYA SUMPAH
W 725
ABDUL SHUKOR MD NOOR
01.01.2021 - 31.12.2023
MALAYSIA
G1-1-2, GROUND FLOOR, MENARA 1 DUTAMAS,
SOLARIS DUTAMAS, NO. 1, JALAN DUTAMAS 1,
50480 KUALA LUMPUR

CERTIFICATE OF THE AUDITOR GENERAL

**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
PERBADANAN INSURANS DEPOSIT MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2021**

Certificate on the Audit of the Financial Statements

Opinion

I have audited the Financial Statements of the Perbadanan Insurans Deposit Malaysia. The financial statements comprise the Statement of Financial Position as at 31 December 2021 of the Perbadanan Insurans Deposit Malaysia and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Funds and Reserves and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 6 to 94.

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 2021, and of its financial performance and its cash flows for the year then ended in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the Malaysia Deposit Insurance Corporation Act 2011 [*Act 720*] requirements.

Basis for Opinion

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

Independence and Other Ethical Responsibilities

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

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

The Board of Directors of the Perbadanan Insurans Deposit Malaysia is 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 other information than the financial statements and Auditor's Certificate thereon and I do not express any form of assurance conclusion thereon.

Responsibilities of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of Financial Statements of the Perbadanan Insurans Deposit Malaysia that give a true and fair view in accordance with the Malaysian Financial Reporting Standards (MFRS), International Financial Reporting Standards (IFRS) and the Malaysia Deposit Insurance Corporation Act 2011 [*Act 720*] requirements. The Board of Directors is also responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the Financial Statements of the 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 Board of Directors is responsible for assessing the Perbadanan Insurans Deposit Malaysia's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

d. conclude on the appropriateness of the Board of Directors' 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 am required to draw attention in my Auditor's Certificate to the related disclosures in the Financial Statements of the Perbadanan Insurans Deposit Malaysia or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of Auditor's Certificate. However, future events or conditions may cause the Perbadanan Insurans Deposit Malaysia to cease to continue as a going concern; and

e. evaluate the overall presentation, structure and content of the Financial Statements of the Perbadanan Insurans Deposit Malaysia, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The Board of Directors has been informed regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I have identify during the audit.

I have also disclosed to the Board of Directors that I have complied with the ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on my independence, and if applicable, actions taken to eliminate threats or safeguards applied.

Other Matters

This certificate is made solely to the Board of Directors of the Perbadanan Insurans Deposit Malaysia in accordance with the Malaysia Deposit Insurance Corporation Act 2011 [*Act 720*] requirements, and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.

(NOR AZIAN BINTI NORDIN)
ON BEHALF OF AUDITOR GENERAL

PUTRAJAYA
21 MARCH 2022

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER

	Note	2021 RM'000	2020 RM'000
ASSETS			
Cash and cash equivalents	4a	**94,392**	152,245
Investments	5	**5,063,096**	4,655,630
Other assets	6	**52,060**	54,732
Investment in subsidiaries	7	**-***	-*
Property and equipment	8	**25,161**	26,686
Right-of-use assets	9	**5,908**	14,263
Total Assets		**5,240,617**	4,903,556
LIABILITIES			
Payables	11	**12,023**	10,073
Lease Liabilities	10	**7,168**	15,961
Total Liabilities		**19,191**	26,034
FUNDS AND RESERVES			
Deposit Insurance Funds			
Accumulated surpluses	12a	**3,233,789**	2,980,629
Takaful and Insurance Benefits Protection Funds			
Accumulated surpluses	12b	**1,987,637**	1,896,893
Total Funds and Reserves		**5,221,426**	4,877,522
Total Liabilities, Funds and Reserves		**5,240,617**	4,903,556

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

The accompanying notes form an integral part of the financial statements

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

	Note	2021 RM'000	2020 RM'000
Premium and levy revenues	13	**316,144**	243,621
Investment income and returns from cash equivalents and investment securities	14	**123,725**	144,371
Other income	8	**-**	782
Total income		**439,869**	388,774
Human capital management expenses	15	**68,988**	66,719
Operations and administrative expenses	16	**19,734**	22,008
Initiatives related expenses	17	**9,663**	6,488
Total expenses		**98,385**	95,215
Net surplus for the year		**341,484**	293,559
Other comprehensive income			
Remeasurement of Long Term Retirement Plan	11ii	**2,420**	387
Total comprehensive income for the year		**343,904**	293,946

The accompanying notes form an integral part of the financial statements

STATEMENT OF CHANGES IN FUNDS AND RESERVES

FOR THE YEAR ENDED 31 DECEMBER

DEPOSIT INSURANCE FUNDS

	Note	Conventional Deposit Insurance Fund RM'000	Islamic Deposit Insurance Fund RM'000	Total Funds and Reserves RM'000
<u>Accumulated Surpluses</u>				
As at 1 January 2020	12a	2,267,355	503,437	2,770,792
Total comprehensive income for the year		157,348	52,489	209,837
As at 31 December 2020	12a	2,424,703	555,926	2,980,629
As at 1 January 2021	12a	**2,424,703**	**555,926**	**2,980,629**
Total comprehensive income for the year		**189,206**	**63,954**	**253,160**
As at 31 December 2021	12a	**2,613,909**	**619,880**	**3,233,789**

TAKAFUL AND INSURANCE BENEFITS PROTECTION FUNDS

	Note	General Insurance Protection Fund RM'000	Life Insurance Protection Fund RM'000	General Takaful Protection Fund RM'000	Family Takaful Protection Fund RM'000	Total Funds and Reserves RM'000
<u>Accumulated Surpluses</u>						
As at 1 January 2020	12b	1,294,811	422,698	28,233	67,042	1,812,784
Total comprehensive income for the year		36,330	38,670	2,878	6,231	84,109
As at 31 December 2020	12b	1,331,141	461,368	31,111	73,273	1,896,893
As at 1 January 2021	12b	**1,331,141**	**461,368**	**31,111**	**73,273**	**1,896,893**
Total comprehensive income for the year		**26,261**	**55,844**	**2,261**	**6,378**	**90,744**
As at 31 December 2021	12b	**1,357,402**	**517,212**	**33,372**	**79,651**	**1,987,637**

The accompanying notes form an integral part of the financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER

	Note	2021 RM'000	2020 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Premiums and levies received from member institutions		**316,144**	243,621
Payments in the course of operations to suppliers and employees		**(86,061)**	(80,502)
Receipts of investment income and returns		**197,990**	189,115
Net cash flows generated from operating activities		**428,073**	352,234
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities		**1,872,711**	2,060,488
Purchase of investment securities		**(2,350,474)**	(2,324,591)
Purchase of property and equipment		**(2,621)**	(2,400)
Net cash flows used in investing activities		**(480,384)**	(266,503)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of the lease liabilities	10	**(4,854)**	(4,666)
Lease finance costs		**(686)**	(999)
Proceeds from borrowing		**5,135**	-
Repayment of borrowing		**(5,135)**	-
Finance cost of borrowing		**(2)**	-
Net cash flows used in financing activities		**(5,542)**	(5,665)
Net (decrease)/increase in cash and cash equivalents		**(57,853)**	80,066
Cash and cash equivalents at beginning of year		**152,245**	72,179
Cash and cash equivalents at end of year	4a	**94,392**	152,245

Note 1: The Statement of Cash Flows shows how cash and cash equivalents have changed over the reporting period at PIDM. In accordance with MFRS 107, cash flows are divided into cash flows from operating and investing activities. The cash and cash equivalents shown in the Statement of Cash Flows correspond to the Statement of Financial Position item cash and cash equivalents. The amount of liquid assets available to PIDM is represented by adding investments (as described in Note 5) and investment income and returns receivables (as described in Note 6). Refer to Note 22(c) for details of PIDM's management of liquidity risk.

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

The accompanying notes form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

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).

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

The PIDM Act provides separate protection coverage for:

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

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

There have been no significant changes in the nature of the principal activities of PIDM during the financial year.

The office address of PIDM is Level 12, Axiata Tower, No. 9, Jalan Stesen Sentral 5, Kuala Lumpur Sentral, 50470 Kuala Lumpur.

The financial statements have been approved by the Board of Directors through a resolution made on 17 March 2022.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of PIDM have been prepared in accordance with the PIDM Act and applicable Malaysian Financial Reporting Standards (MFRS). The financial statements also comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

2.2 Summary of significant accounting policies

(a) Financial instruments

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

Measurement methods

Amortised cost and effective interest rate or rate of return

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

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 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (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' (refer to ***Impairment of financial assets***)], for which interest income or returns earned is calculated by applying the effective interest rate or rate of return to their amortised cost (i.e. net of the expected credit loss allowance).

Fair value of financial instruments

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

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

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

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

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

Initial recognition and measurement

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Classification and subsequent measurement (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 solely payments of principal and interest or returns.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Financial assets (continued)

(iii) Other receivables

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

(iv) Payables

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

Derecognition

(i) Financial assets

A financial asset is derecognised when:

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Derecognition (continued)

(ii) Financial liabilities

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

Impairment of financial assets

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

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

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

Change in credit quality since initial recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

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; and
- an actual or expected significant deterioration in the operating results of the counterparty;
- significant increases in credit risk on other financial instruments of the same counterparty;
- an actual or expected forbearance or restructuring;
- an actual or expected significant adverse change in the regulatory, economic, or operating environment of the counterparty that results in significant decrease in the counterparty's ability to meet its debt obligations.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk (continued)

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

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

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

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

(ii) Definition of default

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (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 expected credit losses

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

- PD — *The Probability of Default* is an estimate of the likelihood of entity defaulting on its financial obligations/repayments within a stated future horizon (i.e. over 12-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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)
2.2 Summary of significant accounting policies (continued)
(a) Financial instruments (continued)
Impairment of financial assets (continued)

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

- LGD — *The Loss Given Default* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from realisation of any collateral or recovery of assets. It is usually expressed as a percentage of EAD.

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

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

Arising from the declaration of the outbreak of COVID-19 as a pandemic by the World Health Organisation on 11 March 2020, PIDM had updated its scenarios and key assumptions to reflect the operating environment. The list of scenarios and its key assumptions that were considered by PIDM is as follows:

***Financial year ended 31 December 2021*[1]**

Scenario	Description – Domestic Economic Scenario
Baseline	Economic conditions and/or growth are expected to be similar to historical conditions and growth. Malaysian GDP growth of between 4.5% and 7.0%
Mildly Negative	Economic conditions and/or growth are expected to be weaker than the long-term norm. Malaysian GDP growth of between 1.0% and 4.5%
Negative	Economic conditions and/or growth are expected to be stagnant or negative. Malaysian GDP growth of between -5.0% and 1.0%
Severe Slump	Economic conditions and/or growth are expected to be significantly weaker than the long-term norm. Malaysian GDP expected to contract by more than -5.0%

[1] *The scenario categories and the relevant GDP growth rates were sourced from Rating Agency Malaysia (RAM) MFRS9 SaaS version 4.0.5 – 1 November 2021 (2020: RAM MFRS9 SaaS version 4.0.0 – 26 October 2020)*

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(a) Financial instruments (continued)

Impairment of financial assets (continued)

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

Financial year ended 31 December 2020

Scenario	Description – Domestic Economic Scenario
Mildly Negative	Economic conditions and/or growth are expected to be similar to historical conditions and growth rates. Malaysian GDP growth of between 1.0% and 4.5%
Negative	Economic conditions and/or growth are expected to be stagnant or negative. Malaysian GDP growth of between -5.0% and 1.0%
Severe Slump	Economic conditions and/or growth are expected to be significantly weaker than the long-term norm. Malaysian GDP expected to contract by more than -5.0%

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

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

(b) Investment in subsidiaries

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(c) Property and equipment, and depreciation

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

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

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

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

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

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

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property and equipment. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. The difference between the net disposal proceeds, if any, and the net carrying amount is recognised in the Statement of Profit or Loss.

(d) Impairment of non-financial assets

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(d) Impairment of non-financial assets (continued)

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.

(e) Recognition of income and expenses

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

1. Income

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

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

2. Expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(e) Recognition of income and expenses (continued)

2. Expenses (continued)

The expenses that cannot be charged directly to a specific Protection Fund or Funds are categorised into either of 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 2021 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 2020. The allocation rates used during the year are as follows:

Year	DIS Conventional	DIS Islamic	TIPS General Insurance	TIPS Life Insurance	TIPS General Takaful	TIPS Family Takaful
2021	**75.73%**	**24.27%**	**40.58%**	**48.45%**	**3.22%**	**7.75%**
	100%		**100%**			
2020	77.33%	22.67%	31.68%	57.63%	2.16%	8.53%
	100%		**100%**			

(ii) *Expenses which are common or indirect costs of administering both DIS and TIPS.* Expenses that cannot be specifically attributed to either DIS or TIPS, are allocated based on the proportion of total income earned for the respective Protection Funds in DIS and TIPS in the financial year prior to the year in which such expenses, costs or losses are allocated. For the 2021 financial year, these expenses were allocated to the respective Protection Funds based on the proportion of total income earned for each of the Protection Funds during the financial year ended 31 December 2020. The apportionment basis used is as follows:

Year	Total	DIS Conventional	DIS Islamic	TIPS General Insurance	TIPS Life Insurance	TIPS General Takaful	TIPS Family Takaful
2021	**100%**	**54.34%**	**17.42%**	**11.46%**	**13.68%**	**0.91%**	**2.19%**
2020	100%	57.39%	16.82%	8.17%	14.86%	0.56%	2.20%

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(f) Employee benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

1. Defined contribution plan

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

2. Defined benefit plan

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(g) Currencies

(i) Functional and presentation currency

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

(ii) Foreign currency transactions

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

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

(h) PIDM as lessee

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

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

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(h) PIDM as lessee (continued)

Lease payments included in the measurement of the lease liability comprise: (continued)

- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

(h) PIDM as lessee (continued)

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(d).

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

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

New and revised MFRS Standards, Interpretations and Amendments

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

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

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

Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16 (Interest Rate Benchmark Reform – Phase 2)

In the current year, PIDM adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to MFRS 9, MFRS 139, MFRS 7, MFRS 4 and MFRS 16. Adopting these amendments would enable PIDM to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates without giving rise to accounting impacts that would obscure any useful information to users of financial statements.

Phase 2 amendments are not relevant to PIDM because PIDM does not have any non-derivative financial instruments that will mature post 2021 (the date by which the reform is expected to be implemented) nor lease liabilities that are based on IBOR.

Amendments to MFRS 16 Leases (Covid-19-Related Rent Concessions) – effective 1 April 2021

As a result of the COVID-19 pandemic, rent concessions may have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the MASB made an amendment to MFRS 16 *Leases*, which provides lessees with an option to treat qualifying rent concessions in the same way they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

These amendments do not affect PIDM as no rent concessions were granted on its leases.

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

The following are accounting standards, amendments and interpretations to the MFRS Framework that have been issued by MASB and will become effective in future financial reporting periods. PIDM intends to adopt these standards, annual improvements to standards and IC Interpretation, if applicable, when they become effective:

Description	Effective for annual periods beginning on or after
Reference to the Conceptual Framework – Amendments to MFRS 3	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use - Amendments to MFRS 116	1 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to MFRS 137	1 January 2022
Annual Improvements to MFRS Standards 2018–2020 (MFRS 9, MFRS16, MFRS 1, and MFRS 141)	1 January 2022
MFRS 17 Insurance Contracts	1 January 2023
Insurance Contracts – Amendments to MFRS 17	1 January 2023
Amendments to MFRS 101: Classification of Liabilities as Current or Non-current	1 January 2023
Amendments to MFRS 101: Disclosure of Accounting Policies	1 January 2023
Amendments to MFRS 108: Definition of Accounting Estimates	1 January 2023
Amendments to MFRS 112: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to MFRS 10 and MFRS 128: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred to a date to be announced by MASB

The PIDM does not plan to apply Amendments to MFRS 112: *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* that is effective for annual periods beginning on or after 1 January 2023 as PIDM is exempted from income tax hence it is not applicable to PIDM.

The PIDM does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of PIDM in future periods.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3.1 Judgements made in applying accounting policies

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

(a) Non-consolidation of investments in subsidiaries

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

(i) power over the investee;

(ii) exposure, or rights, to variable returns from its involvement with the investee; and

(iii) the ability to use its power over the investee to affect the amount of investor's return.

PIDM is the resolution authority for all member institutions with wide intervention and failure resolution (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 Protection Funds, which are to be used for future intervention or failure resolution activities. PIDM, as an entity, has limited financial exposure or rights to variable returns from its investments in the subsidiaries, as the financial exposure and rights to any variable returns are attributed directly to the relevant Protection Fund (s). Although PIDM has rights to use monies in the Protection Funds to cover any expenses incurred in order to run its operations, these expenses are limited and strictly governed by the PIDM Act.

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

(b) Classification of financial assets – business model assessment

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.1 Judgements made in applying accounting policies (continued)

(c) Lease commitments

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

3.2 Key sources of estimation uncertainty

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

Impairment losses on financial assets

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

3.2 Key sources of estimation uncertainty (continued)

Defined benefit plan - LTRP

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

During the year, there was a change in the actuarial cost method to attribute benefits to periods of service as compared to the prior valuation, arising from a decision published by the IFRS Interpretation Committee (IC). This change to the actuarial cost method is applied prospectively, therefore there is no restatement of prior years' liability. The impact of this change in actuarial method is described in Note 11(ii).

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.

3.3 COVID-19 going concern without material uncertainties

PIDM has considered the consequences of the COVID-19 pandemic and other related events and conditions on its financial position and performance. At this juncture, other than those already disclosed in the financial statements, there are no material concerns or specific events that would require a disclosure on any matter that would affect the measurement of assets and liabilities. Pursuant to section 206 of the PIDM Act, there are no uncertainties over PIDM's ability to continue to operate on a going concern basis as no written law on insolvency or winding-up can apply to PIDM.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

4. CASH AND CASH EQUIVALENTS

a. Balances as at the end of the financial year

	2021		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Operational banking accounts	1,017	1,015	2
Placements in short-term money market and fixed deposits	93,375	77,792	15,583
Total cash and cash equivalents	94,392	78,807	15,585

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Operational banking accounts	1,058	1,056	2
Placements in short-term money market and fixed deposits	151,187	117,574	33,613
Total cash and cash equivalents	152,245	118,630	33,615

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4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

	2021		
	Total RM'000	DIFs RM'000	TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	341,484	251,423	90,061
Adjustments for:			
Depreciation of property and equipment	3,834	2,789	1,045
Depreciation of right-of-use assets	4,728	3,696	1,032
Allowance for expected credit losses	(35)	(25)	(10)
Lease finance costs	686	540	146
Operating profit before changes in working capital	350,697	258,423	92,274
Change in payables	4,370	3,231	1,139
Change in other assets	(1,260)	(981)	(279)
Net accretion / amortisation for investment securities	70,297	43,037	27,260
Change in investment income and returns receivables	3,969	161	3,808
Net cash flows generated from operating activities	428,073	303,871	124,202
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	1,872,711	967,975	904,736
Purchase of investment securities	(2,350,474)	(1,305,379)	(1,045,095)
Purchase of property and equipment	(2,621)	(1,969)	(652)
Net cash flows used in investing activities	(480,384)	(339,373)	(141,011)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	(4,854)	(3,779)	(1,075)
Lease finance costs	(686)	(540)	(146)
Proceeds from borrowing	5,135	5,135	-
Repayment of borrowing	(5,135)	(5,135)	-
Finance cost of borrowing	(2)	(2)	-
Net cash flows used in financing activities	(5,542)	(4,321)	(1,221)
Net (decrease) in cash and cash equivalents	(57,853)	(39,823)	(18,030)
Cash and cash equivalents at beginning of year	152,245	118,630	33,615
Cash and cash equivalents at end of year	94,392	78,807	15,585

4. CASH AND CASH EQUIVALENTS (continued)

b. Statement of Cash Flows (indirect method)

	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net surplus for the year	293,559	209,550	84,009
Adjustments for:			
Depreciation of property and equipment	5,850	3,732	2,118
Depreciation of right-of-use assets	4,979	3,942	1,037
Allowance for expected credit losses	42	32	10
Lease finance costs	999	791	208
Operating profit before changes in working capital	305,429	218,047	87,382
Change in payables	1,855	1,228	627
Change in other assets	157	221	(64)
Net accretion / amortisation for investment securities	45,693	29,376	16,317
Change in investment income and returns receivables	(900)	(542)	(358)
Net cash flows generated from operating activities	352,234	248,330	103,904
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from maturity of investment securities	2,060,488	1,305,025	755,463
Purchase of investment securities	(2,324,591)	(1,474,484)	(850,107)
Purchase of property and equipment	(2,400)	(1,637)	(763)
Net cash flows used in investing activities	(266,503)	(171,096)	(95,407)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of lease liabilities	(4,666)	(3,694)	(972)
Lease finance costs	(999)	(791)	(208)
Proceeds from borrowing	-	-	-
Repayment of borrowing	-	-	-
Finance cost on borrowing	-	-	-
Net cash flows used in financing activities	(5,665)	(4,485)	(1,180)
Net increase in cash and cash equivalents	80,066	72,749	7,317
Cash and cash equivalents at beginning of year	72,179	45,881	26,298
Cash and cash equivalents at end of year	152,245	118,630	33,615

5. INVESTMENTS

	Note	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Malaysian Government Securities and Investment Issues		**4,693,237**	**2,882,434**	**1,810,803**
Private Debt Securities		**435,667**	**270,330**	**165,337**
		5,128,904	**3,152,764**	**1,976,140**
Add: Accretion of discounts net of amortisation of premiums		**(65,801)**	**(42,947)**	**(22,854)**
Total investments at amortised cost		**5,063,103**	**3,109,817**	**1,953,286**
Less: Allowance for expected credit loss	16(i)	**(7)**	**(4)**	**(3)**
Total net investments		**5,063,096**	**3,109,813**	**1,953,283**

	Note	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
Malaysian Government Securities and Investment Issues		4,395,059	2,651,788	1,743,271
Private Debt Securities		289,717	180,824	108,893
		4,684,776	2,832,612	1,852,164
Add: Accretion of discounts net of amortisation of premiums		(29,141)	(16,871)	(12,270)
Total investments at amortised cost		4,655,635	2,815,741	1,839,894
Less: Allowance for expected credit loss	16(i)	(5)	(3)	(2)
Total net investments		4,655,630	2,815,738	1,839,892

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.

Expected increase in credit risk of investments

As at the date of this financial statements, the COVID-19 pandemic outbreak is ongoing and the Government and its agencies are continuing to address its impact. Nevertheless, we have made subsequent assessment to the credit risk of its financial assets as reflected in Note 22(e).

Note 16(i) and Note 22(e) details the gross carrying amount, loss allowance as well as the measurement basis of expected credit losses for each of these financial assets by credit risk rating grades.

6. OTHER ASSETS

	Note	2021 Total RM'000	 DIFs RM'000	 TIPFs RM'000
a. Financial assets				
Investment income and returns receivables		**45,140**	**30,325**	**14,815**
Deposits		**2,500**	**2,287**	**213**
Other receivables		**1,581**	**1,234**	**347**
		49,221	**33,846**	**15,375**
Less: Allowance for expected credit loss	16(i)	**-**	**-**	**-**
Subtotal financial assets		**49,221**	**33,846**	**15,375**
b. Non-financial assets				
Prepayment		**2,626**	**1,626**	**1,000**
Other non-financial assets		**213**	**154**	**59**
Subtotal non-financial assets		**2,839**	**1,780**	**1,059**
Total other assets		**52,060**	**35,626**	**16,434**

	Note	2020 Total RM'000	 DIFs RM'000	 TIPFs RM'000
a. Financial assets				
Investment income and returns receivables		49,109	30,486	18,623
Deposits		2,727	2,417	310
Other receivables		58	57	1
		51,894	32,960	18,934
Less: Allowance for expected credit loss	16(i)	(37)	(29)	(8)
Subtotal financial assets		51,857	32,931	18,926
b. Non-financial assets				
Prepayment		2,662	1,692	970
Other non-financial assets		213	154	59
Subtotal non-financial assets		2,875	1,846	1,029
Total other assets		54,732	34,777	19,955

Included in other receivables are inter-fund balances of RM1.5 million (2020: RM0.05 million) for day-to-day operational activities.

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.

Expected increase in credit risk of other financial assets

As at the date of this financial statements, the COVID-19 pandemic outbreak is ongoing and the Government and its agencies are continuing to address its impact. Nevertheless, we have made subsequent assessment to the credit risk of its financial assets as reflected in Note 22(e).

Note 16(i) and 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

	2021 Total RM'000	 DIFs RM'000	 TIPFs RM'000
At cost			
Unquoted shares	**-***	**-**	**-**
Total investment in subsidiaries	**-***	**-**	**-**

	2020 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.

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 2021 were:

- Rafiz Azuan bin Abdullah, Chief Executive Officer, PIDM
- Lim Yam Poh, Chief Operating Officer, PIDM (retired on 1 August 2021)
- Lee Yee Ming, Senior General Manager, PIDM (appointed on 1 August 2021)

The subsidiaries were incorporated as part of PIDM's efforts to ensure operational readiness to carry out any intervention or failure resolution activities. In accordance with section 10 of the PIDM Act, PIDM may establish subsidiaries as it considers necessary for the purposes of carrying out its functions, powers and duties. The five subsidiaries, being one asset management company (AMC) and four bridge institutions (BIs), have been incorporated under the Companies Act 1965 as public companies limited by shares. The subsidiaries are incorporated in advance in case of any failure of a member institution and hence, will remain dormant until activated to carry out any necessary intervention or failure resolution activities.

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7. INVESTMENT IN SUBSIDIARIES (continued)

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

Nama 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 of, 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.
<u>Bridge institutions (BIs)</u> 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 Protection Fund to which that member institution relates.

Further details are represented in Note 3.1(a).

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

Expense description	2021 RM	2020 RM
Audit fees	**19,610**	19,610
Secretarial fees	**17,675**	17,728
Total subsidiaries expenses	**37,285**	37,338

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

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8. PROPERTY AND EQUIPMENT

	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
2021								
Cost								
Balance as at 1 January 2021	4,718	16,954	53,935	4,138	930	10,206	2,015	92,896
Additions	-	-	3,550	-	-	-	(1,241)	2,309
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	**4,718**	**16,954**	**57,485**	**4,138**	**930**	**10,206**	**774**	**95,205**
Accumulated depreciation								
Balance as at 1 January 2021	-	1,399	50,443	3,677	809	9,882	-	66,210
Charge for the year	-	340	3,060	106	72	256	-	3,834
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	**-**	**1,739**	**53,503**	**3,783**	**881**	**10,138**	**-**	**70,044**
Net carrying amount as at 31 December 2021	**4,718**	**15,215**	**3,982**	**355**	**49**	**68**	**774**	**25,161**
2020								
Cost								
Balance as at 1 January 2020	4,718	17,281	52,250	4,138	930	10,402	820	90,539
Additions	-	-	13	-	-	-	2,183	2,196
Reclassifications / Adjustments	-	(327)	1,672	-	-	(196)	(988)	161
Balance as at 31 December 2020	4,718	16,954	53,935	4,138	930	10,206	2,015	92,896
Accumulated depreciation								
Balance as at 1 January 2020	-	1,037	45,435	3,532	704	9,652	-	60,360
Charge for the year	-	412	4,931	145	105	426	-	6,019
Reclassifications / Adjustments	-	(50)	77	-	-	(196)	-	(169)
Balance as at 31 December 2020	-	1,399	50,443	3,677	809	9,882	-	66,210
Net carrying amount as at 31 December 2020	4,718	15,555	3,492	461	121	324	2,015	26,686

NOTES TO THE FINANCIAL STATEMENTS
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8. PROPERTY AND EQUIPMENT (continued)

*Assets under construction amounting to RM0.8 million (2020: RM2.0 million) consist of:

	2021 RM'000	2020 RM'000
Risk Assessment System (RAS) enhancements	-	83
Industry Portal System enhancements	138	-
Payment Management System (PMS) enhancements	-	288
Integrated Data Warehouse (IDW) development	-	606
Enterprise Portal enhancements	-	331
Information classification tool	-	106
Additional network switches	-	129
Additional storage and tape library	-	235
Structured Query Language (SQL) automation and data analytics	212	-
Depositor Liabilities Information Management System – Member Institution On-Site System (DLIMS – MIOS) deployment extension	159	-
Reimbursement system – Request Management and Support System and Microsite	115	-
Other Information Technology (IT) Systems	148	237
Total	**772**	2,015

The land and building relates to PIDM's Disaster Recovery Centre (DRC) which was constructed on a freehold land owned by PIDM, and is measured at cost as at the reporting date. As at 31 December 2021, the fair value of the land and building is RM20 million based on the professional valuation carried out in November 2021 by a registered independent valuer. The fair value of the freehold land and building 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 and building.

PIDM will assess the value of the freehold land and building 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.

8. PROPERTY AND EQUIPMENT (continued)

Significant unobservable valuation input:

	2021 RM	2020 RM
Price of land per square metre	**n/a**	1,500 – 1,800
Price of land and building per square metre	**1,800 – 3,300**	n/a

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

Fair value – Level 3

	2021 Land RM'000	2021 Building RM'000	2021 Total RM'000
Net carrying amount as at 1 January	4,718	15,555	20,273
Net carrying amount as at 31 December	4,718	15,215	19,933
Fair value of land and building as at 31 December	**10,000**	**10,000**	**20,000**

The DRC, to which the land and building relate, to is for PIDM's own use, and therefore in assessing impairment, the value of the land and building were assessed in its entirety. The total net carrying amount of the land and building as at 31 December 2021 was lower than the total fair value of the land and building as determined through the valuation by the independent valuer. As such, there is no indication of impairment of the land and building as at the reporting date.

8. PROPERTY AND EQUIPMENT (continued)

a. Deposit Insurance Funds

	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
2021								
Cost								
Balance as at 1 January 2021	3,155	13,775	43,077	3,905	734	9,158	1,255	75,059
Additions	-	-	2,651	-	-	-	(617)	2,034
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	3,155	13,775	45,728	3,905	734	9,158	638	77,093
Accumulated depreciation								
Balance as at 1 January 2021	-	1,137	40,586	3,532	637	8,898	-	54,790
Charge for the year	-	276	2,163	86	58	206	-	2,789
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	-	1,413	42,749	3,618	695	9,104	-	57,579
Net carrying amount as at 31 December 2021	3,155	12,362	2,979	287	39	54	638	19,514
2020								
Cost								
Balance as at 1 January 2020	3,155	14,046	41,813	3,905	734	9,309	561	73,523
Additions	-	-	9	-	-	-	1,482	1,491
Reclassifications / Adjustments	-	(271)	1,255	-	-	(151)	(788)	45
Balance as at 31 December 2020	3,155	13,775	43,077	3,905	734	9,158	1,255	75,059
Accumulated depreciation								
Balance as at 1 January 2020	-	842	37,538	3,415	553	8,710	-	51,058
Charge for the year	-	335	2,994	117	84	339	-	3,869
Reclassifications / Adjustments	-	(40)	54	-	-	(151)	-	(137)
Balance as at 31 December 2020	-	1,137	40,586	3,532	637	8,898	-	54,790
Net carrying amount as at 31 December 2020	3,155	12,638	2,491	373	97	260	1,255	20,269

8. PROPERTY AND EQUIPMENT (continued)

b. Takaful and Insurance Benefits Protection Funds

	Land RM'000	Building RM'000	Office equipment and computer systems RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office refurbishments RM'000	Assets under construction* RM'000	Total RM'000
2021								
Cost								
Balance as at 1 January 2021	1,563	3,179	10,858	233	196	1,048	760	17,837
Additions	-	-	899	-	-	-	(624)	275
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	1,563	3,179	11,757	233	196	1,048	136	18,112
Accumulated depreciation								
Balance as at 1 January 2021	-	262	9,857	145	172	984	-	11,420
Charge for the year	-	64	897	20	14	50	-	1,045
Reclassifications / Adjustments	-	-	-	-	-	-	-	-
Balance as at 31 December 2021	-	326	10,754	165	186	1,034	-	12,465
Net carrying amount as at 31 December 2021	1,563	2,853	1,003	68	10	14	136	5,647
2020								
Cost								
Balance as at 1 January 2020	1,563	3,235	10,437	233	196	1,093	259	17,016
Additions	-	-	4	-	-	-	701	705
Reclassifications / Adjustments	-	(56)	417	-	-	(45)	(200)	116
Balance as at 31 December 2020	1,563	3,179	10,858	233	196	1,048	760	17,837
Accumulated depreciation								
Balance as at 1 January 2020	-	195	7,897	117	151	942	-	9,302
Charge for the year	-	77	1,937	28	21	87	-	2,150
Reclassifications / Adjustments	-	(10)	23	-	-	(45)	-	(32)
Balance as at 31 December 2020	-	262	9,857	145	172	984	-	11,420
Net carrying amount as at 31 December 2020	1,563	2,917	1,001	88	24	64	760	6,417

9. RIGHT-OF-USE ASSETS

PIDM leases several assets including building and office equipment.

PIDM has a tenancy agreement for the use of office space at Levels 11, 12, 13, 15 and 16 of Axiata Tower, Kuala Lumpur Sentral. The tenancy agreement expired on 31 December 2021. PIDM had exercised its option to renew the tenancy for another 2 years (Third Term) with effect from 1 January 2022, at the prevailing market rental rate, but with a modified, reduced number of floors, namely Level 11 for another 6 months and Level 15 for another 12 months. The remaining floors will be rented for the full term up to 31 December 2023. There is no purchase option clause included in the agreement. There are also no restrictions placed upon PIDM by entering into this tenancy agreement.

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

a. Right-of-use assets

2021	Note	Building RM'000	Parking RM'000	Office Equipment RM'000	Total RM'000
Balance as at 1 January 2021		13,771	300	192	14,263
Additions		-	-	-	-
Adjustments		-	-	-	-
Modification of lease contracts		(3,626)	(16)	15	(3,627)
Depreciation of right-of-use assets	16	(4,442)	(100)	(186)	(4,728)
Net carrying amount		5,703	184	21	5,908

2020	Note	Building RM'000	Parking RM'000	Office Equipment RM'000	Total RM'000
Balance as at 1 January 2020		18,361	400	276	19,037
Additions		-	-	209	209
Adjustments		-	-	(4)	(4)
Modification of lease contracts		-	-	-	-
Depreciation of right-of-use assets	16	(4,590)	(100)	(289)	(4,979)
Net carrying amount		13,771	300	192	14,263

9. RIGHT-OF-USE ASSETS (continued)

b. Lease related expenses charged to Profit or Loss

	Note	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Depreciation of right-of-use assets	16	**4,728**	**3,696**	**1,032**
Lease finance costs	16	**686**	**540**	**146**
Expense relating to leases of low value assets*		**-**	**-**	**-**
Adjustment on modification of lease contracts	16	**(312)**	**(224)**	**(88)**
Total lease related expenses		**5,102**	**4,012**	**1,090**

	Note	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
Depreciation of right-of-use assets	16	4,979	3,942	1,037
Lease finance costs	16	999	791	208
Expense relating to leases of low value assets*		-	-	-
Adjustment on modification of lease contracts	16	-	-	-
Total lease related expenses		5,978	4,733	1,245

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

Arising from the Third Term renewal of the tenancy contract at Axiata Tower with reduced office space compared to original term of tenancy contract, an adjustment on the modification of the lease contract of RM0.3 million was recognised to the profit and loss.

The total cash outflow for leases amounted to RM5.6 million (2020: RM5.7 million), comprising payment of lease finance costs of RM0.7 million (2020: RM1.0 million) and principal repayment of lease liabilities of RM4.9 million (2020: RM4.7 million). Refer to the Statement of Cash Flows.

10. LEASE LIABILITIES

	Note	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Balance as at 1 January		**15,961**	**12,631**	**3,330**
Additions		**-**	**-**	**-**
Principal repayment of lease liabilities	21	**(4,854)**	**(3,779)**	**(1,075)**
Modification of lease contracts		**(3,939)**	**(2,828)**	**(1,111)**
Balance as at 31 December		**7,168**	**6,024**	**1,144**

	Note	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
Balance as at 1 January		20,418	16,169	4,249
Additions		209	156	53
Principal repayment of lease liabilities	21	(4,666)	(3,694)	(972)
Modification of lease contracts		-	-	-
Balance as at 31 December		15,961	12,631	3,330

	2021 RM'000	2020 RM'000
Maturity analysis		
Not later than 1 year	**4,356**	5,539
Later than 1 year and not later than 5 years	**3,037**	11,774
	7,393	17,313

The maturity analysis for 2021 is based on the total lease cash flow obligations, compared to maturity analysis of lease liabilities as disclosed in 2020.

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.

During the financial year, PIDM entered into a 6-year lease to rent office space at an office building. The lease had not commenced by the year-end. As a result, a lease liability and right-of-use asset had not been recognised at 31 December 2021. The aggregate future cash outflows to which the PIDM will be exposed in respect of this new lease agreement is RM1.4 million per year, for the next 6 years. There are no extension or termination options for this lease.

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11. PAYABLES

	Note	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
a. Financial liabilities				
Operational payable		3,215	2,311	904
Other payables		1,521	1,186	335
Subtotal financial liabilities		**4,736**	**3,497**	**1,239**
b. Non-financial liabilities				
Provision for unutilised leave	i	4,083	2,936	1,147
Provision for Long Term Retirement Plan	ii	3,204	2,501	703
Subtotal non-financial liabilities		**7,287**	**5,437**	**1,850**
Total payables		**12,023**	**8,934**	**3,089**

	Note	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
a. Financial liabilities				
Operational payable		2,646	1,843	803
Other payables		58	18	40
Subtotal financial liabilities		2,704	1,861	843
b. Non-financial liabilities				
Provision for unutilised leave	i	3,484	2,590	894
Provision for Long Term Retirement Plan	ii	3,885	2,989	896
Subtotal non-financial liabilities		7,369	5,579	1,790
Total payables		10,073	7,440	2,633

Included in other payables are inter-fund balances of RM1.5 million (2020: RM0.05 million) for day-to-day operational activities.

11. PAYABLES (continued)

i. Provision for unutilised leave

	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Balance as at 1 January	3,484	2,590	894
Addition for the year	1,204	780	424
Payment	(605)	(434)	(171)
Balance as at 31 December	**4,083**	**2,936**	**1,147**

	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
Balance as at 1 January	2,060	1,578	482
Addition for the year	1,524	1,086	438
Payment	(100)	(74)	(26)
Balance as at 31 December	3,484	2,590	894

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.

11. PAYABLES (continued)

ii. Provision for Long Term Retirement Plan

	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Total provision for Long Term Retirement Plan	**3,204**	**2,501**	**703**

	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
Total provision for Long Term Retirement Plan	3,885	2,989	896

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

11. PAYABLES (continued)

ii. Provision for Long Term Retirement Plan (continued)

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

	Total 2021 RM'000	Total 2020 RM'000	DIFs 2021 RM'000	DIFs 2020 RM'000	TIPFs 2021 RM'000	TIPFs 2020 RM'000
Balance as at 1 January	**3,885**	2,849	**2,989**	2,220	**896**	629
Included in profit or loss						
Current service cost	**1,579**	1,295	**1,133**	961	**446**	334
Past service cost	**310**	-	**223**	-	**87**	-
Interest / Financing cost	**142**	128	**102**	95	**40**	33
Benefit Payments	**(292)**	-	**(209)**	-	**(83)**	-
Included in other comprehensive income						
*Remeasurements	**(2,420)**	(387)	**(1,737)**	(287)	**(683)**	(100)
Balance as at 31 December	**3,204**	3,885	**2,501**	2,989	**703**	896

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

The remeasurements of RM2.4 million in 2021 also includes a one-off adjustment of RM1.5 million due to a change in the actuarial cost method used to attribute benefits to the period of service, arising from a decision published by the IFRS Interpretations Committee (IC). This change to the actuarial cost method is applied prospectively, therefore there is no restatement of prior years' liability.

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

	2021 RM'000	2020 RM'000
Fair value of plan assets		
Present value of unfunded obligations	**3,204**	3,885

12 FUNDS AND RESERVES

a. Deposit Insurance Funds

Accumulated surpluses

	2021 Total RM'000	2021 Conventional Deposit Insurance RM'000	2021 Islamic Deposit Insurance RM'000
Balance as at 1 January	2,980,629	2,424,703	555,926
Net surplus	253,160	189,206	63,954
Balance as at 31 December	3,233,789	2,613,909	619,880

	2020 Total RM'000	2020 Conventional Deposit Insurance RM'000	2020 Islamic Deposit Insurance RM'000
Balance as at 1 January	2,770,792	2,267,355	503,437
Net surplus	209,837	157,348	52,489
Balance as at 31 December	2,980,629	2,424,703	555,926

The DIFs are the accumulated reserves (ex-ante funds) to cover the net expected losses arising from providing deposit insurance protection to depositors. In accordance with the PIDM Act, PIDM maintains separate DIFs for both Conventional and Islamic DIS. DIFs are accumulated from annual net surpluses, which are the premium revenue and investment income and returns earned net of total expenses incurred allocated based on the proportion of total income earned for each Protection Fund in a particular year.

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

The Target Fund range is between 0.6% and 0.9% of TID for both the Conventional and Islamic DIF. Based on the level of TID as at 31 December 2020, the range in RM absolute terms is between RM2.7 billion and RM4.1 billion for the Conventional DIF and between RM0.8 billion and RM1.2 billion for the Islamic DIF. The Target Fund framework will be updated and aligned with the outcome of the review of the Differential Premium Systems for both Conventional and Islamic DIS.

12. FUNDS AND RESERVES (continued)

a. Deposit Insurance Funds (continued)

Accumulated surpluses (continued)

The current balance of DIFs as at 31 December 2021 as a percentage of TID compared to the Target Fund range are described in the following table:

Deposit Insurance Funds	2021 Actual RM Million/%	2020 Actual RM Million/%	Target Fund Lower Range RM Million/%	Target Fund Upper Range RM Million/%
Conventional Deposit Insurance Fund				
Balance	2,614	2,425	2,902	4,353
Percentage of Total Insured Deposits	0.54%	0.56%	0.60%	0.90%
Islamic Deposit Insurance Fund				
Balance	620	556	919	1,379
Percentage of Total Insured Deposits	0.40%	0.46%	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 1 to 3 years.

b. Takaful and Insurance Benefits Protection Funds

Accumulated surpluses

	2021 Total RM'000	2021 General Insurance RM'000	2021 Life Insurance RM'000	2021 General Takaful RM'000	2021 Family Takaful RM'000
Balance as at 1 January	1,896,893	1,331,141	461,368	31,111	73,273
Net surplus	90,744	26,261	55,844	2,261	6,378
Balance as at 31 December	1,987,637	1,357,402	517,212	33,372	79,651

	2020 Total RM'000	2020 General Insurance RM'000	2020 Life Insurance RM'000	2020 General Takaful RM'000	2020 Family Takaful RM'000
Balance as at 1 January	1,812,784	1,294,811	422,698	28,233	67,042
Net surplus	84,109	36,330	38,670	2,878	6,231
Balance as at 31 December	1,896,893	1,331,141	461,368	31,111	73,273

12. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

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

The Target Fund framework for General Insurance Protection Fund (GIPF) has adopted the Target Fund levels at the range of 80% to 100% of the maximum expected loss level. As at 31 December 2021, the Target Fund range in RM million are as follows:

General Insurance Protection Fund	2021 Actual RM Million	2020 Actual RM Million	Target Fund Lower Range RM Million	Target Fund Lower Range RM Million
Balance	**1,358**	1,331	**256**	**320**

Based on the above GIPF balance as at 31 December 2021, 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. The Target Fund range as at 31 December 2021 in RM million are as follows:

Life Insurance Protection Fund	2021 Actual RM Million	2020 Actual RM Million	Target Fund Lower Range RM Million	Target Fund Upper Range RM Million
Balance	**517**	461	**604**	**905**

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 2 to 5 years.

12. FUNDS AND RESERVES (continued)

b. Takaful and Insurance Benefits Protection Funds (continued)

Accumulated surpluses (continued)

In 2018, PIDM implemented the Target Fund framework for General Takaful Protection Fund (GTPF) and Family Takaful Protection Fund (FTPF). The Target Fund framework for GTPF has adopted the target fund levels at the range of 2.8% to 3.3% of the total general takaful liabilities.[2] The Target Fund range as at 31 December 2021 in RM million are as follows:

General Takaful Protection Fund	2021 Actual RM Million	2020 Actual RM Million	Target Fund Lower Range RM Million	Target Fund Upper Range RM Million
Balance	**33**	31	**88**	**104**

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the takaful industry, the lower range of the Target Fund is expected to be achieved within the next 10 to 12 years.

The target fund framework for FTPF has adopted the Target Fund levels at the range of 1.0% to 1.5% of the total family takaful liabilities.[3] The Target Fund range as at 31 December 2021 in RM million are as follows:

Family Takaful Protection Fund	2021 Actual RM Million	2020 Actual RM Million	Target Fund Lower Range RM Million	Target Fund Upper Range RM Million
Balance	**80**	73	**268**	**402**

Based on the current level of accumulated surpluses and taking into consideration the operating environment and impact to the takaful industry, the lower range of the Target Fund is expected to be achieved within the next 10 to 14 years.

[2] General takaful liabilities consist of claims liabilities and contribution liabilities of the general takaful fund.
[3] 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.

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13. PREMIUM AND LEVY REVENUES

In response to the COVID-19 pandemic, the Minister of Finance, on the recommendation of PIDM, had approved for the premium and levy rates to be reduced for both assessment years 2020 and 2021. These reductions in premium and levy rates are part of PIDM's regulatory financial relief, which is in line with the Government's responses to support the economy and address the impact of the pandemic.

a. Premium revenues from member banks

2021	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Annual premiums	247,632	182,399	65,233
Total premium revenues from member banks	**247,632**	**182,399**	**65,233**

2020	Total RM'000	Conventional Deposit Insurance RM'000	Islamic Deposit Insurance RM'000
Annual premiums	191,874	140,795	51,079
Total premium revenues from member banks	191,874	140,795	51,079

The premium rates applicable to the member banks are stated in the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) Order 2011[4] (Premium Order – Member Banks).

i. Rates for annual premium under the Differential Premium Systems

PREMIUM CATEGORY	PREMIUM RATE ASSESSMENT YEARS 2020 AND 2021	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
1	0.03%	50,000
2	0.06%	100,000
3	0.12%	200,000
4	0.24%	400,000

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

PREMIUM CATEGORY	PREMIUM RATE ASSESSMENT YEAR 2019	MINIMUM ANNUAL PREMIUM AMOUNT (RM)
1	0.06%	100,000
2	0.12%	200,000
3	0.24%	400,000
4	0.48%	800,000

[4] As amended by the Malaysia Deposit Insurance Corporation (Annual Premium and First Premium in respect of Deposit-Taking Members) (Amendment) Order 2020.

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13. PREMIUM AND LEVY REVENUES (continued)

a. Premium revenues from member banks (continued)

ii. Rates for first premium

In respect of a new member bank [as defined in the Malaysia Deposit Insurance Corporation (Differential Premium Systems in respect of Deposit-Taking Members) Regulations 2011] holding Islamic insured deposits or conventional insured deposits, the rate for the first premium for such new member bank will be the same as the premium rate for premium category 1, subject to a minimum first premium of RM250,000.

b. Levy revenues from insurer members

2021	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Annual levies	68,512	2,903	56,658	2,373	6,578
Total levy revenues from insurer members	**68,512**	**2,903**	**56,658**	**2,373**	**6,578**

2020	Total RM'000	General Insurance RM'000	Life Insurance RM'000	General Takaful RM'000	Family Takaful RM'000
Annual levies	51,747	3,294	39,533	2,624	6,296
Total levy revenues from insurer members	51,747	3,294	39,533	2,624	6,296

i. Levy rates under the Differential Levy Systems for 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[5] (Premium Order – Insurer Members) based on the levy category for which that insurer member is classified. The levy rates assessed on the insurer members, as specified in the Premium Order – Insurer Members, are as follows:

LEVY CATEGORY	ASSESSMENT YEARS 2020 AND 2021			
	INSURANCE		TAKAFUL	
	GENERAL	LIFE	GENERAL	FAMILY
1	0.0125%	0.0125%	0.05%	0.0125%
2	0.025%	0.025%	0.1%	0.025%
3	0.05%	0.05%	0.2%	0.05%
4	0.1%	0.1%	0.4%	0.1%

[5] As amended by the Malaysia Deposit Insurance Corporation (First Premium and Annual Premium In Respect of Insurer Members) (Amendment) Order 2020

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13. PREMIUM AND LEVY REVENUES (continued)

b. Levy revenues from insurer members (continued)

i. Levy rates under the Differential Levy Systems for insurer members (continued)

LEVY CATEGORY	ASSESSMENT YEAR 2019			
	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%

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

The annual levies payable for 2021 were subject to minimum levies based on their levy category as follows:

LEVY CATEGORY	ASSESSMENT YEARS 2020 AND 2021			
	MINIMUM ANNUAL LEVY AMOUNT (RM)			
	INSURANCE		TAKAFUL	
	AM	LIFE	AM	FAMILY
1	12,500	37,500		
2		75,000		
3		150,000		
4		300,000		

LEVY CATEGORY	ASSESSMENT YEAR 2019			
	MINIMUM ANNUAL LEVY AMOUNT (RM)			
	INSURANCE		TAKAFUL	
	AM	LIFE	AM	FAMILY
1	25,000	75,000		
2		150,000		
3		300,000		
4		600,000		

iii. Rates for first levy payable

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

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

a. Investment income according to asset class

	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Malaysian Government Securities and Investment Issues	113,544	67,463	46,081
Private Debt Securities	8,418	5,190	3,228
Subtotal investment income from cash and investment securities	**121,962**	**72,653**	**49,309**
Placement in short-term money market and fixed deposits	1,763	1,370	393
Total investment income and returns from cash equivalents and investment securities	**123,725**	**74,023**	**49,702**

	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
Malaysian Government Securities and Investment Issues	134,269	79,736	54,533
Private Debt Securities	7,643	5,178	2,465
Subtotal investment income from cash and investment securities	141,912	84,914	56,998
Placement in short-term money market and fixed deposits	2,459	1,638	821
Total investment income and returns from cash equivalents and investment securities	144,371	86,552	57,819

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

b. Investment income and returns according to nature of income

	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Coupon and profit rate from investment securities	175,814	106,965	68,849
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(53,851)	(34,312)	(19,539)
Subtotal investment income from cash and investment securities	121,963	72,653	49,310
Returns from placements in short-term money market and fixed deposits	1,762	1,370	392
Total investment income and returns from cash equivalents and investment securities	123,725	74,023	49,702

	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
Coupon and profit rate from investment securities	167,951	100,960	66,991
Returns from accretion of discounts from investment securities (net of amortisation of premiums)	(26,039)	(16,046)	(9,993)
Subtotal investment income from cash and investment securities	141,912	84,914	56,998
Returns from placements in short-term money market and fixed deposits	2,459	1,638	821
Total investment income and returns from cash equivalents and investment securities	144,371	86,552	57,819

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

c. Weighted Average Effective Yield Rates (WAEYR)

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

Year	Type of Portfolio	DIFs Conventional	DIFs Islamic	TIPFs General Insurance	TIPFs Life Insurance	TIPFs General Takaful	TIPFs Family Takaful
2021	**Investments securities**						
	MGSII	2.55%	2.85%	2.62%	2.68%	2.78%	2.82%
	Private Debt Securities	2.54%	2.19%	2.40%	2.57%	2.23%	2.17%
	Subtotal	2.59%		2.63%			
	Placements in short-term money market and fixed deposits	1.46%	1.48%	1.33%	1.50%	1.51%	1.49%
	Subtotal	1.47%		1.40%			
	Overall	2.40%		2.51%			
2020	Investments securities						
	MGSII	2.89%	3.21%	3.02%	3.10%	3.15%	3.17%
	Private Debt Securities	2.99%	2.75%	2.91%	3.35%	2.65%	2.83%
	Subtotal	2.93%		3.04%			
	Placements in short-term money market and fixed deposits	1.72%	1.63%	1.68%	1.71%	1.86%	1.84%
	Subtotal	1.67%		1.72%			
	Overall	2.67%		2.89%			

The WAEYR presented above are based on the weighted average yield for each portfolio for the whole of the financial year 2021 and 2020.

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15. HUMAN CAPITAL MANAGEMENT EXPENSES

	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
a. Employee benefits			
Wages and salaries	52,246	37,404	14,842
Contributions to defined contribution plan	8,744	6,263	2,481
Provision for unutilised leave	1,204	780	424
Provision for Long Term Retirement Plan liability	1,889	1,356	533
Interest / financing cost of the LTRP	142	102	40
Other benefits	3,825	2,692	1,133
Subtotal employee benefits	**68,050**	**48,597**	**19,453**
b. Other human capital related expenses			
Learning and development	453	330	123
Miscellaneous human capital related expenses	485	351	134
Subtotal other human capital related expenses	**938**	**681**	**257**
Total human capital management expenses	**68,988**	**49,278**	**19,710**

	2020 Total RM'000	2020 DIFs RM'000	2020 TIPFs RM'000
a. Employee benefits			
Wages and salaries	51,022	37,842	13,180
Contributions to defined contribution plan	8,432	6,255	2,177
Provision for unutilised leave	1,524	1,085	439
Provision for Long Term Retirement Plan liability	1,295	961	334
Interest / financing cost of the LTRP	128	95	33
Other benefits	3,454	2,551	903
Subtotal employee benefits	65,855	48,789	17,066
b. Other human capital related expenses			
Learning and development	470	375	95
Miscellaneous human capital related expenses	394	293	101
Subtotal other human capital related expenses	864	668	196
Total human capital management expenses	66,719	49,457	17,262

The number of employees at the end of the financial year was 176 (2020: 169).

16. OPERATIONS AND ADMINISTRATIVE EXPENSES

	Note	2021 Total RM'000	2021 DIFs RM'000	2021 TIPFs RM'000
Audit fees		100	72	28
Directors' fees and remuneration*		1,218	874	344
Depreciation of property and equipment	8	3,834	2,789	1,045
Depreciation of right-of-use assets	9(b)	4,728	3,696	1,032
Lease finance cost	9(b)	686	540	146
Telecommunication and computer systems		4,559	3,042	1,517
Utilities, office and vehicle maintenance and general insurance		1,598	1,148	450
Subscriptions and memberships		1,122	857	265
Publications and corporate collaterals		191	134	57
Parking space rental		517	368	149
Professional and consultancy fees		1,272	930	342
Property and equipment written-off		-	-	-
Postage, printing and stationery		59	42	17
Adjustment on modification of lease contracts	9(b)	(312)	(224)	(88)
Credit loss expenses	16(i)	(35)	(25)	(10)
Miscellaneous		197	9	188
Total operations and administrative expenses		**19,734**	**14,252**	**5,482**

16. OPERATIONS AND ADMINISTRATIVE EXPENSES (continued)

		2020		
	Note	Total RM'000	DIFs RM'000	TIPFs RM'000
Audit fees		131	97	34
Directors' fees and remuneration*		1,095	812	283
Depreciation of property and equipment	8	5,850	3,732	2,118
Depreciation of right-of-use assets	9(b)	4,979	3,942	1,037
Lease finance cost	9(b)	999	791	208
Telecommunication and computer systems		4,377	3,002	1,375
Utilities, office and vehicle maintenance and general insurance		1,995	1,480	515
Subscriptions and memberships		852	676	176
Publications and corporate collaterals		295	219	76
Parking space rental		499	370	129
Professional and consultancy fees		736	567	169
Property and equipment written-off		59	45	14
Postage, printing and stationery		67	50	17
Adjustment on modification of lease contracts	9(b)	-	-	-
Credit loss expenses	16(i)	42	32	10
Miscellaneous		32	21	11
Total operations and administrative expenses		22,008	15,836	6,172

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

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31 DECEMBER 2021

16. OPERATIONS AND ADMINISTRATIVE EXPENSES (continued)

i. Credit loss expenses

		2021			
	Note	Stage 1 (Individual) RM'000	Stage 2 (Individual) RM'000	Stage 3 RM'000	Total RM'000
Cash and cash equivalents	4a	-	-	-	-
Investments	5	**2**	-	-	**2**
Other assets	6a	-	-	**(37)**	**(37)**

		2020			
	Note	Stage 1 (Individual) RM'000	Stage 2 (Individual) RM'000	Stage 3 RM'000	Total RM'000
Cash and cash equivalents	4a	-	-	-	-
Investments	5	5	-	-	5
Other assets	6a	-*	-	37	37

*The amount is below the rounding threshold.

The expected credit losses for investments measured at amortised cost as well as investment income and returns receivables are treated under Stage 1, as the credit risk has not increased significantly since its initial recognition. Following the recognition of a Stage 3 expected credit loss in 2020 pertaining to the deposit for rental of parking spaces, there was a subsequent reversal in 2021 arising from the recovery of the deposit.

17. INITIATIVES RELATED EXPENSES

	2021		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Resolution readiness			
Crisis preparedness	1,601	1,149	452
Resolution planning	154	150	4
Reimbursement readiness	392	281	111
Subtotal resolution readiness	2,147	1,580	567
Trust and confidence - Stakeholder management and engagement			
Advertising	4,135	2,672	1,463
Public relations	156	112	44
Others	1,266	932	334
Subtotal for trust confidence - Stakeholder management and engagement	5,557	3,716	1,841
Corporate social responsibilities			
Scholarship programme	825	592	233
Other corporate social responsibilities initiatives*	1,134	814	320
Subtotal for corporate social responsibilities	1,959	1,406	553
Total initiatives related expenses	9,663	6,702	2,961

*Included in other corporate social responsibilities is a one-time contribution to the Government's CERDIK initiative. Refer to Note 20(a)(v) for details.

17. INITIATIVES RELATED EXPENSES (continued)

	2020		
	Total RM'000	DIFs RM'000	TIPFs RM'000
Resolution readiness			
Crisis preparedness	335	252	83
Resolution planning	150	150	-
Reimbursement readiness	-	-	-
Subtotal resolution readiness	485	402	83
Trust and confidence - Stakeholder management and engagement			
Advertising	3,807	2,171	1,636
Public relations	60	49	11
Others	1,201	902	299
Subtotal for trust confidence - Stakeholder management and engagement	5,068	3,122	1,946
Corporate social responsibilities			
Scholarship programme	877	651	226
Other corporate social responsibilities initiatives	58	43	15
Subtotal for corporate social responsibilities	935	694	241
Total initiatives related expenses	6,488	4,218	2,270

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

As part of its key initiative, PIDM also supports the operations of FIDE FORUM[6], through the secondment of employees as well as office space and other office administrative services. Total expenses attributable to FIDE FORUM in 2021 is RM2,240,603 (2020: RM2,202,392).

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

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2021

18. TAXATION

PIDM is exempted from income tax.

19. CAPITAL COMMITMENTS

	Note	2021 RM'000	2020 RM'000
Approved and contracted for:			
Office equipment and computer systems	a	1,119	251
Office renovation and refurbishment	b	166	-
Total capital commitments		**1,285**	251

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

20. RELATED PARTY DISCLOSURES

a. Transactions with related parties

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

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

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

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

iv. One of the Corporate Officers ("the Officer") of PIDM is a Council Member of the Malaysian Institute of Accountants ("MIA"). MIA provides various learning and development programmes to its member and non-members, including employees of PIDM. All transactions for these programmes were transacted at commercial arm's length basis. The Officer did not obtain any gain or benefits from these transactions.

20. RELATED PARTY DISCLOSURES (continued)

a. Transactions with related parties (continued)

v. As part of its corporate social responsibility ("CSR") activities, PIDM had made a one-time contribution to the Government's CERDIK initiative in relation to the provision of computer devices and internet connectivity for Malaysian students' education. The RM1 million contribution was made within the approved CSR allocation for the year and in accordance with PIDM's approved CSR Policy. This contribution was recognised within the expense item 'Stakeholder engagement and corporate social responsibilities – Others' as disclosed in Note 17.

b. Remuneration of key management personnel

	2021 RM'000	2020 RM'000
Short-term benefits	8,728	8,951
Post-employment benefits:		
Contributions to defined contribution plan	1,504	1,544
Total remuneration of key management personnel	**10,232**	10,495

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

21. SEGMENT INFORMATION

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

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

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

21. SEGMENT INFORMATION (continued)

Fund reporting

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	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	94,392	25,796	53,011	6,781	6,525	885	1,394
Investments	5	5,063,096	2,552,593	557,220	1,341,210	503,370	31,872	76,831
Other assets	6	52,060	27,380	8,246	9,448	5,301	492	1,193
Investment in subsidiaries	7	-*	-*	-*	-*	-*	-*	-*
Property and equipment	8	25,161	15,772	3,742	1,211	3,681	239	516
Right-of-Use Assets	9	5,908	4,169	818	253	473	66	129
Total Assets		5,240,617	2,625,710	623,037	1,358,903	519,350	33,554	80,063
LIABILITIES								
Payables	11	12,023	6,777	2,157	1,178	1,552	103	256
Lease Liabilities	10	7,168	5,024	1,000	323	586	79	156
Total Liabilities		19,191	11,801	3,157	1,501	2,138	182	412
FUNDS AND RESERVES								
Accumulated surpluses	12	5,221,426	2,613,909	619,880	1,357,402	517,212	33,372	79,651
Total Funds and Reserves		5,221,426	2,613,909	619,880	1,357,402	517,212	33,372	79,651
Total Liabilities, Funds and Reserves		5,240,617	2,625,710	623,037	1,358,903	519,350	33,554	80,063

*The amount is significantly below the rounding threshold.

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	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	152,245	62,286	56,344	11,043	16,982	2,304	3,286
Investments	5	4,655,630	2,323,729	492,009	1,306,098	436,603	28,317	68,874
Other assets	6	54,732	29,146	5,631	13,544	5,318	308	785
Investment in subsidiaries	7	-*	-*	-*	-*	-*	-*	-*
Property and equipment	8	26,686	16,449	3,820	1,408	4,135	273	601
Right-of-Use Assets	9	14,263	9,098	2,188	1,040	1,480	146	311
Total Assets		4,903,556	2,440,708	559,992	1,333,133	464,518	31,348	73,857
LIABILITIES								
Payables	11	10,073	5,822	1,618	828	1,495	74	236
Lease Liabilities	10	15,961	10,183	2,448	1,164	1,655	163	348
Total Liabilities		26,034	16,005	4,066	1,992	3,150	237	584
FUNDS AND RESERVES								
Accumulated surpluses	12	4,877,522	2,424,703	555,926	1,331,141	461,368	31,111	73,273
Total Funds and Reserves		4,877,522	2,424,703	555,926	1,331,141	461,368	31,111	73,273
Total Liabilities, Funds and Reserves		4,903,556	2,440,708	559,992	1,333,133	464,518	31,348	73,857

*The amount is significantly below the rounding threshold.

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	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	316,144	182,399	65,233	2,903	56,658	2,373	6,578
Investment income and returns from cash equivalents and investment securities	14	123,725	59,190	14,833	34,507	12,466	799	1,930
Other income	8	-	-	-	-	-	-	-
Total income		439,869	241,589	80,066	37,410	69,124	3,172	8,508
Human capital management expenses	15	68,988	37,654	11,624	8,083	9,538	617	1,472
Operations and administrative expenses	16	19,734	10,988	3,264	2,140	2,643	219	480
Initiatives related expenses	17	9,663	5,056	1,646	1,203	1,430	97	231
Total expenses		98,385	53,698	16,534	11,426	13,611	933	2,183
Net surplus for the year		341,484	187,891	63,532	25,984	55,513	2,239	6,325
Other comprehensive income								
Remeasurements of Long Term Retirement Plan	11ii	2,420	1,315	422	277	331	22	53
Total comprehensive income for the year	21	343,904	189,206	63,954	26,261	55,844	2,261	6,378

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	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	243,621	140,795	51,079	3,294	39,533	2,624	6,296
Investment income and returns from cash equivalents and investment securities	14	144,371	70,047	16,505	41,166	13,554	908	2,191
Other Income	8	782	516	119	23	103	7	14
Total income		388,774	211,358	67,703	44,483	53,190	3,539	8,501
Human capital management expenses	15	66,719	38,444	11,013	5,483	9,985	361	1,433
Operations and administrative expenses	16	22,008	12,502	3,334	2,002	3,322	242	606
Initiatives related expenses	17	6,488	3,286	932	698	1,272	60	240
Total expenses		95,215	54,232	15,279	8,183	14,579	663	2,279
Net surplus for the year		293,559	157,126	52,424	36,300	38,611	2,876	6,222
Other comprehensive income								
Remeasurements of Long Term Retirement Plan	11ii	387	222	65	30	59	2	9
Total comprehensive income for the year	21	293,946	157,348	52,489	36,330	38,670	2,878	6,231

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

	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		316,144	182,399	65,233	2,903	56,658	2,373	6,578
Payments in the course of operations to suppliers and employees		(86,061)	(45,787)	(15,487)	(10,115)	(11,967)	(803)	(1,902)
Receipts of investment income and returns		197,990	96,239	21,274	56,872	19,597	1,174	2,834
Net cash flows generated from operating activities		428,073	232,851	71,020	49,660	64,288	2,744	7,510
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		1,872,711	780,995	186,980	620,852	247,204	11,050	25,630
Purchase of investment securities		(2,350,474)	(1,045,384)	(259,995)	(674,085)	(321,013)	(15,138)	(34,859)
Purchase of property and equipment		(2,621)	(1,499)	(470)	(248)	(333)	(19)	(52)
Net cash flows used in investing activities		(480,384)	(265,888)	(73,485)	(53,481)	(74,142)	(4,107)	(9,281)
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal repayment of lease liabilities	10	(4,854)	(3,017)	(762)	(389)	(531)	(49)	(106)
Lease finance costs		(686)	(434)	(106)	(52)	(72)	(7)	(15)
Proceeds from borrowing		5,135	5,135	-	-	-	-	-
Repayment of borrowing		(5,135)	(5,135)	-	-	-	-	-
Finance cost on borrowing		(2)	(2)	-	-	-	-	-
Net cash flows used in financing activities		(5,542)	(3,453)	(868)	(441)	(603)	(56)	(121)
Net (decrease) in cash and cash equivalents		(57,853)	(36,490)	(3,333)	(4,262)	(10,457)	(1,419)	(1,892)
Cash and cash equivalents at beginning of year		152,245	62,286	56,344	11,043	16,982	2,304	3,286
Cash and cash equivalents at end of year	4a	94,392	25,796	53,011	6,781	6,525	885	1,394

21. SEGMENT INFORMATION (continued)

Fund reporting (continued)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	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		243,621	140,795	51,079	3,294	39,533	2,624	6,296
Payments in the course of operations to suppliers and employees		(80,502)	(45,504)	(13,320)	(6,820)	(12,528)	(473)	(1,857)
Receipts of investment income and returns		189,115	95,935	19,345	54,041	16,199	1,080	2,515
Net cash flows generated from operating activities		352,234	191,226	57,104	50,515	43,204	3,231	6,954
CASH FLOWS FROM INVESTING ACTIVITIES								
Proceeds from maturity of investment securities		2,060,488	1,193,835	111,190	607,840	125,053	7,220	15,350
Purchase of investment securities		(2,324,591)	(1,348,193)	(126,291)	(655,511)	(164,057)	(9,544)	(20,995)
Purchase of property and equipment		(2,400)	(1,277)	(360)	(242)	(434)	(19)	(68)
Net cash flows used in investing activities		(266,503)	(155,635)	(15,461)	(47,913)	(39,438)	(2,343)	(5,713)
CASH FLOWS FROM FINANCING ACTIVITIES								
Principal repayment of lease liabilities	10	(4,666)	(2,979)	(715)	(339)	(483)	(48)	(102)
Lease finance costs		(999)	(637)	(154)	(74)	(102)	(10)	(22)
Proceeds from borrowing		-	-	-	-	-	-	-
Repayment of borrowing		-	-	-	-	-	-	-
Finance cost on borrowing		-	-	-	-	-	-	-
Net cash flows used in financing activities		(5,665)	(3,616)	(869)	(413)	(585)	(58)	(124)
Net increase in cash and cash equivalents		80,066	31,975	40,774	2,189	3,181	830	1,117
Cash and cash equivalents at beginning of year		72,179	30,311	15,570	8,854	13,801	1,474	2,169
Cash and cash equivalents at end of year	4a	152,245	62,286	56,344	11,043	16,982	2,304	3,286

22. FINANCIAL RISK

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

Part of the former Insurance Guarantee Scheme Funds (IGSF) investment portfolio previously administered by Bank Negara Malaysia, that was transferred to PIDM in 2011 comprises investment securities that are not in line with PIDM's approved Investment Policy. In 2011, a specific approval from the Board of Directors has been obtained in order to exempt these investment securities from complying with the Investment Policy. The investment securities that are not in compliance with the Investment Policy consist of Government securities with long-term tenures and Private Debt Securities (PDS) and will be held until its maturities. As at 31 December 2021, PIDM no longer hold investment securities from the IGSF portfolio as they have all matured.

a. Foreign currency risk

PIDM is currently not materially exposed to any currency risk as most of the transactions were transacted in Ringgit Malaysia denominated currency.

b. Interest rate risk and rate of return risk

PIDM's interest rate and rate of return risks will arise principally from differences in maturities of its financial assets and liabilities.

The financial assets are primarily made up of investment assets held in Malaysian Government Securities and Investment Issues. The interest rate risk in this respect arises from fluctuations in market interest rate that may affect the market values and reinvestment decisions of these financial assets. The rate of return risk is the potential impact of market factors affecting the return on assets which, may consequently affect the market values and reinvestment decisions of these financial assets. To mitigate these risks, PIDM currently only invests in short-term and medium-term securities that minimise the impact of any fluctuations in market interest rate or profit rate on the market value of these securities.

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

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

22. FINANCIAL RISKS (continued)

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

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

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 – 36 months RM'000	Total RM'000
Conventional Deposit Insurance Fund						
31 December 2021						
Fixed rate						
Cash and cash equivalents	4a	**1.88**	**16,496**	**9,300**	**-**	**25,796**
Investments	5	**2.29**	**257,363**	**530,922**	**1,764,308**	**2,552,593**
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.95	12,986	49,300	-	62,286
Investments	5	2.65	210,152	572,580	1,540,997	2,323,729
Islamic Deposit Insurance Fund						
31 December 2021						
Fixed rate						
Cash and cash equivalents	4a	**1.92**	**33,011**	**20,000**	**-**	**53,011**
Investments	5	**2.58**	**192,294**	**7,702**	**357,224**	**557,220**
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.84	44,144	12,200	-	56,344
Investments	5	3.11	109,860	77,325	304,824	492,009
General Insurance Protection Fund						
31 December 2021						
Fixed rate						
Cash and cash equivalents	4a	**1.81**	**4,521**	**2,260**	**-**	**6,781**
Investments	5	**2.27**	**119,524**	**287,573**	**934,113**	**1,341,210**
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.80	4,743	6,300	-	11,043
Investments	5	2.82	95,190	527,180	683,728	1,306,098

22. FINANCIAL RISKS (continued)

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

	Note	WAEYR %	Within 3 months RM'000	4 - 12 months RM'000	13 – 36 months RM'000	Total RM'000
Life Insurance Protection Fund						
31 December 2021						
Fixed rate						
Cash and cash equivalents	4a	**1.73**	**5,525**	**1,000**	**-**	**6,525**
Investments	5	**2.37**	**23,486**	**143,751**	**336,133**	**503,370**
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.95	8,882	8,100	-	16,982
Investments	5	3.01	72,187	175,728	188,688	436,603
General Takaful Protection Fund						
31 December 2021						
Fixed rate						
Cash and cash equivalents	4a	**1.70**	**685**	**200**	**-**	**885**
Investments	5	**2.47**	**11,610**	**1,522**	**18,740**	**31,872**
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.58	1,814	490	-	2,304
Investments	5	2.99	5,134	5,930	17,253	28,317
Family Takaful Protection Fund						
31 December 2021						
Fixed rate						
Cash and cash equivalents	4a	**1.91**	**894**	**500**	**-**	**1,394**
Investments	5	**2.51**	**31,366**	**2,215**	**43,250**	**76,831**
31 December 2020						
Fixed rate						
Cash and cash equivalents	4a	1.90	2,206	1,080	-	3,286
Investments	5	3.04	15,155	10,497	43,222	68,874

22. FINANCIAL RISKS (continued)

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

Based on PIDM's investment portfolio as at 31 December 2021, 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 2021	**23,982**	**11,736**	**2,738**	**6,646**	**2,361**	**148**	**353**
- 31 December 2020	24,550	12,208	2,725	6,878	2,229	152	358
50 basis points decrease							
- 31 December 2021	**(23,982)**	**(11,736)**	**(2,738)**	**(6,646)**	**(2,361)**	**(148)**	**(353)**
- 31 December 2020	(24,550)	(12,208)	(2,725)	(6,878)	(2,229)	(152)	(358)

c. Liquidity risk

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

22. FINANCIAL RISKS (continued)

c. Liquidity risk (continued)

	Note	Less Than 30 Days RM'000	31 – 60 Days RM'000	60 – 90 Days RM'000	90 Days But Less Than 36 Months RM'000	Total RM'000
2021						
Cash and cash equivalents	4a	29,032	14,750	12,000	38,610	94,392
Investments	5	-	-	560,676	4,502,420	5,063,096
Other assets	6a	12,642	9,641	15,877	11,061	49,221
Payables	11a	(2,181)	(701)	(1,523)	(331)	(4,736)
Net short-term assets		39,493	23,690	587,030	4,551,760	5,201,973

	Note	Less Than 30 Days RM'000	31 – 60 Days RM'000	60 – 90 Days RM'000	90 Days But Less Than 36 Months RM'000	Total RM'000
2020						
Cash and cash equivalents	4a	30,025	15,600	23,450	83,170	152,245
Investments	5	-	268,544	239,136	4,147,950	4,655,630
Other assets	6a	11,850	9,264	21,167	9,576	51,857
Payables	11a	(2,025)	(121)	(558)	-	(2,704)
Net short-term assets		39,850	293,287	283,195	4,240,696	4,857,028

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

i. **Internal funding** is developed through the accumulation of net surpluses after expenses. The annual net surplus is credited into the respective Protection Funds as reserves and is accumulated to meet future obligations that may arise from providing the financial consumer protection programmes.

ii. **External funding** may be raised through either borrowing from the Government, from capital markets or other sources as deemed necessary and appropriate. The PIDM Act empowers PIDM to borrow or raise funds to meet its obligations. PIDM may borrow from the Government with the approval of the Minister of Finance on such terms and conditions as the Minister determines.

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

22. FINANCIAL RISKS (continued)

d. Market risk

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

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

e. Credit risk

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

Besides the Government investment securities, PIDM holds investments in PDS, issued by government-related entities in accordance with its Investment Policy. As at 31 December 2021, the principal value of these PDS amounted to RM436 million or 8.5% of the overall investment portfolio.

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. This information was obtained from economic expert reports, financial analyst reports and considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case.

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

22. FINANCIAL RISKS (continued)

e. Credit risk (continued)

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

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

The tables below detail the credit quality of PIDM's financial assets as well as PIDM's maximum exposure to credit risk by credit risk rating grades for the financial year ended 31 December 2021 and 31 December 2020.

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

Sensitivity analysis

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

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

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

In respect of LGD, for the purpose of carrying out the sensitivity analysis, two scenarios are assumed which are the increase and decrease of LGD by 20% (2020: 20%) respectively.

22. FINANCIAL RISKS (continued)

e. Credit risk (continued)

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

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

31 December 2021	Note	LGD increased 20% RM'000	LGD decreased 20% RM'000
Malaysian Government Securities and Investment Issues	5	**-**	**-**
Private Debt Securities	5	**(62)**	**(52)**
Investment income and returns receivables	6	**(1)**	**-***
Other assets and receivables	6	**-**	**-**
(Decrease) in net surplus		**(63)**	**(52)**

31 December 2020	Note	LGD increased 20% RM'000	LGD decreased 20% RM'000
Malaysian Government Securities and Investment Issues	5	-	-
Private Debt Securities	5	(56)	(47)
Investment income and returns receivables	6	(1)	-*
Other assets and receivables	6	-	-
(Decrease) in net surplus		(57)	(47)

*The amount is significantly below the rounding threshold.

23. FAIR VALUES

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

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

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

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.

31 December 2021

	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3
	RM'000	RM'000	RM'000	RM'000
Financial assets - amortised cost				
Investments (Note 5)	**5,063,096**	**-**	**5,049,094**	**-**
Cash and cash equivalents (Note 4)	**94,392**	**The fair values approximates the carrying amounts due to the short-term maturities of these instruments**		
Other financial assets (Note 6a)	**49,221**	**-**	**-**	**-**
Total financial assets	**5,206,709**			
Financial liabilities - amortised cost				
Other financial liabilities (Note 11a)	**4,736**	**The fair values approximates the carrying amounts due to the short-term maturities of these instruments**		
Lease liabilities (Note 10)	**7,168**	**-**	**-**	**-**
Total financial liabilities	**11,904**			

23. FAIR VALUES (continued)

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

31 December 2020

	Carrying value	Fair value Level 1	Fair value Level 2	Fair value Level 3
	RM'000	RM'000	RM'000	RM'000
Financial assets - amortised cost				
Investments (Note 5)	4,655,630	-	4,689,813	-
Cash and cash equivalents (Note 4)	152,245	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Other financial assets (Note 6a)	51,857	-	-	-
Total financial assets	4,859,732			
Financial liabilities - amortised cost				
Other financial liabilities (Note 11a)	2,704	The fair values approximates the carrying amounts due to the short-term maturities of these instruments		
Lease liabilities (Note 10)	15,961	-	-	-
Total financial liabilities	18,665			

The fair value of investments is 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. 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 2021

24. CONTINGENT LIABILITIES

Exposure to losses in administering the Protection System

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.

At this juncture, the COVID-19 pandemic is ongoing and the Government and its agencies are continuing to address its impact. In this regard, PIDM continues to undertake risk assessment and monitoring of all member institutions. As at the date of this financial statements, there have been no specific events involving PIDM's member institutions that would require PIDM to record a specific provision in its financial statements in accordance with MFRS 137 *Provisions, Contingent Liabilities and Contingent Assets*.

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

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

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

25. IMPACT OF COVID-19 ON THE CORPORATION

Following the declaration of the COVID-19 pandemic by the World Health Organisation in March 2020, Malaysia continued to deal with the matter as it evolved. While there was some relaxation of restriction under the Movement Control Order ("MCO") at the beginning of the year 2021, due to a resurgence of infected cases, a total nationwide lockdown was imposed on 1 June 2021. Subsequently, the Government announced the 4-phased National Recovery Plan in mid-June 2021. All states in Malaysia have reached the 3rd and 4th recovery phases by the end of 2021.

Whilst the pandemic and the MCO containment measures have significantly impacted the economy and businesses in general, PIDM has continued to leverage on its digital transformation, virtual operating platforms as well as robust business continuity plans to enable it to effectively operate on the "work from home" mode of operation and allowed it to continue to serve its key stakeholders.

The current interest rate environment has led to continued low investment return for PIDM. PIDM also continues to monitor the credit risk of investments arising from the uncertainty in the operating environment, of which, PIDM does not expect the impact on its investment portfolio to be significant given the short-term nature of its investments and the conservative investment policy governing its investment strategies.

Pursuant to PIDM's regulatory relief measures provided in 2020, the reduced premium and levy rates continued for the assessment year 2021 as described in Note 13 of the financial statements. Nevertheless, despite the reduced premium and levy revenues and the lower investment income, PIDM expects to continue to accumulate annual net surpluses in building its Protection Funds.

GLOSSARY OF TERMS

Common Equity Tier 1 (CET1) Capital Ratio
The Common Equity Tier-1 Capital Ratio is computed as a percentage of a member bank's CET1 capital to its risk-weighted assets in accordance with Bank Negara Malaysia's Capital Adequacy Framework. CET1 capital is the highest quality of capital for a member bank, whereas risk-weighted assets are calculated based on the aggregation of the bank's assets weighted by factors relating to its riskiness. The minimum regulatory requirement for CET1 Capital Ratio is 4.5%.

Conventional Deposit Insurance Fund
All premiums received by PIDM from member banks providing conventional banking services and interest earned minus the cost of operating the conventional Deposit Insurance System.

Deposit Insurance Funds
Refers to the Conventional Deposit Insurance Fund and Islamic Deposit Insurance Fund.

Deposit Insurance System
A system established by PIDM to protect depositors against the loss of their insured deposits placed with member banks and to resolve member banks, in the unlikely event of a member bank failure.

Differential Levy Systems for Insurance Companies
A system where insurance companies are charged levies at differential rates, based on their risk profiles.

Differential Levy Systems for Takaful Operators
A system where takaful operators are charged levies at differential rates, based on their risk profiles.

Differential Premium Systems
A system where member banks are charged premiums at differential rates, based on their risk profiles.

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

Family Takaful Protection Fund
All levies received by PIDM from insurer members conducting family takaful business and returns made minus the costs of operating the Takaful and Insurance Benefits Protection System.

Financial safety net
Usually comprises the deposit insurance function, prudential regulation and supervision, and the lender of last resort function.

Foreign currency
Any currency other than Ringgit Malaysia, the Malaysian currency.

General Insurance Protection Fund
All levies received by PIDM from insurer members conducting general insurance business and interest earned minus the costs of operating the Takaful and Insurance Benefits Protection System.

General Takaful Protection Fund
All levies received by PIDM from insurer members conducting general takaful business and returns made minus the costs of operating the Takaful and Insurance Benefits Protection System.

Impairment
Refers to loss allowance for expected credit losses (ECL) on loan or financing assets in accordance with Malaysian Financial Reporting Standards (MFRS) 9. Prior to 1 January 2018, impairment for loan or financing assets is measured in accordance with MFRS 139.

Insurance benefits
The amounts paid under the coverage of a policy for which an insurance company is liable to any person in the usual course of the insurance business of the insurance company.

Intervention and failure resolution
Intervention refers to actions taken on a member institution by PIDM in order to address certain concerns with the member institution. These actions are usually taken prior to any failure resolution option being taken against the member institution.

Failure resolution refers to actions in dealing with a failed member institution that has been determined by Bank Negara Malaysia as non-viable.

Islamic Deposit Insurance Fund
All premiums received by PIDM from Islamic member banks or commercial member banks providing Islamic banking services and returns made minus the costs of operating the Islamic Deposit Insurance System.

Islamic Protection Funds
Refers to the Islamic Deposit Insurance Fund, General Takaful Protection Fund, and Family Takaful Protection Fund.

Life Insurance Protection Fund
All levies received by PIDM from insurer members conducting life insurance business and interest earned minus the costs of operating the Takaful and Insurance Benefits Protection System.

GLOSSARY OF TERMS

Member institutions
Members of PIDM comprising member banks and insurer members.

Insurer members
All insurance companies licensed under the Financial Services Act 2013 to conduct life or general insurance business in Malaysia, as well as takaful operators licensed under the Islamic Financial Services Act 2013 to conduct family or general takaful business in Malaysia. Membership is compulsory under the PIDM Act. A full list of insurer members is available on PIDM's website.

Member banks
All commercial banks licensed under the Financial Services Act 2013, and all Islamic banks licensed under the Islamic Financial Services Act 2013. Membership is compulsory under the PIDM Act. A full list of member banks is available on PIDM's website.

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.

Policy owner
The person who has the legal title to an insurance policy and includes the assignee, the personal representative of a deceased policy owner and the annuitant.

Protection Funds
Refers to the Conventional Deposit Insurance Fund, Islamic Deposit Insurance Fund, General Insurance Protection Fund, Life Insurance Protection Fund, General Takaful Protection Fund, and Family Takaful Protection Fund.

Reimbursement
A process undertaken by PIDM to reimburse insured deposits to eligible depositors, or protected benefits to eligible takaful beneficiaries or insured persons of a non-viable member institution in accordance with sections 56 and 57, and sections 80 and 81 of the PIDM Act.

Risk Assessment System
An internal PIDM system used to evaluate the member institutions' risk levels and controls and provides both a current (aggregate risk) and a prospective (direction of risk) view of the member institutions' risk. This is so that emerging risks can be identified and action is taken in a timely manner, before such risks materialise.

Shariah
The law of Islam, based upon the Quran, Sunnah (sayings and deeds of the Prophet Muhammad s.a.w.), Ijma' (consensus among Islamic scholars) and Qiyas (analogy).

Takaful and Insurance Benefits Protection System
A system established by PIDM to protect owners of takaful certificates and insurance policies from the loss of their eligible takaful or insurance benefits and to resolve insurer members, in the unlikely event of an insurer member failure.

Takaful benefits
The amount paid under the coverage of a takaful certificate for which a takaful operator is liable to any person in the usual course of business of the takaful operator.

Takaful certificate owner
The person who has the legal title to a takaful certificate and includes the assignee, the personal representative of a deceased certificate owner and the annuitant.

Takaful Protection Funds
Refers to General Takaful Protection Fund; and Family Takaful Protection Fund.

Target fund
A target fund, in general, is the level of accumulated funds required to adequately cover expected losses arising from intervention and failure resolution activities.

Total Insured Deposits
The sum of deposits insured by PIDM.

TECHNICAL REFERENCE

SOURCES OF FUND AND FINANCIAL LIABILITIES

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 financial 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 fulfill its mandate. The target funds are established to cover the expected net losses arising from any intervention and failure resolution activities. The objectives of developing a target fund framework are to:

(a) provide a basis in assessing the adequacy of the current levels of the Funds; and
(b) identify a systematic approach to specify the target levels for the respective Funds.

The target fund frameworks for the Deposit Insurance Funds (DIFs), the General Insurance Protection Fund (GIPF) and the Life Insurance Protection Fund (LIPF) were established in 2011, 2015 and 2016 respectively. The target fund frameworks for the Takaful Protection Funds, for both the General Takaful Protection Fund (GTPF) and the Family Takaful Protection Fund (FTPF) were completed and implemented in 2018.

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

Risks and Sensitivity of the Target Fund Modelling

The process of estimating the target fund level is subject to uncertainty as the inputs to the model are based on sets of assumptions. Hence, the model is predicated upon, and is sensitive to several key factors as follows:

Table 1: Key Sensitive Factors of the Target Fund Modelling

Operating environment
The model is based on the assumption that the environment in which member institutions operate does not deviate significantly in the foreseeable future. This includes economic conditions and the risk profile of individual member institutions, the financial industry's landscape as well as the regulatory and supervisory regime. Significant or drastic changes to these characteristics or other similar characteristics may result in a different target fund level within certain ranges than previously required. Nevertheless, the operating environment will be reviewed and validated against the model annually.
Mandate and powers
The mandate and powers are set out in the PIDM Act, which, among others, enable us to intervene and resolve a troubled member institution promptly to minimise losses to the financial system. The target fund modelling and estimation were made based on the current mandate and powers set out in the PIDM Act. Any significant changes to our mandate and powers may affect the modelling assumptions and therefore the estimation of the target fund level. However, no significant changes to its mandate and powers in the near future are expected.

The target fund is not static and is reviewed and validated annually to ensure its relevance and to reflect any changes in the assumptions or inputs used.

Key Input Variables for the Statistical Model

The statistical model determines the expected loss using the following key input variables:

Table 2: Key Input Variables and Assumptions for the Target Fund Modelling

Key Input Variables	Funds				
	DIFs	GIPF	LIPF	GTPF	FTPF
Probability of Default (PD)	We use average failure rates as reported by External Credit Assessment Institutions in their annual default study. The average failure rates are then benchmarked against the most conservative risk rating between the member institutions' supervisory risk ratings and our internal rating assessments.				
Loss Given Default (LGD)	Considers the potential recoveries on the assumption of liquidation of a member institution after taking into account exposures on relevant risks, in particular credit and market risks during the recoveries of assets.				
Exposure At Default (EAD)	We consider the two broad approaches to intervention namely, a liquidation or a going-concern resolution approach. The Total Insured Deposits (TID) (at the limit of RM250,000 per depositor per member bank) and the potential re-capitalisation of member banks are applied as proxies for the EAD.	We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposure to us in the event of any general insurer member's failure. The EAD reflects a general insurer member's claims and premium liabilities exposures as adopted in the Risk-Based Capital Framework for Insurers, together with operational risk exposures and potential costs involved in the event of liquidation of a general insurer member.	We consider the Actuarial Valuation Liability (AVL) of the life insurer members as the proxy in determining the EAD, regardless of the insurance benefits protected by PIDM. The EAD reflects the life insurer members' risk of any underestimation of the insurance liabilities and adverse claims experience, over and above the amount of reserves already provided.	We consider several components of exposures as the proxy for the EAD, to reflect the total financial exposures to PIDM in the event of any takaful member's failure. The proxy for EAD aims to minimise takaful members' risk of any underestimation of the takaful liabilities and adverse claims experience, over and above the amount of reserves already provided. The EAD also considers the operational risks exposures and potential cost involved in the event of liquidation of a takaful member.	

TECHNICAL REFERENCE

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 includes claim liabilities and contribution liabilities of the Participant Risk Fund (PRF) as adopted in the Risk-Based Capital Framework for Takaful Operators.	We consider the sum of the liabilities of the participants' family takaful fund and operator's fund expense liabilities as the proxy in determining the EAD, regardless of the insurance benefits protected by us. The exposures calculated with regard to the participants' family takaful fund comprise AVL of the PRF and accumulated value in the Participant Investment Fund (PIF) (for certificates other than investment linked).

Management of Funds upon Reaching Target Fund Level

Upon reaching the upper target fund level, we may consider a reduction in the premium or levy rates or a rebate of the premiums or levies, based on among others, an assessment of the economic environment and industry conditions. In the management of the accumulation of the Funds, it is important for us to ensure that the Differential Premium Systems framework for member banks or the Differential Levy Systems framework for insurer members, continue to incentivise member institutions to improve their risk profiles and that the new entrants will pay premiums or levies on the deposits or benefits that are protected by us.

External Funding

We may raise external funds through either borrowing from the Government, capital markets or such other sources as deemed necessary and appropriate. The PIDM Act empowers the Minister of Finance to provide loans to us to meet our obligations. Such borrowings would be based on such terms and conditions as the Minister of Finance will determine. Funding from the capital markets, namely through the issuance of debt securities by us, is also an option when the environment or market is conducive to do so.

PERBADANAN INSURANS DEPOSIT MALAYSIA

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