



SECTION

3

CORPORATE GOVERNANCE

Statement on Corporate Governance
Statement on Risk Management and Internal Control
Corporate Social Responsibility

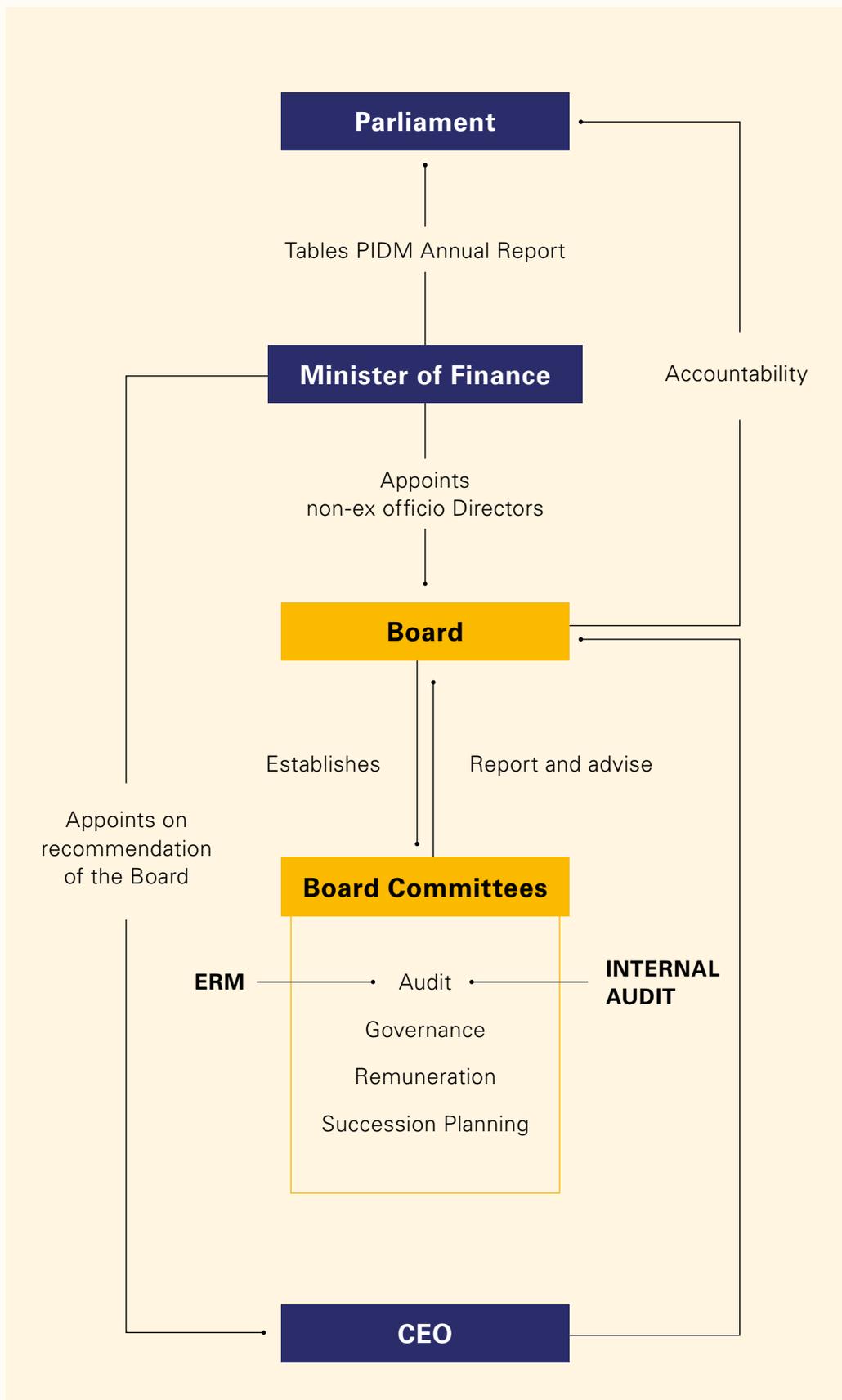
STATEMENT ON CORPORATE GOVERNANCE

OUR GOVERNANCE STRUCTURE

The Board of Directors (Board) believes that good governance underpins the integrity and effectiveness of the Corporation. The Board remains committed to maintaining a strong governance framework and adhering to best practices in governance.

Our Board Governance Policy, which adopts the principles of openness (transparency), integrity and accountability, sets out the standards that the Board should observe in carrying out its responsibilities.

This Statement on Corporate Governance is a report on the Board's performance against the standards of the Board Governance Policy and its work in 2016. Other information about key aspects of the Corporation's governance framework is also found in this Statement.



More Information on Governance

For more information on how PIDM is governed, including the Board Governance Policy and other corporate governance documents, visit our website at www.pidm.gov.my

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For the year 2016, the Board is pleased to report full compliance with each of the 15 standards set out in the Board Governance Policy. Details are found on pages 38 - 46.

Shariah Governance

PIDM also ensures compliance with Shariah requirements in relation to the Islamic Deposit Insurance System (IDIS) and the Takaful Benefits Protection System (TBPS) it administers. PIDM seeks the advice and endorsements from the Shariah Advisory Council of Bank Negara Malaysia (BNM) on Shariah issues relating to the operations of the IDIS and the TBPS. Details are found on page 54.

BOARD OF DIRECTORS

Composition, Appointment and Remuneration

The Board comprises nine non-executive Directors,¹ two of whom are ex officio Members of the Board, namely the Governor of BNM and the Secretary General of Treasury, Ministry of Finance. The Chief Executive Officer (CEO) is not a Member of the Board.

All other non-ex officio Board Members are appointed by the Minister of Finance, on the recommendation of the Board. Of these, two are from the public sector or have public sector experience and five are from the private sector. As required under the PIDM Act, the Chairman must have relevant private sector experience.

On 30 April 2016, Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz retired as the Governor of BNM. Pursuant to the PIDM Act, Muhammad bin Ibrahim, as the Governor of BNM then became an ex officio Director of the Corporation.

In 2016, the Minister of Finance, on the recommendation of the Board, appointed two new non-ex officio Directors to fill the vacancies arising from the retirement of Dato' Halipah Esa and Mr. Lim Tian Huat on 15 August 2016. The new Directors are Dato' Dr. Gan Wee Beng and Dato Dr. Nik Ramlah Mahmood.

Each Board Member is paid an annual fee and allowances for attendances at meetings and work of the Corporation. In 2016, the Minister of Finance, on recommendation of the Board, approved a new remuneration structure for the Board. The total fees and remuneration, which includes medical benefits, received by the Directors collectively in 2016 were RM712,000.

Board Responsibilities

The PIDM Act sets out the Board's overall responsibility for the conduct of the business and affairs of the Corporation. It also sets out the Directors' duties to act honestly and in the best interest of the Corporation and to use reasonable diligence in the discharge of their duties.

The roles and responsibilities of the Board are set out in more detail in the Board Governance Policy and in their position descriptions.

¹ In 2017, following the retirement of Datuk Seri Dr. Rahamat Bivi Yusoff and Mr. George Anthony David Dass, Encik Johan Mahmood Merican and Ms. Gloria Goh were appointed to the Board effective 3 January 2017 and 3 February 2017 respectively

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Attendance at Board and Board Committee Meetings

Attendance at Board and Board Committee meetings in 2016 was as follows:

	Board Committee Meetings				Succession Planning Committee
	Board	Audit Committee ²	Governance Committee ³	Remuneration Committee ⁴	
Number of meetings	5 ⁵	5	2	2	2
Attendance					
Private Sector Directors					
Tan Sri Datuk Dr. Abdul Samad Haji Alias	5		2		2
Dato' Dr. Gan Wee Beng ⁶	3			1	
Mr. George Anthony David Dass ⁷	4	5	2		
Mr. Alex Foong Soo Hah	4	5			2
Encik Mohamad Abdul Halim Ahmad	5	5		2	2
Public Sector Directors					
Datuk Seri Dr. Rahamat Bivi Yusoff ⁸	2			2	
Dato Dr. Nik Ramlah Mahmood ⁹	3		1		
Ex Officio Directors					
Muhammad bin Ibrahim ¹⁰	4				
Tan Sri Dr. Mohd Irwan Serigar Abdullah	2				
Directors who retired during the year					
Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz ¹¹					
Dato' Halipah Esa ¹²	2		1		
Mr. Lim Tian Huat ¹³	2			1	

² Encik Johan Mahmood Merican and Ms. Gloria Goh were appointed to the Audit Committee on 3 January 2017 and 3 February 2017 respectively

³ Ms. Gloria Goh was appointed to the Governance Committee on 3 February 2017

⁴ Encik Johan Mahmood Merican was appointed to the Remuneration Committee on 3 January 2017

⁵ Includes a Strategic Planning session of the Board

⁶ Dato' Dr. Gan Wee Beng was appointed to the Board effective 16 August 2016

⁷ Mr. George Anthony David Dass retired from the Board on 2 February 2017

⁸ Datuk Seri Dr. Rahamat Bivi Yusoff retired from the Board on 2 January 2017

⁹ Dato Dr. Nik Ramlah Mahmood was appointed to the Board effective 16 August 2016

¹⁰ Muhammad bin Ibrahim was appointed to the Board effective 1 May 2016

¹¹ Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz retired from the Board on 30 April 2016

¹² Dato' Halipah Esa retired from the Board on 15 August 2016

¹³ Mr. Lim Tian Huat retired from the Board on 15 August 2016

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THE WORK OF THE BOARD IN 2016

In 2016, the Board carried out its strategic and oversight role as usual, and details of how it adhered to the standards and expectations are set out under the 'Compliance with the Board Governance Policy' on pages 38 - 46.

In 2016, other than the usual oversight and monitoring of the affairs of the Corporation, the Board was also occupied with the following matters:

(a) Orientation of new Directors

There were changes in the composition of the Board in view of the change in the Governor of BNM, and the retirements of one Director with public sector experience¹⁴ as well as one private sector Director. Time was spent to ensure that new Directors were quickly orientated and brought on board.

(b) Planning for Board succession

Taking a long-term view for Board effectiveness, the Board also adopted the principle of 'evergreening' the Board.¹⁵ This means that, over time, at least one Board Member should retire annually. This was with the view to achieving regular rejuvenation of the Board, while retaining institutional memory. Thus in 2016 the Board also spent time planning, for the future, how to stagger terms of appointments to give full effect to the 'evergreening' principle.

(c) Planning for leadership changes

The Board had, in 2009, established a CEO succession plan, way in advance of the end of the term of the incumbent. As reported in the 2013 Annual Report, the Board had established a Succession Planning Committee, which has been actively ensuring the progress of this plan, so as to ensure as smooth a transition in leadership as possible. Recommendations will be made to the Minister of Finance in 2017. The Board, working with its various Committees, also monitored the succession plans for key senior management, who are the bench strength for the future success of the Corporation.

All of these efforts demonstrate the Board's commitment to ensure a clear path for the continued effectiveness of the Board, as well as to ensure critical roles in leadership are adequately addressed. This was considered important so that the rest of the Corporation can remain focussed on its mandate, vision and mission even with changes at the helm.

As for its effectiveness, in 2016 the Board conducted an evaluation of its performance, resulting in a highly satisfactory rating. The Board also recognises that trust in the credibility of the evaluation process is also a key factor for its success. As noted in our earlier Annual Reports, the Board has adopted the practice of appointing an external evaluator to assess its performance every few years. This is to obtain an objective assessment from a third party of its effectiveness. This practice will continue going forward. Taking into account the ongoing changes in the composition of the Board, the independent third party evaluation is scheduled for next year.

¹⁴ Section 11(2) of the PIDM Act

¹⁵ The 'evergreen' Board concept is where one Director would retire annually based on a rotation system and a new Director appointed to his or her stead to ensure the retention of institutional memory at the Board level while regularly rejuvenating it. This concept was propounded by Dr. Ram Charan at the 2nd FIDE FORUM Distinguished Board Leadership Series: Board's Strategic Leadership: Innovation & Growth in Uncertain Times session on 21 May 2015

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Compliance with the Board Governance Policy

The following describes how the Board has adhered to each of the standards in the Board Governance Policy.

Standard 1: Independence of the Board

Board Members will exercise independent judgement.

As required under the PIDM Act, all Directors are non-executive and must use their independent judgement to act in the best interest of the Corporation. The CEO is not a Member of the Board.

Standard 2: Board effectiveness and governance responsibilities

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

To achieve this, the Board will:

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

Understanding of objects, powers and governance responsibilities

As part of the Board-approved orientation programme, new Board Members are provided with written material and briefings necessary to obtain an understanding of the Corporation's objects, powers and governance responsibilities. Regular Board education sessions are also held to reinforce the understanding in these areas.

Approaches and evaluation

The Governance Committee supports the Board by providing regular benchmarking of governance approaches and recommendations for improvement in specific areas for Board effectiveness. As described earlier, the Board is committed to an annual evaluation of the effectiveness of the Board and Board Committees. Appropriate action plans for continuous improvement are also developed. The Board is also committed to obtaining external evaluation every few years to ensure the objectivity of assessments.

Orientation and ongoing education to fulfil responsibilities

The key objective of the Board Orientation Programme is to ensure that new Directors can be quickly brought up to speed on the work of the Corporation, and thus contribute to the work of the Board. In 2016, orientation for new Directors was carried out. In view of further changes to the composition of the Board in 2017, the Board also reviewed the Board Orientation Programme to ensure it remained current and relevant.

The Board Education Programme for 2016 included sessions on the topic of Recovery and Resolution Planning. To bring the Board up-to-date with developments in the operating environment of the Corporation, an external expert provided a briefing on Malaysian economic conditions prior to the Board's Strategic Planning session in September. Several Directors attended the 15th Annual Conference of the International Association of Deposit Insurers (IADI), the International Forum of Insurance Guarantee Schemes (IFIGS) Asia Meeting and the Global Islamic Finance Forum. The Directors also availed themselves for sessions held in conjunction with the Financial Institutions Directors' Education (FIDE) Programme as well as FIDE FORUM events.

Management also provides the Board with updates on developments relevant to the Corporation, including up-to-date material and publications on relevant topics which are accessible online by Board Members.

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Standard 3: Roles and responsibilities of Committees

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

The responsibilities, authority and accountability requirements of the Board Committees are set out in their respective charters. Reports on their work are made to the Board at each meeting and each Committee regularly assesses whether it has fulfilled its key responsibilities. In 2016, the Board reviewed the Charters of the Board Committees to ensure that they remain current and relevant. The summary reports of the work of the Committees are found on pages 47 - 51.

Standard 4: Board composition and succession

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

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

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

Board composition and succession plan

The PIDM Act sets out prohibitions on who can be a member of the Board, with a view to ensuring the independence of the Board from external influence in carrying out its responsibilities and mandate.¹⁶ The Act also specifies certain requirements to ensure there are both public and private sector perspectives on the Board.

The Corporation's Board succession plan, developed in 2007, includes a Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors, the Board profiles (collective and individual) and a periodic skills gap analysis. This plan allows the Board to assess whether the skills and expertise available on the Board meet the current and future needs of the Corporation. This plan was communicated to and noted by the Minister of Finance as part of the process for the Board's recommendations on the appointment of Directors.

In 2016, the Policy on Tenure, Retirement and Succession for Non-Ex Officio Directors was reviewed. The Board approved that, in line with the adoption of the 'evergreening' principle (described on page 37), the Policy be amended so that, generally, the maximum tenure for non-ex officio Directors would be two consecutive terms of three years each.

Board profiles, skills gap analysis

The collective and individual Board profiles are reviewed on a regular basis taking into consideration the current needs, the stage of development and aspirations of the Corporation. These form the basis for determining the skills and experience required when filling upcoming Board vacancies. Any gaps identified in the current Board would also be considered in developing the list of suitable candidates.

The Board regularly carries out a skills gap analysis, comparing the skills, knowledge and experience that are available on the Board against the desired profiles. This is to ascertain if there are any gaps in skills, knowledge and experience required on the Board.

As part of its Board succession plan, the Board also maintains a list of candidates who could fit the required Board profile. The list is updated from time to time for the purposes of recommending the appointment of Directors when the need arises.

¹⁶ Section 14 of the PIDM Act

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In 2016, there was an orderly succession on the retirements of Dato' Halipah Esa and Mr. Lim Tian Huat. Following recommendations by the Board to the Minister of Finance, Dato' Dr. Gan Wee Beng and Dato Dr. Nik Ramlah Mahmood were appointed to the Board on 16 August 2016. Muhammad bin Ibrahim succeeded Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz as the Governor of BNM and became a Board Member of PIDM on 1 May 2016.

Standard 5: Roles and responsibilities of the CEO

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

In this connection, the Board will:

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

The responsibilities and accountability of the Chairman and the CEO are clearly distinguished and documented in the position descriptions for both roles. The Board is responsible for recommending the appointment of the CEO to the Minister of Finance.

Under the PIDM Act, the CEO is accountable to the Board for the exercise of his powers and the performance of his duties. The CEO's position description also describes that accountability relationship. In 2016, the Board-approved position description for the CEO was reviewed and found to be current and relevant.

The Key Performance Indicators (KPIs) for the CEO are determined annually based on the Board-approved corporate objectives. The CEO's performance against those KPIs is tracked and considered by the Board at the end of each year. A report on the CEO's performance was presented to the Board at the end of 2016.

Standard 6: Appointment of senior corporate officers

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

Senior corporate officers are appointed by the Board and their terms of service and compensation are determined by the Board. Pursuant to the Corporate By-Law, the holders of the following offices must be appointed by the Board:

- (a) the Executive General Manager and General Counsel;
- (b) the Executive General Manager;
- (c) the Chief Financial Officer (CFO);
- (d) the Chief Risk Officer (CRO);
- (e) the Chief Internal Auditor (CIA); and
- (f) the Corporate Secretary.

The Board has appointed these senior corporate officers.

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Standard 7: Compensation of officers

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

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

The Remuneration Committee reviews and makes recommendations to the Board on matters pertaining to employee compensation. The Board-approved employee compensation and benefits policy and performance management policy are in line with PIDM's business model, which requires a specialised team of people with the ability to achieve PIDM's mandate, assisted by key strategic partners and suppliers when needed.

The Board annually benchmarks the compensation of PIDM's officers and employees against the general market compensation levels to ensure competitiveness and the ability to retain talent for the purposes of the Corporation's needs.

In 2016, the Board reviewed the remuneration structure for the Directors, as set out under the 'Composition, Appointment and Remuneration' on page 35.

Standard 8: Succession planning

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

The Board, with the support of the Succession Planning Committee, continues to monitor the implementation of the CEO succession plan. In 2014, an executive search firm was appointed to provide advisory and consulting services to the Succession Planning Committee and the Board for the CEO succession plan. Work is progressing as scheduled as set out under 'The Work of the Board in 2016' on page 37.

The Governance Committee continues to assist the Board with the oversight of the succession plans for key senior management.

Standard 9: Standards of behaviour and ethics

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

The Corporation has a set of codes and policies on ethical behaviour and conflict of interest for its employees and Board Members. Processes and controls are also in place to ensure compliance with such codes and policies. Details of the Corporation's policies, strategies, processes and controls as set out under the 'Ethical and Legal Compliance' on page 51.

Among others, the Corporate Secretary has reported on compliance with applicable laws, standards and ethics to the Board, through the Remuneration Committee and the Audit Committee. The Corporation has a whistleblowing policy, and consequences for breaches are clearly set out. The Corporation also carries out a regular Employee Voice Survey to gauge employee satisfaction as well as to obtain employees' perspectives on the Corporation's commitment to ethical behaviour.

The Board has a high degree of assurance that a compliance system is in place and that the Corporation and its employees are in compliance with laws and key policies.

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Standard 10: Significant risks to the Corporation

The Board will:

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

Understanding of principal risks and risk management systems

The Board obtains an understanding of the nature and magnitude of significant risks to the Corporation by receiving and reviewing regular reports on the soundness of member institutions as well as risks to the Corporation's business and affairs.

The Board-approved ERM Policy states and affirms PIDM's commitment to sound ERM practices. These practices ensures that any risks that may impede the achievement of PIDM's mandate and objectives are identified and dealt with. In line with its commitment to the ERM Policy and this standard, the Board:

- (a) monitors compliance with the ERM programme to ensure consistent application of risk management practices in identifying, assessing, evaluating, monitoring and reporting risks;
- (b) monitors Management's undertaking of a complete cycle of the ERM process and receives regular risk reports that identify controls and action plans to mitigate the risks identified;
- (c) considers and agrees to the significant risk profiles; and
- (d) receives a detailed report on its Board Risk Policies.

Details are found in the 'Statement on Risk Management and Internal Control' on page 55.

Reasonable assurance that risks affecting the Corporation are effectively managed

The following enables the Board to have reasonable assurance that systems are being adhered to and the risks affecting the Corporation continue to be effectively managed:

- (a) For independence from Management, the CRO functionally reports to the Board through the Audit Committee. The CRO also attends all scheduled Board meetings.
 - (b) Annually, the CRO provides a formal representation letter to the Audit Committee and the Board.
 - (c) The Board also receives and reviews regular reports from the Audit and Consulting Services (ACS) Division on compliance with internal controls and certain key areas of audit. The CIA also validates the ERM reports, through audits on compliance with internal controls as well as the overall review of the components of the Internal Control Framework, which includes the Corporation's risk management practices. For details, refer to the 'Statement on Risk Management and Internal Control' on page 55.
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Standard 11: Control environment and internal audit

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

In this connection, the Board will:

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

The Board accepts overall responsibility for the Corporation's systems of internal control and risk management and obtains assurance from Management, the CRO and the CIA respectively. For details, refer to the 'Statement on Risk Management and Internal Control' on page 55.

Allocation of resources for, and establishment of an internal audit group

The Board has established the ACS Division, an internal audit function, approved its charter, and provided adequate resources to ensure that it can fulfil its roles and responsibilities. The audit function's charter is reviewed periodically to ensure that the mission, scope of work, accountability and responsibility, authority and standards of conduct of the audit function remain relevant.

Annual assurance plan

The Board has established a process to approve a rolling three-year assurance plan each year. In 2016, the Board approved the assurance plan for 2017 - 2019. Performance in accordance with the plan is reported and reviewed on an annual basis.

Monitoring of, and compliance with internal controls

The Corporation has established an Internal Control Framework, which is reviewed on a periodic basis.

In 2016, the Board considered the ACS Division's report on its assessment of Management's compliance with internal controls based on agreed criteria. The Internal Control Framework and system provides the Board with reasonable assurance regarding the monitoring of, and compliance with internal controls, the integrity of the system, and that appropriate action is being taken to address any significant weaknesses or breakdowns identified. The CIA also provides reasonable assurance on the compliance with internal controls and the integrity of the internal control system through a formal letter of representation to the Audit Committee and the Board.

Standard 12: In control

The Board will obtain, on a regular basis, reasonable assurance that the Corporation is 'in control'.

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

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

- (a) Board papers that are presented to the Board are comprehensive and set out the purpose of the report, the issues to be considered, the risk implications of the proposals together with quality assessment, analyses and sound recommendations. Board Members have access to senior management and if needed, the Board can question Management and conduct detailed enquiry about any matter.
- (b) At the end of each year, the Board evaluates the support from Management in terms of the information provided to the Board, and the Board gives Management detailed feedback and an overall rating.
- (c) In addition, the Board can also question the CRO and the CIA, who report directly to the Board through the Audit Committee, on the key risks or internal control matters and their views on the reliability of the information provided. The CRO and the CIA attend all scheduled Board meetings.
- (d) In 2016, the Board was satisfied with its ability to obtain reliable, relevant and timely information from Management and with the quality of information provided.

The Board is also satisfied with the overall management approach, by which senior management directs and controls the organisation. There are systems and processes to ensure that critical information reaching senior management is sufficiently complete, accurate and timely to enable appropriate Management decision making. In particular:

- (a) In line with the criteria set out in the Internal Control Framework, the Board has, in 2016, obtained reasonable assurance that the Corporation's business and affairs are being managed effectively in accordance with the strategic and risk management processes in place within an appropriate control environment.
- (b) Senior management monitors and directs using a combination of reporting and management control structures. In 2016, the development of the automated financial management information system was also completed to provide Management with easy and timely access to financial information.
- (c) Regular meetings are also held to ensure that strategies, directions and instructions from Management are carried out systematically and effectively.
- (d) The Board receives comprehensive representation letters from the CEO, CFO and CRO that address the accuracy and reliability of relevant information provided to the Board. Each head of division in turn provides representation letters to the CRO as well as the CEO with respect to their responsibilities to identify and manage risks, as well as to the performance of their functions. In addition, the CIA provides a representation letter to the Audit Committee and the Board on the integrity of and compliance with the internal control systems that govern the relevant information provided to the Board by Management and the ERM function.

Further, the Board has approved the Policy Against External Interference, which is a policy that helps guide employees to address any potential external interference by escalating the matter for the attention of the Board.

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Standard 13: Strategic management process

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

To fulfil this responsibility, the Board will:

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

Assessment of the Corporation's objects

The Board assesses the Corporation's objects to ensure their continued relevance on a periodic basis.

Strategic planning process, approval of objectives and monitoring

The Corporation's strategic management process incorporates an external scan of our operating environment and the identification and assessment of the significant risks that the Corporation will need to manage so that they do not affect the achievement of the Corporation's objectives. The strategic planning process has been adopted by PIDM since its inception.

Each year, the Board considers the strategic plan of the Corporation. As part of the process, the Board of PIDM is involved at an early stage. In 2016, Management sought the Board's views on the Corporation's strategic direction in September. This was to allow the Board to debate on Management's recommendations, given the operating environment, risks and other factors. Once this direction has been set, Management will develop the detailed Corporate Plan setting out the courses of actions with timelines, KPIs, including financial and resource plans, which will again be tabled to the Board for final approval. In 2016, the Corporate Plan was approved by the Board in December. Reports on the progress of the Corporation's KPIs and initiatives against the Corporate Plan are presented to the Board on a regular basis. A summary of the Corporate Plan is also published and distributed to key stakeholders as part of PIDM's transparency and accountability regime.

Reasonable assurance that the Corporation has an effective strategic management process

In line with the criteria set out in the Internal Control Framework, the Board has, in 2016, obtained reasonable assurance that the Corporation's business and affairs are being managed effectively in accordance with the strategic management processes in place.

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Standard 14: Effective communication

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

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

- (a) The Board oversees the implementation of the Corporation's five-year Integrated Communications Plan, which is an extensive engagement plan with various stakeholders, in particular, members of the public.
- (b) Each year, PIDM's Corporate Plan and Annual Report are distributed to its key stakeholders.
- (c) The Corporate Outreach Programme, an annual event organised by the Corporation, was held in Negeri Sembilan from 13 to 14 May.

PIDM works closely with BNM in line with the Strategic Alliance Agreement, which is reviewed from time to time. PIDM also holds sessions with industry associations and member institutions to communicate its work and upcoming changes that affect the industry.

As for engagement with international counterparts, in 2016, the Corporation signed Memoranda of Understanding (MOUs) with the Federal Deposit Insurance Corporation (FDIC) of the United States and the Korea Deposit Insurance Corporation (KDIC). The MOUs facilitate the sharing and exchange of information, as well as mutual collaboration between the Corporation and the FDIC and KDIC respectively.

Standard 15: Review of Board Governance Policy

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

Annually, the Board, through the Governance Committee, benchmarks its governance arrangements against corporate governance best practices. The Board also reviews the Board Governance Policy to ensure that it remains responsive to the circumstances and needs of the Corporation.

Conclusion

In conclusion, the Board is in compliance with the Board Governance Policy, which is benchmarked against best practices.

A more detailed report on the work of the Board Committees that support the Board follows.

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BOARD COMMITTEES

Four Board Committees supported the Board throughout 2016. These are the Audit Committee (AC), the Governance Committee (GC), the Remuneration Committee (RC) and the Succession Planning Committee (SPC).

In 2016, all Board Committees fulfilled their responsibilities against their respective Charters.

Audit Committee

Members and meeting attendances

The AC Members and their attendances at meetings in 2016 are set out on page 36. The AC Charter requires that meetings be held at least four times a year. In 2016, the AC held five meetings, one of which was convened to specifically deliberate on risk-related matters.

AC Charter and principal responsibilities

The AC Charter is set out in the Appendix on page 246. A review of the Charter was conducted in 2016 and no significant changes were considered necessary.

The principal responsibilities of the AC include assisting the Board with oversight of:

- the integrity of the Corporation's financial statements, the financial reporting process, the systems of internal accounting and financial controls;
- the performance of the Corporation's internal audit function;
- the identification and management of the Corporation's significant risks; and
- the Corporation's compliance with ethics-related policies, and legal and regulatory requirements.

Summary of activities of the AC in 2016

The following is a summary report of the AC's key areas of work in 2016:

Internal audit

In 2016, the AC considered 11 internal audit reports issued by the ACS Division.

These included the annual review of the Corporation's internal control compliance and audit reports on the Corporation's financial statements and disclosures for the financial year ended 31 December 2015, the Disaster Recovery Centre (DRC) project management, the organisation of the IADI 2015 Annual Conference which the Corporation had hosted, the monitoring of member institutions' compliance with the Corporation's regulations and guidelines, the Corporation's processes relating to employee recruitment and selection, compensation and benefits, as well as the management of the overall office safety and security, to name a few.

Recommendations emanating from these audits were reported to the AC and Management's responses and action plans were considered.

The AC reviewed the ACS Division's Plan for 2017 - 2019 and considered the budget and resource needs of the Division. The AC monitored the internal audit function's performance against the ACS plan on a semi-annual basis and ensured its independence. The AC also reviewed the progress and status of action plans by Management in addressing the findings from previous internal audits, which were either completed or on track for completion.

STATEMENT ON CORPORATE GOVERNANCE

Management audit

The AC also reviewed and recommended to the Board for approval, the proposed framework and methodology of the management audit that will be conducted on the Corporation by the ACS Division. The main objective of the management audit is to assess the Corporation's effectiveness in fulfilling its mandate, vision and mission through the review of the implementation of strategies and approaches, application of methodologies and processes as well as the utilisation of resources in administering the operations of the Corporation. The results of the management audit will be used to realign or enhance the Corporation's operations to achieve its mandate more effectively.

Direct reports

The CIA and the CRO report directly to the Board through the AC. In 2016, the AC continued to review reports on the performance of their respective functions. The AC, in consultation with the CEO, assessed the CIA's and the CRO's performances for 2016.

Financial reporting

The AC assisted the Board in discharging its oversight role of reliable, accurate and clear financial reporting by reviewing PIDM's financial statements. It also considered the information provided in the Annual Report and Corporate Plan. Under the PIDM Act, PIDM's Annual Report (including its financial statements and the report from the external auditors, namely the Auditor General) must be provided to the Minister of Finance, three months after year end (31 December).

Financial reporting processes, accounting policies and internal control structure

The AC:

- (a) reviewed and advised the Board with respect to the annual financial statements, Management's Discussion and Analysis, the external audit report and the review of the integrity of the financial reporting process and internal control reports as well as Management representations; and
- (b) obtained a written certification from the CIA addressing the Corporation's system of internal controls.

Strategic and financial management oversight

In 2016, the AC fulfilled its responsibilities with regard to financial management oversight, including management of annual budgets and investments. The AC received regular reports on progress against the Corporate Plan 2016 - 2018, and considered and recommended the Corporate Plan 2017 - 2019, which included the operating budget, capital budget and financial projections, for Board approval.

Risk management

In relation to risk management, the AC provided advice and support to the Board in respect of the matters reported against Standards 10 to 12 of the Board Governance Policy on pages 42 - 44, relating to risks and internal control. In carrying out its duties, the AC has unrestricted and direct access to the CRO, who regularly reports on the activities of the ERM Division and the significant risks.

Ethical and legal compliance

The AC reviewed the report on compliance with applicable laws and regulations as well as key codes and policies. The AC also noted the report on the Corporation's compliance programme activities in 2016.

Matters of concern

The AC has unfettered access to the external auditors and Management, as well as to external independent counsel pursuant to the Policy and Procedures for the Engagement of Separate Independent Counsel or Other Advisors. In 2016, the AC held two *in camera* sessions with different members of Management, and with the external auditors as part of good governance practices. These sessions also provided opportunities to discuss areas of concern, if any. The AC also held an *in camera* session without Management.

STATEMENT ON CORPORATE GOVERNANCE

Governance Committee

Members and meeting attendances

The GC Members and their attendances at meetings in 2016 are set out on page 36. The GC Charter requires that meetings be held at least twice a year. In 2016, the GC held two meetings.

GC Charter and principal responsibilities

The GC Charter is set out in the Appendix on page 240. A review of the Charter was conducted in 2016 and no significant changes were made.

The principal responsibilities of the GC include:

- to ensure that appropriate structures and processes are in place to provide effective oversight of, and direction for PIDM's activities;
- to ensure compliance with governance policies and high governance standards; and
- to review the appropriate balance of skills, experience and knowledge of the Board and identify skills gaps, as well as recommend future appointments for non-ex officio positions on the Board.

Summary of activities of the GC in 2016

The following is a summary report of the GC's key areas of work in 2016:

Board education

The GC developed the annual Board Education Programme for the Directors' continuing training and education.

Governance best practices

In 2016, the GC reviewed key governance policies in line with its responsibilities under its Charter, to ensure they remained current and relevant. The GC also reviewed developments in corporate governance best practices in Malaysia and other jurisdictions.

Board remuneration

In 2016, the GC reviewed the Board and Board Committee Members' allowances and fees and recommended the same for Board approval. The new allowance and fee structure was subsequently approved by the Minister of Finance.

Board effectiveness

The GC reviewed the results of the assessment on the effectiveness of the Board, the Board Committees and Management's support to the Board for the year 2016 and noted that a highly satisfactory rating was obtained for all the areas evaluated.

Board objectives and schedule planner

The GC considered the Board objectives and the proposed schedule for Board and Board Committee meetings for 2017.

Board orientation

The GC reviewed the Corporation's formal orientation programme for new Directors and noted that it remained generally in line with best governance practices.

Board succession

The GC considered and made recommendations to the Board, in respect of potential Director candidates who possess the skills, experience, knowledge and characteristics needed on the Board. The Board subsequently approved that these potential Director candidates be proposed to the Minister of Finance to fill the vacancies that will arise in 2017.

STATEMENT ON CORPORATE GOVERNANCE

Remuneration Committee

Members and meeting attendances

The RC Members and their attendances at meetings in 2016 are set out on page 36. The RC Charter requires that meetings be held at least twice a year. In 2016, the RC held two meetings.

RC Charter and principal responsibilities

The RC Charter is set out in the Appendix on page 243. In 2016, the RC Charter was reviewed and no change was considered necessary.

The principal responsibilities of the RC include, reviewing and making recommendations to the Board on a range of human capital issues, such as employee compensation, compliance with human capital-related legal requirements, personnel policies, training and complaints.

Summary of activities of the RC in 2016

The following is a summary report of the RC's key areas of work in 2016:

Human Capital strategy

The RC continued to monitor the implementation of the Human Capital (HC) strategies for the Corporation.

Compliance

The RC noted the report on compliance with key human capital-related policies and legal requirements.

Compensation

The RC reviewed and recommended to the Board for approval, the employees' bonus awards for 2016 and salary increments for 2017.

Employee-related policies

The RC considered and recommended to the Board, certain amendments to the Performance Management Policy and the Compensation and Benefits Policy following a review of the same.

Scholarship programme

RC reviewed and recommended to the Board for approval, the revisions to the Board-approved scholarship programme for undergraduate studies of Malaysians in need of financial assistance. The revisions include an expansion of the approved courses, the list of universities and colleges and the consideration to cater for international student exchange programmes.

HC activities

The RC also reviewed reports on human capital-related matters.

STATEMENT ON CORPORATE GOVERNANCE

Succession Planning Committee

Members and meeting attendances

The SPC Members and their attendances at meetings in 2016 are set out on page 36. The SPC Charter requires that meetings be held at least twice a year. In 2016, the SPC held two meetings.

SPC Charter and principal responsibilities

The SPC Charter is set out in the Appendix on page 253. A review of the SPC Charter was not conducted in 2016 as the SPC would be obsolete once a successor CEO is appointed in 2017.

The principal responsibilities of the SPC include advising and making recommendations to the Board on CEO succession planning, and in particular, reviewing the long-term plan for CEO succession and the contingency plan for any unplanned vacancy.

Summary of activities of the SPC in 2016

In 2016, the SPC reviewed the CEO profile and the methodology to assess the candidates for CEO succession. At the same time, the SPC also continued to monitor the development plans of the Executive General Managers.

Committees' Progress

All the Committees adopt the practice of reviewing their progress against their roles and responsibilities in their Charters over the entire year. In addition, Board Members who sit on a Committee are required to assess the effectiveness of the Committee. Responses are then discussed at the Board.

OTHER INFORMATION

Ethical and Legal Compliance

The Board has established standards of behaviour and ethics expected of Directors and employees to maintain an organisational climate that fosters ethical behaviour. These standards reflect and reinforce the Corporation's commitment to its corporate values.

Codes and Policies on Ethical Behaviour

- Code of Business Conduct and Ethics
- Conflict of Interest Code
- Policy for Disclosure of Information Concerning Improper Conduct (Whistleblowing Policy)
- Policy and Procedures on Public Disclosure of Information
- Policy on Workplace Harassment
- Policy Against External Interference

STATEMENT ON CORPORATE GOVERNANCE

The Corporation has also established controls and processes to ensure compliance with such standards as well as laws and contractual obligations applicable to the Corporation. This includes a Board-approved compliance programme. A Corporate Compliance Committee was established in 2009. These controls and processes include:



No incidents of non-compliance were noted in 2016.

Stakeholder Communications

In line with PIDM's mandate, the Corporation's Communications Policy seeks to promote public confidence in the stability of the financial system through:

- (a) the creation of awareness and understanding of the Corporation's mandate by disseminating accurate, timely and relevant information in response to stakeholders' and the public's needs, to assist them in making informed decisions about their savings and investments; and
- (b) the promotion of transparency and accountability by providing information and being accessible to the public and stakeholders to gain their trust and support.

STATEMENT ON CORPORATE GOVERNANCE

As a matter of transparency, we continue to provide quality reporting in our Annual Reports. PIDM's Annual Reports have been recognised and have received the National Annual Corporate Report Awards (NACRA) for excellence in reporting numerous times. Our key policies, practices and procedures on areas such as governance, ethics and procurement are also made available on our website, which is available in the four main languages.

Our communications strategy also involves the dissemination of PIDM-related materials to members of the public including our Corporate Plans, Annual Reports and information brochures in the four main languages. More information about our communications initiatives is found in Section 8.

ACCOUNTABILITY AND AUDIT

Financial Reporting

We adopt the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Entities Other than Private Entities. We administer six distinct and separate Funds under the DIS and TIPS as stated in the Corporate Profile in Section 1. These Funds are reported and accounted for separately.

The Directors' Report on the financial statements for the financial year ended 31 December 2016 and the accompanying Statement by Directors are found on page 125.

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

Risk Management and Internal Control

The Statement on Risk Management and Internal Control is found on page 55.

Audit

Pursuant to the PIDM Act, the accounts of PIDM are audited by the Auditor General in accordance with the Audit Act 1957. The Corporation maintains a collaborative working relationship with the external auditors from the National Audit Department (NAD), whose representatives have an open invitation to attend all AC meetings. NAD representatives receive, as a matter of course, all AC reports and documentation prior to the AC meetings. NAD representatives attended four out of five AC meetings held in 2016. Annual fees paid are found on page 175.

STATEMENT ON CORPORATE GOVERNANCE

ISLAMIC DEPOSIT INSURANCE SYSTEM AND TAKAFUL BENEFITS PROTECTION SYSTEM

The Corporation seeks advice and endorsements from the Shariah Advisory Council of BNM on Shariah issues relating to the operations of the IDIS and TBPS. The arrangements and salient features of the IDIS and TBPS have been endorsed by the Council. Premiums and levies collected from Islamic and takaful member institutions are managed separately and invested according to Shariah principles.

The premiums, levies and income from the investments are pooled in the Islamic Deposit Insurance Fund or the Takaful Benefits Protection Funds respectively. These Funds, together with the Conventional Deposit Insurance Fund and Insurance Benefits Protection Funds, are used to finance the Corporation's activities. Only Shariah-permissible expenses will be charged to the Islamic Deposit Insurance Fund or the Takaful Benefits Protection Funds.

All surplus amounts must be used to meet its obligations (if any) in respect of Islamic insured deposits or eligible takaful benefits. Should the Corporation need to raise any funding from the Government and the market, funding arrangements will be structured according to Shariah principles.

MANAGEMENT

The CEO is responsible for the day-to-day management of PIDM. His authority is derived from the PIDM Act and the Board-approved position description. PIDM's organisation structure is found in Section 1.

As part of the annual financial audit, Management provides comprehensive representation letters to the Board and the NAD. The CEO and the CFO also provide an enhanced statutory declaration on the Corporation's financial statements and quality of internal controls. The statutory declaration can be found on page 126.

Accessibility of Records and Information

Directors have access to Management as well as to the Corporation's records and information. They receive regular detailed reports on the financial and operational aspects of the Corporation's business and affairs and may, at any time, request further information on such reports. They also receive regular updates on information affecting PIDM's operating environment, and on key developments relating to the Corporation's current initiatives.

The following key committees assist the CEO in the management of PIDM's operations:

- (a) Executive Management Committee;
- (b) Senior Management Committee;
- (c) ERM Committee supported by the Strategic Planning and ERM (PERM) Working Committee;
- (d) Asset and Liability Management Committee;
- (e) Information Technology Steering Committee;
- (f) Safety and Health Committee;
- (g) Corporate Compliance Committee; and
- (h) Corporate Social Responsibility Committee.

These committees derive their authority from the CEO. The Board's expectations of Management are explicitly set out in the Board Governance Policy.