

2012

ANNUAL FINANCIAL STATEMENTS

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**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK NEGARA MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2012**

I have audited the financial statements of Bank Negara Malaysia for the year ended 31 December 2012. These financial statements are the responsibility of the management. My responsibility is to audit and to express an opinion on these financial statements.

The audit has been conducted in accordance with the Audit Act 1957 and in conformity with approved standards on auditing. Those standards require the audit be planned and performed to obtain reasonable assurance that the financial statements are free of material misstatement or omission. The audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessment of the accounting principles used, significant estimates made by the management as well as evaluating the overall presentation of the financial statements. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements give a true and fair view of the financial position of Bank Negara Malaysia as at 31 December 2012 and of the results of its operations for the year then ended in accordance with approved accounting standards.


(TAN SRI DATO' SETIA HAJI AMBRIN BIN BUANG)
AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
12 MARCH 2013



STATEMENT BY CHAIRMAN AND ONE OF THE DIRECTORS

We, Zeti Akhtar Aziz and Oh Siew Nam, being the Chairman and one of the Directors of Bank Negara Malaysia, do hereby state that in the opinion of the Board, the financial statements are drawn up so as to give a true and fair view of the state of affairs of Bank Negara Malaysia as at 31 December 2012 and of the results of operations for the year ended on that date.

On behalf of the Board,

On behalf of the Board,



ZETI AKHTAR AZIZ
CHAIRMAN

7 MARCH 2013
KUALA LUMPUR



OH SIEW NAM
DIRECTOR

7 MARCH 2013
KUALA LUMPUR

DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF BANK NEGARA MALAYSIA

I, Eugene Hon Kah Weng, being the officer primarily responsible for the financial management of Bank Negara Malaysia, do solemnly and sincerely declare that the financial statements, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared)
by the abovenamed at Kuala Lumpur)
this 7 March 2013.)



Before me,



106, BANGUNAN LOKE YEW
1, JALAN MAHKAMAH PERSEKUTUAN
50050 KUALA LUMPUR

Bank Negara Malaysia

Statement of Financial Position as at 31 December 2012

		2012 RM	2011 RM
ASSETS			
Gold and Foreign Exchange	3	418,534,966,977	414,432,520,031
International Monetary Fund Reserve Position		2,652,752,648	2,672,204,523
Holdings of Special Drawing Rights		6,043,522,017	6,252,997,720
Malaysian Government Papers	4	2,182,809,238	2,017,022,067
Deposits with Financial Institutions	5	28,235,130,500	28,797,250,000
Loans and Advances	6	9,550,114,161	10,671,155,047
Other Assets	7	9,131,723,239	8,126,397,188
Total Assets		476,331,018,780	472,969,546,576
LIABILITIES AND CAPITAL			
Currency in Circulation		67,124,370,608	61,874,099,518
Deposits from: Financial Institutions		180,812,181,557	214,905,708,306
Federal Government		14,708,467,629	10,817,830,921
Others	8	4,083,301,315	13,066,091,926
Bank Negara Papers		153,129,553,960	107,983,490,852
Allocation of Special Drawing Rights	9	6,326,742,220	6,548,320,169
Other Liabilities	10	21,711,608,582	25,844,324,400
Total Liabilities		447,896,225,871	441,039,866,092
Paid-up Capital	11	100,000,000	100,000,000
General Reserve Fund	12	14,368,713,485	14,368,386,506
Risk Reserve	13	13,966,079,424	17,461,293,978
Total Capital		28,434,792,909	31,929,680,484
Total Liabilities and Capital		476,331,018,780	472,969,546,576

Notes on the following pages form part of these financial statements.

Bank Negara Malaysia

Income Statement for the Year Ended 31 December 2012

		2012 RM	2011 RM
Total Income	Note 14	6,912,371,963	6,071,018,517
Less:			
Recurring Expenditure	15	1,151,187,009	964,570,808
Development Expenditure	16	160,857,975	382,022,681
Total Expenditure		1,312,044,984	1,346,593,489
Net Profit		5,600,326,979	4,724,425,028
Appropriation of Net Profit:			
Transfer to Risk Reserve	17	4,100,000,000	2,000,000,000
Transfer to General Reserve Fund		326,979	724,425,028
Amount Payable to Federal Government		1,500,000,000	2,000,000,000
Net Profit		5,600,326,979	4,724,425,028

Notes on the following pages form part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2012

1. General Information

Bank Negara Malaysia (the Bank) is a statutory body established under the Central Bank of Malaysia Act 1958 which has been repealed by the Central Bank of Malaysia Act 2009. The principal place of business is located at Bank Negara Malaysia, Jalan Dato' Onn, 50480 Kuala Lumpur.

The principal objects of the Bank are to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. In this regard, the Bank's primary functions are as follows:

- (a) to formulate and conduct monetary policy in Malaysia;
- (b) to issue currency in Malaysia;
- (c) to regulate and supervise financial institutions which are subject to the laws enforced by the Bank;
- (d) to provide oversight over money and foreign exchange markets;
- (e) to exercise oversight over payment systems;
- (f) to promote a sound, progressive and inclusive financial system;
- (g) to hold and manage the foreign reserves of Malaysia;
- (h) to promote an exchange rate regime consistent with the fundamentals of the economy; and
- (i) to act as financial adviser, banker and financial agent of the Government.

The Board of Directors approved the annual financial statements on 7 March 2013.

2. Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies are consistently applied to both of the financial years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

- (a) These financial statements have been prepared in accordance with the Central Bank of Malaysia Act 2009 and applicable Malaysian Financial Reporting Standards (MFRS). Section 10 of the Central Bank of Malaysia Act 2009 provides that the Bank, in preparing its financial statements, shall comply with accounting standards to the extent that it is, in the opinion of the Bank, appropriate to do so, having regard to the objects and functions of the Bank. The Bank, having considered its responsibilities for the formulation and conduct of effective monetary policy, is of the opinion that, it is appropriate to differ, in some aspects, from the MFRS.
- (b) The preparation of the financial statements in conformity with the requirements of the MFRS requires the management to make judgements, estimates and assumptions based on available information that may affect the application of accounting policies and the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial year. Although these estimates are based on the management's best knowledge of current events and actions, the actual results could differ from those estimates.

2.2 Measurement Base and Basis of Accounting

The financial statements have been prepared on an accrual basis, using the historical cost convention, except as otherwise disclosed.

2.3 Foreign Currency Translation

- (a) The financial statements have been prepared using ringgit Malaysia, the currency of the primary economic environment in which the Bank operates.
- (b) Assets and liabilities in foreign currencies are translated into ringgit Malaysia at the rates of exchange prevailing on the balance sheet date. Transactions in foreign currencies during the year are measured in ringgit Malaysia at the rates of exchange prevailing on the value dates.
- (c) The unrealised revaluation gains or losses arising from changes in the exchange rates are recognised in Risk Reserve.

2.4 Securities and Investments

Securities and investments are stated mainly at cost and provisions are made for diminution in value as at 31 December 2012. Financial instruments classified as Available-For-Sale are stated at fair value and the unrealised revaluation gains or losses arising from changes in market prices are recognised in Risk Reserve.

2.5 Net Profit

The net profit of the Bank is appropriated in accordance with section 7 of the Central Bank of Malaysia Act 2009 and only realised gains are available for distribution.

2.6 Repurchase and Reverse-Repurchase Agreements

The amount borrowed under repurchase agreements is reported under 'Other Liabilities' while the amount lent under reverse-repurchase agreements is reported under 'Other Assets'. The difference between the amount received and the amount paid under repurchase and reverse-repurchase agreements is recognised as interest expense and interest income respectively on a straight-line basis.

2.7 Fixed Assets

The capital expenditure incurred on fixed assets are written down to nominal value or written off completely in the year of acquisition.

3. Gold and Foreign Exchange

	2012 RM	2011 RM
Foreign Securities	369,087,355,757	359,284,482,783
Foreign Deposits	10,382,364,133	15,588,170,298
Balances with Other Central Banks, Bank for International Settlements (BIS) and International Monetary Fund (IMF)	7,123,144,900	6,036,194,304
Others	31,942,102,187	33,523,672,646
	<u>418,534,966,977</u>	<u>414,432,520,031</u>

4. Malaysian Government Papers

Malaysian Government Papers refer to holdings of Government debt instruments that were among the instruments that can be used in the Bank's monetary policy operations.

	2012 RM	2011 RM
Malaysian Government Securities	2,176,401,438	2,016,831,567
Sukuk 1Malaysia 2010	6,407,800	190,500
	<u>2,182,809,238</u>	<u>2,017,022,067</u>

5. **Deposits with Financial Institutions**

Deposits with financial institutions comprise deposits placed by the Bank with financial institutions under section 75(i) and section 100 of the Central Bank of Malaysia Act 2009.

6. **Loans and Advances**

Loans and advances comprise mainly advances extended by the Bank to the participating institutions under various schemes such as Fund for Small and Medium Industries and New Entrepreneur Fund aimed at promoting growth and development of small and medium business establishments. The extensions of these advances are mainly provided under section 48, section 49 and section 100 of the Central Bank of Malaysia Act 2009.

7. **Other Assets**

Other assets include investments in shares and bonds of RM6,967,707,261 acquired under section 48(1) and section 100 of the Central Bank of Malaysia Act 2009.

8. **Deposits from Others**

A substantial part of these deposits comprises deposits from national institutions, government agencies and public authorities.

9. **Allocation of Special Drawing Rights**

IMF member countries are allocated Special Drawing Rights (SDR) in proportion to their subscription to the IMF. The allocation represents a dormant liability of the Bank to the IMF, against which assets are received in SDR from the IMF. The net cumulative allocation of SDR was SDR1,346,143,721 equivalent to RM6,326,742,220.

10. **Other Liabilities**

Other liabilities include mainly placements by financial institutions under the repurchase agreements.

11. **Paid-up Capital**

The paid-up capital of RM100,000,000 is owned by the Government of Malaysia.

12. **General Reserve Fund**

	2012 RM	2011 RM
As at 1 January	14,368,386,506	13,643,961,478
Transfer from Net Profit	326,979	724,425,028
As at 31 December	<u>14,368,713,485</u>	<u>14,368,386,506</u>

13. **Risk Reserve**

This reserve is to account for unrealised revaluation gains or losses arising from changes in exchange rates and market prices and to absorb any potential future losses resulting from unfavourable circumstances not within the control of the Bank. The Exchange Rate Fluctuation Reserve, Revaluation Reserve and Contingency Reserve which were presented in the previous years as 'Other Reserves' have been consolidated and renamed as Risk Reserve.

14. **Total Income**

Total income comprises revenue from foreign reserves management which includes interest and dividends, non-treasury income, realised capital gains or losses, and is stated at net of amortisation/accretion of premiums/discounts and monetary policy cost.

15. **Recurring Expenditure**

Recurring expenditure are expenses incurred in the management and administration of the day-to-day operations of the Bank.

16. **Development Expenditure**

Development expenditure are expenses incurred mainly to finance developmental and long term projects undertaken by the Bank that are in line with its principal objects and functions.

17. **Transfer to Risk Reserve**

The transfer to Risk Reserve is made in accordance with section 7 of the Central Bank of Malaysia Act 2009.

18. **Contingencies and Commitments**

18.1 **Contingent Assets**

Total contingent assets as at 31 December 2012 amounted to RM1,400,000,000. These comprise the Bank's total contributions to International Centre for Leadership in Finance (ICLIF) Trust Fund of RM800,000,000 and International Centre for Education in Islamic Finance (INCEIF) Trust Fund of RM600,000,000, to finance activities related to training, research and development of human resource in banking and financial services managed by The ICLIF Leadership and Governance Centre and INCEIF. It is provided in the Trust Deeds that the total contributions will be returned to the Bank when the Centres become self-sufficient in the future.

18.2 **Commitments**

Total commitments as at 31 December 2012 comprise the following:

(a) **Membership with IMF**

- (i) The Bank has an obligation to pay to IMF an equivalent amount of RM5,857,006,246 in SDR or other convertible currencies which represents the unpaid portion of Malaysia's quota in the IMF under the Articles of Agreement.
- (ii) On 15 December 2010, in accordance with the Board of Governors Resolution No. 66-2, the IMF adopted the "Fourteenth General Review of Quotas and Reform of the Executive Board" under which the quotas of members of the Fund shall be increased. As at 31 December 2012, from the current level of quota of SDR1,773,900,000, Malaysia has consented to the increase of its quota to SDR3,633,800,000 (equivalent to RM17,078,500,254).
- (iii) The Bank has participated in the New Arrangements to Borrow (NAB), a set of credit arrangements between the IMF and its member countries to provide supplementary source of financing to IMF for the purpose of safeguarding the stability of the international monetary system. As at 31 December 2012, the amount that can be called for under the NAB credit arrangement is SDR303,500,000 (equivalent to RM1,426,419,954).
- (iv) On 23 July 2012, the Bank has pledged a USD1,000,000,000 (equivalent to RM3,058,000,000) bilateral contribution to the IMF for precautionary and financial crisis resolution purposes.

(b) **Investment with Bank for International Settlements**

There is an uncalled portion of the 3,220 units of shares held by the Bank in the BIS which amounted to RM56,751,305. The amount is based on the nominal value (SDR5,000) of the uncalled portion and SDR rate as at the balance sheet date.

(c) **Swap Arrangements**

(i) **ASEAN Swap Arrangement**

The Bank has participated in the multilateral ASEAN Swap Arrangement (ASA) together with other ASEAN central banks and monetary authorities to provide short-term foreign currency liquidity support to member countries with balance of payments difficulties. As at 31 December 2012, the Bank's total commitment amounted to USD300 million (equivalent to RM917.4 million) and there has been no request for liquidity support under ASA from any member country during the financial year.

(ii) **Bilateral Swap Arrangement**

On 2 April 2010, the Bank renewed the Bilateral Swap Arrangement (BSA) agreement with the People's Bank of China under the Chiang Mai Initiative under which financial resources in US dollar can be obtained through swap arrangements against the respective local currencies. As at 31 December 2012, the Bank's commitment under the BSA is USD1.5 billion (equivalent to RM4.6 billion) and there has been no request to activate the BSA during the financial year.

(iii) **Bilateral Currency Swap Arrangement**

On 8 February 2012, the Bank renewed the Bilateral Currency Swap Arrangement (BCSA) agreement with the People's Bank of China with the objective of promoting and facilitating trade settlement in local currency between the two countries. As at 31 December 2012, the Bank's total commitment under the BCSA is RM90 billion and there has been no request to activate the BCSA during the financial year.

(iv) **Chiang Mai Initiative Multilateralisation Arrangement**

The Bank has participated in the Chiang Mai Initiative Multilateralisation (CMIM) arrangement to provide financial support to ASEAN+3 member countries facing balance of payments and short-term liquidity difficulties. The effective date of the CMIM Agreement is 24 March 2010. Under the CMIM arrangement, member countries facing balance of payments and short-term liquidity constraints can obtain financial support in US dollar through swap arrangements against their respective local currencies. As at 31 December 2012, the Bank's total commitment is USD9.1 billion (equivalent to RM27.8 billion). For the financial year ended 31 December 2012, there was no request for liquidity support from any member country.

19. **Financial Risk Management**

The Reserve Management Committee oversees the treasury and investment risks in the management of reserves to be within acceptable levels to ensure that the objectives of capital preservation, liquidity and return are met. In undertaking this function and its activities, the major risks of the investments fall into the following areas:

(a) **Market Risk**

Market risk is the exposure of the Bank's investments to adverse movements in market prices such as foreign exchange rates, interest rates and equity prices. Market risk is monitored on a daily basis and all of the investments and instruments will have a marked-to-market value. Investments are guided by a benchmark policy approved by the Board of Directors which reflects the long-term investment objectives and acceptable risk-return profile. 'Active risk' may be taken through investments and instruments that can be different from the benchmark though must be within approved investment guidelines. The degree of 'active risk' is measured and controlled through using limits that must be adhered to. Sensitivity analysis and stress testing are undertaken to assess potential marked-to-market losses from adverse movements and volatility in the market.

(b) **Credit Risk**

Credit risk is the risk of investments not paying its principal and interest that has fallen due in a timely manner due to default of an issuer of the debt or failure of the counterparty to perform its contractual obligation to the Bank. A comprehensive rating-based credit risk framework exists to govern the permissible degree of credit exposure in the investments of the Bank. This ensures investments are with issuers and counterparties of high credit standing and the probability of losses from this risk is small. The framework, which is approved by the Board, also incorporates market-based credit indicators such as ratings implied from financial market prices. This enhances the credit framework by providing a more dynamic and up-to-date credit assessment.

(c) **Operational Risk**

Operational risk in treasury operations is the risk of financial losses due to failed internal processes, inadequate controls and procedures, or any other internal or external events that impede operations. Operational risk is mitigated through a robust governance framework and effective implementation of risk controls and limits. A comprehensive operational risk database is in place to support the identification of emerging risk in the Bank's treasury operations for action to be taken in managing gaps and mitigating financial losses.

20. **Income Tax**

The Bank is exempted from payment of income tax and supplementary income tax as set out in the Income Tax (Exemption) (No. 7) Order 1989.

