

2011

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 2011**

I have audited the financial statements of Bank Negara Malaysia for the year ended 31 December 2011. 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 carried out in accordance with the Audit Act 1957 and in conformity with approved standards on auditing. Those standards require an 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 2011 and of the results of its operations for the year then ended in accordance with the approved accounting standards.

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

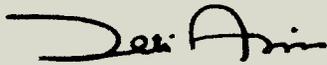
PUTRAJAYA  
14 MARCH 2012



## 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 2011 and of the results of operations for the year ended on that date.

On behalf of the Board,



**ZETI AKHTAR AZIZ**  
CHAIRMAN

12 MARCH 2012  
KUALA LUMPUR

On behalf of the Board,



**OH SIEW NAM**  
DIRECTOR

12 MARCH 2012  
KUALA LUMPUR

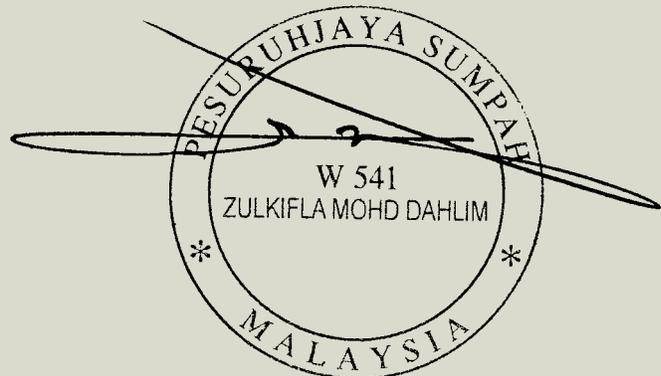
## DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF BANK NEGARA MALAYSIA

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 12 March 2012. )



Before me,



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

# Bank Negara Malaysia

## Statement of Financial Position as at 31 December 2011

		2011 RM	2010 RM
<b>ASSETS</b>			
Gold and Foreign Exchange	3	414,432,520,031	320,774,448,194
International Monetary Fund Reserve Position		2,672,204,523	1,453,521,555
Holdings of Special Drawing Rights		6,252,997,720	6,442,516,703
Malaysian Government Papers	4	2,017,022,067	2,285,433,098
Deposits with Financial Institutions	5	28,797,250,000	40,583,035,000
Loans and Advances	6	10,671,155,047	11,837,444,956
Other Assets	7	8,126,397,188	6,795,391,854
<b>Total Assets</b>		<b>472,969,546,576</b>	<b>390,171,791,360</b>
<b>LIABILITIES AND CAPITAL</b>			
Currency in Circulation		61,874,099,518	55,787,812,628
Deposits by: Financial Institutions		214,905,708,306	170,732,428,628
Federal Government		10,817,830,921	14,226,350,050
Others	8	13,066,091,926	3,663,691,712
Bank Negara Papers		107,983,490,852	100,376,801,291
Allocation of Special Drawing Rights	9	6,548,320,169	6,396,555,926
Other Liabilities	10	25,844,324,400	19,273,907,766
<b>Total Liabilities</b>		<b>441,039,866,092</b>	<b>370,457,548,001</b>
Paid-up Capital	11	100,000,000	100,000,000
General Reserve Fund	12	14,368,386,506	13,643,961,478
Other Reserves	13	17,461,293,978	5,970,281,881
<b>Total Capital</b>		<b>31,929,680,484</b>	<b>19,714,243,359</b>
<b>Total Liabilities and Capital</b>		<b>472,969,546,576</b>	<b>390,171,791,360</b>

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

# Bank Negara Malaysia

## Income Statement for the Year Ended 31 December 2011

		2011 RM	2010 RM
<b>Total Income</b>	14	<b>6,071,018,517</b>	<b>7,478,425,194</b>
Less:			
Recurring Expenditure	15	964,570,808	873,712,705
Development Expenditure	16	382,022,681	438,819,340
<b>Total Expenditure</b>		<b>1,346,593,489</b>	<b>1,312,532,045</b>
<b>Net Profit</b>		<b>4,724,425,028</b>	<b>6,165,893,149</b>
<b>Appropriation of Net Profit:</b>			
Transfer to Other Reserves	17	2,000,000,000	4,000,000,000
Transfer to General Reserve Fund		724,425,028	165,893,149
Amount Payable to Federal Government		2,000,000,000	2,000,000,000
<b>Net Profit</b>		<b>4,724,425,028</b>	<b>6,165,893,149</b>

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

## Notes to the Financial Statements - 31 December 2011

### 1. Principal Activities of the Bank

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.

### 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 (FRS). 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 Malaysian FRS.
- (b) The preparation of the financial statements in conformity with the requirements of the Malaysian FRS requires management to use certain estimates and assumptions that affect the reported amounts of assets and liabilities and 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 Accrual Accounting

The financial statements have been prepared on the historical cost basis of accounting and on an accrual basis.

#### 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 have been revalued into ringgit Malaysia at rates of exchange prevailing on the balance sheet date. Transactions in foreign currencies during the year have been translated into ringgit Malaysia at 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 Other Reserves.

#### 2.4 Securities and Investments

Securities and investments are stated mainly at cost and provisions have been made for diminution in value as at 31 December 2011. Designated financial instruments which have been identified 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 Other Reserves.

#### 2.5 Repurchase and Reverse-Repurchase Agreements

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

#### 2.6 Fixed Assets

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

#### 2.7 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 made available for dividend distribution.

### 3. Gold and Foreign Exchange

	<b>2011 RM</b>	<b>2010 RM</b>
Foreign Securities	359,284,482,783	275,379,932,314
Foreign Deposits	15,588,170,298	13,631,359,440
Balances with Other Central Banks, Bank for International Settlements (BIS) and International Monetary Fund (IMF)	6,036,194,304	6,767,913,697
Others	33,523,672,646	24,995,242,743
	<u>414,432,520,031</u>	<u>320,774,448,194</u>

### 4. Malaysian Government Papers

Malaysian government papers refer to holdings of Government debt instruments.

	<b>2011 RM</b>	<b>2010 RM</b>
Malaysian Government Securities	2,016,831,567	2,285,423,098
Sukuk 1Malaysia 2010	190,500	10,000
	<u>2,017,022,067</u>	<u>2,285,433,098</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 49 and section 100 of the Central Bank of Malaysia Act 2009.

7. **Other Assets**

Other assets include investments in shares and bonds of RM7,790,647,218 acquired under section 48(1) and section 100 of the Central Bank of Malaysia Act 2009.

8. **Deposits by 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 RM6,548,320,169 equivalent to SDR1,346,143,721.

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 million is owned by the Government of Malaysia.

12. **General Reserve Fund**

	<b>2011 RM</b>	<b>2010 RM</b>
As at 1 January	13,643,961,478	13,478,068,329
Transfer from Net Profit	724,425,028	165,893,149
As at 31 December	<u>14,368,386,506</u>	<u>13,643,961,478</u>

13. **Other Reserves**

Other reserves comprise:

(a) **Exchange Rate Fluctuation Reserve**

A reserve established to meet unrealised exchange revaluation gains or losses on assets and liabilities in foreign currencies of the Bank as a result of the fluctuations of exchange rates against ringgit Malaysia.

(b) **Revaluation Reserve**

A reserve established to deal with the movements in the market values of the Bank's investment portfolios which have been designated as Available For Sale portfolios and measured at fair value.

(c) **Contingency Reserve**

A reserve established to provide for future losses resulting from unfavorable external circumstances which are not within the reasonable control of the Bank.

14. **Total Income**

Total income comprises revenue from foreign reserves management which includes interest and dividends, non-treasury income, realised capital gains/losses, and is stated at net of amortisation/accretion of premiums/discounts and the 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 Other Reserves**

This transfer 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 2011 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 on 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 **Contingent Liabilities**

Total contingent liabilities as at 31 December 2011 comprise the following:

(a) **Membership with IMF**

- (i) The Bank has an obligation to pay to IMF an amount of RM6,099,006,711 in SDR or other convertible currencies which represents the unpaid portion of Malaysia's quota in the IMF under the Articles of Agreement.
- (ii) The IMF has recently conducted a quota review exercise for its member countries in order to reflect changes in the global economy or changes in members' economic position. 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 2011, 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.
- (iii) The Bank has participated in the New Arrangements to Borrow (NAB), a set of credit arrangements between 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. For the year ended 31 December 2011, the Bank has provided SDR23.4 million (equivalent to RM112.2 million) out of SDR340 million under the NAB credit arrangement.

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

An amount of RM58,738,874 which represents the uncalled portion of the 3,220 units of shares held by the Bank in the BIS. The amount is based on the nominal value (SDR5,000) of the uncalled portion and SDR rate as at the balance sheet date.

### 18.3 Commitments

Total commitments as at 31 December 2011 comprise the following:

(a) **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 2011, the Bank's total commitment amounted to USD300 million (equivalent to RM950.6 million) and there has been no request for liquidity support under ASA from any member country during the financial year.

(b) **Bilateral Swap Arrangement**

On 7 January 2009 and 2 April 2010, the Bank renewed the Bilateral Swap Arrangement (BSA) agreements with the Bank of Korea and the People's Bank of China respectively 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 2011, the Bank's commitment under each BSA is USD1.5 billion (equivalent to RM4.8 billion) and there has been no request to activate the BSAs during the financial year.

(c) **Bilateral Currency Swap Arrangement**

On 8 February 2009, the Bank entered into 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 2011, the Bank's total commitment under the BCSA is RM40 billion. For the financial year ended 31 December 2011, there was no request to activate BCSA.

(d) **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 2011, the Bank's total commitment is USD4.6 billion (equivalent to RM14.4 billion). For the financial year ended 31 December 2011, there was no request for liquidity support from any member country.

### 19. Financial Risk Management

The Reserve Management Committee oversees 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. The scope of such risks areas are as follows:

(a) **Market Risk**

Market risk is the exposure of the Bank's financial position to adverse movements in market prices such as equity prices, interest rates and foreign exchange rates. The management of market risk is governed by the benchmark policy approved by the Board of Directors which reflects the long-term investment objectives and acceptable risk-return profile. Within the benchmark policy, the 'active risk' may be taken through investments that deviate from the benchmark. The degree of 'active risk' is measured and controlled through a 'tracking error' limit. Sensitivity analysis and stress testing is also undertaken to assess potential marked-to-market losses on the reserves due to unexpected fluctuations and volatility in the market.

(b) **Credit Risk**

The credit risk on reserves is the risk that a counterparty, either financial institutions that the Bank deals with, or issuers of a debt instrument, fails to perform its contractual obligation to the Bank. A comprehensive rating-based credit risk framework approved by the Board of Directors governs the permissible activities and investment of the Bank. The Bank also takes into account in its credit assessment market-based indicators such as ratings implied by the credit default swap market, equity and bond price movements. This framework ensures investment activities remain with counterparties with high credit quality and investments in highly rated issuers.

(c) **Operational Risk**

Operational risk in treasury operations is the risk of financial loss 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 loss.

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.

