

2010

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 2010**

I have audited the financial statements of Bank Negara Malaysia for the year ended 31 December 2010. 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 2010 and of the results of its operations for the year ended in accordance with the approved accounting standards.


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

PUTRAJAYA
9 MARCH 2011



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 2010 and of the results of operations for the year ended on that date.

On behalf of the Board,



ZETI AKHTAR AZIZ
CHAIRMAN

8 MARCH 2011
KUALA LUMPUR

On behalf of the Board,



OH SIEW NAM
DIRECTOR

8 MARCH 2011
KUALA LUMPUR

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

I, Muhammad bin Ibrahim, 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 8 March 2011.)



Before me,



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Bank Negara Malaysia

Statement of Financial Position as at 31 December 2010

		2010 RM	2009 RM
ASSETS			
Gold and Foreign Exchange	3	320,774,448,194	322,505,629,648
International Monetary Fund Reserve Position		1,453,521,555	1,515,842,594
Holdings of Special Drawing Rights		6,442,516,703	7,279,175,067
Malaysian Government Papers	4	2,285,433,098	2,683,093,250
Deposits with Financial Institutions	5	40,583,035,000	9,373,175,000
Loans and Advances	6	11,837,444,956	12,407,481,804
Other Assets	7	6,795,391,854	7,213,305,329
Total Assets		390,171,791,360	362,977,702,692
LIABILITIES AND CAPITAL			
Currency in Circulation		55,787,812,628	51,138,567,538
Deposits by: Financial Institutions		170,732,428,628	181,535,107,206
Federal Government		14,226,350,050	18,641,169,858
Others	8	3,663,691,712	1,270,868,081
Bank Negara Papers		100,376,801,291	33,357,434,443
Allocation of Special Drawing Rights	9	6,396,555,926	7,231,066,765
Other Liabilities	10	19,273,907,766	21,710,810,087
Total Liabilities		370,457,548,001	314,885,023,978
Paid-up Capital	11	100,000,000	100,000,000
General Reserve Fund	12	13,643,961,478	13,478,068,329
Other Reserves	13	5,970,281,881	34,514,610,385
Total Capital		19,714,243,359	48,092,678,714
Total Liabilities and Capital		390,171,791,360	362,977,702,692

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

Bank Negara Malaysia

Income Statement for the Year Ended 31 December 2010

		2010 RM	2009 RM
Total Income	Note 14	7,478,425,194	9,826,516,615
Less:			
Recurring Expenditure	15	873,712,705	1,071,025,015
Development Expenditure	16	438,819,340	1,085,627,775
Total Expenditure		1,312,532,045	2,156,652,790
Net Profit		6,165,893,149	7,669,863,825
Appropriation of Net Profit:			
Transfer to Other Reserves	17	4,000,000,000	4,168,449,182
Transfer to General Reserve Fund		165,893,149	1,501,414,643
Amount Payable to Federal Government		2,000,000,000	2,000,000,000
Net Profit		6,165,893,149	7,669,863,825

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

Notes to the Financial Statements - 31 December 2010

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.

- (d) The International Reserves comprising Gold and Foreign Exchange, International Monetary Fund Reserve Position and Holdings of Special Drawing Rights at 31 December 2010 was RM328,670.5 million equivalent to USD106,525.1 million.

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 2010. 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

	2010 RM	2009 RM
Foreign Securities	275,379,932,314	277,872,235,367
Foreign Deposits	13,631,359,440	14,655,589,658
Balances with Other Central Banks, Bank for International Settlements (BIS) and International Monetary Fund (IMF)	6,767,913,697	3,765,861,668
Others	24,995,242,743	26,211,942,955
	<u>320,774,448,194</u>	<u>322,505,629,648</u>

4. Malaysian Government Papers

Malaysian government papers refer to holdings of Government debt instruments.

	2010 RM	2009 RM
Malaysian Government Securities	2,285,423,098	2,683,093,250
Sukuk 1Malaysia 2010	10,000	-
	<u>2,285,433,098</u>	<u>2,683,093,250</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 2009¹.

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 2009¹.

7. **Other Assets**

Other assets include investments in shares and bonds of RM6,270,261,038 acquired under section 48(1) and section 100 of the Central Bank of Malaysia Act 2009¹.

8. **Deposits by Others**

A substantial part of these deposits comprises deposits from 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 RM6,396,555,926 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**

	2010 RM	2009 RM
As at 1 January	13,478,068,329	11,976,653,686
Transfer from Net Profit	165,893,149	1,501,414,643
As at 31 December	13,643,961,478	13,478,068,329

13. **Other Reserves**

Other reserves comprise:

(a) **Exchange Rate Fluctuation Reserve**

A reserve established to meet unrealised exchange revaluation gains or losses arising from 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.

¹ Pursuant to section 100 of the Central Bank of Malaysia Act 2009, transactions or arrangements made under the Central Bank of Malaysia Act 1958 are deemed to have been made under the Central Bank of Malaysia Act 2009.

(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 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 2010 amounted to RM1,300,000,000. These comprise the Bank's total contributions to International Centre for Leadership in Finance (ICLIF) Trust Fund and International Centre for Education in Islamic Finance (INCEIF) Trust Fund to finance activities related to training, research and development of human resource on banking and financial services managed by ICLIF 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 2010 comprise the following:

(a) Membership with IMF

An amount of RM5,620,898,121 which represents the obligation of the Bank to pay in full, in SDR or other convertible currencies, the amount of Malaysia's quota in the IMF under the Articles of Agreement.

(b) Shareholding in BIS

An amount of RM57,377,538 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.

(c) New Arrangements to Borrow by IMF

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 the IMF for the purpose of safeguarding the stability of the international monetary system. As at 31 December 2010, the Bank's total commitment under the NAB credit arrangement amounted to SDR340,000,000 (equivalent to RM1,615,599,420). However, for the financial year ended 31 December 2010, there was no call on the NAB by the IMF.

(d) 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 2010, the Bank's total commitment and eligible maximum drawdown amounted to USD300 million (equivalent to RM925.7 million) and USD600 million (equivalent to RM1.9 billion) respectively. However, for the financial year ended 31 December 2010, there was no request for liquidity support under ASA from any member country.

(e) 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. As at 31 December 2010, the Bank's commitment and eligible maximum drawdown under each BSA is USD1.5 billion respectively (equivalent to RM4.6 billion). For the financial year ended 31 December 2010, there was no request to activate the BSAs.

(f) 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 United States dollars through swap arrangements against their respective local currencies. As at 31 December 2010, the Bank's total commitment and eligible drawdown are USD4.6 billion (equivalent to RM14 billion) and USD11.4 billion (equivalent to RM35.1 billion) respectively. For the financial year ended 31 December 2010, 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 and to ensure that the following risks are contained within acceptable levels:

(a) Market Risk

Market risk is the exposure of the Bank's financial position to adverse movements in market prices such as 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 Board of Directors allows 'active risk' to be taken through investments that deviate from the benchmark. This 'active risk' is controlled through a 'tracking error' limit. Sensitivity analysis and stress testing is also undertaken to assess potential mark-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 counter party, either financial institutions or issuers, 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 investment universe of the Bank. The implementation of this framework includes rating implied from the credit default swap market that adds a forward looking credit assessment on issuers. Having such a framework in place also strengthens the Bank's operational efficiency in this area and ensures the reserves are invested only with high credit quality counterparties or issuers. The policies and continuous assessment of credit exposures ensures the objective of capital preservation is met.

(c) **Operational Risk**

Operational risk in treasury operations is the risk of financial loss due to failed internal process, inadequate controls and procedures, gaps in skill-sets and adverse external events that impede operations. Operational risk is mitigated through a strong and robust governance framework and effective implementation of risk controls and limits.

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.

