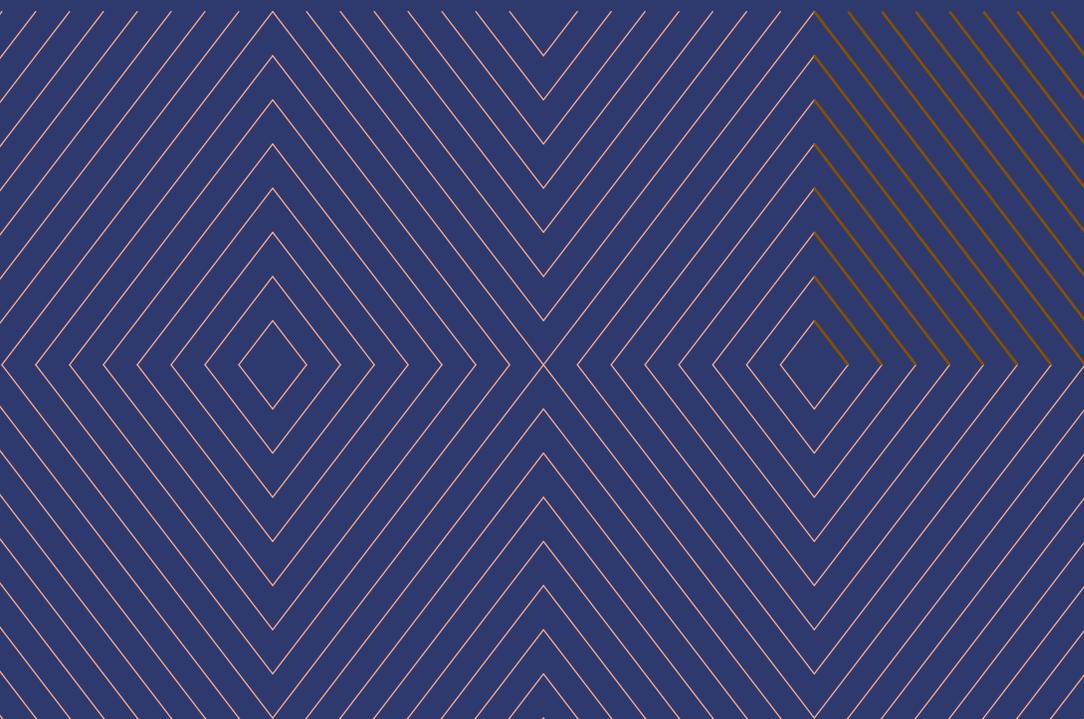


Annual Financial Statements

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**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF BANK NEGARA MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2009**

I have audited the financial statements of Bank Negara Malaysia for the year ended 31 December 2009. These financial statements are the responsibility of the management. My responsibility is to audit and to express an opinion on these financial statements.

2. The audit has been carried out 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.

3. In my opinion, the financial statements give a true and fair view of the financial position of Bank Negara Malaysia as at 31 December 2009 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

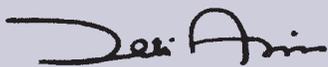
PUTRAJAYA
12 MARCH 2010

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 2009 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

11 MARCH 2010
KUALA LUMPUR



OH SIEW NAM
DIRECTOR

11 MARCH 2010
KUALA LUMPUR

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

I, Rafiza Ghazali, 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 11 March 2010.)



Before me,

LEE HISHAMUDDIN ALLEN & GLEDHILL
Level 16, Menara TM Asia Life
189, Jalan Tun Razak
50400 Kuala Lumpur
Tel : 603-2161 2330
Fax : 603-2161 3933



Bank Negara Malaysia

Balance Sheet as at 31 December 2009

		2009 RM	2008 RM
ASSETS			
Gold and Foreign Exchange	3	322,505,629,648	315,554,271,994
International Monetary Fund Reserve Position		1,515,842,594	1,127,065,750
Holdings of Special Drawing Rights		7,279,175,067	786,401,257
Malaysian Government Papers	4	2,683,093,250	2,525,239,300
Deposits with Financial Institutions	5	9,373,175,000	4,507,787,500
Loans and Advances	6	12,407,481,804	12,516,545,727
Other Assets	7	7,213,305,329	7,505,008,921
Total Assets		362,977,702,692	344,522,320,449
LIABILITIES AND CAPITAL			
Currency in Circulation		51,138,567,538	48,042,855,068
Deposits by: Financial Institutions		181,535,107,206	184,136,298,017
Federal Government		18,641,169,858	11,155,942,757
Others	8	1,270,868,081	373,848,344
Bank Negara Papers		33,357,434,443	43,710,213,247
Allocation of Special Drawing Rights	9	7,231,066,765	742,639,517
Other Liabilities	10	21,710,810,087	24,604,565,308
Total Liabilities		314,885,023,978	312,766,362,258
Paid-up Capital	11	100,000,000	100,000,000
General Reserve Fund	12	13,478,068,329	11,976,653,686
Other Reserves	13	34,514,610,385	19,679,304,505
Total Capital		48,092,678,714	31,755,958,191
Total Liabilities and Capital		362,977,702,692	344,522,320,449

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

Bank Negara Malaysia

Income Statement for the Year Ended 31 December 2009

	Note	2009 RM	2008 RM
Total Income	14	9,826,516,615	8,158,398,385
Less:			
Recurring Expenditure	15	1,071,025,015	939,599,724
Development Expenditure	16	1,085,627,775	709,518,486
Total Expenditure		2,156,652,790	1,649,118,210
Net Profit		7,669,863,825	6,509,280,175

Profit and Loss Appropriation Statement for the Year Ended 31 December 2009

		2009 RM	2008 RM
Net Profit		7,669,863,825	6,509,280,175
Transfer to Other Reserves	17	4,168,449,182	3,832,305,418
Transfer to General Reserve Fund		1,501,414,643	1,176,974,757
Amount Payable to Federal Government		2,000,000,000	1,500,000,000
		7,669,863,825	6,509,280,175

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

Notes to the Financial Statements - 31 December 2009

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, with the revaluation of financial instruments that are held at fair value through profit and loss 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 International Reserves comprising Gold and Foreign Exchange, International Monetary Fund Reserve Position and Holdings of Special Drawing Rights at 31 December 2009 was RM331,300.6 million equivalent to USD96,695.1 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 2009.

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

	2009	2008
	RM	RM
Foreign Securities	277,872,235,367	282,566,246,554
Foreign Deposits	14,655,589,658	10,860,543,730
Balances with Other Central Banks, Bank for International Settlements (BIS) and International Monetary Fund (IMF)	3,765,861,668	3,592,893,233
Others	26,211,942,955	18,534,588,477
	<u>322,505,629,648</u>	<u>315,554,271,994</u>

4. **Malaysian Government Papers**

	2009	2008
	RM	RM
Malaysian Government Securities	<u>2,683,093,250</u>	<u>2,525,239,300</u>

5. **Deposits with Financial Institutions**

Deposits with financial institutions comprise deposits placed by the Bank with financial institutions under section 30(1)(nn) and section 31B of the Central Bank of Malaysia Act 1958 and section 75(i) 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 section 30(1) of the Central Bank of Malaysia Act 1958¹.

7. **Other Assets**

Other assets include investments in shares and bonds of RM6,855,216,924 acquired under section 30(1)(j), section 30(1)(oo)(i) and section 30A(1)(c) of the Central Bank of Malaysia Act 1958 and section 48(1) 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. Following the 2009 General and Special Allocation of SDR by the IMF, the Bank's net cumulative allocation of SDR had increased to RM7,231,066,765 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**

	2009	2008
	RM	RM
As at 1 January	11,976,653,686	10,799,678,929
Transfer from Net Profit	1,501,414,643	1,176,974,757
As at 31 December	<u>13,478,068,329</u>	<u>11,976,653,686</u>

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.

13. **Other Reserves**

Other reserves comprise the Exchange Rate Fluctuation Reserve, Revaluation Reserve and Contingency Reserve.

14. **Total Income**

Total income comprises revenue from foreign reserve 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 roles and responsibilities.

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 2009 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 **Contingent Liabilities**

Total contingent liabilities as at 31 December 2009 amounted to RM6,705,152,257. These comprise the following:

- (a) an amount of RM6,640,289,100 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; and
- (b) an amount of RM64,863,157 which represents the uncalled portion of the 3,220 units of shares held by the Bank in Bank for International Settlements. 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 2009 comprise the following:

(a) **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 IMF for the purpose of safeguarding the stability of the international monetary system. As at 31 December 2009, the Bank's total commitment under the NAB credit arrangement amounted to SDR340,000,000 (equivalent to RM1,826,374,600). However, for the financial year ended 31 December 2009, there was no call on the NAB by the IMF.

(b) **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 2009, the Bank's total commitment and eligible maximum drawdown amounted to USD300 million (equivalent to RM1 billion) and USD600 million (equivalent to RM2.1 billion) respectively. However, for the financial year ended 31 December 2009, there was no request for liquidity support under ASA from any member country.

(c) **Bilateral Swap Arrangement Agreement**

On 7 January 2009, the Bank renewed the Bilateral Swap Arrangement (BSA) Agreement with the Bank of Korea under the Chiang Mai Initiative. Under the BSA agreement, each central bank can obtain financial support in US dollar up to USD1.5 billion (equivalent to RM5.1 billion) through swap arrangements against their respective local currencies. For the financial year ended 31 December 2009, there was no request to activate the BSA.

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. 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 on treasury operation is the risk of financial loss due to failed internal process, inadequate controls and procedures, and gaps in skill-sets. 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.

