

# Annual Financial Statements

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# Annual Financial Statements



## REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK NEGARA MALAYSIA FOR THE YEAR ENDED 31 DECEMBER 2017

### Report on the Financial Statements

#### Opinion

I have audited the Financial Statements of Bank Negara Malaysia which comprise the Statement of Financial Position as at 31 December 2017 and Income Statement for the year then ended, a summary of significant accounting policies and other explanatory information.

In my opinion, the Financial Statements give a true and fair view of the financial position of Bank Negara Malaysia as at 31 December 2017 and of the financial performance and the results of its operations for the year then ended, in all material respects, in accordance with the Central Bank of Malaysia Act 2009 and the financial reporting standards approved in Malaysia to the extent that it is, in the opinion of the Directors, appropriate to do so, having regard to the objects and functions of the Bank. The preparation of the Financial Statements differs in some aspects, from the approved accounting standards in Malaysia.

#### Basis for Opinion

I conducted the audit in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities are further described in the paragraph of Auditor's Responsibilities for the Audit of the Financial Statements in this report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Independence and Other Ethical Responsibilities

I am independent of Bank Negara Malaysia and have fulfilled other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

## Key Audit Matters

Key Audit Matters are those matters that, in my professional judgment, were of most significance in the audit of the Financial Statements of Bank Negara Malaysia for the year 2017. I have determined that there are no Key Audit Matters to communicate in my report.

## Information Other Than the Financial Statements and Auditor General's Report Thereon

The Directors of Bank Negara Malaysia are responsible for other information in the Annual Report. My opinion on the Financial Statements of Bank Negara Malaysia does not cover the information other than the Financial Statements and the Auditor General's Report thereon and I do not express any form of assurance conclusion thereon.

## Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with the Central Bank of Malaysia Act 2009 and applicable financial reporting standards approved in Malaysia to the extent that it is, in the opinion of the Directors, appropriate to do so, having regard to the objects and functions of the Bank. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of the Financial Statements that are free from material misstatement or omission, whether due to fraud or error.

In preparing the Financial Statements of Bank Negara Malaysia, the Directors are responsible for assessing Bank Negara Malaysia's ability to continue as a going concern, disclosing as applicable, and using the going concern as basis of accounting.

## Auditor's Responsibility for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the Financial Statements of Bank Negara Malaysia as a whole are free from material misstatement, whether due to fraud or error, and to issue Auditor General's Report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards of Supreme Audit Institutions will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- a. Identify and assess the risks of material misstatement of the Financial Statements of Bank Negara Malaysia, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bank Negara Malaysia's internal control.
- c. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- d. Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Bank Negara Malaysia's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the Auditor General's Report to the related disclosures in the Financial Statements of Bank Negara Malaysia or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of the Auditor General's Report.
- e. Evaluate the overall presentation including the disclosures of whether the Financial Statements of Bank Negara Malaysia represent fair presentation.

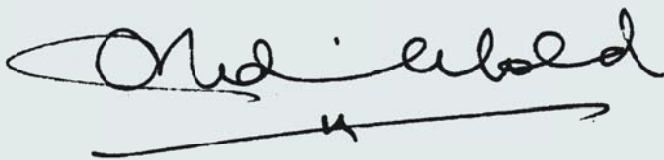
I communicated with the Directors regarding, among other matters, the planned scope and timing of the audit, including internal control and significant audit findings.

### **Report on Other Legal and Regulatory Requirements**

In accordance with the requirements of Section 9, Central Bank of Malaysia Act 2009, I also report that in my opinion, the accounting and other records required by the Act to be kept by Bank Negara Malaysia have been properly kept in accordance with the provisions of the Act.

### **Other Matters**

This report is made solely to the Directors and for no other purpose. I do not assume responsibility to any other person for the content of this report.



AUDITOR GENERAL  
MALAYSIA

PUTRAJAYA  
8 MARCH 2018





## STATEMENT BY CHAIRMAN AND ONE OF THE DIRECTORS

We, Muhammad bin Ibrahim and Chin Kwai Yoong, being the Chairman and one of the Directors of Bank Negara Malaysia, do hereby state that in the opinion of the directors, 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 2017 and of the results of operations for the year ended on that date, in accordance with the Central Bank of Malaysia Act 2009 and applicable Malaysian Financial Reporting Standards (MFRS) to the extent that it is, in the opinion of the directors, appropriate to do so, having regard to the objects and functions of the Bank.

On behalf of the Board,



**GOVERNOR MUHAMMAD BIN IBRAHIM, FCB**  
CHAIRMAN

28 FEBRUARY 2018  
KUALA LUMPUR

On behalf of the Board,



**CHIN KWAI YOONG**  
DIRECTOR

28 FEBRUARY 2018  
KUALA LUMPUR

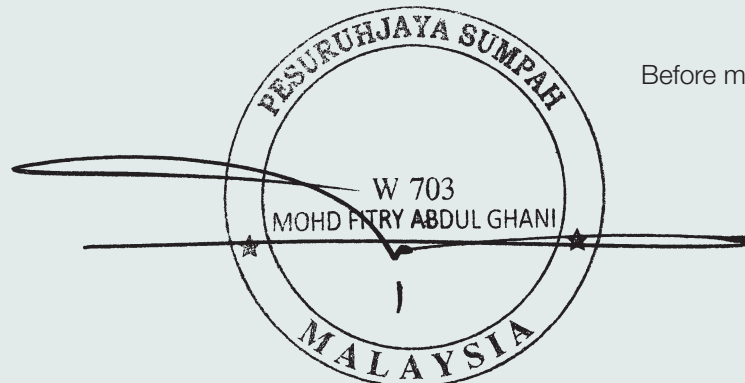
# BANK NEGARA MALAYSIA

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

I, Affendi bin Rashdi, being the officer primarily responsible for the financial management of Bank Negara Malaysia, do solemnly and sincerely declare that the financial statements for the year ended 31 December 2017, 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 28 February 2018. )



Before me,

NO. 58A, JALAN BUKIT RAJA  
TAMAN SEPUTEH  
58000 KUALA LUMPUR

# BANK NEGARA MALAYSIA

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

		2017 RM million	2016 RM million
<b>ASSETS</b>			
	<b>Note</b>		
Gold and Foreign Exchange	3	406,798	415,506
International Monetary Fund Reserve Position	4	3,116	3,467
Holdings of Special Drawing Rights	4	4,737	4,956
Malaysian Government Papers	5	4,226	4,265
Deposits with Financial Institutions	6	8,913	1,528
Loans and Advances	7	7,593	7,740
Land and Buildings	8	4,180	2,114
Other Assets	9	10,283	11,403
<b>Total Assets</b>		<b>449,846</b>	<b>450,979</b>
<b>LIABILITIES AND CAPITAL</b>			
Currency in Circulation		103,585	97,752
Deposits from: Financial Institutions		181,718	170,249
Federal Government		7,479	9,441
Others	10	1,456	534
Bank Negara Papers		7,268	8,602
Allocation of Special Drawing Rights	4	7,759	8,118
Other Liabilities	11	3,762	11,446
<b>Total Liabilities</b>		<b>313,027</b>	<b>306,142</b>
Paid-up Capital	12	100	100
General Reserve Fund	13	14,744	14,666
Risk Reserve	14	118,657	126,741
Land Revaluation Reserve	15	752	752
Unappropriated Profits	16	2,566	2,578
<b>Total Capital</b>		<b>136,819</b>	<b>144,837</b>
<b>Total Liabilities and Capital</b>		<b>449,846</b>	<b>450,979</b>

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

# BANK NEGARA MALAYSIA

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

		2017 RM million	2016 RM million
	<b>Note</b>		
<b>Total Income</b>	17	<b>10,043</b>	<b>9,024</b>
Less:			
Recurring Expenditure	18	(1,287)	(1,124)
Development Expenditure	19	(1,247)	(1,373)
<b>Total Expenditure</b>		<b>(2,534)</b>	<b>(2,497)</b>
<b>Net Profit Before Tax</b>		<b>7,509</b>	<b>6,527</b>
Less: Taxation	20	(43)	(49)
<b>Net Profit After Tax</b>		<b>7,466</b>	<b>6,478</b>
Less: Transfer to Risk Reserve	14	(4,900)	(3,900)
<b>Unappropriated Profits of the year</b>		<b>2,566</b>	<b>2,578</b>

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

# BANK NEGARA MALAYSIA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

### 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 28 February 2018.

### 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 directors, appropriate to do so, having regard to the objects and functions of the Bank. The directors, having considered its responsibilities for the formulation and conduct of effective monetary policy and promoting financial stability, are of the opinion that, it is appropriate to differ, in certain aspects, from the MFRS.
- (b) The preparation of the financial statements on the basis stated in 2.1 (a) 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.

# BANK NEGARA MALAYSIA

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## 2.2 Measurement Base and Accounting Basis

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 using the exchange rate prevailing as at the end of the financial year. Transactions in foreign currencies during the year are translated into Ringgit Malaysia using the exchange rate prevailing at the transaction dates.
- (c) All foreign exchange unrealised gains or losses arising on translation on foreign currency assets and liabilities are recognised in Risk Reserve while realised gains or losses upon settlement on other assets and other liabilities are recognised in the Income Statement.

## 2.4 Gold

Gold is carried at fair value. Unrealised gains and losses from changes in the fair value on gold are recognised in Risk Reserve. Realised gains or losses from the sale of gold are recognised in the Income Statement.

## 2.5 Foreign Securities

Foreign securities are stated at amortised cost or fair value. Fair value changes are recognised in Risk Reserve or in the Income Statement. Upon derecognition, realised gains or losses are recognised in the Income Statement.

## 2.6 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 to shareholder.

## 2.7 Repurchase and Reverse-Repurchase Agreements

The amount under repurchase agreements is reported under Other Liabilities and the difference between the sale and repurchase price is recognised as interest expense in the Income Statement. Conversely, the amount under reverse repurchase agreements is reported under Other Assets and the difference between purchase and resale price is recognised as interest income in the Income Statement.

## 2.8 Land and Buildings

- (a) The Bank capitalises all its land while buildings are maintained at nominal cost of RM10 each.
- (b) The amount of land capitalised at initial recognition is the purchase price along with any further costs incurred in bringing the land to its present condition.
- (c) After initial recognition, land is stated at revalued amount. Professional valuations of the Bank's land will be carried out once every ten years with any surplus arising on revaluation to be recognised directly in the Land Revaluation Reserve.
- (d) Gain or loss arising from the disposal of land is determined as the difference between the net disposal proceeds and the carrying amount of the land. Upon disposal of land, any surplus previously recorded in Land Revaluation Reserve is transferred to Unappropriated Profit.

# BANK NEGARA MALAYSIA

- (e) Land (freehold and leasehold) is not amortised but revalued once in 10 years and fair value is determined from market based evidence undertaken by professionally qualified valuer. Buildings are not depreciated but revalued to a nominal value in the year of acquisition.

## 2.9 Other Fixed Assets

All other fixed assets are completely written-off in the year of acquisition.

## 3. Gold and Foreign Exchange

	<b>2017</b>	<b>2016</b>
	<b>RM million</b>	<b>RM million</b>
Gold	6,348	6,411
Foreign Securities	373,925	345,024
Foreign Deposits	4,999	6,306
Balances with Other Central Banks	9,507	41,415
Others	12,019	16,350
	<u>406,798</u>	<u>415,506</u>

## 4. International Monetary Fund (IMF) Reserve Position, Holdings of Special Drawing Rights (SDR) and Allocation of Special Drawing Rights

The IMF objectives are to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. The IMF also provides advice and temporary funding to member countries in the event of balance of payments difficulties.

### IMF Reserve Position

This consists of the reserve tranche position of Malaysia's quota, lending under the Financial Transaction Plan (FTP) and New Arrangements to Borrow (NAB). The IMF quota determines the member country's voting strength, the financial contributions to the IMF, the amount of financing the member can access in the event of balance of payment difficulties and the amount of SDRs allocated to the member. Both FTP and NAB programmes are used to provide loans if the IMF has a need for funds in excess of quota resources.

### Holdings of Special Drawing Rights

Holdings of Special Drawing Rights (SDR) are an international reserve asset created by the IMF. SDR is periodically allocated to IMF member countries on the basis of the size of member countries' quota. A member may use SDR to obtain foreign exchange reserves from other members and to make international payments, including to the IMF.

### Allocation of Special Drawing Rights

This liability to the IMF represents an equivalent amount of SDR received since its inception.

## 5. Malaysian Government Papers

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

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	<b>2017</b> <b>RM million</b>	<b>2016</b> <b>RM million</b>
Malaysian Government Securities	3,859	3,916
Malaysian Government Investment Certificates	367	349
	<u>4,226</u>	<u>4,265</u>

### 6. 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.

### 7. Loans and Advances

Loans and advances comprise mainly of 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 provided under section 48, section 49 and section 100 of the Central Bank of Malaysia Act 2009.

### 8. Land and Buildings

	<b>2017</b> <b>RM million</b>	<b>2016</b> <b>RM million</b>
Land, at cost		
Freehold	3,316	1,250
Land, at revaluation		
Freehold	694	694
Leasehold	170	170
	<u>4,180</u>	<u>2,114</u>

	<b>2017</b> <b>RM</b>	<b>2016</b> <b>RM</b>
Buildings, at nominal value		
Freehold	2,230	2,160
Leasehold	1,380	1,380
	<u>3,610</u>	<u>3,540</u>

During the year, the Bank acquired a parcel of freehold land costing RM2,066 million. The land valuation was mutually agreed on between the Bank and the Government of Malaysia based on the valuation process conducted by an appointed independent private sector valuer. The acquisition cost of the land is subject to a final survey of the area involved.

Freehold and leasehold land, at revaluation, were revalued by an independent valuer on 1 August 2014.

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## 9. Other Assets

Included in other assets are securities purchased under reverse-repurchase agreements of RM4,735 million (2016: RM5,735 million) and investments in shares and bonds of RM4,602 million (2016: RM4,602 million) acquired under section 48(1) and section 100 of the Central Bank of Malaysia Act 2009.

## 10. Deposits from Others

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

## 11. Other Liabilities

Other liabilities include securities sold under repurchase agreements of RM876 million (2016: RM9,248 million).

## 12. Paid-up Capital

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

## 13. General Reserve Fund

	<b>2017</b> <b>RM million</b>	<b>2016</b> <b>RM million</b>
At 1 January	14,666	14,572
Amount approved and transferred to the General Reserve Fund during the year	78	94
As at 31 December	<u>14,744</u>	<u>14,666</u>

Appropriations of net profits to the General Reserve Fund and dividends to the Government are recognised upon the approval by the Minister as provided under section 7 of the Central Bank of Malaysia Act 2009.

The transfer to the General Reserve Fund for the year ended 2016 of RM78 million was approved by the Minister on 9 March 2017.

## 14. Risk Reserve

The Risk Reserve are financial buffers comprising cumulative transfers of net profits, unrealised gains or losses on translation of foreign currency assets and liabilities and fair value changes from securities carried at fair value.

A market risk measurement framework is used to estimate financial buffers required to cushion unexpected loss arising from unfavourable circumstances not within the control of the Bank.

## 15. Land Revaluation Reserve

Land Revaluation Reserve relates to unrealised surplus of land upon their revaluation.

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## 16. Unappropriated Profits

	<b>2017</b>	<b>2016</b>
	<b>RM million</b>	<b>RM million</b>
Balance 1 January	2,578	3,094
Less: Appropriations approved during the year		
Transfer to General Reserve Fund	(78)	(94)
Dividend paid to the Government	(2,500)	(3,000)
	<u>-</u>	<u>-</u>
Current year's unappropriated profits	<u>2,566</u>	<u>2,578</u>
Balance 31 December	<u>2,566</u>	<u>2,578</u>

In accordance with section 7 of the Central Bank of Malaysia Act 2009, appropriations to the General Reserve Fund and declaration of dividends to the Government are subject to the approval of the Minister, and if approved will be recognised in the next financial year ending 31 December 2018.

The dividend paid to the Government for the year ended 2016 amounted to RM2.5 billion was approved by the Minister on 9 March 2017.

For the year ended 31 December 2017, the Board recommends a transfer to the General Reserve Fund of RM66 million and dividend payable of RM2.5 billion to the Government.

## 17. 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.

## 18. Recurring Expenditure

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

## 19. 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.

## 20. Taxation

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. Tax expenses relates to unclaimable withholding taxes on income from foreign dividend and interest and capital gains taxes on sale of foreign investments.

## 21. Contingencies and Commitments

### 21.1 Contingent Assets

Total contingent assets as at 31 December 2017 amounted to RM1,400 million. These comprise the Bank's total contributions to International Centre for Leadership in Finance (ICLIF) Trust Fund of RM800 million and International Centre for Education in Islamic Finance (INCEIF) Trust Fund of RM600 million to finance activities related to training, research and development of human resource

## BANK NEGARA MALAYSIA

in banking and financial services managed by The ICLIF Leadership and Governance Centre and INCEIF, respectively. 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.

### 21.2 Commitments

Total commitments as at 31 December 2017 comprise the following:

	Note	2017 RM million	2016 RM million
<b>Total Commitments</b>			
International Monetary Fund (IMF)	(a)		
Unpaid Quota	(i)	18,050	18,020
New Arrangement to Borrow (NAB)	(ii)	1,743	1,737
Bilateral Contribution	(iii)	4,048	4,486
Investment with Bank for International Settlements (BIS)	(b)	70	72
Liquidity Investment Arrangement with IILM	(c)	2,429	2,692
Swap Arrangements	(d)		
ASEAN Swap Arrangement	(i)	1,214	1,346
Bilateral Currency Swap Arrangement (PBOC)	(ii)	90,000	90,000
Bilateral Currency Swap Arrangement (BOK)	(ii)	15,000	15,000
Chiang Mai Initiative Multilateralisation	(iii)	37,000	41,000
Repurchase Agreement with EMEAP Members	(iv)	20,000	22,000
		<u>189,554</u>	<u>196,353</u>

#### (a) Membership with IMF

- (i) The Bank has an obligation to pay to IMF SDR3,131 million, equivalent to RM18,050 million (2016: SDR2,988 million, equivalent to RM18,020 million) or in other convertible currencies which represents the unpaid portion of Malaysia's quota in the IMF under the Articles of Agreement.
- (ii) 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 a supplementary source of financing to IMF for the purpose of safeguarding the stability of the international monetary system. As at 31 December 2017, the amount of undrawn credit under the NAB is SDR302 million, equivalent to RM1,743 million (2016: SDR288 million, equivalent to RM1,737 million).

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(iii) On 23 July 2012, the Bank has pledged a USD1,000 million, equivalent to RM4,048 million (2016: USD1,000 million, equivalent to RM4,486 million) bilateral contribution to the IMF for precautionary and financial crisis resolution purposes.

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

The Bank has a commitment of SDR12 million, equivalent to RM70 million (2016: SDR12 million, equivalent to RM72 million) which refers to the uncalled portion of the 3,220 units of shares held by the Bank in the BIS based on the nominal value of SDR5,000 each using the SDR rate at the date of the Statement of Financial Position.

(c) **Liquidity Investment Arrangement (LIA) with International Islamic Liquidity Management Corporation (IILM)**

In December 2016, the Bank as member of the International Islamic Liquidity Management Corporation (IILM) entered into a Liquidity Investment Arrangement (LIA) to further solidify support for the entity. As at 31 December 2017, due to the joint and several liability of the agreement, the total commitment of participating members under the LIA is USD600 million equivalent to RM2,429 million (2016: USD600 million, equivalent to RM2,692 million). However, the Bank's net commitment is capped at USD100 million equivalent to RM405 million (2016: USD100 million, equivalent to RM449 million) as the arrangement allows for counterclaim of USD500 million equivalent to RM2,024 million (2016: USD500 million, equivalent to RM2,243 million) against the other participating members. During the financial year, there was no request for liquidity from any participating members.

(d) **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 2017, the Bank's total commitment amounted to USD300 million, equivalent to RM1,214 million (2016: USD300 million, equivalent to RM1,346 million) and there was no request for liquidity support under ASA from any member country during the financial year.

(ii) **Bilateral Currency Swap Arrangement**

(a) On 20 April 2015, 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 the local currency between the two countries. As at 31 December 2017, the Bank's total commitment under the BCSA is RM90 billion (2016: RM90 billion) and there has been no request to activate the BCSA during the financial year.

(b) On 25 January 2017, the Bank renewed the Bilateral Currency Swap Arrangement (BCSA) agreement with the Bank of Korea with the objective of promoting bilateral trade and facilitating trade settlement in local currency between the two countries. As at 31 December 2017, the Bank's total commitment under the BCSA is RM15 billion and there has been no request to activate the BCSA during the financial year.

(iii) **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 2017, the Bank's total commitment is USD9.1 billion, equivalent to RM37 billion (2016: USD9.1 billion, equivalent to RM41 billion) and there was no request for liquidity support from any member country.

(iv) **Repurchase Agreement with Central Banks and Monetary Authorities**

The Bank has entered into repurchase agreements totalling USD5 billion, equivalent to RM20 billion (2016: USD5 billion, equivalent to RM22 billion) with various central banks and monetary authorities under the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) to provide liquidity assistance in times of emergency. As at 31 December 2017, there was no request for liquidity assistance from any counterpart.

## 22. **Financial Risk Management**

The Reserve Management Committee oversees the assessment, measurement and the control of the investment risks in the management of reserves to be within acceptable levels to ensure that the objectives of capital preservation, liquidity and reasonable returns are met. In undertaking this function, 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 related to foreign exchange rates, interest rates and prices of bonds and equities. Market risk is assessed and monitored on a daily basis. A benchmark policy approved by the Board of Directors reflects the long-term objectives and acceptable risk-return profile of the investments. Investments may be made in instruments that are different from those in the benchmark. This deviation in investment is controlled through a set of risk management limits, governance arrangements and investment guidelines that are also approved by the Board of Directors. Sensitivity analysis and stress testing are undertaken to assess emerging risks and potential marked-to-market losses from adverse movements and volatility in the market, as well as liquidity conditions.

(b) **Credit Risk**

Credit risk is the risk of default of the issuer of the debt or failure of the counterparty to perform its contractual obligation to the Bank resulting in the Bank not receiving its principal and/or interest that has fallen due in a timely manner. A comprehensive credit risk framework governs the permissible investments and the risk appetite of the Bank. This ensures investments are placed with issuers and counterparties of high credit standing and the probability of losses from this risk is low. The framework, which is approved by the Board, also incorporates market-based credit indicators such as ratings implied from financial market prices, and internal credit assessment. This enhances the credit framework by providing a more dynamic and forward-looking credit assessment.

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(c) **Operational Risk**

Operational risk 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 governance framework and effective implementation of risk controls and limits. A comprehensive operational risk surveillance mechanism is in place to support the identification of emerging risks in the Bank's operations to allow for action to be taken in managing gaps and in mitigating financial losses.

23. **Bank Negara Malaysia Staff Welfare Account (SWA) and Bank Negara Malaysia Staff Welfare Account (Medical Fund) (termed as the 'Medical Fund Account')**

The SWA was established on 1 March 1991 under section 15 (5) and (6) of the Central Bank of Malaysia Act 1958 while the Medical Fund Account was established on 21 June 2006 under section 15 (6) of the Central Bank of Malaysia Act 1958. Both the SWA and the Medical Fund continue to exist under section 83 (4) and (5) of the Central Bank of Malaysia Act 2009.

The SWA is governed under the Bank Negara Malaysia Staff Welfare Account Trust Directions 1991. As stipulated in the Trust Directions 1991, the SWA shall be administered by a committee authorised by the Board (Authorised Committee of the Board). The accounts of the SWA are to be maintained separately from the other accounts of the Bank and shall be audited in the same manner of the Bank's Account. The objective of the SWA is to provide loans to the staff for certain allowable activities, finance the activities of the staff's associations and give education excellence awards to the children of staff. The SWA also manages the insurance compensation of the deceased staff received by beneficiaries who have yet to attain the legal age.

The Medical Fund Account is governed under the Bank Negara Malaysia Staff Welfare Account (Medical Fund) Trust Directions 2006 and Supplementary Trust Directions 2017. The objective is to assist the Bank to meet the medical expenses of eligible retirees and their dependents. As stipulated in the Staff Welfare Account (Medical Fund) Trust Directions 2006, the Medical Fund shall be administered by a Medical Fund Committee. The Medical Fund Account is to be maintained separately under the Staff Welfare Account and shall be audited in the same manner of the Staff Welfare Account.