



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Annual Report
2020

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BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Statutory Requirements

In accordance with section 13 of the Central Bank of Malaysia Act 2009, Bank Negara Malaysia hereby publishes and has transmitted to the Minister of Finance a copy of this Annual Report 2020 together with a copy of its Financial Statements for the year ended 31 December 2020, which have been examined and certified by the Auditor-General. The Financial Statements will also be published in the Gazette.

For the purposes of section 115 of the Development Financial Institutions Act 2002, the annual report on the administration of the Development Financial Institutions Act 2002 and other related matters for the year ended 31 December 2020 is incorporated in this Annual Report.

Nor Shamsiah Yunus
Chairman
Board of Directors
31 March 2021



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Nor Shamsiah Yunus

Governor, Bank Negara Malaysia

Foreword

2020 was a year like no other. The pandemic plunged the world into a public health crisis that saw many losing their lives, and the livelihoods of many more were disrupted as entire countries were forced to a near standstill. Malaysia was not spared as the economy recorded a significant contraction especially in the second quarter of the year.

Amid these challenges, and working within our mandates to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy, the Bank took swift and broad-ranging measures to cushion shocks to the financial system and the economy. In doing so, we coordinated closely with the Government and the financial sector to preserve both lives and livelihoods.

A top priority was to mitigate the impact of the economic contraction and promote conditions for a sustainable economic recovery. We reduced the Overnight Policy Rate to the lowest level in our history and implemented measures to ensure adequate liquidity and orderly market conditions. Debt relief measures and funding programmes for SMEs were rolled out at an unprecedented scale to help affected borrowers and businesses to alleviate cash flow constraints and maintain credit flows to the economy. The ability of the financial sector to extend support at the scale that was necessary is a testament to the importance of building buffers and ensuring the strength and resiliency of the financial system, especially during good times.

As 2020 recedes into the rear-view mirror, the worst may be behind us. However, the road ahead will not be without bumps. Even with signs of economic recovery and the global roll-out of vaccines, there remains significant uncertainty surrounding the evolution and trajectory of the pandemic. Complacency in managing the pandemic could lead to resurgences and consequently, the re-imposition of strict containment measures. In addition, uneven economic recovery and scarring in some sectors will also weigh on the future growth potential of the economy. Given this uncertainty in the strength of economic recovery, the thrust of our monetary policy in 2021 will remain accommodative to support an entrenched and sustained recovery.

The Bank continued to promote monetary stability and financial stability in 2020, by taking exceptional measures to overcome extraordinary challenges during the year.

For the financial sector, our priority is to ensure that it continues to serve the public by maintaining uninterrupted financial services and meeting the needs of households and businesses for financing and temporary relief. The strong position of financial institutions going into this crisis has enabled them to act as a shock absorber to the economy. Financial institutions remain well-placed to play a counter-cyclical role to facilitate a swift and sustainable recovery. This has been supported by appropriate regulatory flexibilities to help banks prioritise the needs of their customers. At the same time, the Bank continues to maintain a strong focus on measures by financial institutions to strengthen their operational resilience, preserve financial buffers against future losses and treat customers fairly. As financial markets are expected to remain volatile, the Bank will also continue to ensure sufficient liquidity and maintain orderly conditions in the foreign exchange and money markets.

Although the focus of the Bank's attention in 2020 was on dealing with the crisis, we continued to keep an eye on the future and pursue existing strategic priorities critical to the financial sector. To increase Malaysia's economic resilience and growth prospects, the Bank will double down on initiatives in the financial sector to support Malaysia's transition to a digital economy. This includes the licensing of digital banks and accelerating initiatives in digital payments, which has seen significant increases in usage and acceptance over the past year. The pandemic is also a call to action on climate risk, highlighting the urgency of building a more climate resilient economy. The groundwork being laid today to build a common language for assessing climate risks through a taxonomy, along with expectations for financial institutions to improve climate risk management and disclosures, will strengthen their role in supporting the transition to a greener economy. More broadly, the Bank will finalise our developmental and regulatory priorities under a new blueprint for the financial sector, which will be released early next year. This will include accelerating the development of non-debt based financing to address gaps in the availability of funding to households and businesses.

For the Bank, the pandemic was also a test of organisational resilience. The novelty, scale and speed of the crisis necessitated the adoption of a "whole-of-Bank" approach to quickly draw upon its reservoir of knowledge and expertise from all across the organisation. The Bank also had to quickly develop new knowledge and skills in areas beyond our traditional domains of expertise, to quickly understand how public health considerations impact the economy and financial system. To add to the challenge, like most others, we as an organisation had to make a rapid switch to remote working, resulting in our people having to juggle between multiple demands of work, family and health. Taken together, these challenges combined with an environment of greater uncertainty and incomplete information, necessitated the Bank to adapt quickly and creatively to mount an effective response.

As management of the pandemic enters a new phase, the experience of the past year offers valuable lessons to further strengthen the Bank's agility in responding to fast-moving developments, both during crises and normal times. A key reflection of this period has been the Bank's ability to examine and address complex problems through multiple lenses and perspectives, and to work seamlessly across functions to deliver on our mandates. We will continue to prioritise investments in our people, to ensure that we build and maintain the necessary capabilities,

skills and knowledge to deal with anticipated shifts and uncertainties in the post-pandemic world. Moreover, with traditional working norms upturned, we are taking steps to reinforce the strong culture and values of the Bank, including by ensuring that our people remain engaged and aligned with the Bank, no matter where or how they work. Last but not least, the pandemic also affirms the urgency for us to accelerate our digital transformation journey, so that our people have the right tools, technology and data that will allow them to be at their best.

Indeed, the experience of the past year has made me even more confident in the Bank's ability to persevere and overcome any challenge that is put before us. Here, I wish to take this opportunity to express my sincerest appreciation to everyone in the Bank for their commitment, dedication and hard work during this particularly challenging time. Many of our people went above and beyond to serve the Bank and the nation. I am also deeply grateful to the Board for their guidance and oversight.

Even as the economy recovers from the pandemic, we are not completely out of the woods. In this environment of heightened uncertainty, there is no room for complacency. Therefore, the Bank will remain steadfast in delivering on our mandates with the highest standards of professionalism and integrity. We will apply sound judgment and duty of care in everything that we do to uphold the Bank's tradition as an institution that acts in the best interest of the nation.



Nor Shamsiah Yunus

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Our Role



Our Role

Bank Negara Malaysia is Malaysia's central bank. Our principal objective is to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. The Bank derives its mandate and powers from the Central Bank of Malaysia Act 2009 and other laws that it administers¹.

In our role to promote monetary stability, the Bank formulates and conducts monetary policy to keep inflation low and stable, while ensuring that it is supportive of sustainable economic growth. We are also mandated to promote an exchange rate regime consistent with the fundamentals of the economy.

To promote financial stability, the Bank regulates and supervises financial institutions to promote their safety and soundness. We oversee money and foreign exchange markets to promote their integrity and orderly functioning. We also exercise oversight over payment systems to foster safe, efficient and reliable payment systems and payment instruments. In addition, we regulate the conduct of financial institutions and intermediaries in order to provide appropriate protection to financial consumers.

The Bank plays a key role in promoting a progressive and inclusive financial system. This takes into account the changing needs of the Malaysian economy and its people, and the central role of finance in the nation's economic and social progress.

Our pursuit to develop and deepen both the conventional and Islamic financial system also recognises that a well-developed financial system is one that can help absorb shocks, and therefore contributes to the country's resilience.

The Bank carries out a number of other important functions. These include issuing currency, and holding and managing the country's foreign reserves. The Bank is also the financial adviser, banker and financial agent of the Government. Together with other government and law enforcement agencies, we play a role in helping to prevent the criminal abuse of financial services. Additionally, the Bank has been responding to climate risk, firstly through appropriate regulation and supervision of financial institutions, to support an orderly transition to a low-carbon economy; and secondly by embedding sustainable practices in our own operations.

In all the Bank does, it does in the best interest of the nation.

¹ Other key legislation includes the Financial Services Act 2013; Islamic Financial Services Act 2013; Development Financial Institutions Act 2002; Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001; Money Services Business Act 2011; and the Currency Act 2020.

Promoting Monetary Stability

In our role of promoting monetary stability, the Bank seeks to implement a monetary policy that maintains a low and predictable pace of increase in the general level of prices of goods and services, taking into consideration economic developments and the outlook. Ultimately, the aim is to promote monetary stability that is conducive to the sustainable growth of the Malaysian economy.

Decisions on monetary policy are made autonomously by the Monetary Policy Committee (MPC), which meets six times a year.¹ The Bank undertakes monetary operations² to implement the decisions of the MPC.

Monetary policy in 2020

The outbreak of the COVID-19 pandemic in early 2020 initially began as a health crisis that later brought about an unprecedented economic crisis. Most economies globally were confronted by both supply and demand shocks following the measures imposed to contain the pandemic. Global production, demand and travel activities were

severely disrupted, while heightened risk aversion among global investors led to financial market volatility. Substantial policy stimuli introduced by many economies, however, partially mitigated the economic impact of the pandemic.

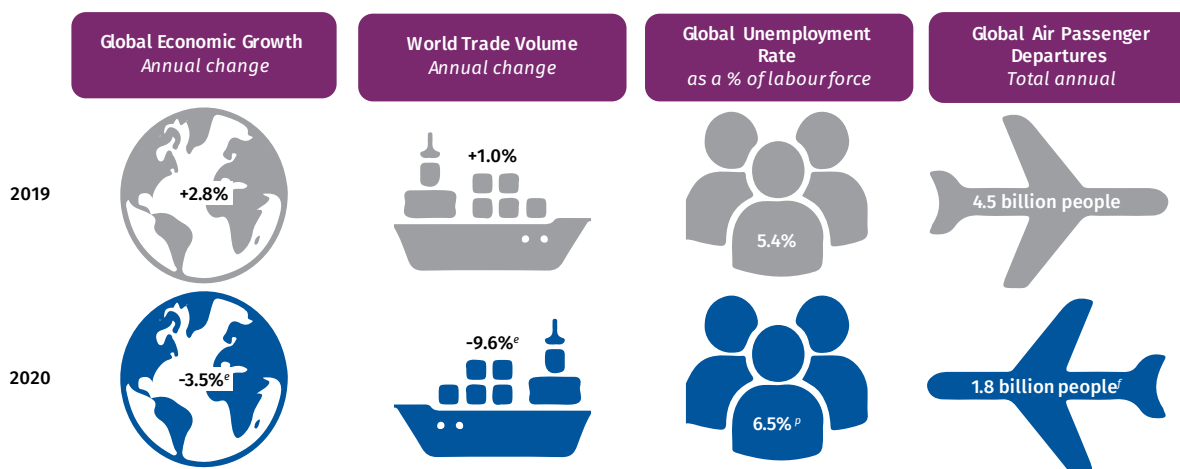
Malaysia was similarly affected by the pandemic. Widespread containment measures, international border closures and the consequent weak external demand environment exerted a large drag on domestic economic activity. Containment measures in the form of movement control orders and standard operating procedures (SOPs), while necessary to contain the spread of the virus, constrained domestic production and spending. Consequently, labour market conditions weakened considerably. Fiscal stimulus measures, alongside monetary and financial measures, however, provided support to the economy. Overall, Malaysia's GDP growth contracted by 5.6% in 2020 (2019: +4.3%). Meanwhile, inflationary pressures were muted with average headline inflation turning negative for the year at -1.2% (2019: +0.7%) due mainly to the substantially lower global oil prices during the year. However, Malaysia was not experiencing deflation as the decline in prices was neither persistent nor broad-based.

At each MPC meeting, the Committee decides on whether the current level of the Overnight Policy Rate (OPR) – the sole indicator of the monetary policy stance – is at the appropriate level to safeguard price stability while supporting economic activity. As the effect of monetary policy action normally takes three to four quarters to most significantly affect the economy, the MPC, in making its decisions, assesses and deliberates on the outlook for both domestic economic growth and inflation. The Bank's staff facilitate this process by presenting their surveillance analysis, simulation results, scenario analysis, research findings and forecasts to the MPC. The MPC also takes into consideration the risks that financial imbalances may pose to the broader economy.

¹ More information on Malaysia's monetary policy and the MPC can be found in the 'Governance' section of this report.

² Monetary operations are discretionary market operations and the main mechanism through which the Bank adjusts liquidity in the banking system. This is done by absorbing or adding liquidity via various types of instruments to achieve its operating target, the average overnight interbank rate (AOIR). More information on the various instruments used can be found in the 'Monetary Operations' section of the Bank's website.

Chart 1: Snapshot of Disruptions to Global Economic Growth, Trade, Labour Markets and Travel Arising from the COVID-19 Pandemic



^e Estimate

^p Preliminary

^f Forecast

Source: International Monetary Fund (IMF), International Labour Organisation (ILO) and International Air Transport Association (IATA)

In 2020, the MPC reduced the OPR by a cumulative 125 basis points from 3.00% to 1.75% at four MPC meetings held in January, March, May and July 2020. At 1.75%, the OPR is at its historical low. The reductions in the OPR were intended to provide appropriate support to economic activities. This was particularly the case at the onset of the pandemic, which brought about the need to cushion its impact on businesses and households. Amid a decline in economic activity, the OPR reductions helped to ease debt servicing burdens and thus cash constraints for households, small and medium enterprises (SMEs), and corporates. The lower interest rates also reduced the cost of financing and lent support to new credit expansion and fund-raising activity. The policy stimulus from the significant OPR reductions in 2020 are expected to continue to have a positive impact on the economy in 2021.

These OPR adjustments complemented other monetary and financial measures undertaken by the Bank, as well as fiscal measures implemented by the Government, in mitigating the economic impact of the pandemic and supporting the economic recovery. At the last two meetings of the year in September and November 2020, the MPC kept the OPR unchanged. The MPC assessed that the domestic economy was on a recovery path and that the accommodative monetary policy remained appropriate. Additionally, the MPC stressed the

need for demand management measures to be complemented with supply-side and structural policies. This is important to ensure the economic recovery will be sustained post-pandemic.³

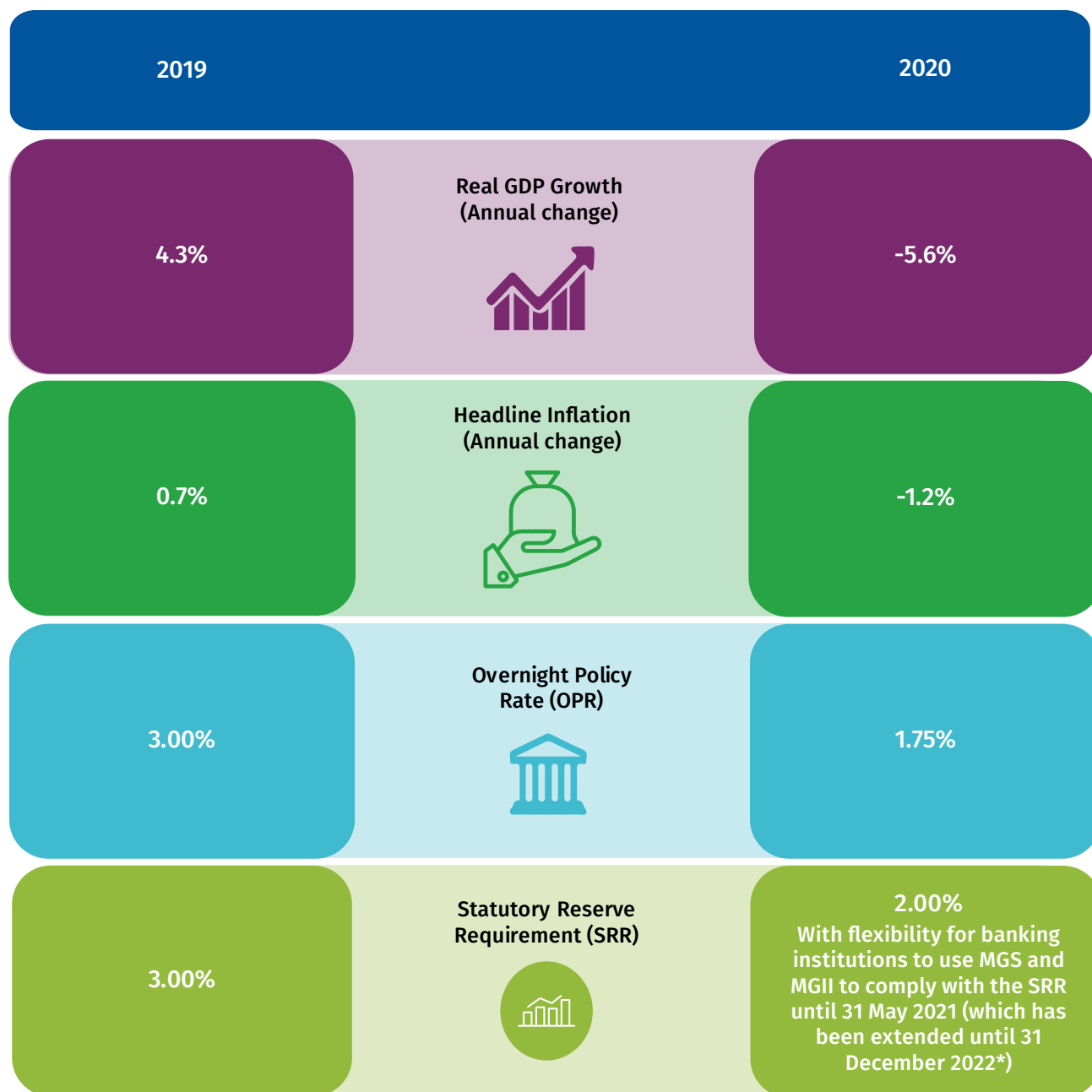
For monetary policy decisions to have the intended impact on economic activity, the Bank undertakes monetary operations focused on ensuring that there is a sufficient level of liquidity in the banking system so that the average overnight interbank rate (AOIR) remains around the OPR. This, in turn, influences the level of other interest rates in the economy, such as deposit rates, lending rates and bond yields, which affect savings and spending decisions of households and businesses. The Bank uses various instruments in its monetary operations such as unsecured borrowings and repos of various short-term tenures to ensure that there is sufficient liquidity in the domestic financial markets to support financial intermediation⁴ in the economy.

During the year, particularly at the onset of the crisis, global and domestic financial markets experienced heightened risk aversion and uncertainty, which

³ Greater detail on the analysis underpinning the MPC's decisions can be found on the Bank's website in the Monetary Policy Statements, the BNM Quarterly Bulletins, as well as Chapter One of the Economic and Monetary Review 2020.

⁴ Financial intermediation refers to transactions between lenders, savers and borrowers, or investors and firms in financial markets.

Chart 2: Key Domestic Figures at a Glance



* Effective 20 January 2021

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

resulted in periodic episodes of volatile financial conditions and capital flows. To preserve orderly financial market conditions and support financial intermediation activity, the Bank injected a total of RM63.6 billion worth of liquidity into the domestic financial markets through the outright purchases of Government securities⁵, reverse repos and

adjustments to the Statutory Reserve Requirement (SRR). The SRR was adjusted in March and May 2020, which saw the SRR ratio reduced from 3.00% to 2.00%, along with the temporary flexibility provided to all banking institutions to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to comply with the SRR.

⁵ This includes Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII).

The ringgit exchange rate

Another key role of the Bank is to maintain the efficient and effective functioning of the foreign exchange market. The ringgit exchange rate plays an important role in the economy, as it affects, among others, the prices of our exports, imports and level of foreign currency debt. Malaysia continues to maintain a flexible exchange rate policy for the ringgit. This means that the ringgit exchange rate is predominantly determined by market demand and supply. This flexibility in the ringgit exchange rate plays an important role in ensuring that the economy is able to withstand external shocks by facilitating the appropriate adjustments in the country's international economic and financial transactions.

Nevertheless, as a highly open economy that faces large cross-border capital flows, this flexibility can at times lead to considerable volatility in the ringgit exchange rate, particularly when investors react to major global and domestic developments. Therefore, the Bank continues to ensure that movements in the exchange rate are not excessive so as to not disrupt domestic economic activity such as trade and investments. The Bank also supports the orderly functioning of the domestic foreign exchange market by ensuring there is sufficient liquidity at all times through our two-way foreign exchange interventions.

Analysis and research

Rigorous analytical surveillance and research on short-term and longer-term issues, including from the Bank's regional offices, support the MPC in formulating its monetary policy decisions.

A key focus for the Bank in 2020 was analysing how the pandemic and the consequent health and policy measures imposed both globally and domestically affected the economy, prices, employment and access to financing. The analysis was also crucial in assessing the strength of the expected recovery. The Bank faced unique and considerable challenges due to the rapidly changing nature of the public health crisis. Growth forecasts were consequently highly dependent on developments and key assumptions surrounding the course of the pandemic and the policy reactions of authorities worldwide. New high-frequency data and indicators such as mobility indicators, online credit card transactions and the usage of online delivery

platforms for groceries and essentials were used to gauge the impact of containment measures and the pace of economic recovery.

Some of the key research undertaken by staff included assessing the channels and propagation of the pandemic through economies, and analysing the fiscal, monetary and financial policy responses globally.⁶ To better understand the impact of the pandemic on inflation dynamics, staff also evaluated some of the ways that inflation was affected in the immediate term, and provided a preliminary assessment on how structural changes in the economy arising from the pandemic could have a longer-term impact on inflation.⁷ Given the negative headline inflation experienced during the year, staff assessed the criteria that would constitute a deflationary environment.^{8,9} Extending this analysis further, staff constructed a framework to identify items in the Consumer Price Index (CPI) basket that would be most vulnerable to price changes in the event of a resurgence in the pandemic, in order to better assess potential deflationary risks.

The Bank also evaluated the transmission of the OPR reductions to the domestic financial markets, the banking system, the economy and inflation. Additionally, given the low interest rate environment globally, research surrounding the effective lower bound (ELB) was conducted in order to assess the Bank's monetary policy space.¹⁰

Joint Policy Committee (JPC) meetings are held in order to holistically assess issues that pose implications to both monetary and financial stability. The JPC met during the year to consider an in-depth assessment on the impact of the pandemic on banks' asset quality and lending activity, as well as their potential implication for the recovery and growth prospects of the economy. Particular attention was given to assessing potential risks of rising gaps in the demand and supply of credit resulting from changes in both the borrowing and lending appetites and behaviour.

⁶ Refer to the First Quarter 2020 BNM Quarterly Bulletin box article titled 'Crises and Policy: COVID-19 Truly is Different' on the Bank's website for the analysis.

⁷ Refer to the Second Quarter 2020 BNM Quarterly Bulletin box article titled 'COVID-19: Impact on Inflation' on the Bank's website for the analysis.

⁸ Deflation is defined as the persistent and pervasive decline in prices.

⁹ Refer to the Third Quarter 2020 BNM Quarterly Bulletin box article titled 'Understanding Deflation' on the Bank's website for the analysis.

¹⁰ Refer to the Box Article titled 'Asset Purchases by Central Banks' in the Economic and Monetary Review 2020 for the analysis.

During the year, the Bank continued to provide advisory support to the Government in navigating the economy through the crisis. The Governor is a member of the Economic Action Council (EAC), and the Bank participated in selected policy groups that focused on a range of economic priorities, including the formulation of the Twelfth Malaysia Plan (*Rancangan Malaysia Kedua Belas*, RMKe-12). In mitigating the impact of the pandemic on growth, the Bank was actively involved in proposing short to medium-term policy responses in order to protect the lives and livelihoods of Malaysians. Furthermore, as the financial advisor to the Government, the Governor is also a member of the Fiscal Policy Committee (FPC), which is responsible for strengthening public finances and preserving long-term fiscal sustainability. In addition, the Bank provided support on strategies to preserve the country's sovereign ratings.

The Bank also intensified its research on longer-term and structural issues facing the economy, focusing in particular on priorities to mitigate permanent scarring effects from the crisis and build the resilience and agility of the economy going forward. Major areas of work included strategies to promote more sustainable and inclusive growth, the continued need to reform investment policy and incentives, renewed urgency for holistic reforms in the labour market, and the need to increase digitalisation efforts.¹¹

Communication and outreach

Despite movement restrictions and physical distancing requirements, the Bank's engagements with the public, media, economists and financial market participants on economic and financial market issues continued uninterrupted during the year, primarily through online platforms. Press conferences for the release of the Bank's Annual Report 2019, Economic and Monetary Review 2019, the Bank's Quarterly Bulletins and other engagements were conducted virtually. Previous efforts to increase the Bank's online presence allowed for the continued seamless sharing of information, assessments and analyses. In light of heightened uncertainties due to

the pandemic, the Bank also intensified engagements with financial institutions, firms, members of industry, foreign direct investors and other central banks, including via the Bank's regional offices, to exchange views on economic, price and financial conditions, so that the Bank's assessments would be robust and well-informed.

The Bank's publications continued to provide timely and comprehensive information on monetary policy and economic analysis. The Monetary Policy Statement (MPS) provides the MPC's assessment on the economic outlook and the rationale behind the Committee's decisions. The Monthly Highlights provide monthly updates on economic, monetary and financial developments. Further in-depth economic analysis is published in the Bank's Quarterly Bulletins. The Bank's Annual Report 2019 was refreshed to be more accessible to the general public while the Economic and Monetary Review was launched in 2020 as a dedicated technical publication to share the Bank's assessments and outlook on the economy.¹² In line with the trend of embracing more digital forms of communication, content is also disseminated through social media platforms.

Going forward

In 2021, amid continued uncertainty surrounding the pandemic globally and domestically, the Bank will continue to deploy policies that will facilitate the pace and sustainability of the economic recovery. In this regard, monetary policy assessments by the MPC will be data-driven, as incoming information on economic and monetary developments will be crucial in ensuring that monetary policy remains accommodative to provide the necessary support to the economy. Monetary operations will continue to be directed at ensuring sufficient liquidity in the foreign exchange, bond and money markets, as well as complementing other policies by the Bank to ensure the orderly functioning of domestic financial markets and uninterrupted financial intermediation. The Bank will also continue to provide advice to the Government on appropriate policy measures to see Malaysia through a post-pandemic recovery and further strengthen the country's resilience for the future.

¹¹ Refer to the Box Article titled 'Getting the Great Reset Right: Structural Labour Market Issues in the Post-COVID World' in the Economic and Monetary Review 2020 for the analysis.

¹² The Monetary Policy Statements, Monthly Highlights, BNM Quarterly Bulletins, BNM Annual Report 2019 and Economic and Monetary Review 2019 can be found on the Bank's website.

Building Buffers: Roles and Functions of Bank Negara Malaysia's International Reserves

Introduction

International reserves constitute part of a country's external financial assets held against the rest of the world. The International Monetary Fund (IMF) defines international reserve assets as "External assets that are readily available to and controlled by central banks or monetary authorities¹ for meeting balance of payments² (BOP) financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes".³ This distinguishes international reserves from other domestic savings or funds, as it is narrowly defined and meant for specific purposes.

Bank Negara Malaysia's (BNM) international reserves play a critical role in Malaysia's macroeconomic management. In particular, it helps the economy withstand large and volatile capital outflows, thereby preserving macroeconomic and financial stability, and maintaining orderly financial market conditions and public confidence. This article outlines the reasons for reserve accumulations and deployments, and briefly describes the management of BNM's international reserves. It also addresses common misconceptions surrounding BNM's international reserves.

How do countries accumulate international reserves and why do they hold them?

Countries, particularly emerging market economies⁴, accumulate international reserves primarily from cross-border trade and investment inflows. These activities generate foreign currency inflows and increase demand for the domestic currency in the foreign exchange market. The central bank conducts foreign exchange market operations as and when necessary, to ensure sufficient liquidity and orderly functioning of the foreign exchange market. This operation results in reserve accumulations or drawdowns as a by-product. The magnitude of foreign exchange market interventions and size of international reserve holdings vary across countries depending on the country's foreign exchange obligations, susceptibility to capital outflows and type of exchange rate regime.

Learning from previous crises, the self-insurance or precautionary motive has been more prevalent among emerging market economies. This was demonstrated during the 2013 Taper Tantrum⁵, when ample international reserve buffers enabled affected emerging market economies to withstand capital outflows from domestic financial markets without adverse implications to the economy. In the aftermath of the Asian Financial Crisis, many emerging market economies have also made significant progress to further develop and deepen their domestic financial markets in order to reduce reliance on external financing.

¹ In most countries, the major part of international reserves are foreign currency holdings and foreign currency deposits and securities held by central banks or monetary authorities.





² The balance of payments encompasses international trade and financial/investment transactions between residents of a country with the rest of the world.

³ Other related purposes include maintaining confidence in the domestic currency and economy, and serving as a basis for foreign borrowing (Source: International Monetary Fund (2013). "International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template").

⁴ Composed of 156 developing countries as identified by the IMF.

⁵ Estrada, G., Park D., Ramayandi A. (2015). "Taper Tantrum and Emerging Equity Market Slumps". Asian Development Bank (ADB).

Table 1: Motivations in Accumulating and Holding International Reserves

<ul style="list-style-type: none"> • Precautionary motive to ensure ability to meet external obligations, particularly during large capital outflows 	<p>Economies generally hold international reserves to meet external obligations. In the event of an economic or financial shock, large capital outflows may significantly reduce foreign currency liquidity in the domestic financial market, which is critical to ensure the demand for foreign currencies can be fulfilled efficiently. This could disrupt the ability of the country to meet its external obligations smoothly, as it faces difficulty in sourcing foreign currencies. An adequate level of international reserves provides assurance to external creditors and non-resident investors of the country's ability to meet its obligations, even during adverse market conditions, with the deployment of international reserves to ensure sufficient foreign currency liquidity in the domestic financial market. The Bank for International Settlements estimated that more than half of international reserve accumulations between 2000 and 2016 were driven by the precautionary motive.⁶</p>
<ul style="list-style-type: none"> • Facilitate smooth and orderly domestic foreign currency market functioning 	<p>International reserves act as a buffer in allowing the central bank to conduct foreign exchange market interventions when necessary to maintain orderly domestic foreign exchange market conditions and avoid excessive exchange rate volatility. This is particularly important during periods of foreign exchange market stress. Excessive volatility in the foreign exchange market increases businesses' foreign exchange transactions and hedging costs. This can adversely affect trade and investment decisions. Holding adequate international reserves therefore provides confidence to market participants that the central bank is able to minimise excessive volatility in the exchange rate, thus avoiding panic in the foreign exchange market due to herd behaviour among foreign currency traders.</p>
<ul style="list-style-type: none"> • Mercantilist/export competitiveness 	<p>Intervening in the foreign exchange market may also dampen a sustained appreciation pressure on a country's exchange rate. By doing so, it maintains an undervalued exchange rate that preserves export competitiveness. Through foreign exchange purchases, the central bank absorbs inflows of foreign currencies, builds up international reserves and suppresses the value of its domestic currency. This country may sustain large current account and trade surpluses at the expense of its trade partners' current account and trade deficits. This may invite actions especially by countries experiencing prolonged current account and trade deficits. It may even incentivise the affected countries to weaken their domestic currencies and implement protectionist policies in the form of tariff or non-tariff measures to shield their domestic industries against unfair foreign competition. Malaysia does not subscribe to the practice of preserving or gaining export competitiveness via international reserve build-ups as it is unsustainable and can lead to repercussions, including retaliatory measures from trade partners.</p>
<ul style="list-style-type: none"> • Tool to peg the currency under fixed exchange rate regime 	<p>Exchange rate fluctuations may induce uncertainties and risk aversion that lead to weak consumption and investment decisions and activities. For example, a volatile and uncertain exchange rate may discourage long-term investments due to the difficulty in assessing an appropriate time to convert into foreign currencies for investment purposes. Countries may thus decide to use their international reserves to ensure exchange rate stability, including by pegging their domestic currency to a particular foreign currency or a basket of foreign currencies. International reserves may be accumulated or deployed as a result of foreign exchange market interventions aimed at stabilising exchange rate movements. With limited or no room for appreciation or depreciation in the exchange rate, countries with fixed or crawling exchange rate regimes would require a bigger international reserves buffer to defend a specific exchange rate target level during periods of large capital outflows.</p>

⁶ Arslan Y., Cantu C. (2019). "The Size of Foreign Exchange Reserves". Bank for International Settlements (BIS).

BNM's international reserves holdings: Motivations and management

Under the Central Bank of Malaysia Act 2009 (CBA 2009), BNM is entrusted to hold and manage international reserves for the purpose of ensuring financial and monetary stability, as well as maintaining public confidence.⁷ Given Malaysia's deep trade and financial integration⁸ with the global economy, international reserve holdings are vital as a tool that can be deployed to insulate the domestic economy against sudden capital flow reversals. In this regard, international reserves held by BNM are primarily for precautionary purposes to facilitate international trade and financial transactions, and to ensure orderly foreign exchange market conditions, especially during periods of economic or financial distress.

The management of international reserves by BNM is subject to a strict governance and risk management framework established pursuant to the CBA 2009. The framework sets out specific guidelines for managing the international reserves, including the permissible assets, investment limits and investment benchmarks that are approved by BNM's Board of Directors. The allocation of international reserve investments ensures sufficient foreign exchange liquidity while meeting the long-term objective for capital preservation, risks and returns.⁹ This entails holding a well-diversified portfolio that can withstand adverse global market conditions. The Reserve Management Committee oversees the investment strategies and reviews risks emanating from the global economic and financial markets outlook. The risk management framework helps ensure the sustainability and adequacy of BNM's international reserves to meet Malaysia's external obligations.

Debunking misconceptions surrounding international reserves

This section of the article aims to respond to common misconceptions surrounding BNM's international reserves.

Misconception 1:

Malaysia's international reserves are too low.

Based on a wide range of internationally accepted benchmarks (Chart 1), BNM's international reserves as at end-2020 remained sufficient, and was neither too low nor too high. Given Malaysia's high degree of trade and financial openness, having sufficient international reserves is important to mitigate the impact of sharp reversal of capital flows.

Reserve accumulations have moved in tandem with potential foreign exchange liquidity needs of the economy. BNM's international reserves meet the reserves adequacy thresholds but do not significantly exceed these benchmarks. The international reserves are therefore adequate and not excessive¹⁰.

⁷ Section 5(2) Central Bank of Malaysia Act 2009.

⁸ As measured by trade and financial openness. As at end-2020, Malaysia's trade openness (sum of export and import of goods and services divided by GDP) stood at 117% of GDP while financial openness (sum of external financial assets and liabilities divided by GDP) stood at 266% of GDP.

⁹ "Risk Management and Internal Control". BNM Annual Report 2019.

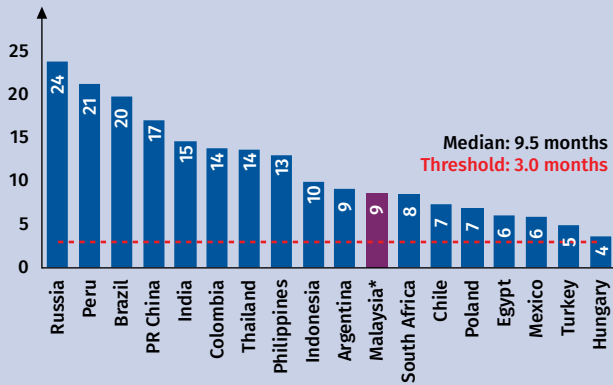
¹⁰ Accumulating large international reserves involves opportunity costs whereby excessive foreign currency funds are invested in highly liquid and more conservative reserve assets. In addition, aggressive reserve accumulations could undermine the role of the floating exchange rate and may be interpreted by trade partners as pursuing the export competitiveness motive. This could lead to several repercussions including under-investment in the domestic sector, over-reliance on the export sector and retaliatory measures from trade partners as discussed in the previous section.

Chart 1: International Reserves Adequacy Indicators¹

International reserves coverage of imports (months)

Measures a country's ability to finance its import payments if other net flows are halted.

Months of import coverage

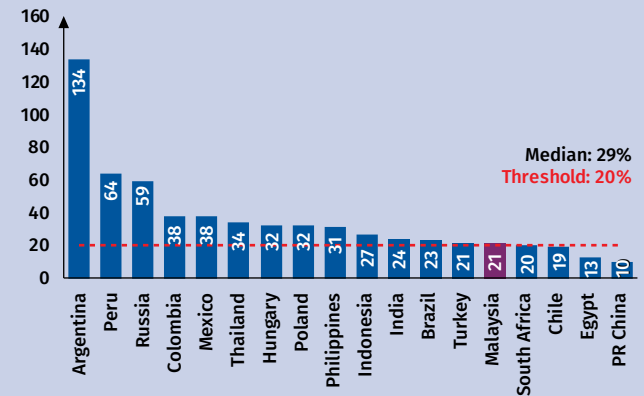


* Malaysia uses retained imports as its benchmark.

International reserves coverage of broad money (percent)

Measures a country's ability to withstand capital flight if other net flows are halted.

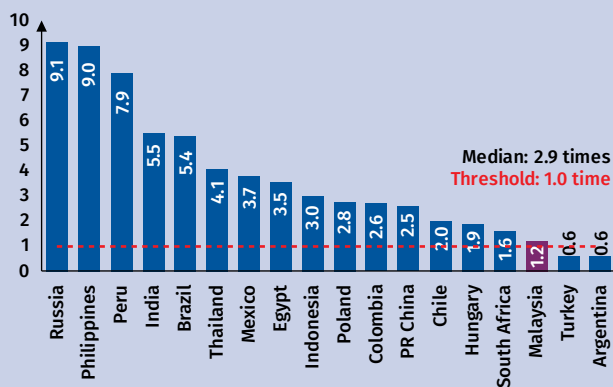
Reserves coverage of broad money, %



International reserves coverage against short-term external debt (times)

Measures a country's ability to meet its external debt obligations maturing in the next 12 months if other net flows are halted.

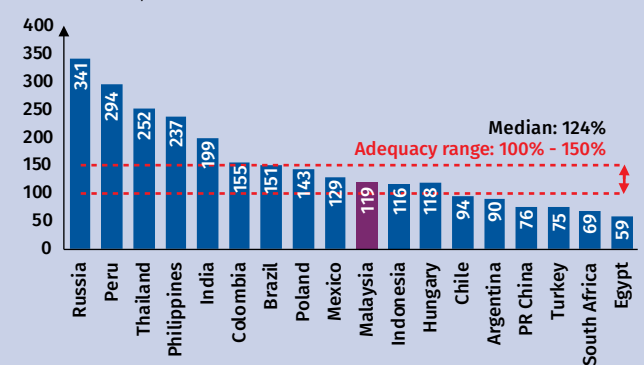
Reserves coverage of short-term external debt, times



International reserves coverage of IMF's Assessing Reserve Adequacy (ARA) metric (percent)

Assesses a country's potential foreign currency liquidity needs taking into account its level of exports, broad money, short-term external debt and other liabilities.

Reserves coverage of IMF ARA metric, %



¹ As at end-2020, except for country-level data in international reserves coverage against short-term external debt for Argentina, Colombia, Egypt, Philippines, Poland, PR China, Russia, Thailand and Turkey, which are as at end-September 2020.

Source: International Monetary Fund, CEIC Data, national authorities and Bank Negara Malaysia

Misconception 2:

International reserves could be used to finance the Government's fiscal deficit and pay off part of Government debt.

As a highly open economy, Malaysia is exposed to sudden and sizeable two-way capital flows. BNM is entrusted to ensure that the impact of these capital flows is well-managed, in order to preserve orderly foreign exchange markets and stable macroeconomic conditions. BNM's international reserves are at a level commensurate with Malaysia's external liabilities. Depleting BNM's international reserves for other purposes would affect Malaysia's ability to withstand and respond to external shocks, thereby exposing the country to significant risks during periods of stress.

The country's experience with past episodes of large and volatile capital flows, as recently as 2015, underscore the criticality of holding sufficient amount of international reserves. Malaysia has experienced several such episodes of large capital flow reversals. For example, during the 2008-2009 Global Financial Crisis and 2014-2015 oil price shock episodes, portfolio outflows amounted to USD26.0 billion (3Q 2008 – 1Q 2009) and USD13.7 billion (3Q 2014 – 3Q 2015), respectively. During these episodes, BNM deployed its international reserves to mitigate the significant withdrawal of foreign currency liquidity and ensure orderly functioning of the domestic foreign exchange market. This successfully prevented excessive ringgit exchange rate fluctuations that would have harmed the Malaysian economy. This demonstrates the importance of holding adequate level of international reserves to minimise any adverse impact from sizeable capital withdrawals to the economy. It also underscores that BNM's international reserves are needed for its intended objectives and should not be utilised for other purposes, including financing the Government's fiscal deficit or paying off Government debt. Financing fiscal spending using international reserves is viewed negatively by financial market investors and analysts as it signals potential for further depletion of international reserves.

Misconception 3:

BNM uses the reserves to target a specific level of ringgit exchange rate.

BNM does not target any specific ringgit exchange rate level. Malaysia maintains a flexible exchange rate policy where the level of the ringgit exchange rate is market-determined.¹¹ This allows the exchange rate to play an important role in the economy, particularly to respond to and absorb the impact of external shocks effectively (see Chart 2). As outlined in the preceding sections of this feature article, BNM's aim is to maintain orderly functioning of the domestic foreign exchange market. Hence, BNM's foreign exchange intervention operations are meant to prevent disorderly foreign exchange market conditions and avoid excessive exchange rate volatility by ensuring sufficient liquidity in the domestic foreign exchange market. It is important to note that these foreign exchange intervention operations are conducted during periods of ringgit appreciation and depreciation. The two-way foreign exchange interventions underscore that BNM does not target any specific exchange rate.

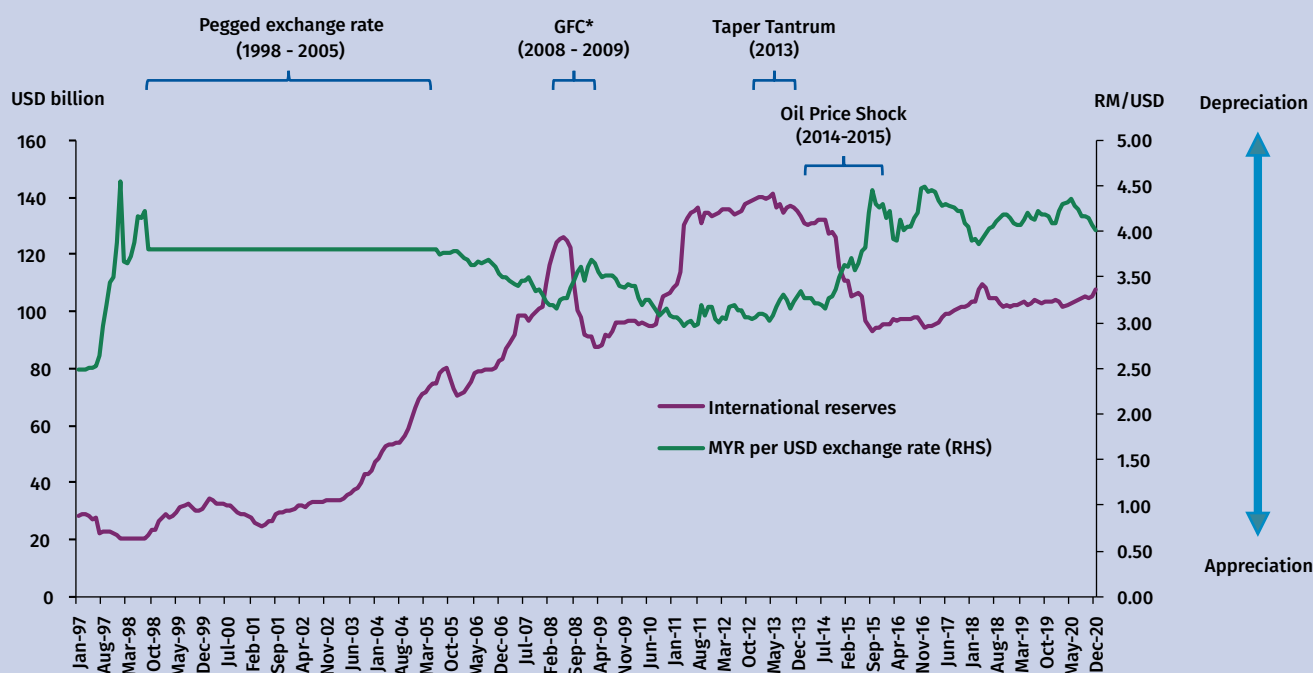
Ongoing efforts to further strengthen Malaysia's external resilience

The progressive liberalisation of the Foreign Exchange Policy¹² has resulted in the accumulation of external assets by corporates and banks amounting to USD365.5 billion as at end-2020, up from USD62.6 billion as at end-2001. These external assets can be used by domestic entities to meet their external obligations, without creating a claim on international reserves.

¹¹ The IMF classifies the ringgit exchange rate under the floating arrangement, which is defined as "largely market determined, without an ascertainable or predictable path for the rate". In addition, this classification acknowledges that countries with a floating exchange rate arrangement do engage in foreign exchange interventions, specifically to maintain orderly foreign exchange market functioning. Under this definition, foreign exchange interventions are not aimed to target a specific level of the exchange rate.

¹² A set of prudential measures related to the foreign exchange market to promote monetary and financial stability conducive to the sustainable growth of the economy and safeguarding the balance of payments position.

Chart 2: International Reserve Levels and RM/USD Exchange Rate



* Refers to the 2008-2009 Global Financial Crisis

Source : Bank Negara Malaysia

To further strengthen Malaysia's external resilience, BNM has continued to pursue initiatives to deepen the domestic financial market and to promote more active management of foreign exchange risks by corporates, banks and households. This includes enhancing the domestic foreign exchange market access and facilitating the development and offering of efficient foreign exchange hedging products and instruments to protect against exchange rate fluctuations. These measures enhance Malaysia's flexible exchange rate to serve its purpose as the first line of defence in facilitating adjustments in the economy in response to shocks. In addition, these initiatives have helped increase the average monthly turnover of foreign exchange swaps, forwards and options from USD67.3 billion in 2012 to USD171.9 billion in 2020.

Continued efforts to advance international cooperation and ease of access to global and regional financial safety nets complement the country's action to boost economic and financial resilience. A notable example is the Chiang Mai Initiative Multilateralization, a regional multilateral currency swap agreement between ASEAN, PR China, Japan and South Korea, which aims to address balance of payment and short-term foreign exchange liquidity needs. These initiatives can serve a supplementary role to support existing international reserves.

Conclusion

BNM's international reserves remain adequate, but not excessive, to meet the potential foreign currency needs of the economy during periods of shocks. This is to ensure that international trade and financial transactions are not disrupted during periods of market stress. BNM's foreign market interventions are consistent with Malaysia's flexible exchange rate regime to allow the necessary macroeconomic adjustments to take place in response to external shocks. In addition, the wide-ranging availability of exchange rate hedging instruments allow businesses and individuals to protect themselves against exchange rate fluctuations. Malaysia's participation in the regional and global international financial safety nets provides another layer of buffer against foreign currency liquidity shocks. Therefore, given the important role of international reserves, it is critical that they are utilised prudently and appropriately.

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Promoting Financial Stability

The Bank is mandated to promote financial stability conducive for sustainable economic growth. We discharge this mandate by ensuring that the financial system is resilient throughout the economic cycle and is able to withstand shocks. This involves us promoting resilient and well-managed financial institutions, fostering safe and reliable clearing and settlement systems, and ensuring orderly financial markets. Ultimately, a sound and stable financial system contributes to the delivery of safe and effective services to financial consumers.

Financial stability priorities in 2020

The significant disruptions and impact on the economy brought about by the pandemic were a major test for financial institutions. In light of these challenges, the Bank adjusted its regulatory and supervisory priorities to achieve three key objectives. Firstly, to ensure that financial institutions have sufficient buffers to support intermediation activities during the crisis and recovery phase. Secondly, to ease cash flow pressures of affected borrowers by providing timely and coordinated assistance. Thirdly, to reduce procyclical behaviours that could amplify financial and macroeconomic risks.

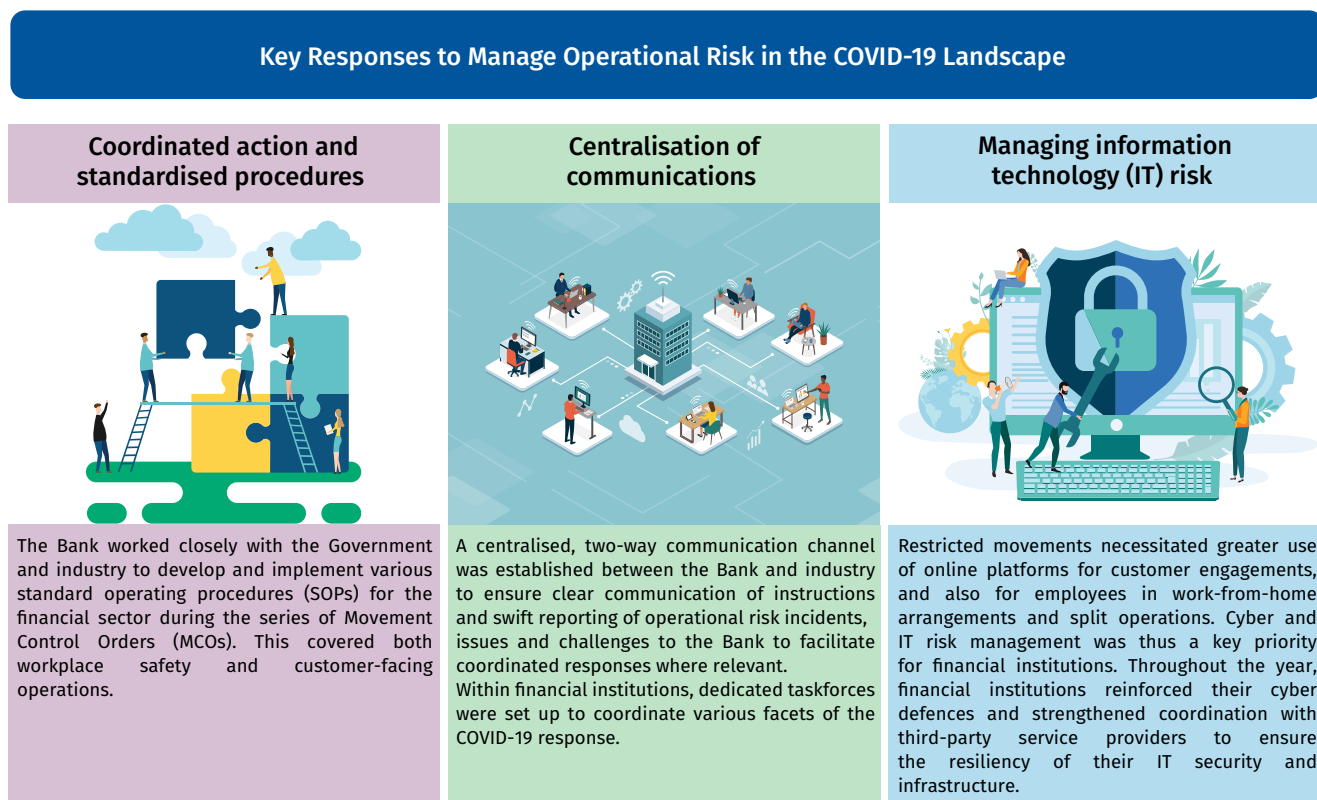
Given the economy-wide disruptions due to movement restrictions, financial institutions made immediate adaptations in working arrangements to ensure that financial services remained uninterrupted, while protecting the safety and health of employees. Coordinated responses – both within financial institutions and across the industry – were critical in efficiently managing the operational risk under these unprecedented circumstances (Diagram 1).

There were no significant operational risk losses or events in 2020 as financial institutions stepped up their controls and governance processes that enabled them to swiftly identify and respond to operational disruptions from the movement control orders. Even so, the pandemic fundamentally tested the business continuity and disaster recovery plans of financial institutions, as they were not designed to address the specific nature and extended duration of business interruptions encountered in this crisis. Most financial institutions have now updated their business continuity plans to provide for more pervasive and persistent operational disruptions, thus strengthening their operational capacity to respond to future shocks.

Banking – COVID-19 relief measures

Following the strict nation-wide Movement Control Order (MCO) announced in March 2020, we worked with the industry to introduce a six-month automatic moratorium on repayments for eligible individual and small and medium enterprise (SME) loans/financing starting 1 April 2020. This was to enable immediate cash flow relief for households and businesses at the scale and speed necessary amid a sudden halt to economic activities. Roughly eight million individual borrowers and 250,000 SMEs benefited from the automatic moratorium. In addition, banks also provided support to larger corporates via restructuring and rescheduling of loans/financing.

Diagram 1: Key responses to manage operational risk in the COVID-19 landscape

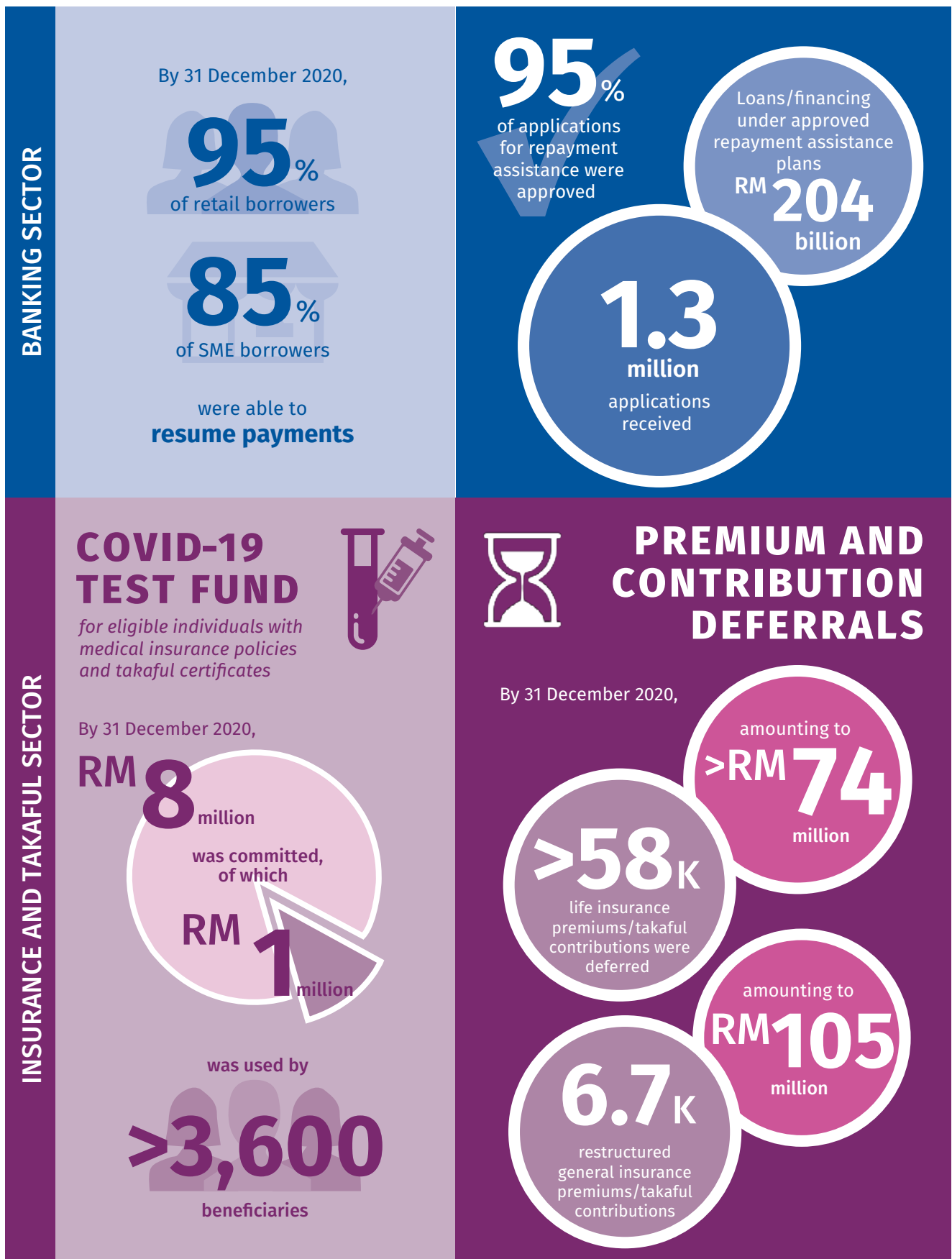


With the easing of MCO restrictions from May onwards and improving economic conditions, about 840,000 borrowers resumed repayments by the end of September 2020. We worked concurrently with the industry to transition towards more targeted repayment assistance, focusing on those who continued to require financial assistance, such as microenterprises and those who have become unemployed or have experienced significant reduction in incomes. As the gradual resumption in economic activities meant that borrowers would have different financial needs, the targeted assistance enabled borrowers to receive continued help based on their specific financial circumstances. Borrowers that could afford to repay their loans/financing were encouraged to do so in order to reduce overall borrowing costs. At the same time, borrowers were assured that if their financial circumstances change as a result of further shocks due to the pandemic, they could still seek help in future, without affecting their credit records in the Central Credit Reference Information System (CCRIS). Key figures on targeted assistance are provided in Diagram 2.

Beyond assistance packages, banks also worked closely with the Credit Counselling and Debt Management Agency (or *Agensi Kaunseling dan Pengurusan Kredit* (AKPK)) to ensure that borrowers who go through AKPK's debt management programmes were able to secure assistance quickly. This was done by standardising the debt restructuring assessment metrics, thus materially shortening the time taken for AKPK to process individual applications for assistance.

Banks adopted new approaches to render COVID-19 repayment assistance as efficiently as possible, without compromising on robust governance and risk management standards. Given the scale and speed of the endeavour, there were dedicated functions with clearly defined authority and assigned accountabilities to coordinate actions within banks. These dedicated functions were primarily responsible for developing the overall strategy and outcomes of repayment assistance, establishing internal policies and procedures, ensuring the adequacy of infrastructure and resources, overseeing effective communication and engagement strategies, as well as monitoring the risks and effectiveness of the assistance programmes.

Diagram 2: Take-up for assistance provided by the banking sector and insurance and takaful sector



Insurance and takaful – COVID-19 relief measures

Similar relief measures were provided by the insurance and takaful industry to ease cash flow constraints, preserve coverage and reduce the cost of protection for affected policyholders and takaful participants. These include options to defer payment of life insurance premiums and family takaful contributions for three months, restructuring of insurance policies and takaful certificates, waivers of fees and charges, and expedited claims processes. Despite significantly higher claim costs incurred by insurers and takaful operators in recent years, the industry also deferred planned repricing exercises that were due for medical and health insurance policies and takaful certificates to 2021. Further information on the take-up rate of assistance is provided in Diagram 2.

In light of the reintroduction of the MCO in many parts of the country in January 2021, the insurance and takaful industry has agreed to extend these relief measures and introduced new measures to further reduce the financial burden of policyholders and takaful participants. These include an extension of the application period for premium/contribution deferrals until 30 June 2021 and a six-month waiver of interest for repayments of deferred premiums/contributions to help consumers gradually resume their premium/contribution payments.

Additionally, the insurance and takaful industry also supported the Ministry of Health's efforts to ramp up COVID-19 testing by pledging a sum of RM8 million to the COVID-19 Test Fund (CTF) established by the industry. More details on the take-up of the CTF are provided in Diagram 2.

Ensuring clear and transparent communications

The Bank stepped up its communications during the pandemic to keep customers informed of the financial assistance rendered by the financial industry. We worked closely with the financial industry on various initiatives throughout the year to communicate information on available assistance programmes, and to provide redress and advisory channels where customers can get help to manage their financial challenges during this period. Outreach initiatives to the public and SMEs are elaborated in more detail in the chapter "Engaging Malaysians".

Beyond creating awareness on repayment assistance, the Bank also collaborated with member institutions¹ of the Financial Education Network (FEN) to expand the reach of financial literacy initiatives, leveraging digital platforms and social media. Outreach programmes that focused on prudent and effective financial management matters were well received nation-wide. Further details are provided in Diagram 3, as well as the Feature Article on "A Primer on Taking Control of Your Finances".

Regulatory and supervisory priorities

Financial institutions entered the pandemic from a position of strength. Banks, insurers and takaful operators were able to provide meaningful assistance largely due to their financial buffers built up over the years. This strong financial position enabled them to support substantial relief measures and financial intermediation. The Bank's regulatory and supervisory priorities focused on practices of financial institutions in managing risks and promoting fair consumer outcomes, particularly in connection with financial assistance rendered to consumers. We also intensified our engagements with financial institutions on measures taken to ensure their operational resilience in light of significant adjustments to work processes and customer interfaces in response to the pandemic. In addition, we provided greater financial and operational flexibility to financial institutions through appropriate adjustments to regulatory requirements to reflect the heightened uncertainty generated by the pandemic crisis and mitigate procyclical behaviour. We also re-planned our regulatory and supervisory programme to reduce burdens on financial institutions so that they could focus on supporting their customers during the crisis. An overview of these measures is provided in Diagram 4.

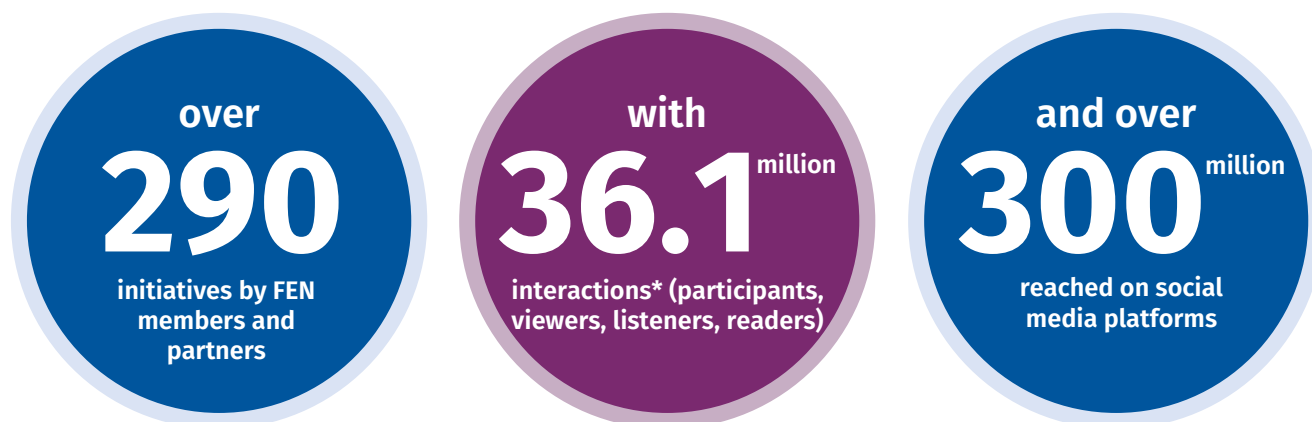
For the money services business industry, with border closures and restricted movements, the currency exchange segment was particularly affected. Operational flexibilities were provided to ease the financial and operational burdens of

¹ The FEN member institutions are the Bank, Securities Commission Malaysia, Ministry of Education, Ministry of Higher Education, Malaysia Deposit Insurance Corporation, Employees Provident Fund, Credit Counselling and Debt Management Agency, and *Permodalan Nasional Berhad*. FEN formulated the National Strategy for Financial Literacy 2019-2023, a 5-year roadmap to elevate the financial literacy of Malaysians and to empower Malaysians to (a) save, manage and protect their finances, (b) plan and ensure a sustainable future, and (c) protect themselves from fraud and financial scams.

Diagram 3: Financial education initiatives conducted by FEN

FEN initiatives aim to educate target segments of the population

e.g. youth, workers, MSMEs & low-income group



Key topics covered

- Seeking help early for loan repayment assistance
- Money management in challenging times
- Financial hygiene
- Healthy financial behaviours & rational attitudes on financial management
- Financial fraud alerts
- E-payments

* Refers to interactions via webinars, competitions, financial education talks, games, quizzes, radio and TV programmes, newspaper articles, virtual exhibitions.

money services business operators. These measures included waiving their annual licence fees, exempting them from staff training expenditures, and extending the submission deadlines of audit and statistical reports to the Bank.

Supervisory focus and priorities

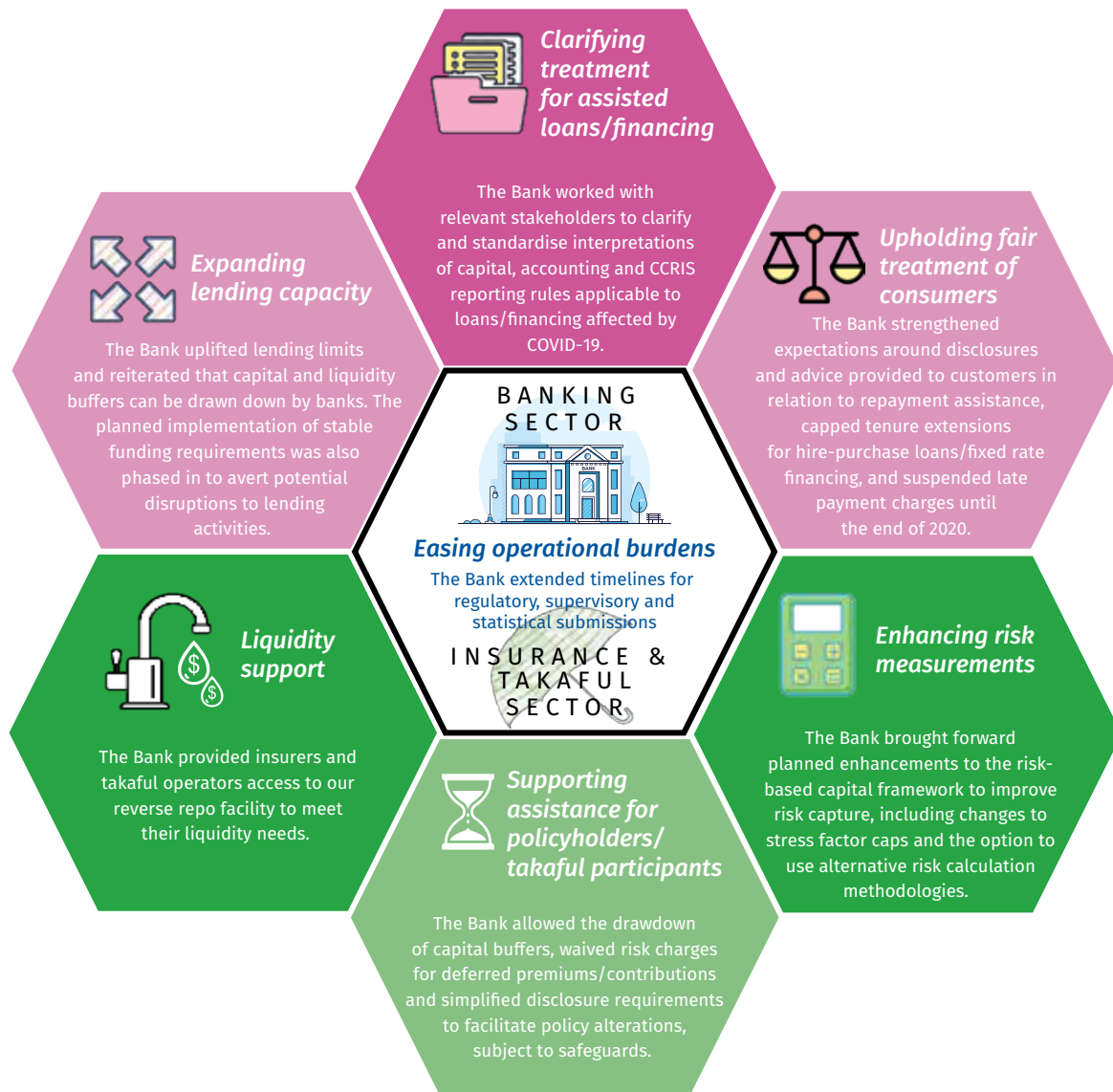
The pandemic presented challenges for prudential supervision that called for the Bank to adapt its supervisory approach and practices. Cross-section teams were set up to undertake more timely and integrated assessments that brought together the Bank's macroeconomic and sectoral reviews with financial sector perspectives as the crisis unfolded. There were more frequent engagements with boards and senior officers of financial institutions, as well as external auditors, to complement off-site surveillance by the Bank. Discussions with banks focused on their approaches and development of alternative metrics and indicators to assess borrowers' financial health in a time of significantly reduced visibility or accessibility to more conventional indicators of repayment behaviour. Supervisory efforts were also directed at strengthening the rigour of stress test exercises and forward-looking risk assessments conducted by both the Bank and financial institutions to take into

account evolving risks. Collectively, these enabled the Bank to maintain close vigilance over the risk-taking behaviours of financial institutions and the adequacy of their capital and liquidity buffers.

Engagements with other regulators and supervisors

Given the pandemic's global impact, cross-border and inter-agency cooperation and exchanges were critical during the year. We engaged closely with regulators globally and in the region to share experiences and lessons on policy and supervisory responses to COVID-19. Supervisory colleges also continued to be organised virtually to support the Bank's group-wide supervision of financial institutions with significant overseas operations as well as the supervision of the local subsidiaries of large international financial institutions. During the year, we hosted or participated in supervisory colleges for nine insurance groups and four banks, with regulators from 13 countries. These engagements were particularly important to enable us to anticipate and size up emerging risks arising from the economic impact of the pandemic, evaluate alternative options for responding to identified risks and where relevant, coordinate actions, including communications, to mitigate risks.

Diagram 4: Regulatory relief measures for the banking and insurance and takaful sectors



We also continued to actively contribute to the work of the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the Islamic Financial Services Board (IFSB), and the Network for Greening the Financial System (NGFS) towards reinforcing the resilience of the financial sector during the crisis and facilitating a sustainable recovery post-crisis. Our areas of focus are broadly in line with the priorities of the BCBS and the IAIS. These include strengthening supervisory monitoring and coordination, and ensuring that prudential standards are implemented sustainably to provide financial institutions with the operational capacity to respond to the COVID-19 pandemic, especially in

providing the necessary support to meet the needs of the economy. We also continue to maintain a line of sight over emerging risks from climate change and digitalisation.

Domestically, we worked closely with other regulators and agencies, including the Malaysia Deposit Insurance Corporation (or *Perbadanan Insurans Deposit Malaysia* (PIDM)) and the Securities Commission Malaysia to address risks and issues affecting the financial sector. We also continued to work with the National Cyber Security Agency (NACSA) and CyberSecurity Malaysia (CSM) on coordinating responses to cyber threats targeted at financial institutions. In addition, the Bank continuously worked with the industry to enhance the cyber hygiene of the financial sector and foster

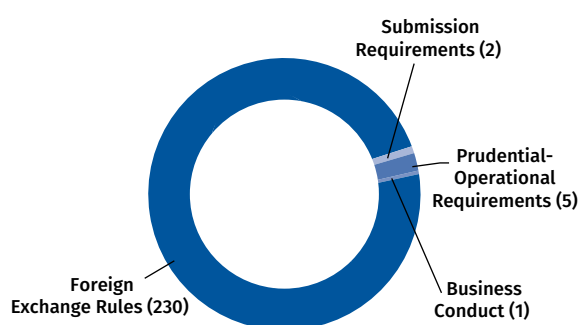
information sharing on latest developments relating to cyber threats. Another key area of collaboration was the establishment of a joint taskforce with banks and the Malaysian Accounting Standards Board (MASB) to identify and streamline key interpretation issues relating to the treatment of assisted loans.

Enforcement actions

In delivering the Bank’s financial stability mandate, we use a range of supervisory and enforcement actions to promote strong governance, compliance and risk management practices by financial institutions, ensure appropriate protection of financial consumers and protect the integrity of the financial system. Supervisory actions, such as reprimands and directives, are typically used to address shortcomings in compliance, governance and risk management practices that are less severe in nature. Formal enforcement actions such as administrative monetary penalties and compounds, on the other hand, are pursued in cases of serious breaches of our regulatory requirements and unlawful activities that can create undue risks to the public or undermine confidence in the financial system. In 2020, a significant majority (99%) of our interventions were supervisory actions. The remaining 1% were enforcement actions, where the Bank imposed administrative monetary penalties against two licensed institutions. The higher number of supervisory actions taken as compared with enforcement actions is commensurate with improving compliance amongst reporting institutions.

During the year, we pursued 277 supervisory and enforcement actions against institutions. Notably, almost three quarters were taken

Chart 1: Number of cases in 2020 by type and nature of offences



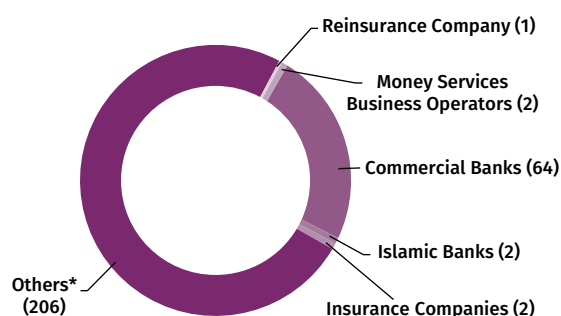
Source: Bank Negara Malaysia

against institutions that are not under the Bank’s regulation (Chart 2). These were mainly low severity cases involving export-related non-compliances, which arose from a lack of awareness or understanding of the prevailing rules. As part of ongoing efforts to raise awareness on relevant regulatory requirements, the Bank has continued to conduct periodic briefings for exporters and trade associations, develop training programmes for bank personnel in collaboration with the Asian Banking School, and widely disseminate key information and supplementary materials to SME associations and business chambers.

The Bank also curbed various illegal financial activities by imposing cease and desist orders against eight illegal money services business operators and pursuing criminal investigations against ten others. Our efforts also secured six convictions related to illegal money services business, illegal deposit taking and money laundering, resulting in fines totalling RM 1.3 billion and jail terms for the offenders.

During the year, enhancements were made to the Bank’s Enforcement and Penalty Framework and the assessment process to clarify the application of principles of proportionality and consistency, as well as to improve its transparency. In line with the latter objective, all enforcement actions taken by the Bank have been published on our website since 2019. Changes were also made to facilitate more expedient enforcement actions and settlements when an offence or breach has been proven.

Chart 2: Number of actions taken in 2020 by type of institutions



*Individuals and entities not regulated by the Bank
Source: Bank Negara Malaysia

Going forward

While we are on a recovery path, uncertainties surrounding COVID-19 and the structural impact on certain economic sectors will continue to present challenges in the immediate future. As such, regulatory and supervisory priorities in 2021 will remain focused on identifying and responding to emerging risks, while laying the foundations for a swift and sustainable economic recovery. Ongoing initiatives will also continue to be pursued to ensure that the financial system remains well placed to support the real economy amid transformational shifts brought about by new technology, new players and structural changes in the economy.

The regulatory and supervisory work in 2021 will centre on enhancing the risk capture and responsiveness of regulatory policies set by the Bank. It will also seek to strengthen the longer-term resilience and sustainability of financial institutions both financially and operationally. We will continue to focus on stress testing and crisis simulations, as well as technology risk management given the accelerating pace at which financial services will move from physical spaces to virtual platforms. Refinements to existing regulatory and supervisory frameworks in the coming year will also account for new technologies and business models adopted by financial institutions, including those by new entrants to the system such as digital banks.

Promoting a Progressive and Inclusive Financial System

The Bank is committed to promoting a progressive and inclusive financial system that best serves the needs of the Malaysian economy.

In 2020, we continued to advance the development of the financial sector despite challenges in managing and responding to the pandemic. Efforts were geared towards accelerating the digitalisation of financial services, deepening financial markets, enhancing access to finance and financial inclusion, and building financial resilience.

Accelerating the digitalisation of financial services

For individuals and businesses alike, digitalisation would contribute to easier, faster and cheaper ways to access services and manage their finances. Recognising this, the Bank strives to ensure that our regulations are responsive to digital innovations that aim to better serve communities, while ensuring that financial institutions are effectively managing the associated risks.

Arising from the pandemic, there was an accelerated shift towards online financial services. In 2020, online banking transactions grew by 49% while e-wallet¹ transactions increased by 131% compared to the same period last year (see more trends in the chapter on “Promoting Safe and Efficient Payment and Remittance System”). To further support the uptake of online financial services, the electronic Know-Your-Customer (e-KYC) Policy Document was issued in June 2020, enabling the opening of accounts digitally for customers to occur anytime and anywhere. As a gateway towards digitalisation, e-KYC

is expected to pave the way for greater innovation and provision of end-to-end digital financial services. Several financial institutions, including banks, e-money issuers and remittance service providers have adopted e-KYC solutions, with more expected to follow in 2021.

The Bank issued the Policy Document on Licensing Framework for Digital Banks on 31 December 2020. The licensing of new players with innovative business models is expected to serve the economy and contribute to the well-being of Malaysians. Through the use of agile technology platforms and data analytics, digital banks are expected to widen the offering of banking products and services that are more targeted towards solving Malaysian consumer pain points, particularly for the unserved and underserved consumer segments. The Bank will adopt a proportionate regulatory framework as well as require digital banks to observe limits on aggregate asset exposures during the initial years of operations. These measures are intended to reduce barriers to entry, whilst allowing the Bank to observe attendant risks. With the publication of the Policy Document, the Bank has begun accepting licence applications until 30 June 2021. Up to five licences may be issued to qualified applicants by the first quarter of 2022. Successful applicants will have to be able to demonstrate a strong value proposition focused on the unserved and underserved segments and the ability to meet regulatory requirements to safeguard the stability of the financial system.

In recent years, we have observed notable progress in the use of technology in the financial markets. Our aim is to improve efficiency and transparency in the intermediation and price discovery process. In 2020, digitalisation in the onshore financial market advanced further in the area of foreign exchange trading. Following the publication of

¹ Network-based e-money which are accessible via the internet, mobile phones or other devices.

the Framework for Electronic Trading Platforms (ETP) in 2019, the Bank in 2020, approved three (3) global ETP operators to provide their services as intermediaries in the Malaysian financial market. This contributed to the digitalisation of the financial market, which also served to support increased remote working arrangements during the pandemic. Trades through ETPs accounted for nearly 19% of the total onshore foreign exchange turnover following the commencement of operations by the approved ETP operators.

The Fintech Regulatory Sandbox (Sandbox) continued to play an important role in encouraging innovation in the financial sector. Most notable has been the growing interest from applicants providing Insurtech solutions such as end-to-end digital insurance, digital insurance broker and financial aggregation business. This development resonates closely with the Bank's agenda to increase insurance penetration, thus further deepening financial inclusion in Malaysia. For 2020, one takaful operator has received approval to live test its peer-to-peer (P2P) family takaful product in the Sandbox. Meanwhile, four (4) fintech companies have advanced to the preparation stage² for subsequent live testing of their solutions. However, quite a large number of the applications during the year were either withdrawn by the participants or did not meet criteria for admission to the Sandbox, typically because the proposed innovative solutions did not face any regulatory hindrance to warrant testing in the Sandbox or there was a lack of operational readiness for live testing.

We also took active steps to facilitate a wider range of innovation beyond fintech solutions. To this end, the Financial Technology Enabler Group (FTEG), a cross-functional internal working group established in June 2016 to support the Bank in regulatory policies and development strategies for the adoption of technological innovations in the Malaysian financial services industry was renamed the Financial Technology and Innovation Group (FinTIG). Recognising the continuously evolving scope of financial innovation, the change reflects the expanded mandate of FinTIG to include non-technology driven innovations, such as changes in business models, channels of distribution and

product design that may not involve the use of new technology. In line with this, the Sandbox is also being reviewed to accommodate non-technologically driven innovation. The Bank's Financial Development and Innovation Department (FDI) acts as the primary contact point (fintech@bnm.gov.my) for the Bank on fintech matters. FDI, as the secretariat of FinTIG works closely with members of FinTIG toward facilitating innovation.

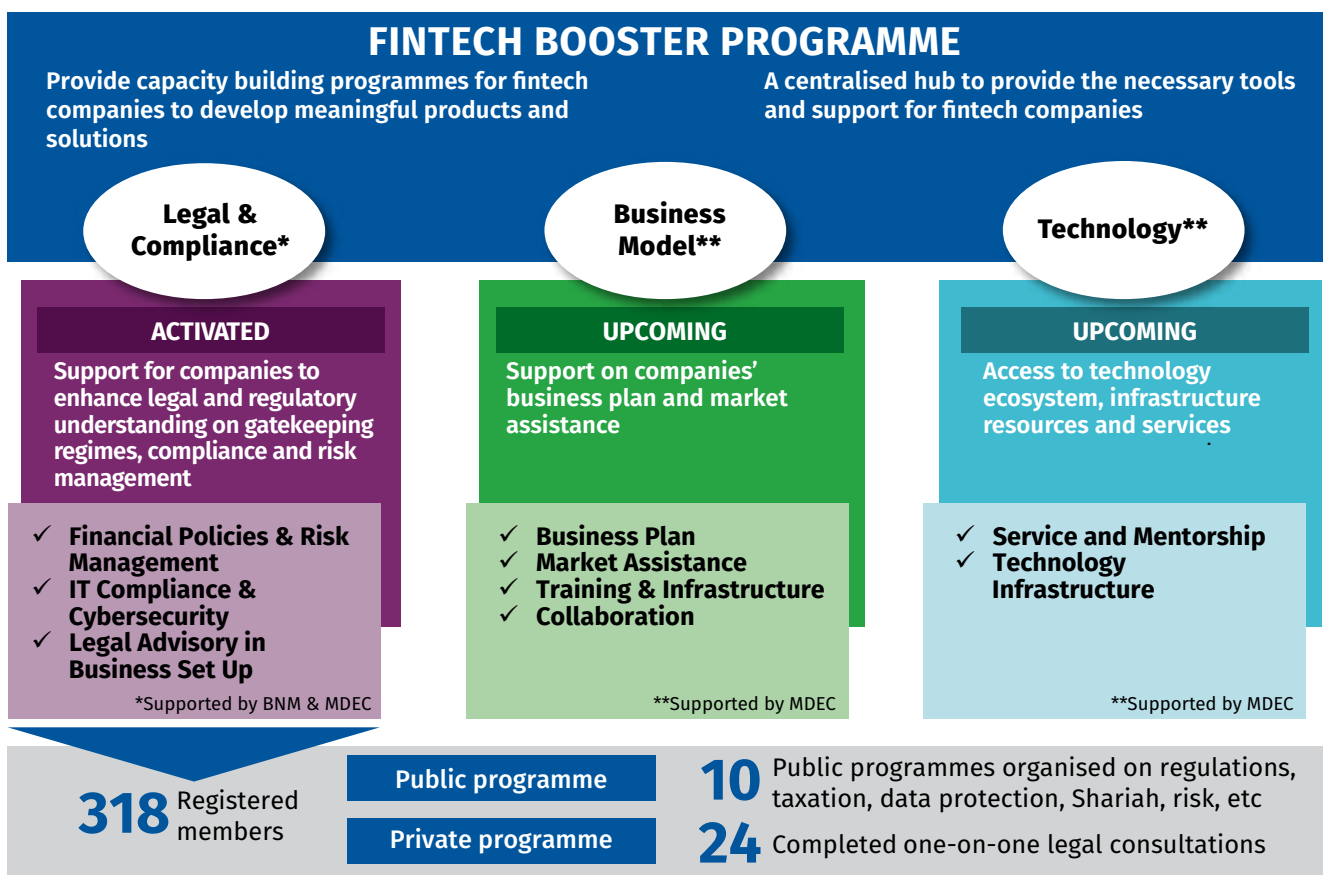
To support the overall development of a dynamic fintech ecosystem in Malaysia, we collaborated with the Malaysia Digital Economy Corporation (MDEC) to launch the Fintech Booster programme in August 2020 (Diagram 1). Positioned as a platform to connect fintech companies with other actors and stakeholders in the ecosystem, the programme aims to provide fintech companies with capacity building tools and support on legal and compliance matters, business development and access to technology resources in order to enhance prospects for viable and successful financial innovations. The Bank is supporting the programme through the Legal and Compliance vertical, whilst the Business Model and Technology verticals are overseen by MDEC with the support from its partners.

Deepening financial markets

The Bank continued in 2020 with ongoing developmental initiatives aimed at further improving market access and liquidity in the domestic financial markets. First, we pursued measures to enhance Malaysia's position as an attractive investment destination for global investors. Global market players were continuously engaged, albeit virtually, during the pandemic. Second, in collaboration with domestic market stakeholders, we pursued initiatives to deepen liquidity in the government bond and interest rate swap markets, which contributed to more efficient market pricing and greater flexibility in risk management. In addition, there were refinements to the Foreign Exchange Policy (FEP) to improve hedging conditions for both corporates and investors. Taken together, these measures have further strengthened the resilience and attractiveness of the domestic financial market.

² Upon obtaining the Bank's approval to participate in the Sandbox, an applicant is considered to have advanced to Stage 2 (preparation stage) where the applicant will work with the Bank on details (e.g. testing parameters, exit strategy and transition plan) in preparation for subsequent live testing stage.

Diagram 1: Fintech Booster Programme



Source: Malaysia Digital Economy Corporation (MDEC)

Diagram 2 : Deepening Financial Market



Enhancing access to finance and financial inclusion

Financial inclusion is essential for a more equitable society. The pandemic further underscored the need to support and protect the underserved segments of society, especially those who are disproportionately affected. In line with this, the Bank continued to take active steps to advance financial inclusion.

An important focus during the year was ensuring continued access to finance for SMEs under highly challenging business conditions. SMEs have a sizable contribution to the Malaysian economy of close to 39%³ of GDP and make up almost 50% of total employment. However, their relatively low cash buffers and narrower profit margins, worsened by the pandemic, have made them more susceptible to cashflow and financing constraints. To help SMEs to weather the pandemic, we significantly increased the allocation of financing assistance under BNM's Fund for SMEs (BNM's Fund) from RM9.1 billion to RM23.1 billion. Facilities⁴ under BNM's Fund, channelled through the financial institutions, aimed to provide immediate cash relief to adversely affected SMEs, support recovery of hard-hit economic sectors and enhance innovative capacity of high-tech SMEs. BNM's Fund complements the much larger provision of SME financing by the financial institutions, which disbursed a total of RM256.8 billion in loans/ financing to SMEs in 2020, with more accounts approved compared to the previous year (2020: 145,993 accounts; 2019: 115,498 accounts). BNM's Fund has helped to sustain businesses and safeguard jobs, with about RM6.0 billion worth of funds still available for new applications by SMEs as at mid-March 2021. Key facts of BNM's Fund are provided in Diagram 3. Beyond the provision of funds, the Bank also supported the availability of credit guarantee schemes to encourage continued bank lending in the heightened risk environment.

Funds by the Bank benefitted more than 32,000 SMEs and supported around 596,600 jobs.

As the environment will continue to be challenging, we strive to ensure that the Bank's funds for SMEs

³ Source: Department of Statistics, Malaysia (DOSM).

⁴ Facilities under BNM's Fund include the Special Relief Facility (SRF), Agrofood Facility (AF), SME Automation and Digitalisation Facility (ADF), All Economic Sectors (AES) Facility, Micro Enterprises Facility (MEF), PENJANA Tourism Financing (PTF), Targeted Relief and Recovery Facility (TRRF) and High Tech Facility – National Investment Aspirations (HTF-NIA). For further details, refer to www.bnm.gov.my/covid19/

are responsive to the immediate challenges facing SMEs, while supporting their ability to transform and adapt to new norms that will further enhance Malaysia's future growth potential. We continue to take active measures to raise awareness and address SMEs' concerns on facilities with relatively low demand, such as the PENJANA Tourism Financing (PTF) which has been mired by the weak business outlook in the sector. The slower take-up, nonetheless, allows us the flexibility to reallocate resources towards other pressing needs of the SMEs. This is reflected in the recent upscaling of the SME Automation and Digitalisation Facility (ADF) announced in March 2021 from RM300 million to RM1 billion, to encourage SMEs across all sectors to automate processes and digitalise operations that can better support their recovery and productivity in the post-pandemic environment.

To provide SMEs with one-stop access to specialised and comprehensive debt restructuring assistance, financial education and advisory services, the Small Debt Resolution Scheme (SDRS) function was transferred to the Credit Counselling and Debt Management Agency (*Agensi Kaunseling dan Pengurusan Kredit*, AKPK) on 1 September 2020. With AKPK's wide online presence and 12 branches nationwide, the transfer will offer SMEs more convenient access to debt restructuring services and strengthens the SDRS' capacity to manage SMEs in need of debt resolution assistance. Further, the dedicated micro business helpdesk⁵ set up at AKPK in November 2020 provides an additional avenue for micro enterprises to obtain targeted repayment assistance and free financial advice. Notably, following the transfer as well as the end of the automatic moratorium in September 2020, the number of SMEs assisted by AKPK's Repayment Assistance to SMEs⁶ (RAS) increased by 48% in September – December 2020, compared with the first 8 months of the year.

Development financial institutions (DFIs) remained important in broadening access to finance. DFIs played a counter-cyclical role during the pandemic to bridge financing gaps in strategic economic sectors and to the underserved. In 2020, total loans/financing outstanding by DFIs registered a growth of 7.7% to RM153.7 billion (end-2019: -0.3% to RM142.7 billion), underpinned by demand from the household, agriculture and general commerce sectors.

⁵ The micro business helpdesk can be accessed via www.akpk.org.my/microhelpdesk

⁶ Consists of the SDRS and Debt Management Program (DMP) for sole proprietors.

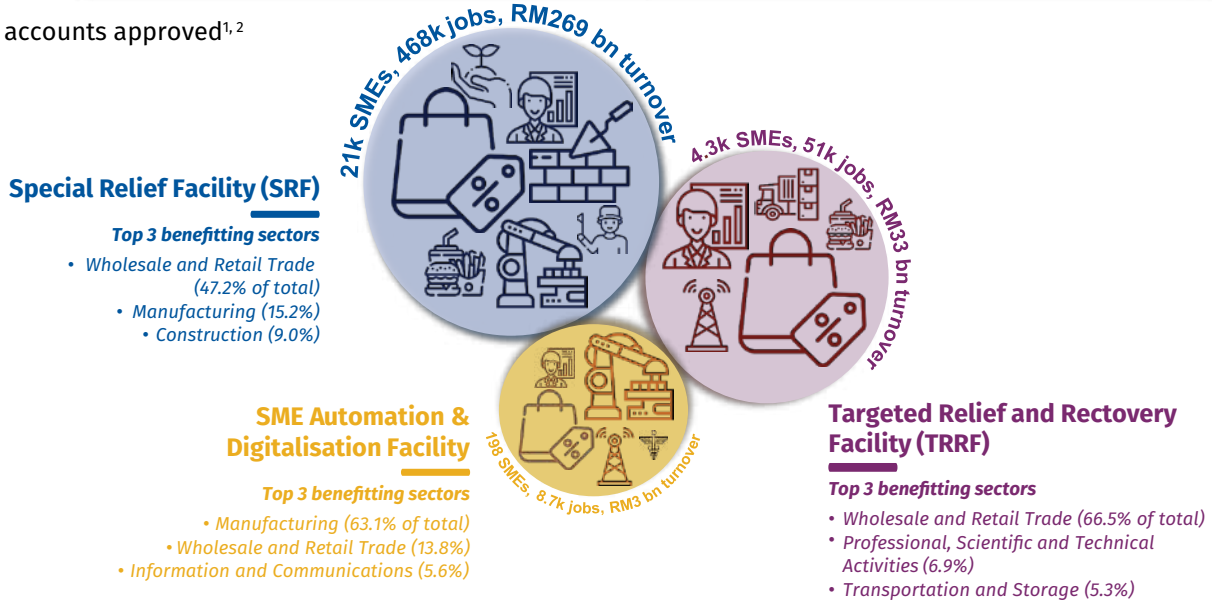
Diagram 3: BNM's Fund for SMEs in numbers - Key facts of selected facilities in 2020

	Special Relief Facility SRF	Agrofood Facility AF	SME Automation & Digitalisation Facility ² ADF	PENJANA Tourism Financing PTF	Targeted Relief & Recovery Facility TRRF	High Tech Facility - National Investment Aspirations HTF-NIA
PURPOSE	EASE CASH-FLOW CONSTRAINTS	INCREASE FOOD PRODUCTION AND EXPORTS	INCENTIVISE AUTOMATION AND DIGITALISATION	AID THE TOURISM SECTOR	SUPPORT RELIEF AND RECOVERY OF SERVICE SECTOR	SUPPORT HIGH-TECH AND INNOVATIVE SECTORS
DATE ANNOUNCED	27 FEB 2020	27 FEB 2020 ³	27 FEB 2020	30 JUL 2020	06 NOV 2020	15 DEC 2020
TOTAL ALLOCATION	RM 10.0 BILLION ⁴	RM 1.5 BILLION	RM 1.0 BILLION ⁵	RM 0.6 BILLION ⁶	RM 4.0 BILLION ⁷	RM 0.8 BILLION ⁸
AVAILABLE BALANCE	FULLY UTILISED	RM 0.2 BILLION	RM 0.8 BILLION	RM 0.5 BILLION	RM 2.7 BILLION	RM 0.8 BILLION
APPROVAL RATE	78%	91%	83%	64%	88%	100%

¹ As at 17 March 2021
² Under the All Economic Sector (AES) Facility
³ Refers to the date when the allocation was increased for the AF, which is an existing facility
⁴ The SRF was upsized in March 2020 (from RM2 billion to RM5 billion) and May 2020 (from RM5 billion to RM10 billion)
⁵ The ADF was upsized in March 2021 (from RM0.3 billion to RM1 billion)
⁶ From the initial RM1 billion, RM200 million was reallocated to the Disaster Relief Facility (DRF) in February 2021 and RM200 million to the ADF in March 2021
⁷ The TRRF was upsized in February 2021 (from RM2 billion to RM4 billion)
⁸ From the initial RM1 billion, RM200 million was reallocated to the ADF in March 2021

... preserving businesses and jobs that helped stabilise the economy

Profile of accounts approved^{1,2}



¹ As at 24 February 2021
² SMEs' sales turnover is as reported in application for the facilities

Source: Bank Negara Malaysia

Promoting a Progressive and Inclusive Financial System

DFIs also provided support and assistance to higher risk segments not typically served by commercial banks, and who were badly affected by the pandemic. This includes financial assistance for agrofood businesses, tourism providers, money services businesses and homestays. Moreover, DFIs were involved as key administrators of various financing schemes introduced by the Government and the Bank under the PRIHATIN, PENJANA, PERMAI and recently announced PEMERKASA stimulus packages, aimed at sustaining the business operations of small businesses and microenterprises. As at end-2020, DFIs provided financing amounting to RM833.7 million to 30,905 microenterprises under the PRIHATIN and PENJANA schemes. In addition to financing, more than 68,900 businesses and 1,625,000 individuals were granted a 6-month moratorium on financing repayments by DFIs. This provided timely support to vulnerable households and SMEs in key economic sectors during the challenging year.

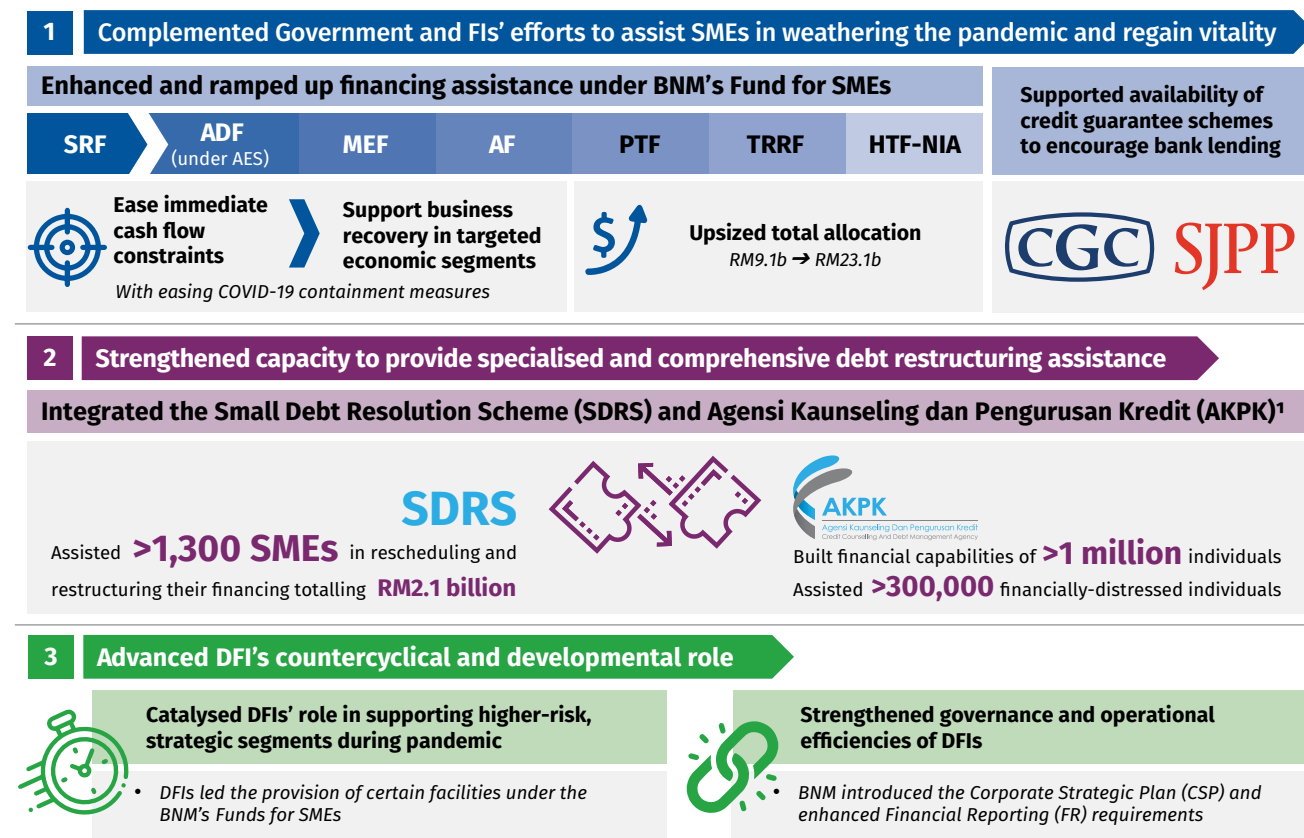
In 2020, we introduced and enhanced several policy requirements to better align and enhance DFIs' developmental outcomes with the principles set out

by the Performance Measurement Framework (PMF). These requirements, centred around DFIs' corporate strategic planning and financial reporting, were aimed at institutionalising developmental objectives and mandates within the DFIs' business strategies and activities, and further aligning the DFIs' achievements with national development priorities.

To ensure continued access to financing during movement restrictions, the Bank worked closely with State Governments and DFIs to ensure operational continuity of agent banks. In addition, we worked with the relevant financial institutions to set-up ATM machines and mobile counters in rural and remote communities to facilitate the distribution of Government aid. Beyond the existing Mobile Banks (*Bank Bergerak*) offered by financial institutions, we also worked to establish new alternative channels such as mobile ATMs to further improve the delivery of basic financial services nationwide.

Agent banking continued to serve as an important channel for providing convenient access to financial

Diagram 4: Key areas in enhancing the financing ecosystem for SMEs and individuals amid the COVID-19 pandemic



¹ Data cited refers to cumulative data since the establishment of SDRS in 2003 and AKPK in 2006

services in remote areas with limited connectivity, generating positive spillover effects to the wider community. In the first nine months of 2020, 17.1 million transactions of basic financial services valued at RM1.6 billion were transacted at agent banks (January – September 2019: 20.8 million transactions, amounting to RM1.9 billion). Since the introduction of the agent banking initiative in 2012, agent banks have facilitated 212 million transactions, amounting to RM17.9 billion as at end-September 2020. In terms of accessibility, 95% of sub-districts or State Legislative Assemblies (*Dewan Undangan Negeri*, DUN) now have access to basic financial services (2011: 46%).

Building resilience through inclusive financial product offerings

In 2020, we also worked to further develop Malaysia’s microinsurance and microtakaful landscape. A key initiative on this front was the review of the *Perlindungan Tenang* framework, launched in 2017, to encourage the provision and take-up of meaningful insurance and takaful solutions for the underserved. Key principles and the progress of the *Perlindungan Tenang* initiatives are highlighted in Diagram 5.

Revisions to the *Perlindungan Tenang* framework included fit-for-purpose flexibilities to promote innovation and address supply-side challenges. For example, more entities will be allowed to distribute *Perlindungan Tenang* products. Further, distributors will be granted additional operational flexibilities and *Perlindungan Tenang* products can be combined with other financial products where it can be demonstrated that doing so will encourage higher take-up for the benefit of the targeted segments without materially increasing risks. At the same time, insurers and takaful operators (ITOs) are also required to observe parameters in the design of products which serve to ensure the *Perlindungan Tenang* products provide good value-for-money coverage and benefits to safeguard consumers’ interests.

Recognising its importance, the Malaysian Government also announced incentives in the Budget 2021 to promote *Perlindungan Tenang* products. This includes a RM50 voucher for eligible recipients and extension of stamp duty exemption for *Perlindungan Tenang* products for another five years. These measures are expected to further increase the take-up of *Perlindungan Tenang* products and widen the financial safety net for the *rakyat*.

Diagram 5: Key principles and progress of *Perlindungan Tenang*



Promoting a Progressive and Inclusive Financial System

The Bank embarked on communication and education efforts to increase awareness and understanding of insurance and takaful protection among Malaysians. Through the Financial Education Network (FEN), we collaborated with the insurance and takaful industry to host an education and awareness programme in conjunction with Financial Literacy Month in October 2020. The webinar attracted more than 27,000 viewership.

Beyond the insurance/takaful space, the Bank also facilitated industry efforts to develop innovative ecosystems for more inclusive financial services. These include new business models involving partnerships between payment service providers and fund management firms to enable micro-investments, thereby broadening access to wealth management products. In these areas, we worked closely with relevant regulatory authorities to enhance and refine existing regulations to facilitate such partnerships, subject to safeguards for financial stability and consumer protection.

In strengthening financial and social resilience, the Bank also continued to support the advancement

and integration of social finance in Islamic financial services, particularly for the underserved segments. Further details on the Bank's initiatives to advance social finance are in the chapter on "Promoting a Progressive and Inclusive Islamic Financial System".

Going forward

For 2021, the Bank's priority would be to set out the critical developmental and regulatory priorities for the next five years (2022 – 2026) under a new blueprint for the financial sector (Blueprint 3.0). These priorities will focus on enabling technology and data-driven innovation, enhancing the competitiveness of the financial sector, expanding access and responsible usage of financial solutions, and ensuring financial intermediation remains effective to support the future needs of the economy. Blueprint 3.0 will also emphasise the catalytic role of the financial sector in advancing the sustainability agenda, in particular climate-related risks to support an orderly transition towards a greener economy.

Promoting a Progressive and Inclusive Islamic Financial System

The Bank remains committed to advancing Islamic finance with focused efforts on supporting a sustained economic recovery, building social and climate resilience as well as empowering halal trade.

In 2020, the Bank dedicated efforts towards advancing Islamic finance in addressing the economic challenges posed by the pandemic. The focus was on enhancing the contribution of Islamic finance towards facilitating economic recovery, building social resilience, promoting climate resilience, as well as empowering trade, business and the digital economy.

The Islamic banking and takaful industry remained resilient and agile against the background of a highly uncertain economic and operating environment. The industry continued to post a healthy growth, gaining further market share of the overall financial system. The industry also recorded strong financial soundness indicators (Diagram 1).

Cushioning the impact of COVID-19 to businesses and households

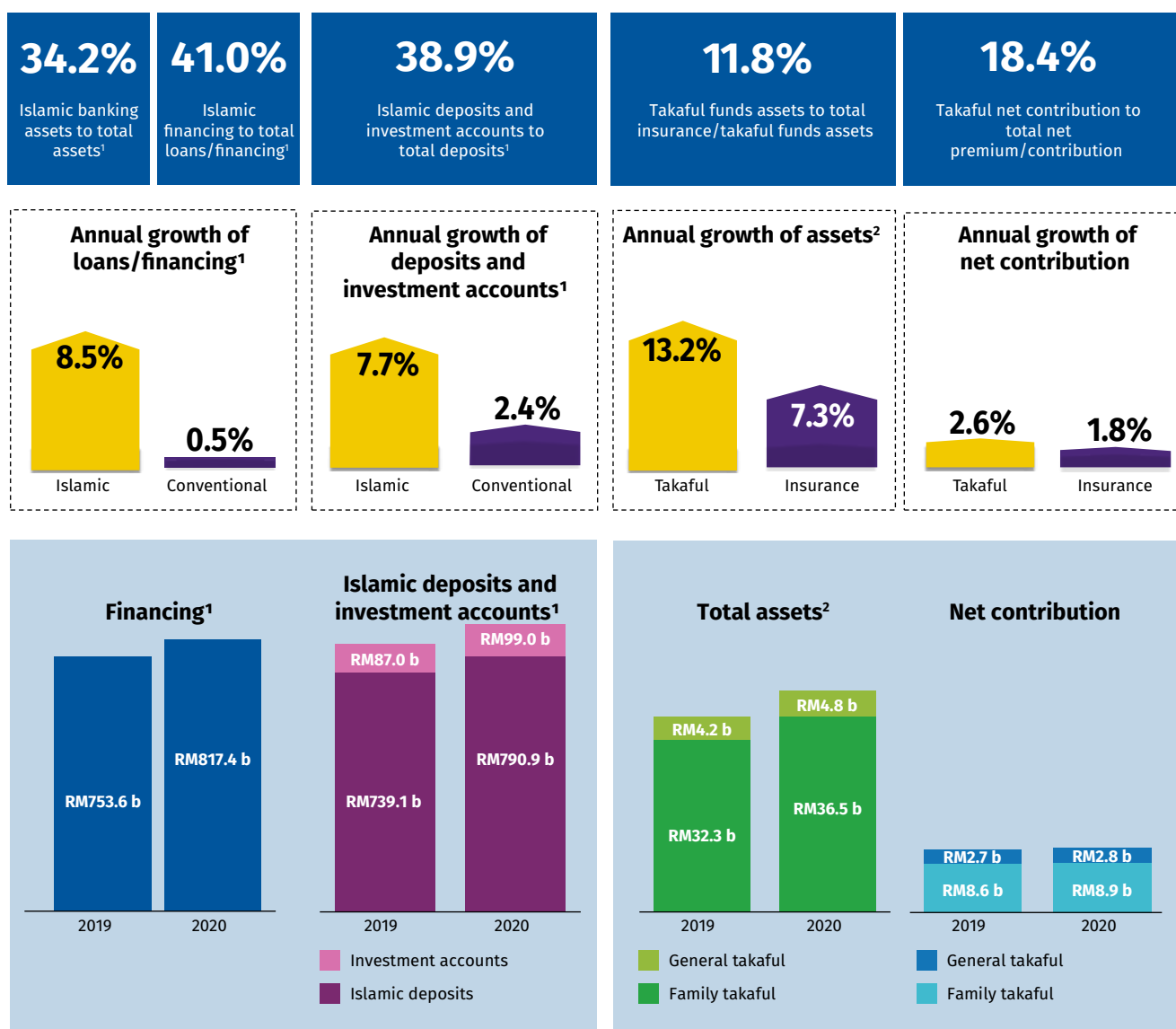
The Islamic banking and takaful industry has been proactive in assisting customers affected by the pandemic. This was supported by an active role of the Shariah Advisory Council of Bank Negara Malaysia (the SAC) which issued key rulings during the year to guide the implementation of assistance

measures in line with Shariah principles. Almost half of the 15 SAC meetings in 2020 were dedicated to discussing Shariah matters related to COVID-19 relief measures. The rulings (Diagram 2) focused on reducing financial hardships experienced by customers affected by the pandemic.

These rulings were also a focal point of discussion at the Centralised Shariah Advisory Authorities in Islamic Finance meeting hosted by the Central Bank of the UAE in May 2020. It brought together 40 Shariah scholars and Islamic finance experts from seven jurisdictions, which have national-level Shariah governance similar to the SAC, and international standard-setting organisations. The discussion helped to enrich mutual understanding within the global Shariah fraternity on different practices, challenges and considerations underpinning the rulings in handling financial assistance programmes, particularly in relation to repricing adjustments following the implementation of deferred payments.

In Malaysia, the Shariah committee of Islamic financial institutions complement the functions of the SAC. In particular, the Shariah committees advise on the application of SAC rulings or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the Islamic financial institutions. Given this important role, the Bank introduced a multi-faceted competency framework in 2020 (Diagram 3) for Shariah committees. The framework further elevates the quality of deliberation of Shariah committees and promote sound decision making at the respective institutions. In 2020, the Bank approved a total of 117 Shariah committee appointments proposed by Islamic financial institutions, comprising 45 new appointments and 72 re-appointments.

Diagram 1: Growth of Islamic banking and takaful in 2020



Selected key financial soundness indicators as at end-2020

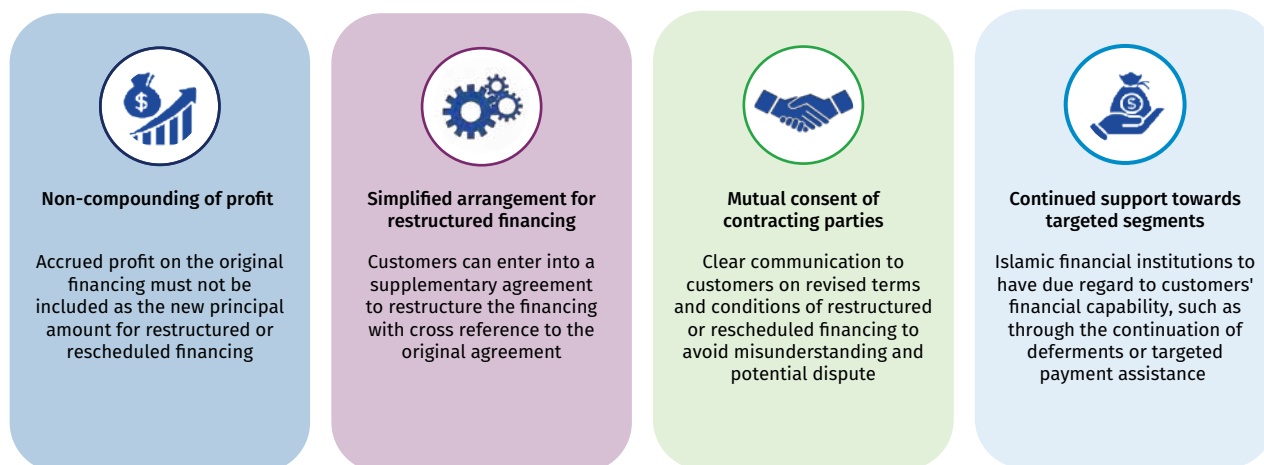
Islamic banking		Conventional banking		Takaful operators		Insurance companies	
18.4%	Total capital ratio	18.5%		234.6%	Capital adequacy ratio⁴	217.6%	
137.2%	Liquidity coverage ratio	151.7%		RM1.4 b	Balance of transaction⁵ (life/family fund)	RM4.7 b	
0.9%	Impairment³	1.0%					
0.7%	Return on assets	1.2%					

Notes:

- ¹ Includes development financial institutions
- ² Refers to the total assets of the takaful funds or insurance funds
- ³ Refers to non-performing loans/financing ratio
- ⁴ Inclusive of retakaful operators and reinsurance companies
- ⁵ Refers to the excess of net premium/contribution after deducting benefits payouts, agency remuneration and management expenses

Diagram 2: SAC rulings in respect of practices and conduct of Islamic financial institutions in addressing the impact of COVID-19

SAC rulings premised on the principle of *ihsan* (beneficence)...



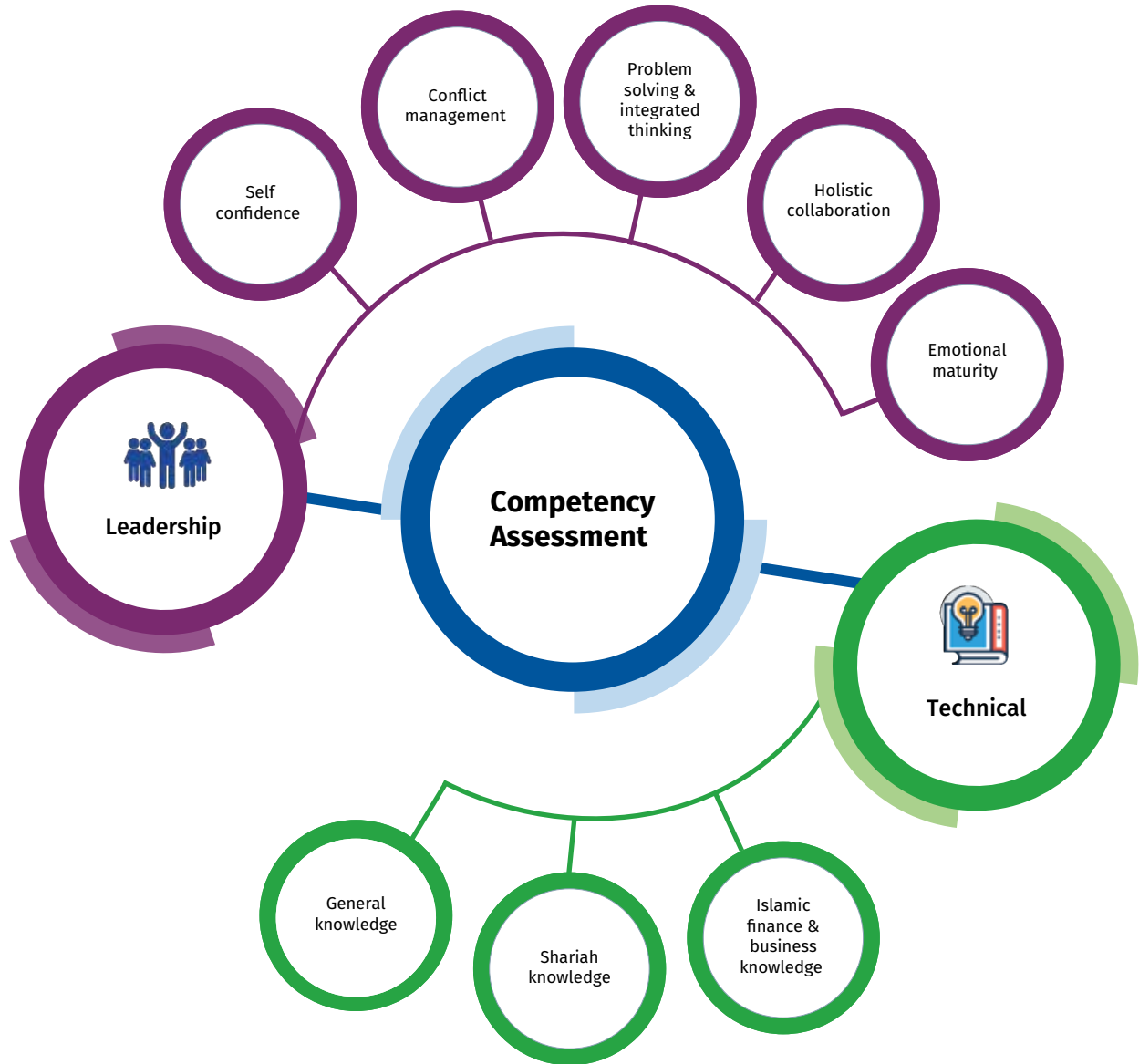
...complement the implementation of relief measures for customers affected by COVID-19

- 1 Broad-based payment assistance**
Automatic six months deferment for all eligible financing for individuals and SMEs from April to September 2020
- 2 Flexibilities in takaful contribution**
Optional deferment of family takaful contribution for three months while takaful coverage continues
- 3 Targeted payment assistance**
Additional assistance to eligible individuals and SMEs

Table 1: Landmark Shariah rulings by the SAC in 2020

No	Ruling	Purpose	Intended Outcome
1.	<i>Hajah</i> (need) and <i>Darurah</i> (necessity) Parameters	Guidance for Shariah scholars to determine applicability of Shariah exceptional rules for exigent circumstances faced by modern finance. The guidance ensures Shariah decisions are backed by a well-founded methodology.	<ul style="list-style-type: none"> Consistent application of Shariah parameters in assessing <i>Hajah</i> and <i>Darurah</i> circumstances. Sustained public confidence in Islamic finance.
2.	Collateralised Commodity <i>Murabahah</i> (CCM)	Broaden range of funding/ liquidity instruments to raise funds and address liquidity needs of Islamic financial institutions.	<ul style="list-style-type: none"> Enhanced liquidity management by Islamic financial institutions. Increased liquidity of Islamic securities held by financial institutions.
3.	E-wallet as a Shariah compliant payment instrument	Clarification on the Shariah compliance status of e-money with guidance on the essential elements required in structuring Shariah compliant e-wallet.	<ul style="list-style-type: none"> Growth of innovative payment solutions in the market. Enabling ecosystem for Islamic fintech.

Diagram 3: Competency framework for Shariah committee members of financial institutions



Encouraging inclusive and diverse financial solutions

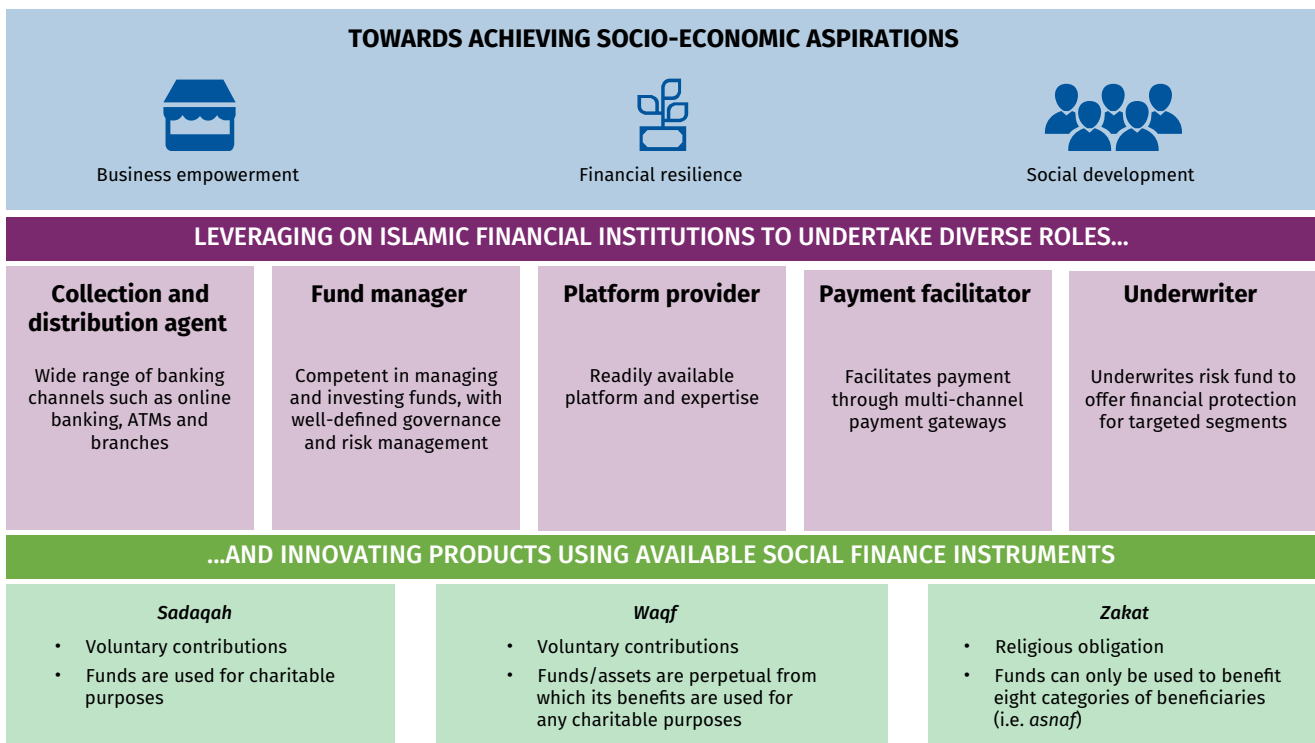
During the year, the Bank focused its developmental initiatives for Islamic finance on three major themes:

- Building social resilience
- Promoting climate resilience
- Empowering trade, business and the digital economy

Building social resilience

The Islamic banking and takaful industry continued to advance the social finance agenda through product innovation and service improvements (Diagram 4). Social finance refers to financial services that mobilise philanthropic capital using instruments such as donation, endowment (including cash *waqf*) or alms (*zakat*) to deliver tangible social outcomes.

Diagram 4: Financial intermediation using social finance instruments



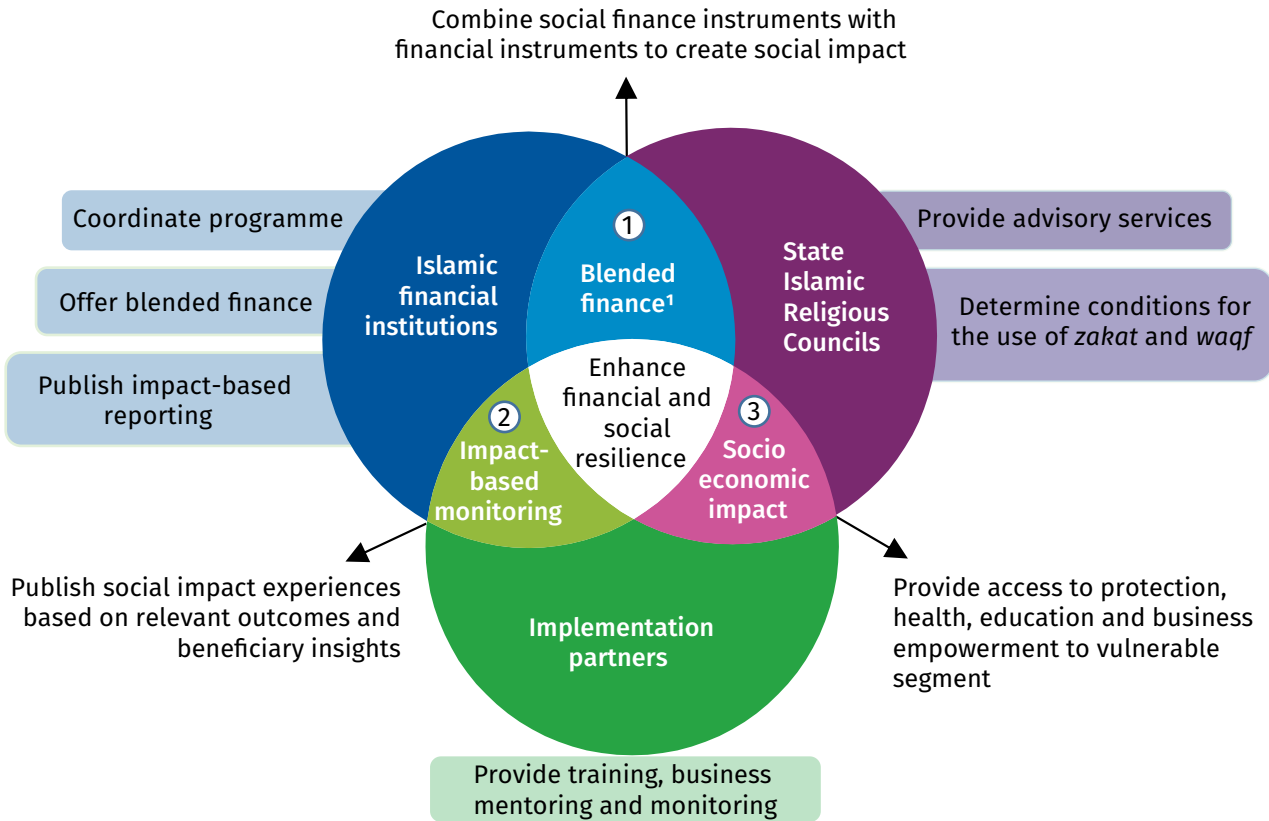
In 2020, the industry introduced new products designed to meet the specific needs of the underserved segment. These include benevolent microfinancing for B40 entrepreneurs funded by donations from corporates and affordable financing programmes to build houses for *zakat* recipients. There was also financial protection for hardcore poor families in the form of *takaful* riders using donation.

Further integration of social finance requires Islamic financial institutions to work closely in partnership with State Islamic Religious Councils (SIRCs) and non-traditional partners such as social enterprises and NGOs. The partnership enables each stakeholder to contribute unique expertise, knowledge and resources towards achieving the common goal of enhancing the financial and social resilience of the target groups (Diagram 5). An example of a successful

synergistic partnership of this nature is myWakaf, a digital cash *waqf* platform piloted by six Islamic banks involving eight SIRCs, which managed to raise funds totalling RM7.6 million by the end of 2020. The funds were channelled to finance impactful projects nationwide in healthcare, education and community empowerment (Diagram 6).

The spotlight article on Empowering B40 Entrepreneurs via iTEKAD showcases an example of a pilot programme that utilises social finance instruments to complement existing financial solutions. The Bank will continue to monitor the progress and impact derived from the social finance initiatives by the industry. We will also assess any regulatory or developmental responses that should be considered to strengthen the ecosystem to support a more resilient and vibrant social finance in Malaysia.

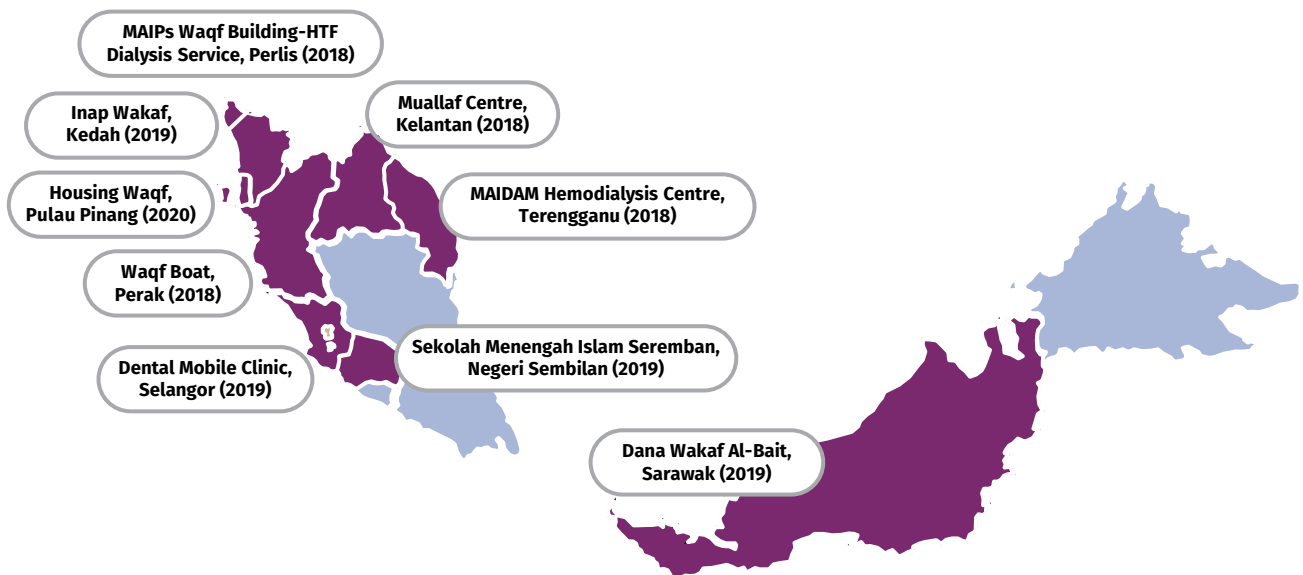
Diagram 5: Integration of social finance and roles of key stakeholders



Notes:

¹ Blended finance refers to the strategic use of development finance for the mobilisation of additional finance including philanthropic funds towards sustainable development. Sourced from OECD (2018), Making Blended Finance Work for the Sustainable Development Goals

Diagram 6: Existing myWakaf projects nationwide



Empowering B40 Entrepreneurs via iTEKAD

Over the years, the Bank has been encouraging the innovative use of social finance instruments in Islamic finance. These instruments such as *waqf* (endowment), *zakat* (alms) and *sadaqah* (donation) offer unique benefits in addressing the financial needs of underserved communities, especially the lower income group. The pandemic creates opportunities for the Bank to expand social finance initiatives further to minimise the economic impact of the pandemic on employment and micro businesses. The combination of financial solutions with these instruments is complementary to existing financing programmes for micro-entrepreneurs and aims to help them rebuild their livelihoods after experiencing distressing economic changes.

In March 2020, the Bank initiated a pilot programme called “iTEKAD” (which stands for “my determination”). The iTEKAD programme blends social finance with microfinancing and structured training. This programme aims to empower low income micro-entrepreneurs to generate more sustainable income, become financially resilient and subsequently contribute back to the community.

The first pilot programme commenced in Wilayah Persekutuan with three implementation partners namely Bank Islam Malaysia Berhad (BIMB), Majlis Agama Islam Wilayah Persekutuan (MAIWP) and SME Corporation Malaysia (SME Corp).



Minister in the Prime Minister's Department (Religious Affairs) Datuk Seri Dr Zulkifli Mohamad Al-Bakri launching iTEKAD on 14 May 2020 witnessed by Deputy Governor Abdul Rasheed Ghaffour (second from right) and Chief Executive Officer of Bank Islam Malaysia Berhad, Encik Mohd Muazzam Mohamed (second from left)

B40 entrepreneurs face difficulties in accessing formal financial services for a number of reasons. Many are weighed down by lack of business and financial track records, inadequate business and financial management skills, and business activities that tend to be of higher risk. Through incorporating social finance features in financing solutions, B40 entrepreneurs can avail themselves of more funding options beyond debt-based financing to sustain or expand their business. Importantly, the upskilling, mentoring and impact-based monitoring of achievements further increase the likelihood of success in their business ventures and greater financial resilience over the longer term.

The effective implementation of the iTEKAD programme will continue to require strong commitment from all stakeholders as its delivery mechanism is more resource intensive compared to traditional ways of delivering finance.

Given the highly positive experience thus far, the iTEKAD programme will be further expanded in 2021 through the anticipated participation of two additional Islamic financial institutions. These Islamic financial institutions will be providing a wider range of blended financial solutions using a variety of social finance instruments such as cash *waqf* and *sadaqah*. The expansion of the iTEKAD programme will also include more states and new implementation partners who can support the effective delivery of the programme. This in turn will further extend Islamic financial institutions' outreach in social development and resilience initiatives.

Diagram 7: Challenges facing B40 entrepreneurs and key components of the iTEKAD programme

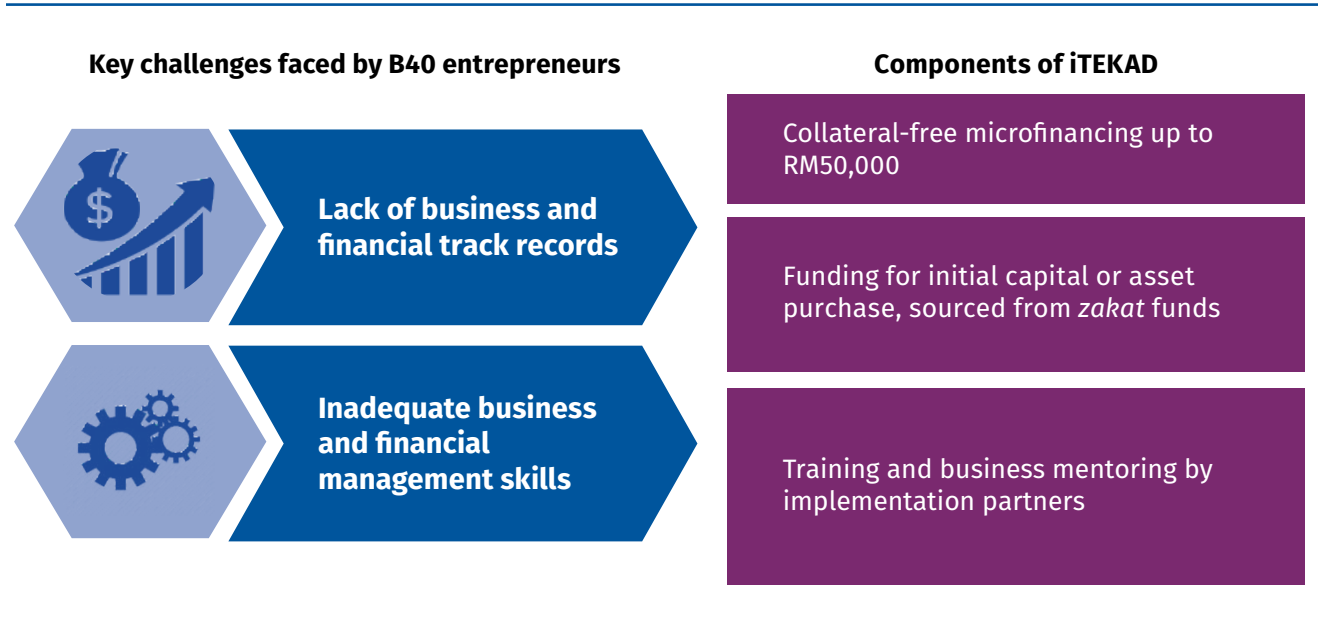
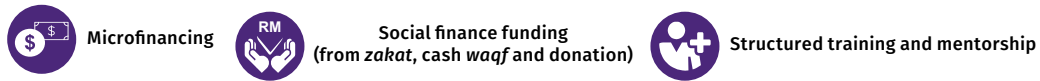


Diagram 8: Features and progress of the iTEKAD programme

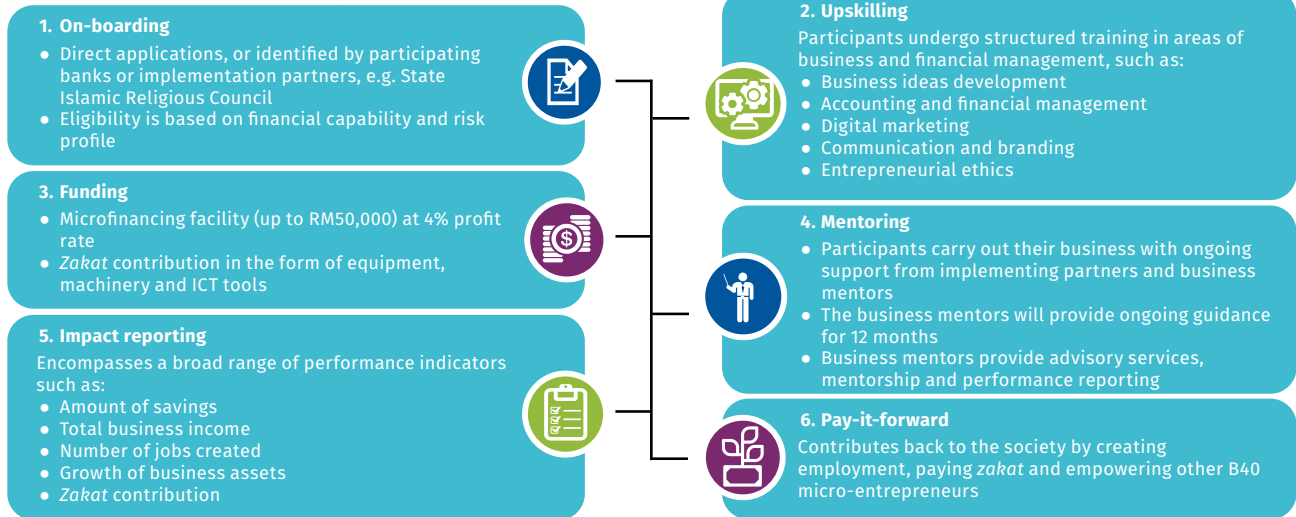
FEATURES OF iTEKAD

iTEKAD is a comprehensive social finance programme for B40 micro-entrepreneurs that provides:



iTEKAD Pilot Programme

COMPREHENSIVE CUSTOMER JOURNEY



ACHIEVEMENTS IN 2020

Implementation of iTEKAD through collaboration of Islamic banks with implementation partners resulted in



*Agriculture, beauty and cosmetics, food and beverages, fashion and clothing, health supplements, IT/telecommunication, manufacturing, retailer, services, sports

IMPACT

• A B40 micro-entrepreneur from the fashion industry has grown her business



• A school canteen operator revived her business



• A food entrepreneur retained her business despite a major downturn during the pandemic



"iTEKAD is a breath of fresh air for my business. The financing provided useful working capital, while guidance from SME Corp is helpful for small businesses like us to survive through the challenges of the pandemic."
 Operator of a school canteen business

"Beyond financing, iTEKAD provides useful guidance for small businesses to manage their business more systematically through the classes and training."
 Owner of a restaurant specialising in traditional delicacies

Promoting climate resilience

The Bank also lent support to the role of Islamic finance in driving the sustainability and climate resilience agenda for the financial system. This is consistent with the fundamental values of Shariah to prevent harm and promote the attainment of benefits including safeguarding the environment. The intrinsic value of Islamic finance principles is universally applicable in realising a vision of economic growth that is balanced, sustainable and inclusive.

In 2020, we participated in developing detailed guidance (sectoral guides) with the industry via the VBI Community of Practitioners. These sectoral guides, which focus on palm oil, renewable energy and energy efficiency, as a start, will be finalised in the first quarter of 2021. This is part of the industry’s ongoing commitment towards the development of a financial system that supports sustainability and the transition towards a low carbon economy. These sectoral guides will facilitate the practical implementation of measures pursued by the Joint Committee on Climate Change (JC3), including the

principles-based taxonomy (refer to Chapter 2.2 on “Towards a Greener Financial System”) and VBI Financing and Investment Impact Assessment Framework (VBIAF), that were issued in 2019. The sectoral guides outline the environmental, social and governance (ESG) risk considerations in specific economic subsectors/industries and activities. They serve as important tools to assist financing and investment decisions by financial institutions. In 2021, additional sectoral guides will be developed for the manufacturing, construction and infrastructure, as well as oil and gas sectors.

Takaful operators have also started to embrace VBI by aligning their corporate strategies and exploring improvements to business practices and operations. These actions aim to deliver a much bigger positive impact to the economy, community and environment. The development of the VBI framework for takaful is already at an advanced stage. The Malaysian Takaful Association (MTA) expects to issue the framework in early 2021 to guide the takaful industry on VBI adoption.

Diagram 9: VBIAF Sectoral Guides as key tools to motivate behavioural change in the economy and society

VBIAF Sectoral Guides provides guidance to financial institutions to incorporate environmental, social and governance (ESG) risk considerations in their financing and investment decision making process

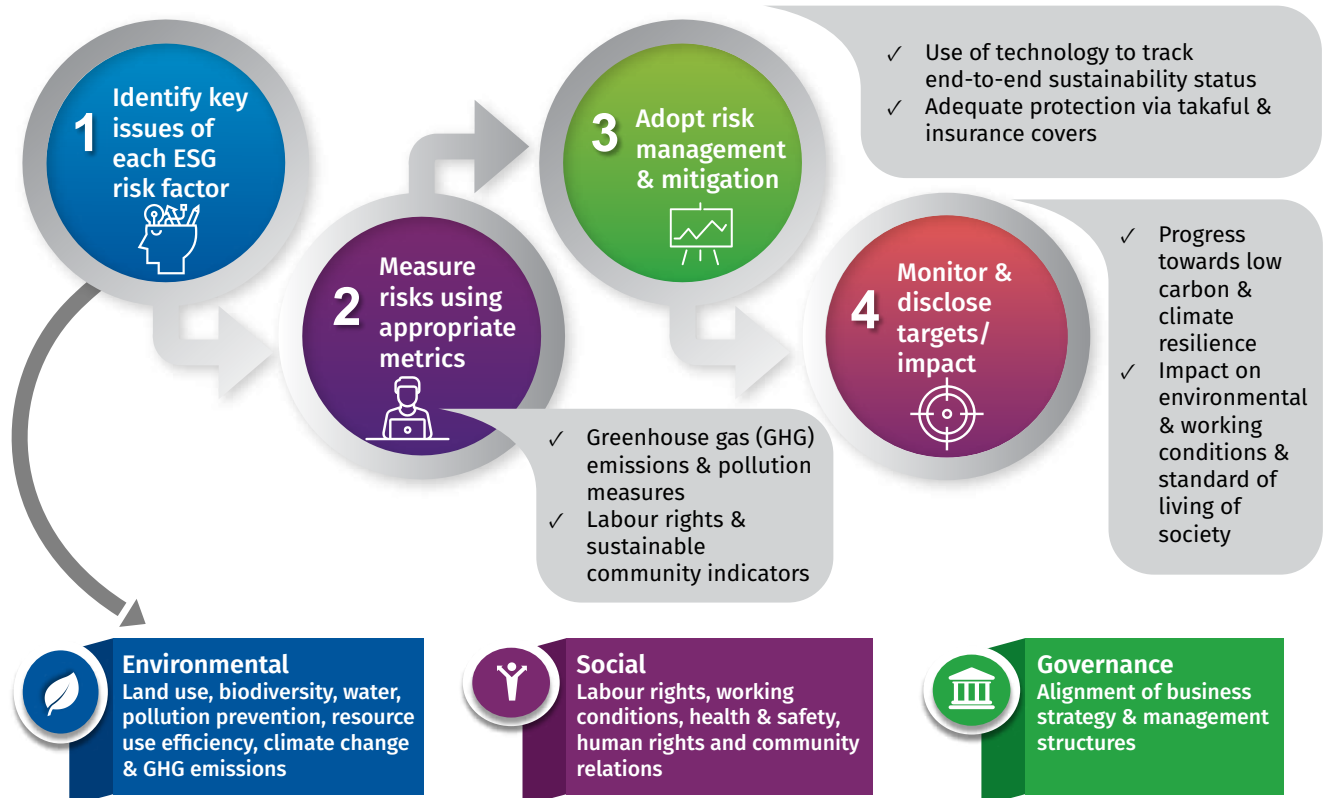
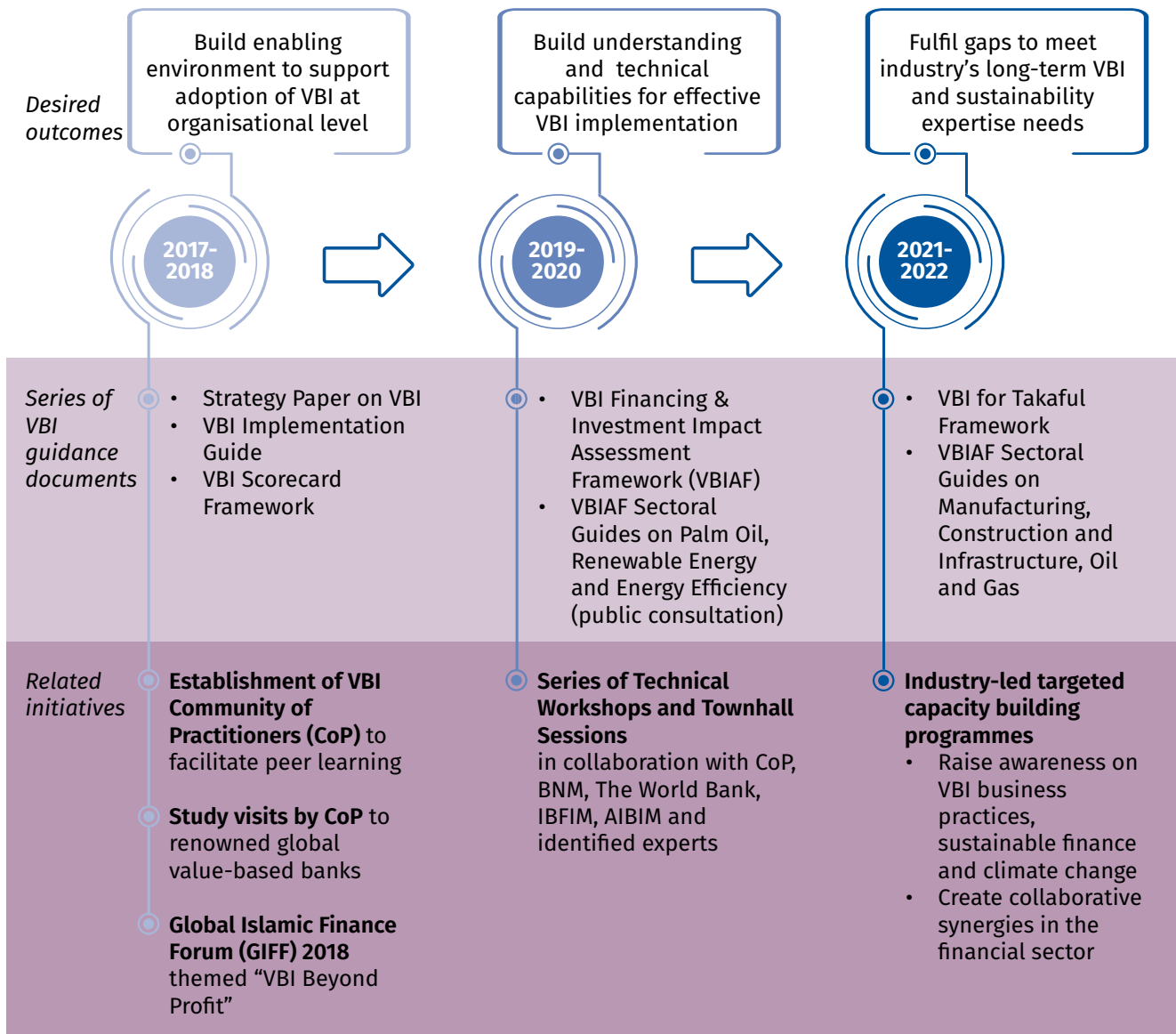


Diagram 10: Concerted efforts on capacity building in catalysing VBI adoption across banking and takaful sectors



Empowering trade, business and the digital economy

The Bank collaborated with several Islamic banking institutions to explore the deployment of differentiated financial structures to facilitate the liquidity needs of SMEs at different stages of their business operations (Diagram 11). Given that these structures are relatively new to the industry, the Bank facilitated the development of the solutions by providing clarity on regulatory and reporting requirements.

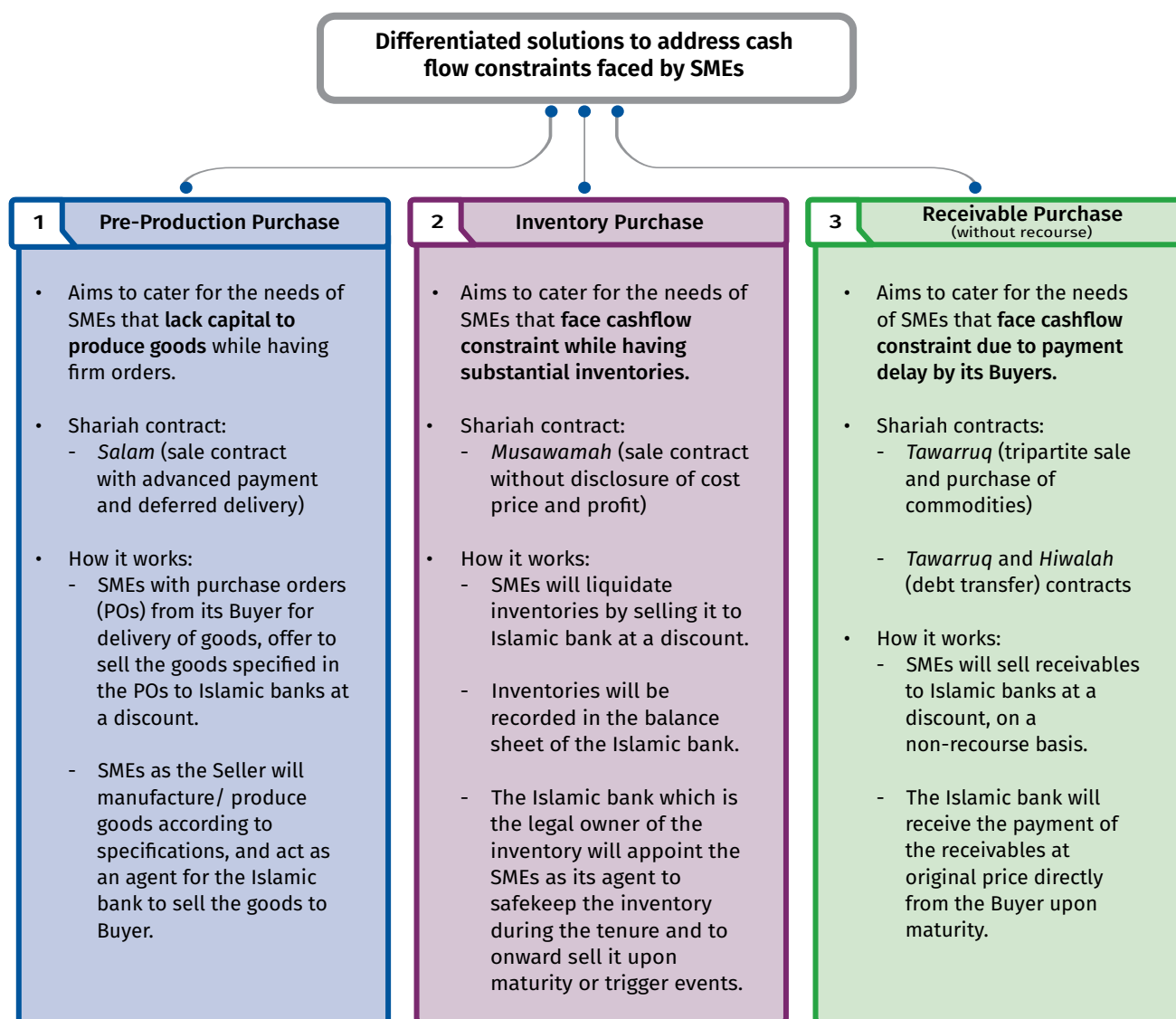
In 2020, the Bank also focused on enhancing the digital marketplace to enable halal certified SMEs to participate in new markets. A key initiative is a strategic partnership between Islamic financial institutions and the Halal Development Corporation

Berhad. This initiative aims to enhance access to financing and takaful protection for halal certified companies registered on the Halal Integrated Platform (HIP). HIP is an online digital advisory and networking platform targeting 5,000 halal certified SMEs and is set to be launched in 2021. In addition, the year saw three Islamic banks launch dedicated facilitation programmes for halal micro businesses and SMEs. These programmes include business advisory and business matching services that connect entrepreneurs to prospective buyers via an e-marketplace. With this initiative, Malaysia's halal certified companies would have better market access and opportunity to expand their businesses in the global halal market space.

Takaful players have also pivoted innovatively in their offering of products and services amid COVID-19 challenges. Many have upgraded their self-service customer touchpoints and digitised system infrastructures to support takaful business operations and improve customer experience. In tandem with increasing consumer awareness on health protection, we have observed further expansion of digitally-enabled health care and preventive services such as telemedicine, wellness apps and wearables. Several digital offerings were introduced to cater for traditionally excluded segments as well. These include coverage for children with learning disabilities, usage-based protection and micro SMEs on e-commerce platforms.

In 2020, the Bank facilitated the admission of a peer-to-peer takaful model into the Financial Technology Regulatory Sandbox. This new takaful model based on *tà'awun* (mutual assistance) and *wakalah bi al-ujrah* (appointed manager with a fee) contracts is currently being live-tested for one year with a maximum of 10,000 participants. The offering is distributed through a mobile app. It provides death benefit coverage on a mutual assistance basis, involving equal sharing of the actual claims amount upon death among the participants. The mobile app also includes features such as simple on-boarding, nomination and claims processes for the convenience of participants.

Diagram 11: New financial structures to meet the liquidity needs of SMEs across different stages of the business cycle



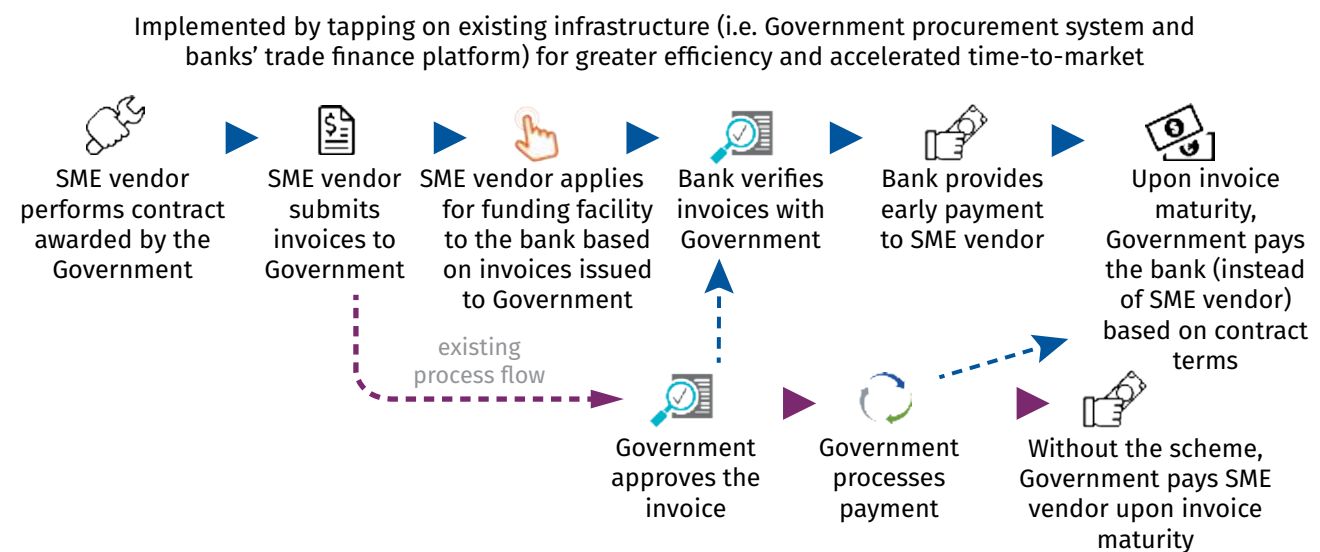
Liquidity Facility for Government Vendors

The liquidity scheme is structured, on a pilot basis now, to ease cash flow constraints faced by businesses. It allows eligible SME vendors of public procurement contracts to obtain accelerated payment pending actual payment by the Federal Government. The scheme involves the sale or transfer of outstanding invoices owned by SME vendors to participating banks. The structure benefits SME vendors in the following ways:

- **Does not increase leverage of the vendors** given that the facility involves a true sale of payment rights on invoices to the bank, effectively transferring the payment claims from the vendors to the Principal. As such, under the facility, banks will have limited recourse on the vendors, unlike a financing or a loan structure; and
- **Competitive pricing** in view of the fact that the facility is provided based on the credit standing of the Government as the Principal instead of the credit assessment of the vendors.

The pilot will commence in the first quarter of 2021 involving four Islamic banking institutions and four participating Ministries. The Ministries involved are Ministry of Health, Ministry of Education, Ministry of Higher Education, and Ministry of Communications and Multimedia. These Ministries will act as the Principal parties, and the arrangement covers the supply and services contracts awarded by the Federal Government. Upon completion of the pilot programme, the scheme will be expanded to include participation of more banking institutions and Principals including those from the private sector. The scheme will also consider a wider range of contracts such as work-related procurement contracts as well as diverse types of facilities including pre-financing structures.

Diagram 12: Accelerated payment to Government SME vendors via the Pilot Liquidity Scheme¹



Key Benefits to SME vendors

- ✓ **Provides quick liquidity**, enabling SME vendors to better manage their financial requirements and advances to meeting new demands/orders
- ✓ **Does not affect gearing** of SME vendors
- ✓ **Competitive pricing** based on standing of Government as Principal
- ✓ **Enhances accessibility** to banking facilities including for small enterprises
- ✓ **No collateral** required

Notes:

¹ The pilot liquidity scheme known as CAKNA is a financing facility by Islamic banks for vendors that have obtained Government contracts for supplies and services

We also strengthened engagements with government agencies and the business community, particularly in the halal industry, together with Islamic finance providers. For example, key information on Islamic finance solutions is now available in the Malaysia External Trade Development Corporation (MATRADE)'s Beginner's Guide to Exporting, as well as Jabatan Kemajuan Islam Malaysia (JAKIM)'s *Manual Prosedur Pensijilan Halal Malaysia (Domestik) 2020*. This will help promote greater awareness and acceptance of Islamic financial solutions among halal certified companies.

Going forward

In 2021, we will continue our efforts to develop a progressive and inclusive Islamic financial system. We will sharpen our focus across three major areas, namely, social resilience, climate resilience and business empowerment. This will entail further diversification in Shariah-compliant financial solutions to address market gaps, and innovative approaches in meeting the evolving needs of the society and economy. These developments, together with the value-based focus of the industry, will contribute towards further strengthening the Islamic financial sector and enhancing its contribution to Malaysia's socio-economic growth and development.

Promoting Safe and Efficient Payment and Remittance Systems

Payment and remittance systems are vital to the modern economy. They help people and businesses make transactions conveniently, such as to buy groceries, shop online, pay suppliers and send money overseas. Given their importance, we regulate these systems and supervise industry players to promote the safety, efficiency, reliability and integrity of payment and remittance systems.

The key priority for the Bank in 2020 was to ensure that payment and remittance systems continued to operate at high levels of safety, efficiency, reliability and integrity, amid the challenging operating environment brought about by the pandemic. Significant efforts were also devoted towards accelerating the adoption of electronic payment (e-payment) and electronic remittance (e-remittance) services, particularly among the underserved communities and small businesses. This effort is part of the broader digitalisation agenda to ensure that households and businesses are better positioned to manage the risks and capitalise on the opportunities in the new normal. We also continued to foster development of key payment infrastructures to ensure they remain effective and relevant to cater to the needs of the Malaysian economy.

Key payment and remittance trends

In 2020, RENTAS¹, Malaysia's large value payment system, and the retail payment systems continued to operate smoothly without any major disruptions,

¹ Real-time Electronic Transfer of Funds and Securities System.

recording a high system availability of above 99.9%. Usage of e-payment services grew significantly during the year (Diagram 1). Notwithstanding the decline in economic activities as a result of the pandemic and movement restrictions, the total number of e-payment transactions continued to record a double digit growth of 14% to 5.5 billion transactions in 2020. On average, a person in Malaysia made 170 e-payment transactions in 2020, up from 150 transactions in 2019. Meanwhile, the usage of cheques and cash recorded a sharper decline in 2020. The number of cheques cleared declined to 59.9 million cheques, down 29% from the previous year. Likewise, cash withdrawn from Automated Teller Machine (ATM), a proxy of cash usage, declined to 768.7 million transactions valued at RM377.3 billion in 2020, down 9% and 12% respectively compared to 2019².

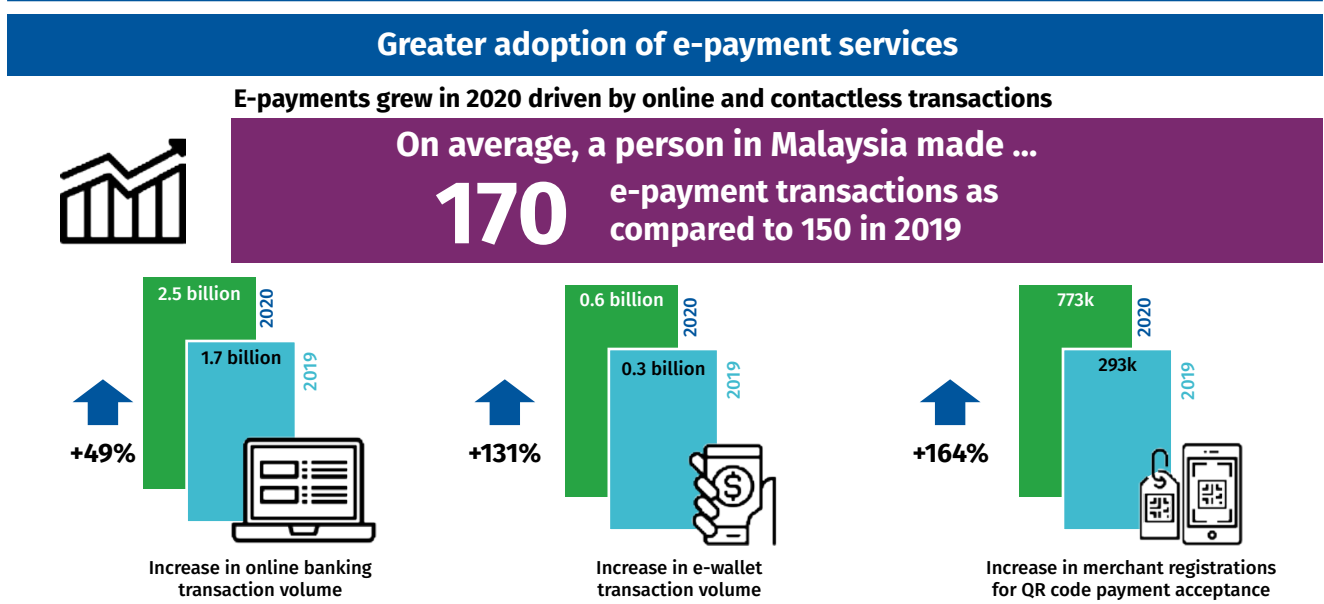
The increased adoption of e-payment services was driven primarily by the increasing shift by consumers towards contactless and online payment methods. These payment methods are safer and more convenient as they help minimise contact and reduce the need for visits to physical premises. For payment at physical premises, contactless card transactions accounted for 1 out of every 2 card transactions in 2020, up from 1 out of every 3 transactions in 2019. Meanwhile, online banking transactions registered a 49% increase to 2.5 billion transactions (2019: 1.7 billion). E-wallet³ transactions on the other hand, increased by 131% to 0.6 billion transactions (2019: 0.3 billion). More merchants also signed up to accept e-payments with the number of Quick Response (QR) code payment registrations increasing by 164% to 773,484 as at end-2020, up from 292,969 registrations as at end-2019⁴.

² As explained in the chapter on Issuing Currency, the higher growth of currency-in-circulation (CIC) recorded in 2020 is likely driven by precautionary holdings of cash. Members of the public were holding extra cash for comfort and security in light of the economic uncertainty brought about by the pandemic. This experience was not unique to Malaysia, as many other countries reported a similar phenomenon.

³ Network-based e-money.

⁴ Based on data reported by five major issuers of network-based e-money.

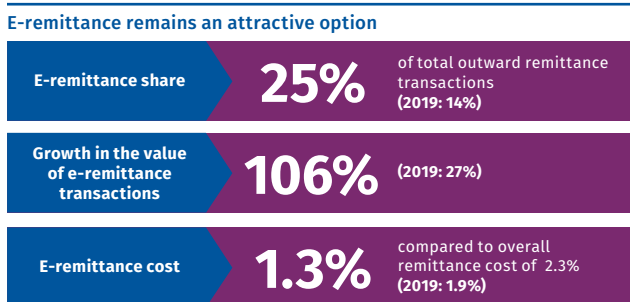
Diagram 1: Greater e-payment adoption



Source: Bank Negara Malaysia

Similarly, adoption of e-remittance services offered by remittance providers⁵ grew significantly (Diagram 2). In 2020, the total value of e-remittance transactions more than doubled to RM6.6 billion, accounting for 25% of total outward remittances (2019: RM3.2 billion, 14%). This was supported, among others, by the lower cost of e-remittance services and convenience of electronic on-boarding processes (i.e. e-KYC) that provided a more seamless and convenient user experience. The ability of remittance providers to offer e-remittance services also supported the industry’s swift recovery from the impact of the pandemic, registering RM26.5 billion in total outward remittances, up by 12% from 2019. While remittances by foreign workers were lower due to subdued economic conditions, outward remittances conducted via remittance providers continued to grow, driven by individual and business remittances which grew by 9% and 89% respectively compared to the previous year.

Diagram 2: Greater e-remittance adoption



Source: Bank Negara Malaysia

⁵ Refer to licensed non-bank remittance service providers.

Ensuring safety and fostering confidence in payment and remittance systems

Oversight activities on payment and remittance systems

Due to the challenging operating environment brought about by the pandemic, our oversight activities in 2020 were focused on ensuring the operators of RENTAS and key retail payment systems were able to maintain business continuity that took into account the unique challenges posed by the containment measures and movement restrictions. These included ensuring readiness of their recovery centres and instituting split operations and secure remote access capabilities to mitigate infection risks. We also required the operators to increase their vigilance over IT & cybersecurity risks, and ensure critical resources were available from third party service providers, as needed, to sustain operations and facilitate the timely resolution of issues.

During the year, our supervisory reviews on RENTAS, major retail payment systems⁶ operated by PayNet⁷, and other industry players, including electronic money (e-money) issuers, merchant acquirers and remittance providers, were similarly focused on

⁶ These refer to the Real-time Retail Payments Platform (RPP), the Interbank GIRO (IBG) and the Financial Process Exchange (FPX).

⁷ Payments Network Malaysia Sdn. Bhd. (PayNet) is the operator of the country’s shared payment systems and financial market infrastructures, which is jointly owned by the Bank and 11 domestic banks.

operational, IT and cyber risks. The reviews aimed to ensure the robustness of the risk management practices adopted by the operators and industry players in mitigating operational disruptions, security vulnerabilities and breaches. For the major retail payment systems, the focus areas also included governance and level of compliance with the relevant Principles for Financial Market Infrastructures (PFMI) issued by the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO). We also issued periodic communications on cybersecurity to increase the industry’s awareness on the latest cyber threats. In addition, compliance with anti-money laundering and counter terrorism financing (AML/CFT) requirements remains a key focus area, supported by risk-based supervision of industry players.

As the pandemic curtailed on-site supervision and surveillance activities, we leveraged extensively on new technology and data analytics to support our supervisory activities on remittance providers as well as surveillance on illegal operators to mitigate money laundering and terrorism financing risks. We also continued to explore the potential of cloud-based and automated machine learning services to complement and enhance our surveillance capabilities. In addition, the Bank continued to increase its investments in the recruitment and training of talent with data analytics skills and knowledge.

Policy responses to emerging risks and market developments

We continually issue, review and enhance our policies to ensure that they remain effective and relevant to address emerging risks and market developments. In 2020, we issued a policy document on risk-based authentication for online payment card transactions. This will lead to better customer experience facilitated by a more seamless authentication flow and strengthen fraud management through the use of data driven technology and analysis. In addition, we are reviewing the Bank’s policies on e-money, merchant acquiring and e-remittance business to enhance the management of key risks, in particular fund management risk, settlement risk, technology and cyber risk, and fraud risk. The review also aims to foster innovation and promote the development of market players that can help enhance Malaysia’s payment ecosystem.

Promoting greater adoption of e-payment and e-remittance services

The Bank and the industry intensified communication and outreach efforts to promote e-payment and e-remittance services as a safer and more convenient way of making payments. We launched the #GoDigital Campaign to educate the public on the benefits and steps to adopt e-payment and e-remittance services (Diagram 3). Communication materials including short videos and infographics were shared via mainstream and social media channels. For e-remittance services, a targeted approach to reduce barriers and increase confidence in using formal remittance channels among foreign workers continued to be pursued. This includes broadcasting videos in their native languages via social media channels. To preserve trust and confidence in the adoption of e-payments, we also stepped up financial education and awareness on basic hygiene measures that the public should take to protect themselves against financial scams and fraud.

We also worked with the industry and other stakeholders to address pain points and facilitate migration to e-payments. The progress has been encouraging, especially in the public sector, where e-payments made up 60% of total Government collection in 2020 (2019: 52%)⁸. A notable example is the Immigration Department of Malaysia which successfully enabled e-payment acceptance at all Immigration counters nationwide. This has facilitated a higher uptake of e-payments which accounted for 84% of the total collection received by the Immigration Department of Malaysia in

Diagram 3: #GoDigital Campaign infographics



Source: Bank Negara Malaysia

⁸ Source: Malaysian Administrative Modernisation and Management Planning Unit (MAMPU).



MyDebit Campaign by PayNet in collaboration with Ministry of Health Malaysia

2020, compared to 48% in 2019⁹. Efforts were also made to engage state governments and merchant associations to encourage greater adoption by small businesses. For instance, the Bank collaborated with the Penang State Government to implement the *Cashless Pasar Awam* initiative to expand e-payment adoption across 56 wet markets in Penang. Another example was in Pasar Payang, a popular market area in Terengganu, where in collaboration with local traders associations

and the industry, we helped 329 traders to start accepting e-payments.

Fostering development of key payment infrastructures

To drive greater efficiency and promote innovation in payment and financial services, the Bank worked with the industry and relevant stakeholders to issue the ISO 2022 migration strategy for Malaysia.



A trader in Pasar Payang, Terengganu who was on-boarded to accept QR code payments

⁹ Source: Immigration Department of Malaysia.

The Real-time Retail Payments Platform (RPP) is a shared payment infrastructure that facilitates instant and seamless payments between bank accounts and e-money accounts. Two services are currently offered on the RPP. The first service, DuitNow, enables a sender to transfer funds by referencing the mobile phone number, National Registration Identity Card (NRIC) number or the business registration number of the

recipient. The second service, DuitNow QR, is a national QR payment solution which enables a merchant to accept payments from customers of all participating e-wallet operators using a unified QR code.

In 2021, more services will be offered progressively under the RPP. These will include DuitNow Request, DuitNow AutoDebit, DuitNow Online Banking/

ISO 2022 migration strategy: Migration approach and next steps

ISO 2022 is an internationally recognised messaging standard for the financial industry with enhanced data content, structured messaging format and flexibility to adapt to new technologies. The adoption of ISO 2022 presents an opportunity for the financial industry in Malaysia to enhance payment efficiency, facilitate better risk management as well as offer value-added services and products to customers.

The migration to ISO 2022 also helps to mitigate potential disruptions to payment transactions. This is especially so for cross-border payments, where the loss of information through data truncation may lead to non-compliance with anti-money laundering and counter terrorism financing requirements. Globally, major jurisdictions such as the European Union, the United Kingdom, the United States and several ASEAN countries are set to migrate to ISO 2022 within the next few years.

In June 2020, the Bank finalised and issued the ISO 2022 migration strategy for payment systems in Malaysia after consultation with industry players and relevant stakeholders. The strategy reflects several guiding principles which include consideration on industry readiness, ensuring effective safeguards against operational and compliance risks, cost effectiveness and the ability to reap the benefits of ISO 2022 as early as possible. The migration exercise will be done in two phases starting in June 2022 (Diagram 4).

Diagram 4: Two-Phased Approach for ISO 2022 Migration for RENTAS



¹ A global market practice for ISO 2022 messaging standards to harmonise usage of ISO 2022 for large value payment systems

Source: Bank Negara Malaysia

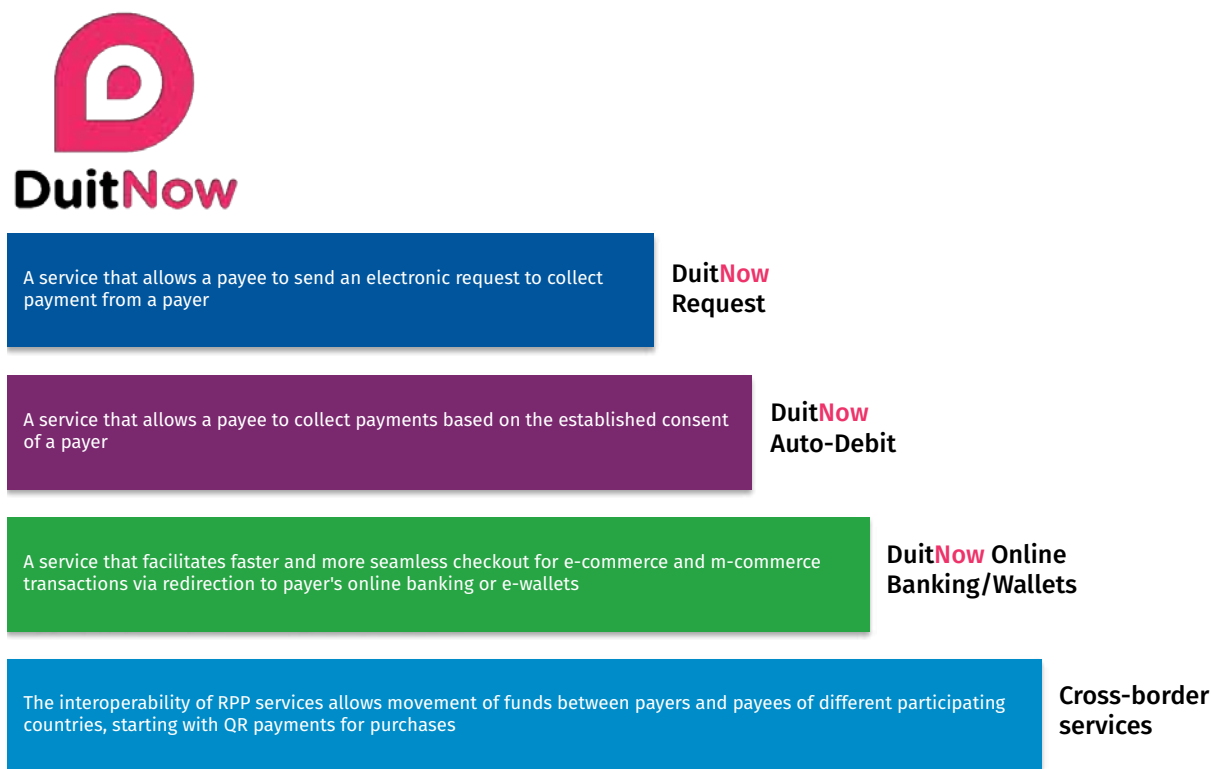
The message specifications for the Real-time Retail Payments Platform (RPP), which is currently using a proprietary ISO 2022 standard, would also be aligned with the new messaging specifications to be adopted for RENTAS (HVPS+). This is expected to enhance efficiency for financial institutions that participate in both RENTAS and RPP, as they only need to handle one single messaging standard for both large value and retail payment transactions.

Wallets, and cross-border payment services (Diagram 5). Further progress has also been made to facilitate cross-border real-time QR payments with neighbouring countries within the ASEAN region starting with Thailand, Indonesia, and Singapore. These are expected to go live in 2021. Linking the region's real-time payment systems will promote greater convenience, efficiency and healthy competition in cross-border payments. This includes providing consumers and merchants with potentially faster and more cost-effective alternatives to traditional modes of payments such as correspondent banking arrangements and payment cards.

Going forward

In 2021, we will continue to direct our efforts to ensure that key payment and remittance systems operate smoothly with high levels of safety, efficiency, reliability and integrity. With greater traction in the adoption of e-payments and e-remittance services in a post-pandemic world, we will continue to work with the industry to reduce barriers to adoption, especially among the underserved segments while ensuring that our regulatory framework continues to remain effective in facilitating innovation.

Diagram 5: New services to be introduced under the RPP






Source: PayNet

Evaluating Malaysia’s Need for Central Bank Digital Currency

Technological advancements and the increasing pace of digitalisation have led to the rising adoption of digital payments and the emergence of privately-issued digital assets¹ (Diagram 1).

Diagram 1: Comparison of fiat currency, e-money and digital assets

	 Issued and backed by a sovereign body	 Privately-issued and backed by assets	 Privately-issued and not backed by assets
Instrument	Fiat currency 1. Bank notes and coins 2. Central Bank Digital Currency (CBDC)	Electronic money (E-money) <i>e.g., Boost, GrabPay, Setel, ShopeePay, and Touch 'n Go</i>	Digital assets Stablecoin <i>(e.g., Tether, USD Coin)</i>
			1. Exchange tokens ¹ <i>(e.g., Bitcoin, Ethereum)</i> 2. Security tokens ² 3. Utility tokens ³
Store of value	Value is backed by a sovereign body (e.g., Government, central bank)	Value is backed by fiat currency	Value is backed by assets (e.g., fiat currency, commodity)
Medium of exchange	<ul style="list-style-type: none"> Widely used as a means of payments Some countries are exploring the feasibility of issuing CBDC (digital form of fiat currency) 	Widely used as a means of payment	May potentially be used as a means of payment subject to effectiveness of value stabilisation mechanism Not widely used as a means of payment due to various limitations (e.g., high price volatility, vulnerability to cyber threats, scalability issue)
Unit of account	Widely used for pricing of goods and services	Denominated in fiat currency	May be denominated in fiat currency (for stablecoins backed by fiat currency) Not widely used for pricing of goods and services

¹ Used as a means of exchange or for investment

² May provide rights, e.g., ownership, repayment of a sum of money, or entitlement to future profits

³ Can be redeemed for access to a specific product or service

Note: Examples are meant to be illustrative and do not amount to any form of endorsement.

Source: Bank Negara Malaysia, Financial Action Task Force, Bank for International Settlements, Cryptoassets Taskforce

Most digital assets, in their current form, are not used as payment instruments primarily because they do not exhibit the universal characteristics of money. In essence, their characteristics prevent them from being a good store of value and medium of exchange as they are prone to price volatility, vulnerable to cyber threats and lack scalability². For example, the price of Bitcoin recorded a steep decline of 39% within a single day in March 2020³. Hence, it is crucial for the public to have a clear understanding of digital assets such as their features, underlying technology, and corresponding risks (Diagram 2). It is noteworthy that new forms of digital assets such as stablecoins have started to emerge. Some stablecoins seek to minimise volatility in their value by linking or backing it with assets such as fiat currency⁴.

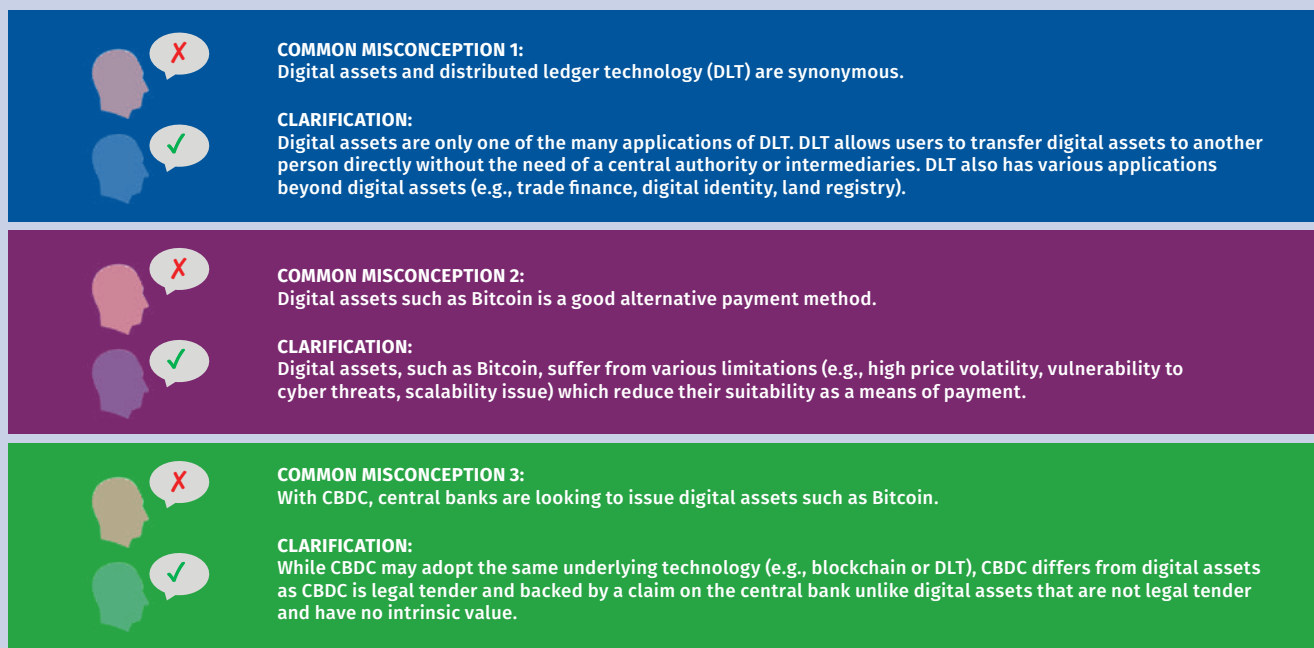
¹ Digital asset or virtual asset refers to a digital representation of value that can be digitally traded and functions as a medium of exchange and/or unit of account and/or store of value but does not have legal tender status. It is not issued nor guaranteed by any jurisdiction, and fulfils the above functions only by agreement within the community of users of the digital asset (Source: FATF’s Virtual Currencies Report 2014).

² For digital assets with decentralised trust model, such as Bitcoin, each user needs to download and verify the history of all transactions ever made. This has the effect of slowing down transaction processing time, making it not scalable to facilitate day-to-day retail payments. For instance, Bitcoin is only able to process 3.3 transactions per second compared to about 2,000 to 3,500 transactions per second for the major international cards networks (Source: BIS Annual Economic Report 2018, “V. Cryptocurrencies: Looking beyond the hype”).

³ Source: <https://www.coindesk.com/bitcoin-prices-in-2020-heres-what-happened>

⁴ Fiat currency refers to currency notes and coins issued by a sovereign body, e.g., Government or central bank of a country, which is recognised as legal tender and can be used to settle a debt or payment obligation in that country.

Diagram 2: Debunking common misconceptions on digital assets



Source: Bank Negara Malaysia, Bank for International Settlements

The rapidly evolving digital asset and payments space has prompted central banks to evaluate the merits of issuing CBDC. CBDC can be a means to achieve public policy objectives by capitalising on the benefits afforded by emerging technologies such as DLT⁵.

Balancing the benefits and risks of CBDC issuance

CBDC⁶ is a digital payment instrument issued by a central bank that represents a direct liability of the central bank⁷. While CBDC issuance may yield potential benefits such as faster settlement, easier accessibility, and better system resilience⁸, it is not without its risks.

Depending on the way a CBDC is designed⁹, there may be different implications to monetary policy transmission and stability of the financial system. For instance, while an interest-bearing CBDC may facilitate faster transmission of monetary policy rate changes to end-users, it may trigger financial stability risk if it leads to large shifts of bank deposits to CBDC. This may destabilise commercial bank deposit funding and potentially affect the supply of credit in the economy¹⁰, thus giving rise to financial stability risks. Robust controls must also be put in place in a CBDC system to mitigate operational and cybersecurity risks. In addition, CBDC issued by a foreign central bank that is denominated in foreign currency may undermine the effectiveness of monetary policy transmission, if it is widely used as a means of payment in Malaysia. Accordingly, it is crucial for central banks to approach any decision to issue CBDC thoughtfully to ensure it is carefully designed to avoid compromising monetary and financial stability.

⁵ While CBDC is often associated with distributed technology such as DLT, where records of transactions are held across a network of computers (nodes), it can also be designed using a centralised technology, with differing levels of efficiency and protection from single points of failure.

⁶ There are generally two categories of CBDC, namely retail or general purpose CBDC that are issued to facilitate day-to-day retail transactions and wholesale CBDC that are issued to facilitate settlement between financial institutions.

⁷ BIS and G7 central banks, “Central Bank Digital Currencies: Foundational Principles and Core Features”, October 2020, pg. 3.

⁸ For instance, CBDC system could act as an additional payment method to mitigate over-reliance on existing payment systems. The choice of DLT in the design of a CBDC could also mitigate single point of failure risk.

⁹ Some examples of CBDC design features include whether it is interest-bearing and whether users are subject to caps on how much CBDC they may hold.

¹⁰ As the CBDC is a convenient, efficient and risk-free instrument, bank depositors may be keen to hold CBDC instead of placing deposits at banks. This may be exacerbated if the CBDC also offers some form of returns. Deposit withdrawals particularly by retail depositors may reduce the availability of low cost and stable funding for banks, which will subsequently lead to deposit competition and drive cost of funding higher for the banking system. In a worst case scenario, if banks are unable to replace these funding sources, they may have to reduce their balance sheet, thus impacting the supply of credit. In times of financial stress, this may result in runs on bank deposits into CBDC which might potentially undermine financial stability.

Motivations for CBDC work are driven by specific country circumstances

CBDC should not be an end in itself. Instead, it can be a tool to achieve broader public policy outcomes. Understanding the problem statements and the desired public policy goals is therefore critical in guiding any decision and research on CBDC. It is worth noting that the underlying motivations for CBDC work may differ across countries depending on their level of development and specific circumstances. Some of the underlying motivations include promoting financial inclusion¹¹, modernising less developed domestic payment systems¹², enhancing cross-border payments, providing continued access to a state guaranteed means of payment¹³ in response to declining usage of physical cash and enhancing monetary policy tools¹⁴ (Diagram 3).

Diagram 3: Spectrum of motivations for CBDC work



Source: Central Bank websites and publications, News flow

¹¹ This is especially the case for countries with low levels of financial inclusion.

¹² For countries with less developed payment systems, CBDC may offer a way to leapfrog to better and more advanced payment systems.

¹³ As part of its mandate, a central bank provides the public with access to a means of payment that has legal tender status and safeguards its value by maintaining price stability.

¹⁴ For example, an interest-bearing CBDC could be used as a monetary policy tool to improve monetary policy transmission.

Malaysia's context and approach to CBDC

At the moment, the Bank does not have any immediate plans to issue CBDC. In Malaysia, the financial system continues to support the functioning of the economy while meeting the needs of individuals and businesses. To this end, the existing monetary and financial policy tools have remained effective in safeguarding monetary and financial stability¹⁵. Moreover, domestic payment systems, including the RPP continue to operate safely and efficiently to support the needs of the economy and allow real-time digital payments¹⁶.

Nevertheless, given that this is a rapidly evolving situation, we will actively assess the potential value proposition of CBDC in light of developments in the digital assets and payments space. Key policy decisions on CBDC will be guided by clear benefits to Malaysia as a whole, while ensuring that the associated risks arising from CBDC issuance, particularly financial stability risks, are effectively managed. CBDC issuance should complement existing payment instruments including physical cash to ensure that all Malaysians, in particular the underserved communities, have continued access to safe and efficient payment solutions. We will also actively monitor the trend of key indicators with direct impact to our mandates, which may provide useful data points for us to evaluate the merits of CBDC issuance. These include, among others, the level of physical cash usage in Malaysia¹⁷, the extent to which privately-issued digital assets are used for payments in Malaysia¹⁸, and the extent to which CBDC is being used to facilitate cross-border trade¹⁹. As part of our efforts to enhance understanding of the associated risks and policy implications of CBDC, we are actively building internal capacity to support informed decisions on CBDC issuance including by conducting proof-of-concepts (POC).

¹⁵ Further details on the Bank's monetary and financial policy tools can be found in the Bank's Economic & Monetary Review 2020.

¹⁶ Greater details on the progress of e-payments migration can be found in this chapter of the Bank's Annual Report 2020, entitled "Promoting Safe and Efficient Payments and Remittance Systems".

¹⁷ Any rapid decline may strengthen the case for CBDC issuance to ensure the public continues to have access to risk-free central bank money.

¹⁸ While privately-issued digital assets are not recognised as legal tender and not regulated as a payment instrument in Malaysia, this may not deter some members of the public from dealing with digital assets. In view of this, the Bank monitors the extent to which they are used for fund transfer and payment for goods and services.

¹⁹ CBDC issuance may be necessary to facilitate cross-border trade and strengthen Malaysia's competitive positioning vis-à-vis its regional competitors.

Issuing Currency

The Bank is the sole issuer of ringgit banknotes and coins, which are the only legal tender in Malaysia.

The Bank's mandate is to ensure that there is sufficient supply of ringgit banknotes and coins at all times to meet public demand (see the accompanying feature article on the challenges in managing currency operations during the COVID-19 pandemic), and to maintain the quality and integrity of the currency in circulation (CIC). In doing so, we seek to conduct our currency operations in a cost-effective manner.

Currency in circulation

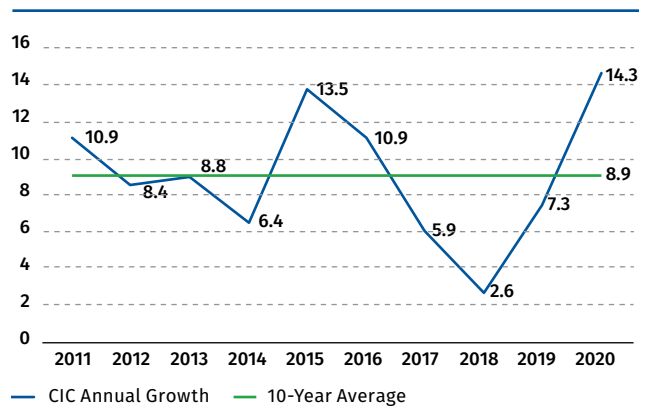
Physical currency is used as a medium of exchange to facilitate payment transactions and as a store of value. Despite movement restrictions and rapid acceleration in e-commerce and online spending in 2020, cash remains the most prevalent medium of payment. At end-2020, there was approximately RM130.4 billion worth of banknotes and coins in circulation, with an annual growth of 14.3%. This was the highest increase in CIC in the last ten years (Chart 1, 2019: 7.3%, last ten-year average of 8.9%). This significant increase in demand for cash, which can also be observed in other countries¹, was due to members of the public and small businesses engaging in precautionary behaviour, as they sought to hold more cash during the COVID-19 pandemic. With higher CIC and decline in GDP, our CIC over GDP² rose to 8.3 from 6.6 in the previous year³ (Chart 2).

¹ According to the Currency News September 2020 edition, 53 currencies registered a median annual growth of 14.5% in 2020 (2019: 6.7%), with more than 60% of the countries recording their highest annual growth rate of CIC. The US and the Euro area reported more than 10% year-on-year increase in CIC.

² CIC over GDP is a measure of cash intensity for a particular country.

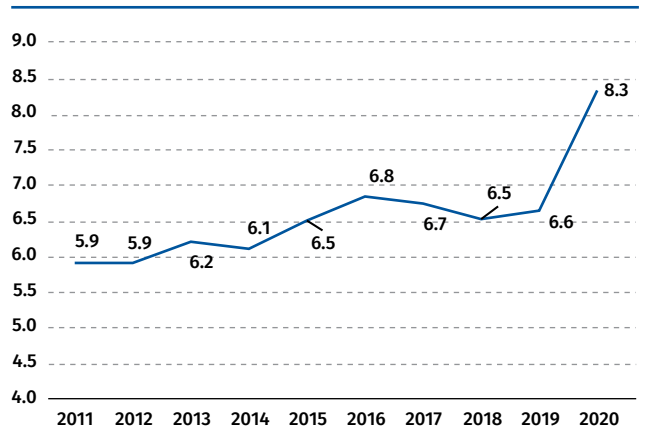
³ Based on data for 2019 from the Bank for International Settlements, Malaysia's CIC over GDP (6.6) was higher than Australia (4.0) and the UK (3.4) but lower than Singapore (9.6) and Japan (19.3).

Chart 1: CIC Growth (%)



Source: Bank Negara Malaysia

Chart 2: Malaysia's CIC over GDP (%)



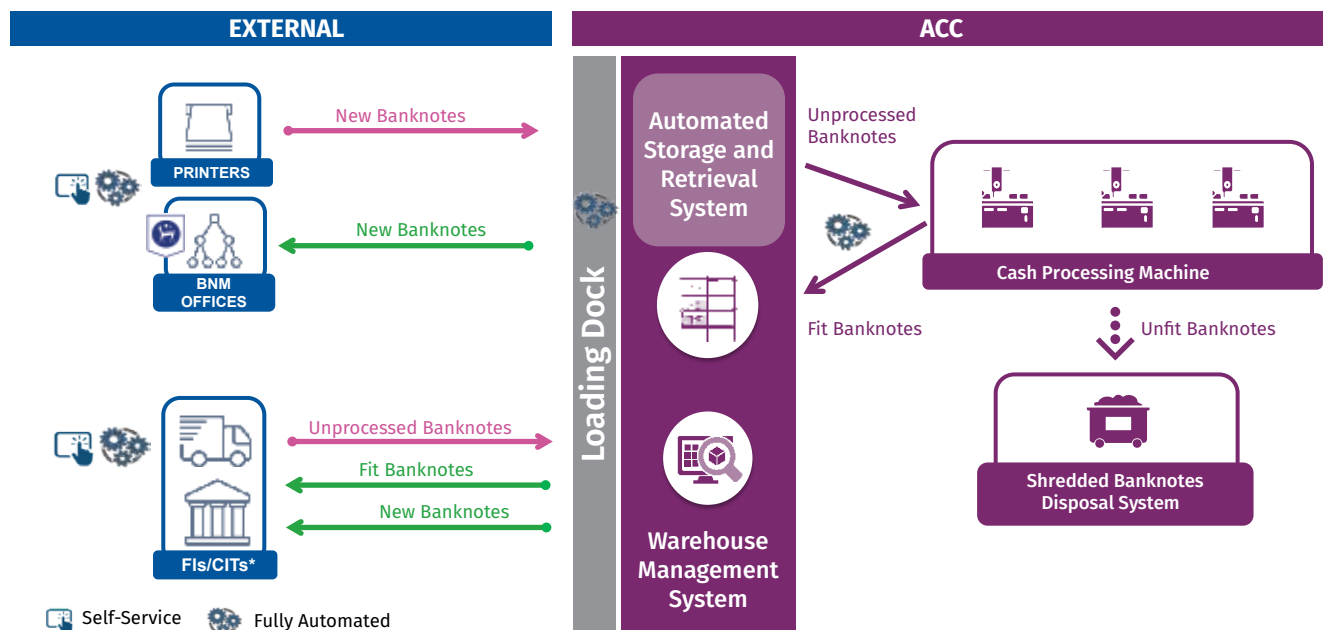
Source: Bank Negara Malaysia

Currency operations

In managing currency operations, we procure our banknotes from qualified international printers through open tender and mint coins at our minting facility, Kilang Wang (KWG).

Unlike banknotes, we are not able to recirculate used coins on the same scale. This is because the public are less likely to deposit their excess coins

Diagram 1: Currency processing at Automated Cash Centre (ACC)



*Note: Financial Institutions/Cash-in-Transit companies

with financial institutions. We estimate that as much as 30% of coins issued every year ends up being kept idle at home, in jars and drawers, as “dead coins”. To encourage recirculation, we actively partner with coin agents⁴ and financial institutions to collect coins from the public, which are then reissued into circulation. In 2020, we collected and recirculated 82.1 million coins or 9.1% of KWG’s annual output. This represents a considerable cost saving. Nevertheless, the challenge remains to get the public to recirculate more coins kept at home, when making payment for retail transactions.

A key focus is to maintain the high quality of banknotes to ensure public confidence in our currency. This involves the Bank removing worn and defective banknotes that do not meet quality standards and replacing them with either new or fit banknotes. Fit banknotes are used banknotes which meet the acceptable quality standards for recirculation. Banknotes that are found to be unfit for recirculation will be shredded. These notes are processed at our Automated Cash Centre (ACC) and the Bank’s regional offices in Johor Bahru, Penang, Kuala Terengganu, Kuching and Kota Kinabalu. In total, we processed 2.3 billion (2019: 2.9 billion) banknotes in 2020 and

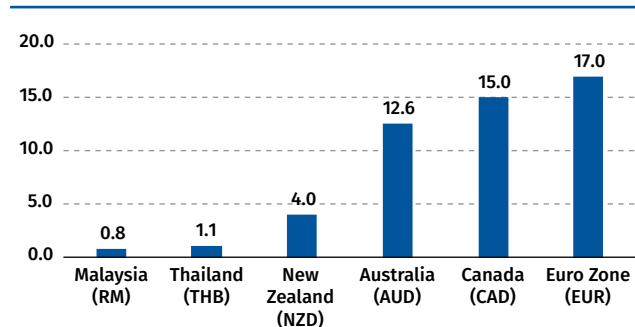
shredded 23.3% (2019: 20%) of these banknotes that no longer met the quality standards. The ACC processes about half of the banknotes collected. Leveraging on state-of-the-art automation and high speed processing machines, the ACC has a significant capacity to process banknotes, enabling the Bank to more efficiently meet demand with fit banknotes throughout the year, even in the midst of a pandemic.

The Bank also acts to safeguard the integrity of the ringgit against counterfeit banknotes and coins. Counterfeiting currency is a serious crime that undermines public confidence in the ringgit. To combat banknote counterfeiting in Malaysia, we work closely with local law enforcement agencies. We also conduct currency awareness and education programmes. During the year, efforts to raise awareness and educate the public on currency issues continued, albeit in virtual mode. These ongoing efforts contribute to Malaysia’s consistently low counterfeiting rate. As at end-2020, Malaysia’s counterfeiting rate was less than one per million pieces (ppm) of banknotes (2019: 1 ppm), well below that of other benchmarked countries (Chart 3).

In managing our currency operations, we strive to keep the cost of operations low by prioritising the use and distribution of fit banknotes. The issuance of fit banknotes in lieu of new banknotes also reduces the environmental impact of the Bank’s currency operations. Printing 500 million pieces of new

⁴ Coin agents provide a one-stop logistics service to the Bank and customers, where all coins collected from circulation will be processed according to the quality standards set by the Bank and segregated based on their fitness level. Only fit coins will be recirculated, while unfit coins will be returned to KWG for destruction.

Chart 3: Currency counterfeiting rate of Malaysia and other countries (ppm)



Note: Data for 2020, except for Thailand, New Zealand and Canada (2019)
 Source: Bank Negara Malaysia, website and annual report of the respective central banks

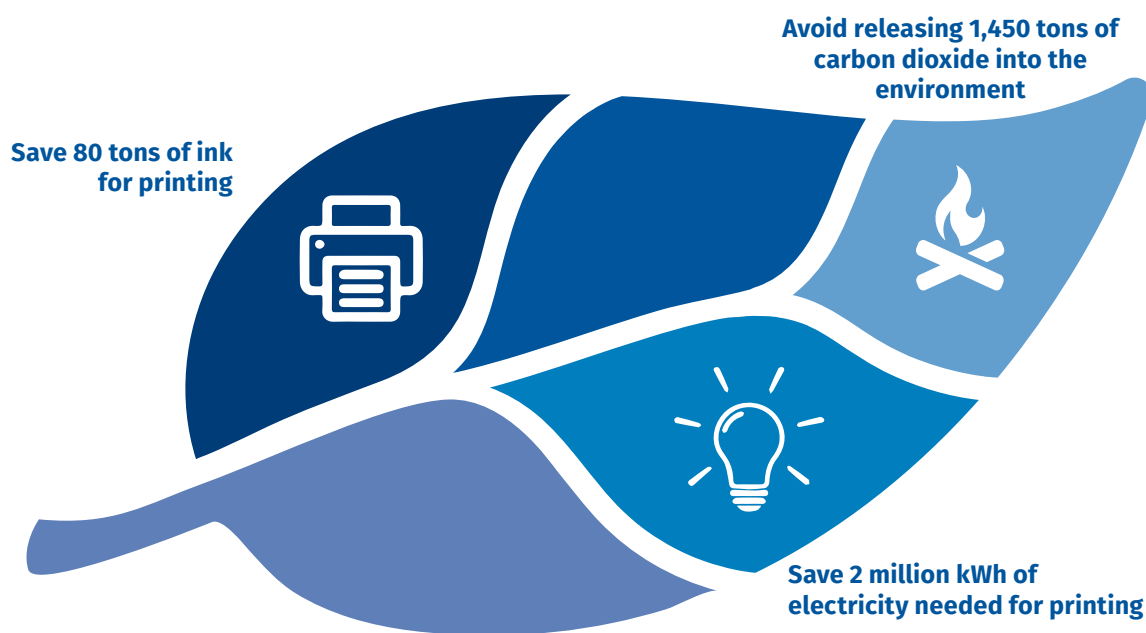
banknotes releases 1,450 tons of carbon dioxide into the environment and consumes more than 80 tons of ink and 2 million kWh of electricity - enough to power 7,500 Malaysian homes for a month.

We produce commemorative banknotes or coins to mark special occasions that have national significance. During the year, we issued a series of commemorative coins in conjunction with three occasions - the 50th anniversary of Universiti Kebangsaan Malaysia, the 25th anniversary of Putrajaya and Malaysia’s hosting of the Asia-Pacific Economic Cooperation Meetings in 2020 (APEC 2020).

We also took steps to provide the public with convenient and safe access to our services. During the year, we shifted to online orders, payments and direct deliveries of commemorative coins. In addition, we launched an entirely online process for the 11th auction of the Malaysian banknotes with special serial numbers. Beginning January 2021, we also enabled the exchange of defaced banknotes at the counters of any financial institution⁵ nationwide. Before this, the public could only exchange these banknotes at the Bank’s headquarters and BNM Offices.

Diagram 2: Minimising the environmental impact of currency operations

Issuing 500 million of fit, instead of new, banknotes can have significant positive impact on the environment



⁵ The public will get the full value of the defaced banknotes immediately in 'straightforward' cases. Otherwise their cases will be referred by the financial institutions to the Bank. The public will receive the value of the defaced banknotes after the case has been assessed by the Bank. Straightforward cases are when the defaced banknote fulfils all the following conditions:

- Size of the defaced banknote is two-third or more of the original size;
- The defaced banknote does not contain any marking on the portrait of the DYMM Yang di-Pertuan Agong or writings depicting political slogans; and
- The banknote is not defaced due to markings or writings of words, figures and others.



View inside the cash processing area which houses cash processing machines at the ACC



A glimpse inside a cash processing machine

Currency Act 2020

The Currency Act 2020 came into force on 1 October 2020. It sets out a comprehensive regulatory and operational framework for the management of currency operations. The new law will complement the existing Central Bank of Malaysia Act 2009. Among others, the law requires that any entity involved in the currency processing business⁶ must fulfil the requirements

stated in the Currency (Registration Requirements) Order 2021, which will be gazetted soon, and apply to the Bank for registration to conduct their business.

Consistent with the provisions of the new law, to ensure the high quality and integrity of currency in circulation, all registered currency processors will need to meet the quality and integrity standards that the Bank will announce this year.

⁶ Section 2(1) of the Currency Act 2020 defines currency processing business as the business of collecting, sorting as well as packing currency by quality, quantity and denomination.



Obverse (left) and reverse (right) design of the 50th Anniversary of Universiti Kebangsaan Malaysia (UKM50) commemorative coin



Obverse (left) and reverse (right) design of the 25th Anniversary of the Establishment of Putrajaya commemorative coin



Obverse (left) and reverse (right) design of the Asia-Pacific Economic Cooperation Meetings 2020 in Malaysia (APEC 2020) commemorative coin

Currency Operations during the COVID-19 Pandemic

Currency in circulation (CIC) changes with the level of economic activity. Based on past data, our country's CIC, though seasonal, is largely predictable. It picks up considerably during the festive seasons such as Hari Raya Aidilfitri and Chinese New Year, as well as year-end holidays, and tapers off thereafter. This predictability allows the Bank to manage our currency stock at appropriate levels and build up additional stocks ahead of time when demand for currency is expected to pick up.

Since the sudden implementation of the Movement Control Order (MCO) to curb the COVID-19 pandemic, public demand for cash surged, as illustrated earlier in the chapter. As at end-2020, the CIC recorded the highest year-on-year growth rate of 14.3% to RM130.4 billion compared to the ten-year average of 8.9%.

Last year saw weaker consumer spending and rapid acceleration in e-commerce and online spending¹, but contrary to expectations, CIC recorded a strong growth. This may seem counterintuitive, but members of the public were holding extra cash for comfort and security during the pandemic. This experience was not unique to Malaysia, as many other countries reported a similar phenomenon.

The strong surge in demand for cash during the MCO posed operational challenges to the Bank in ensuring the public had convenient and easy access to cash throughout the year. At the same time, with the public keeping more cash in hand, we received 23% less deposits from financial institutions during the year. This meant fewer fit banknotes were available for reissuance into circulation.

Hence, to meet the surging demand for cash, the Bank executed three action plans. First, we used our buffer, which comprises additional currency stock that we keep over and above normal consumption. The buffer stock is to ensure that there is sufficient cash to meet surging demand by the public in any unforeseen circumstances. During the pandemic, having an adequate buffer proved indispensable to the Bank in ensuring no shortage of cash throughout 2020.

Second, we closely collaborated with the Bank's strategic partners in the cash industry, especially financial institutions and Cash-in-Transit companies (CITs)², in ensuring that cash was continuously available at more than 12,000 Automated Teller Machines (ATMs) throughout the country. In this regard, as financial institutions and CITs were classified as essential services, their operations remained uninterrupted during the MCO.

Diagram 1: Action Plans Adopted by the Bank in Managing Currency Operations during the COVID-19 Pandemic

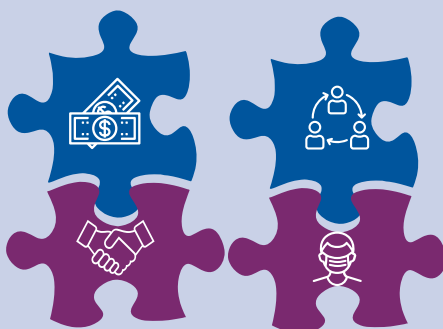
Managing Cash Supply

Use of currency buffer

Withdraw from buffer to meet surging demand for cash

Collaborate with strategic partners

Ensure financial institutions and CITs are able to operate normally during the MCO



Managing Cash Operations

Split operations and back-up teams

Implement business continuity plan including split operations and back-up teams for essential currency operations at Automated Cash Centre (ACC) and BNM Offices (BNMOs)

Comply with health and safety Standard Operating Procedures (SOPs)

Ensure staff are in full compliance with health and safety SOPs at all times

¹ For example, debit card and online spending in Malaysia grew by 26.8% and 34.5% respectively for the period between 14 October to 10 November 2020. Online banking transactions also rose by 10% in Q4 2020 compared to Q3 2020.

² CITs perform the function of collection and distribution of cash nationwide.

Third, the Bank's ACC, which has the capacity and capability to process significant volumes of banknotes for issuance into circulation, played a pivotal role in meeting the surge in demand for cash during the pandemic. Specifically, to ensure business continuity and minimal disruptions to the operations of the ACC and BNMOs, the Bank implemented split operations and back-up teams. In the event of any virus exposure among staff, the affected area was properly sanitised with the back-up teams taking over operations. At all times, compliance to health and safety SOPs was a priority, especially in practising strict physical distancing and observing personal hygiene.

In summary, despite the unexpected surge in cash demand and the challenging operating environment due to movement restrictions, the Bank was able to continue providing convenient and ready access to cash for the public throughout the year. This was achieved primarily by ensuring our essential cash operations at the ACC and BNMOs remained uninterrupted as well as close collaboration with our strategic partners, namely financial institutions and CITs.

Maintaining Financial Integrity

The Bank is committed to safeguard the integrity of Malaysia's financial system amidst the pandemic, by supporting reporting institutions in upholding the standards for anti-money laundering and countering financing of terrorism (AML/CFT).

The Bank's role

Under the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA 2001), the Bank serves as the country's Financial Intelligence Unit (FIU) and is responsible for driving a robust national AML/CFT regime in collaboration with relevant Ministries and agencies, to safeguard against risks and threats of money laundering and terrorism financing (ML/TF). This includes supporting, supervising and enforcing compliance with AML/CFT regulations by reporting institutions, consisting of financial institutions, non-bank financial institutions (NBFIs)¹, and designated non-financial businesses and professions (DNFBPs)².

This role entails close collaboration with domestic law enforcement agencies (LEAs) to ensure prompt and effective dissemination of financial intelligence. Additionally, relevant information on the latest trends, techniques and threats of ML/TF are also shared with the LEAs and reporting institutions to encourage vigilance and responsiveness in addressing the evolving nature of such crimes. The Bank also acts as the chair and secretariat to the National Coordination Committee to Counter Money

Laundering (NCC), which comprises representatives from 16 ministries and government agencies. This inter-agency platform is responsible for coordinating, implementing and monitoring national AML/CFT initiatives.

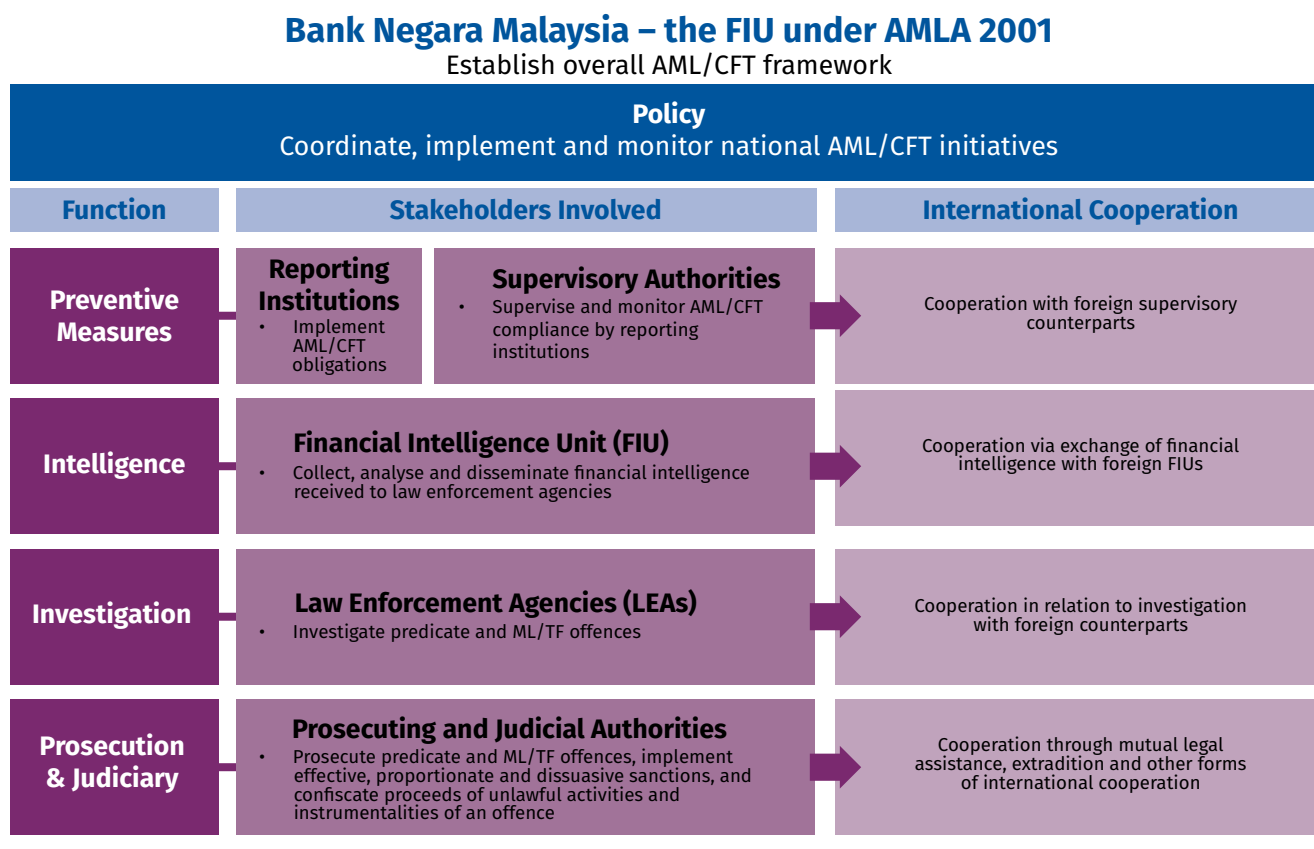
Responding to the COVID-19 pandemic

The Bank shifted its priorities to support industry players in navigating the pandemic and to be vigilant against criminal abuses arising from pandemic-driven vulnerabilities. To this end, a Circular on Regulatory Expectation on AML/CFT Measures during the COVID-19 Pandemic was issued in April 2020 to provide additional guidance on the application of AML/CFT requirements to take into account the impact of COVID-19 on business operations. Among others, the document clarified regulatory flexibilities for reporting institutions to implement remote customer due diligence (CDD) measures given the movement restrictions order, to preserve continued access to financial services. The Bank also produced a series of advisories to financial institutions, insurance and takaful operators, as well as, the money services businesses on COVID-19 related crimes, ML/TF trends and red flags to assist in transaction monitoring, as well as, detection of suspicious transactions. These efforts, along with the reporting institutions' sound business continuity plans (BCP), were aimed at safeguarding the integrity of and confidence in the financial system, while ensuring uninterrupted financial services to the public during the pandemic. Reporting institutions continued during this period to submit suspicious transaction reports (STRs), supported by monitoring and analytical capabilities that largely remained intact, particularly amongst financial institutions.

¹ Includes credit corporations, leasing and factoring businesses and postal financial services.

² Includes casinos, lawyers, accountants, dealers in precious metals or precious stones, gaming businesses, pawnbrokers, trust companies and registered estate agents.

Diagram 1: Malaysia's AML/CFT Regime



Strengthening of AML/CFT framework

The Bank regulates and supervises over 30,000 reporting institutions in the financial and non-financial sectors under the AML/CFT framework. As the first line of defence against financial crimes, these institutions are subjected to requirements stipulated within the relevant policy documents³ to identify and mitigate ML/TF risks.

During the year, the Bank issued two guidance documents⁴ on beneficial ownership and verification of customers' identity. They are aimed at facilitating the operationalisation of requirements under the respective policy documents and provide recommendations for reporting institutions to strengthen controls around higher risk transactions and relationships.

³ Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions Policy Documents for Financial Institutions, DNFBPs and NBFIs

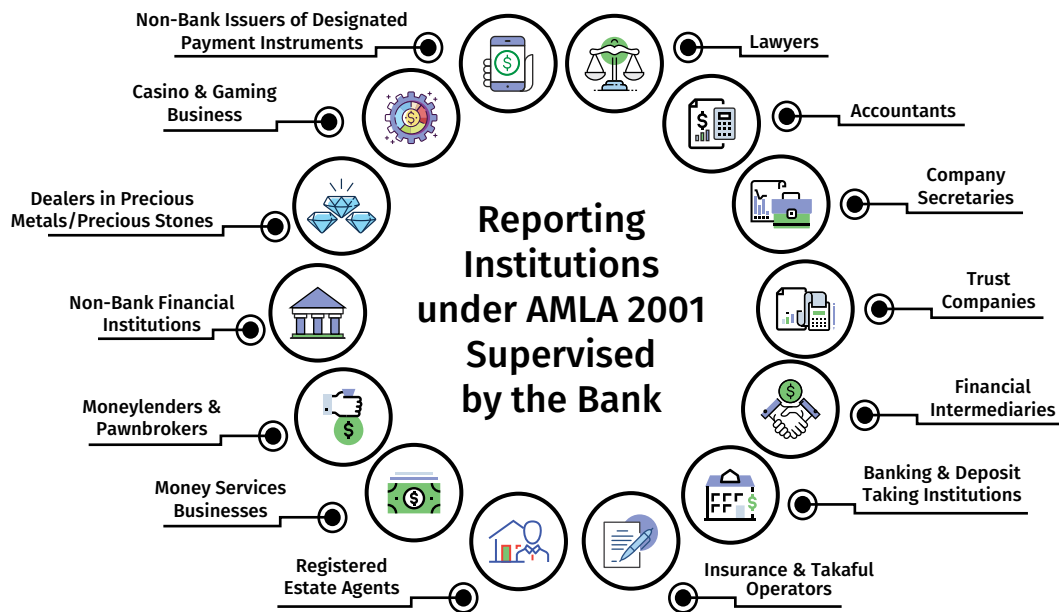
⁴ Guidance on Beneficial Ownership and Guidance on Verification of Individual Customers for Customer Due Diligence.

As the secretariat of the NCC, the Bank undertook a holistic review of the existing arrangements, which led to, among others, the recalibration of the national strategic focus to be in line with evolving technological and risk landscapes. The new national strategic plan places greater emphasis on enhanced collaboration through joint-agency initiatives and the utilisation of technology such as data analytics, in supporting intelligence, supervision and investigation functions. Lastly, it will also incorporate findings from the ongoing National Risk Assessment (NRA), a countrywide assessment on Malaysia's exposure to high-risk crimes, and sectoral vulnerabilities including to emerging risks within the ML/TF landscape, that is conducted every three years.

Supervision of DNFBPs and NBFIs

Given the pandemic, the Bank adapted its supervisory approach for DNFBPs and NBFIs by conducting its activities remotely. This included examinations involving video conferencing and the use of off-site surveillance tools such as the Data and Compliance Report 2020 (DCR). The DCR was accompanied by 12 online DCR clinics to aid reporting

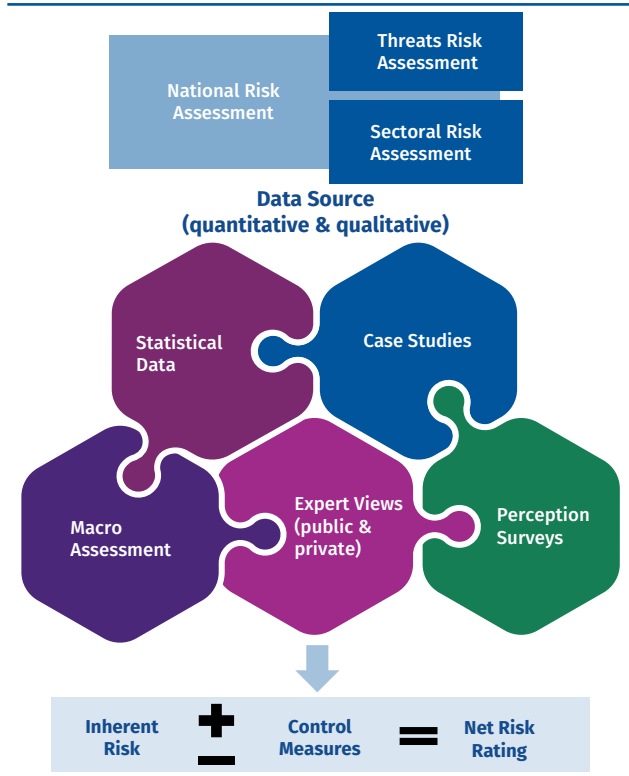
Diagram 2: Reporting Institutions Under the AMLA 2001



institutions in their responses, which led to a tenfold increase in DCR submissions in comparison to 2019. The Bank also conducted several virtual engagement sessions both independently and in collaboration with self-regulatory bodies (SRBs)⁵ and industry

associations to address industry-wide AML/CFT issues and to enhance AML/CFT regulatory understanding. This included six-series of webinars, provision of experts for SRB webinars or dialogues, publication of three awareness videos, and the issuance of newsletters on bite-sized AML/CFT topics as well as COVID-19 related issues. Overall, these engagements to raise awareness recorded a two-fold increase in participation from the previous year. In addition, progress was made to encourage more industry-driven efforts, SRB-led monitoring of AML/CFT compliance and train-the-trainer programmes, to better support and sustain continuous improvements in the implementation of AML/CFT measures by reporting institutions.

Diagram 3: National Risk Assessment



Sharing of financial intelligence and supporting law enforcement

As the custodian of financial intelligence under the AMLA 2001, the Bank collects, analyses and disseminates financial intelligence on suspected ML/TF activities based on reports submitted by reporting institutions to domestic LEAs and foreign FIUs, for their further investigations on offences under their purview. To enable this and consequentially safeguard the financial system,

⁵ SRB refer to bodies that represent specific professions (e.g. lawyers, accountants, or company secretaries), and which are made up of members from the profession, have a role in regulating the persons that are qualified to enter and who practice in the profession, and/or also perform certain supervisory or monitoring type functions.

the Bank relies on proper implementation of reporting obligations, including the conduct of CDD as well as timely and quality STRs and cash threshold reports (CTRs) submissions by reporting institutions. As a member of the Financial Action Task Force (FATF)⁶ and the Egmont Group of FIUs⁷, the Bank is committed to comply with the FATF Recommendations⁸, and has specific obligations to observe operational independence and strict confidentiality in dealing with intelligence information, shared between enforcement agencies and foreign FIUs.

The number of STRs submitted by reporting institutions increased by 18% to 133,978 in 2020. Specifically, the Bank observed significant increases in STR submissions relating to fraud, illegal gaming, illegal betting and suspected tax offences. More than 80% of the 2020 financial intelligence disclosures to LEAs were on suspected high risk crimes⁹, with the majority arising from fraud (42%). The disclosures resulted in successful arrests and subsequent prosecution of more than 50 persons involved in corruption and illegal gambling activities. In addition, these disclosures contributed to seizures of proceeds of crime worth more than RM366 million and the recovery of more than RM172 million. The disclosures also contributed to the freezing of illegal proceeds located overseas and recovery of fraudulently transferred funds.

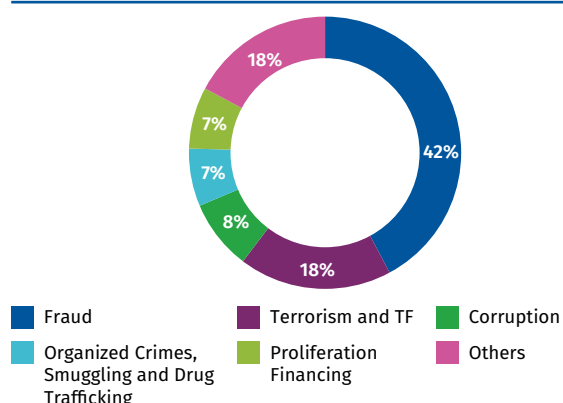
Based on the fraud-related STRs received, it is also observed that the recruitment of mule accountholders¹⁰ has been more prevalent in facilitating various types of scams. In addressing these growing concerns, a holistic and coordinated approach has been formulated by the authorities with strict enforcement actions pursuant to the AMLA 2001. To intensify efforts, the Bank has also taken preventive initiatives by increasing public education and engagement efforts through our 'Amaran Scam' platform to warn the public against the misuse of

their accounts. In addition, the Bank encourages more seamless information sharing amongst reporting institutions and relevant authorities, to further strengthen early warning mechanisms for better detection of mule accountholders and freezing of funds in such accounts.

The Bank leverages on its strong relationships with key stakeholders in its continuous fight against financial crimes. One such platform is the Malaysian Financial Intelligence Network or MyFINET, a public-private partnership platform in Malaysia, which facilitates information sharing between the public and private sectors and subsequently, enhances the private sector's capabilities in detecting suspicious behaviour and transactions relating to serious crimes, such as corruption, proliferation financing (PF)¹¹ and insider trading. This platform has also enabled the country to offer seamless support to foreign FIUs, evidenced by the prompt recovery of fraudulently transferred funds in bank accounts in Malaysia amounting to RM7 million.

The Bank continues to enhance its capability to monitor and detect crimes by utilising data science to analyse STRs. This data-driven solution flags urgent STRs which require immediate attention. This is part of a larger effort to leverage on data science to pre-empt emerging risks, enhance effectiveness of analysis, particularly of complex cases, and generate high quality and impactful disclosures to relevant LEAs.

Chart 1: Percentage of disclosures by serious crimes



Source: Bank Negara Malaysia

⁶ The FATF is an inter-governmental body that sets international standards and promotes effective implementation of legal, regulatory and operational measures for combating threats to the integrity of the international financial system.
⁷ The Egmont Group of FIUs provides a platform for the secure exchange of expertise and financial intelligence to combat ML/TF, whilst fostering better communication amongst FIUs.
⁸ The FATF Recommendations are the internationally endorsed global standards against ML/TF, proliferation financing and other related threats.
⁹ High risk crimes include fraud (42%), corruption (8%), organised crimes (3%), smuggling (1%), drugs trafficking (3%) as identified under the NRA 2017, as well as terrorism and terrorism financing (18%) and proliferation financing (7%).
¹⁰ Mule accountholders are individuals who allow their accounts to be used by another person to deposit fraudulent funds.

¹¹ PF refers to the financing of proliferation of weapons of mass destruction (WMD) in accordance with the relevant United Nation Security Council Resolutions, i.e. UNSCR 1718(2006) on Democratic People's Republic of Korea and its successor resolutions and UNSCR 2231(2015) relating to Iran.

Global participation to fight financial crimes

The Bank represents the country internationally by participating in various global fora. As the Co-Chair of the Asia/Pacific Group on Money Laundering (APG)¹² from 2020-2022, the Bank is pursuing several areas of priorities, encompassing enhanced supervision of DNFBP sectors, increasing expertise and use of data analytics by authorities, and promoting best practices in public-private partnerships. Additionally, the Bank also extended technical experts for mutual evaluations¹³ conducted by the FATF and the APG.

An important aspect is the strong relationship the Bank has with various foreign FIUs, which is undertaken through our membership in the Egmont Group of FIUs, and through Memorandum of Understandings (MoUs) with other jurisdictions. To date, Malaysia has entered into 44 MoUs, with an additional four in negotiation.

At the regional level, the Bank is co-leading three projects within the Financial Intelligence Consultative Group (FICG), a regional forum which aims to enhance cross-collaboration in the exchange of financial intelligence and capacity building based on transnational crime priorities, while improving the understanding of key regional ML/TF risks. The projects include the development of red flags on transnational laundering of corruption proceeds and the development of a secured platform for communication and sharing of information between regional FIUs.

Going forward

The Bank will continually strive to protect the integrity of the financial system. Looking ahead, this would include leveraging on technology to improve monitoring, driving quality financial intelligence disclosures and maintaining effective collaboration with important stakeholders. By becoming more adept at anticipating and prioritising emerging threats, we will be more responsive and effective at combating ML/TF threats.

¹² The APG is a regional inter-governmental organisation, focusing on ensuring its members effectively implement the international standards set by the FATF. The APG is part of a global network of similar bodies (i.e. FATF-Style Regional Bodies, FSRBs) and is the largest in terms of membership and geographical size.

¹³ Mutual evaluations are peer-country review system, which analyses the levels of compliance with international AML/CFT standards, as well as its effectiveness of measures undertaken by the country.

Managing the Bank

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Managing the Bank



Managing the Bank

People

Our people are our most important asset. It is through them that the Bank is able to deliver on our mandates. The Bank therefore seeks to attract the nation's best and foster an environment that brings out the best in them.

The pandemic posed challenges to our people in adapting to new ways of working. Collaborating effectively, communicating and keeping engaged with one another in the absence of physical interaction required some adaptation, and accelerated the use of virtual meeting technologies. Our people were able to remain nimble and adjusted well to

this new norm. Particular attention was paid to putting in place working arrangements that would continue to support the safe and timely flow of critical information for risk assessments and decision making. We also emphasised protecting the personal well-being of our staff in these exceptional times. This also entailed providing a supportive environment for staff to continue to achieve a high level of productivity and employee engagement.

Keeping our people safe and sound during challenging times

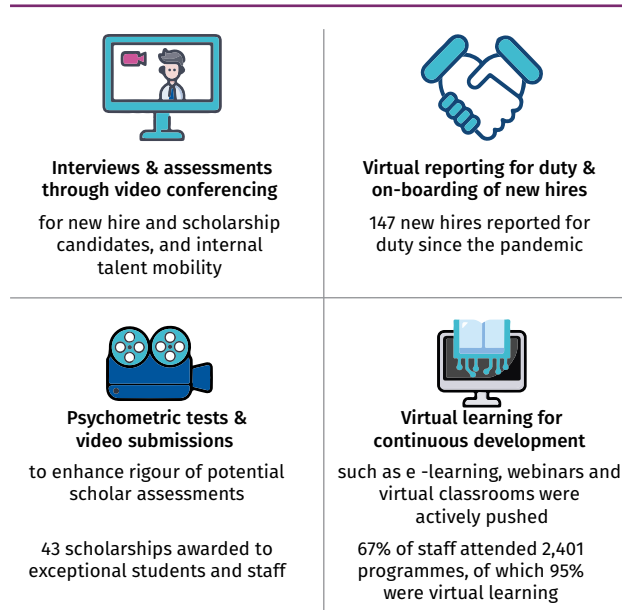
The Bank established a cross-functional taskforce to comprehensively address all aspects of staff safety and well-being and ensure business continuity. This included reviewing work arrangements to comply with physical distancing requirements and minimise infection risk. We regularly reminded staff of their responsibilities, and we distributed personal health kits to all staff early on. Emphasis was also placed on supporting and promoting mental health, supported by our Worklife Assistance Programme.

Assistant Governor Fraziali Ismail briefing the media virtually on BNM's Targeted Repayment Assistance (TRA) programme.



As much as possible, we encouraged staff to work remotely, with only 20% coming into office. The work from home (WFH) arrangements posed particular challenges in assimilating new hires, maintaining engagement levels and fostering an environment for quality interaction among team members. To address this, we extensively leveraged on virtual learning platforms to ensure our people remained engaged and were clear on the Bank's priorities in managing the crisis. Through multiple pulse-checks, deployed to understand issues faced by our people, we learned that a majority of our people were coping well under extended WFH arrangements. While concerns were raised on decreased social interaction with colleagues, our people adapted quickly to greater use of digital tools for more efficient decision-making and collaboration. These insights will continue to help us support our people effectively as we make the most out of technology to optimise new working norms in the longer-term.

Diagram 1: Adapting talent management process to the pandemic



Source: Bank Negara Malaysia

Pivoting the way we work

We progressively equipped all staff with the necessary tools to enable them to work remotely in a secure and efficient manner. This complemented ongoing efforts to enhance the Bank's digital infrastructure, especially to enhance work processes and increase cyber resilience. We also adapted the way we collaborated to improve our effectiveness in managing and speed in responding to the crisis. We established multiple cross-functional teams comprising all the relevant functional expertise to focus on addressing specific issues. These teams not only focused on our policy responses to the crisis, but also issues regarding our internal organisation. Concurrently, we remobilised staff to higher priority areas.

In tandem with equipping staff with the necessary tools, we adapted our talent management processes - from awarding scholarships, recruitment and talent mobility, to learning and development. In 2020, a total of 43 scholarships were awarded to exceptional students to pursue pre-university, first degree and post-graduate programmes. We also provided just-in-time upskilling on usage of digital tools and resources. Many of these changes will increase the Bank's agility going forward amid new norms of working and changes in employee expectations.

We also adjusted and simplified our performance review process to reflect the special circumstances

of 2020. Performance categories and descriptors were revised, while still ensuring sufficient data points on individuals for critical talent management processes and preserving the culture of a performance-based organisation. The simplified approach takes into account changes in the Bank's operating environment which required changes in organisational priorities and staff having to adjust to new normal working arrangements.

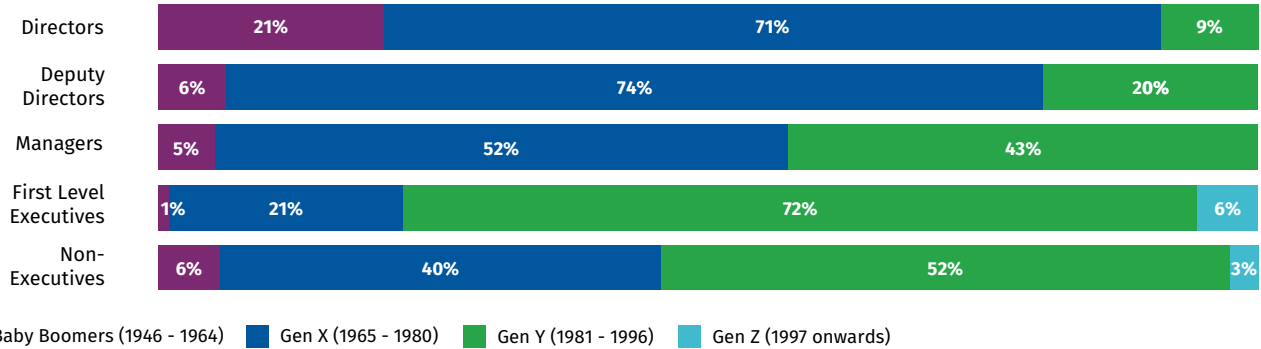
We also focused on planning ahead to ensure that the Bank's human capital strategies remain relevant in the post-pandemic environment. The more rapid adoption of remote technology, shift to remote working and increased emphasis on cross-functional teams highlighted the need to redesign functions and upskill certain groups of our people for them to remain effective. This includes targeted development in digital fluency, and professional office and administrative management for our administrative support group. We also continued to provide support for employees to pursue professional qualifications and studies in areas related to our mandates.

Continued strengthening of talent management

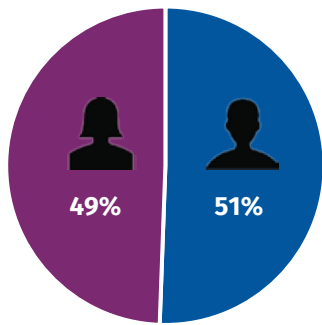
We continued to promote greater alignment between our people, mandates and organisational priorities.

Diagram 2: Talent Demographic

Millennials make up the largest segment, at 56% of the Bank's workforce



Note: Millennials (or Gen Y) are defined as persons who were born between the years 1981 to 1996.



Headcount: 3,096

Job level	Gender composition	
Senior Management	43%	57%
Managers	58%	42%
First Level Executives	57%	43%
Non Executives	37%	63%

Source: Bank Negara Malaysia

This reflects the need for the Bank to increase its agility as an organisation in order to remain effective amid fast-changing conditions. We have begun a review of our organisational structure, with the aim to strengthen our culture of collaboration and accountability, better harness the collective intellectual capacity and experience of our people, and optimise our resources. Additionally, a review was initiated to evaluate and optimise manpower needs across the Bank and encourage and enhance talent interchangeability and mobility. We also realigned various functions within our corporate services, and re-activated a high-level governance committee to focus on oversight of operational matters such as facilities management and organisational security. This committee includes external members comprising industry experts with a wealth of professional perspectives. These enhancements to our corporate services is aimed at ensuring operational matters in the Bank are run more efficiently.

We recently established an Ethics & Integrity Office. The purpose of this office is to reinforce and sustain a strong culture of integrity in the Bank by providing greater advocacy of the desired ethical standards and conduct. These functions will also provide staff with an independent avenue to obtain impartial advice and support on matters relating to conduct rules, formal processes or other ethical concerns.

We continued to ensure our people grow professionally by providing them the opportunities to enhance their skill sets for expanded roles, accelerate time-to-competence and build capabilities for the future of work. These capabilities include data science and analytics, climate-risk related technical areas, digital fluency and agility and resilience. We also focused on building new capabilities to improve operational excellence in targeted areas, such as greater adoption of technology, robotics and automation to modernise the minting, secure storage

and logistical distribution of coins and currency. In order to sustain a healthy talent pipeline, our succession planning continues to be a key priority,

with further process improvements undertaken to identify and nurture the Bank's future leaders through targeted, individualised development plans.

Diagram 3: Learning and Development



Learning and development (L&D) investment over gross salary: 4.12%

[3-year average (2017-2019): 6.92%]

Notes:

- L&D investment comprising learning programmes, international meetings for on-the-job exposure to new insights and networks, staff postgraduate scholarships, leadership profiling and L&D staff costs.
- Lower investment due to pandemic restrictions on face-to-face learning and international meetings.



Average learning hours per executive: 30 hours

[3-year average (2017-2019): 56 hours]

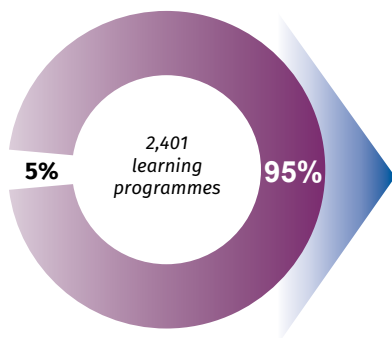
Note:

- Despite lower learning hours, number of programmes was higher at 2,401 (3-year average: 1,343), where majority were virtual learning. These virtual sessions were shorter but with higher learning interactions and engagements.

Ratio of virtual to face-to-face learning - 95:5

[(3-year average (2017-2019) - 1:99)]

Face-to-face learning



Virtual learning

- 39% Online webinars
- 39% E-learning
- 11% Virtual classrooms
- 3% Podcasts
- 2% Online engagements
- 1% Online certifications

Source: Bank Negara Malaysia

Towards a Greener Financial System

In 2020, the Bank continued to advance its climate strategies and initiatives to support an orderly transition to a greener economy.¹

Introduction

Climate change has wide ranging and significant implications on our physical world, the economy and the financial system.² For the Bank, preparing our financial system to become more climate-resilient is not only consistent with, but integral to achieving our goals of preserving monetary and financial stability. This calls for appropriate regulation and supervision to ensure that financial institutions are adequately measuring, mitigating and protected against climate risks. This will enable them to play a catalytic role in supporting the transition to a low-carbon economy. Internally, we are making changes to the Bank's operations to be consistent with sustainable practices. For the first time, as part of our annual reporting, we will be disclosing our governance and strategy for climate risk management, in line with the recommendations by the Task Force on Climate-related Financial Disclosures (TCFD).

Whole-of-bank approach

Within the Bank, there is clear responsibility and accountability of senior management roles. The Bank embraces a whole-of-bank approach to managing climate risks under the oversight of the

Management Committee, led by the Governor. A Deputy Governor leads the work on developing the Bank's climate strategies and oversees their implementation. The Deputy Governor is supported by a Lead Coordinator who is tasked to link-up and coordinate Bank-wide climate initiatives, as well as provide regular reports to the Management Committee of the Bank on the overall progress. Senior management in turn, periodically reports on climate risk developments and initiatives to the Board as part of the Bank's regular financial stability, reserve management and organisational risk reviews.

Consideration to climate sustainability is embedded within the various functions in the Bank. The implementation of the Bank's climate risk strategies is supported by seven internal cross-functional workstreams (Diagram 1). An internal climate strategy team supports alignment, information flows, external engagements and responses to cross-cutting issues across the workstreams and provides support to the Lead Coordinator.

Identifying clear priorities

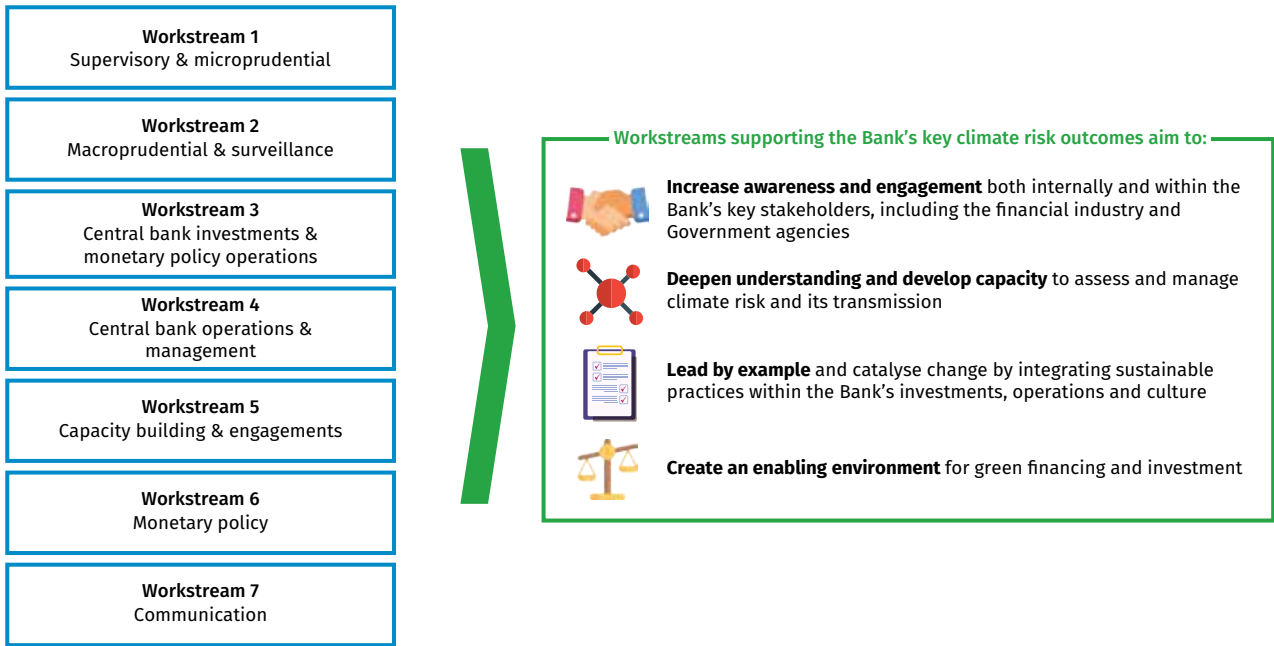
Five key thrusts underpin the Bank's priorities for managing climate risks and supporting an orderly transition to a greener financial system (Diagram 2). Significant focus is given to putting in place the necessary building blocks for financial institutions to strengthen climate risk management practices, while supporting transitioning efforts by economic agents. Within the next three years, we aim to fully integrate climate-related risk considerations in our supervisory assessments, and achieve material progress in appropriately reflecting climate risk in our prudential framework and macroeconomic and financial stability assessments.

Throughout 2020, we continued our close engagements with the financial industry on two areas. Firstly, progress by financial institutions in

¹ Responding to climate risk remains a priority to the Bank, given its direct relevance to the Bank's mandates to preserve monetary and financial stability - Feature Article on "Climate Change Risks and Opportunities: Respond, Not React" in the Bank's Annual Report 2019. https://www.bnm.gov.my/documents/20124/2724769/ar2019_en_box1.pdf

² About 11.7% of the assets held by Malaysian financial players are in sectors that are potentially exposed to climate change - Feature Article on "Climate Change Risks and Opportunities: Respond, Not React" in the Bank's Annual Report 2019. https://www.bnm.gov.my/documents/20124/2724769/ar2019_en_box1.pdf

Diagram 1: Workstreams in the Bank to manage climate risk



embedding climate risk considerations within their business and risk strategies. The financial industry is increasingly incorporating climate risk management considerations into their operations and decision making, although progress remains uneven across institutions due in part to gaps in knowledge, data

and competent resources. Secondly, on opportunities to expand and mainstream financial products and services that support low carbon and climate resilient activities and investments. This is especially important to achieve a sustainable economic recovery in the post pandemic era.

Diagram 2: Key thrusts of the Bank's climate strategy

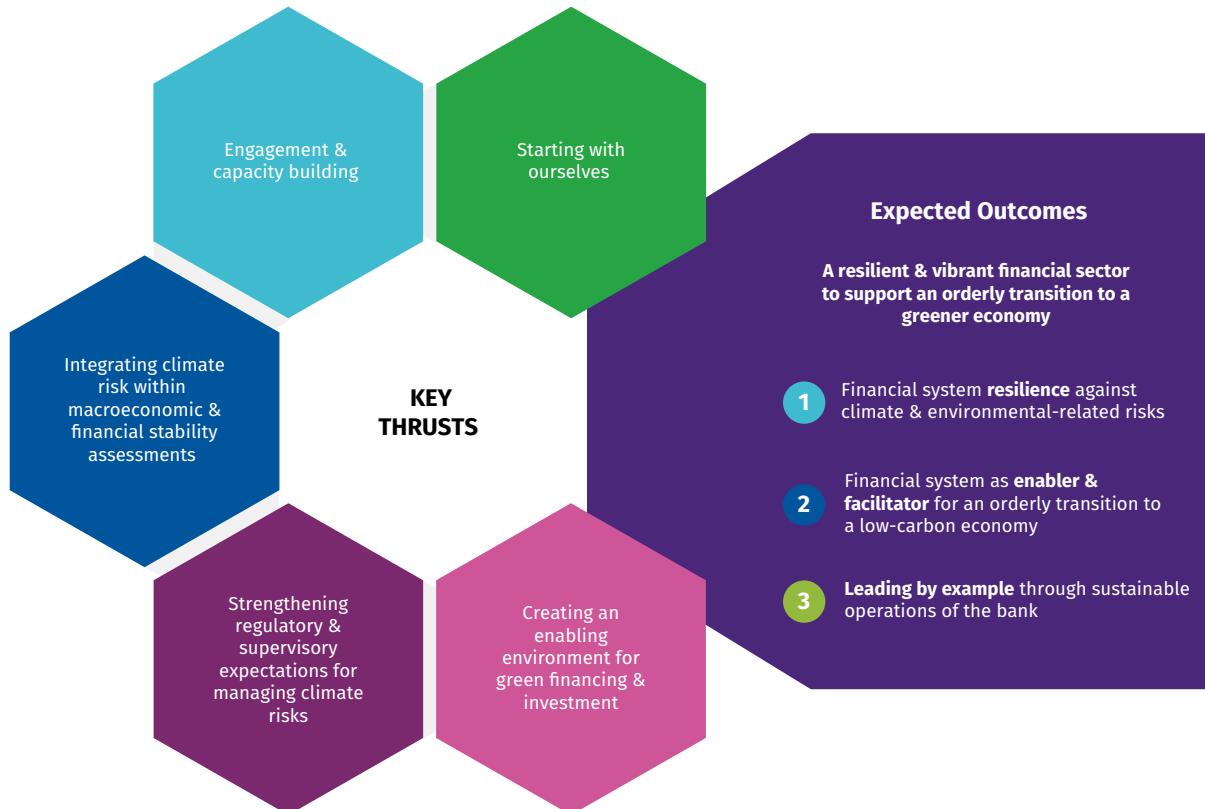


Table 1: Progress and outcomes of initiatives under the five key thrusts for 2020

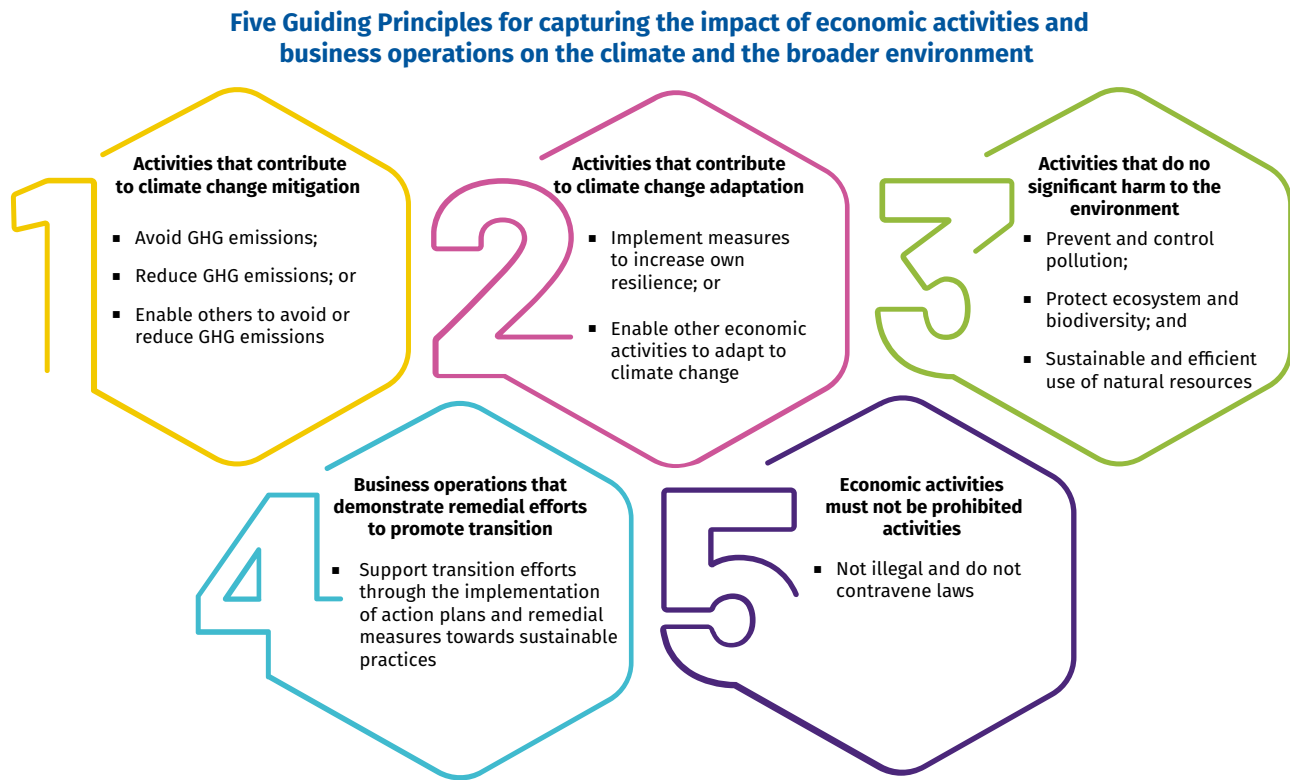
KEY THRUSTS	OUTCOMES	PROGRESS
Starting with ourselves	Factoring sustainability in investment	Sustainability factors are integrated in the Bank's reserves management practices, through the inclusion of Environmental, Social and Governance (ESG) and Socially Responsible Investing (SRI) criteria in our investment processes
	Reduction in carbon footprint in the Bank's operations	Implemented efficient energy management and monitoring programme to establish electricity consumption profile and to develop framework and initiatives towards energy efficiency
		Fully implemented the use of environmental friendly packaging at the Bank's food and beverage outlets, and intensified actions to minimise single-use plastics in these outlets and during events. Overall, use of plastic has been reduced by about 60% in 2020
		Promoted longer-lifespan banknotes that lead to lower disposal volume over time, by leveraging (i) more durable substrates e.g. polymer banknotes which represented 43.7% of the total CIC* volume; (ii) recirculation of fit banknotes that accounted for 73.3% of the annual banknotes issuance in 2020; and (iii) intensified public awareness on the proper handling of banknotes to extend their usage over a longer time period
	Accelerated migration to e-payments. Total number of e-payment transactions continued recording a double-digit growth of 14% to 5.5 billion transactions in 2020. On average, a person in Malaysia made 170 e-payment transactions each in 2020 (from 150 transactions in 2019)**	
	Intensified online learning offerings by Museum and Art Gallery through virtual guided tours, virtual 360° exhibitions and online educational activities	
Engagement & capacity building	Clarity on national policies and greater policy alignment	Organised dialogues and roundtables with relevant ministries and agencies to gain greater clarity on national policies, and promote alignment between the Government and financial sector responses to climate risk
	Closer collaboration with the Government	Participated in Government climate-related outreach events and webinars organised by the Ministry of Environment and Water, and Malaysian Green Technology and Climate Change Centre
	Deeper awareness and knowledge on climate risk among Bank staff and the financial industry	Conducted a series of capacity building programmes to build awareness and enhance technical understanding and capability on climate risk for the Bank's staff and industry players, through collaboration with external stakeholders such as the ASEAN Low Carbon Energy Programme, Climate Governance Malaysia and Islamic Banking and Finance Institute Malaysia (IBFIM) Embedded module on climate change in induction programme for the Bank's new hires in the supervision and regulation departments. More than 30 learning opportunities for staff through the Bank's Learn from Anywhere platform
Integrating climate risk within macroeconomic & financial stability assessments	Greater understanding of climate risk transmission channels	Mapped transmission channels for climate-related risks (physical and transition) to understand the potential impact on the Malaysian economy (sectors and agents). This also supports the development of expanded sensitivity analysis and stress scenarios capturing climate risk pathways for the financial system (by end-2021)
	Enhanced macroeconomic surveillance and forecasting	On-going research focusing on enhancing our surveillance and forecasting to allow for better incorporation of impact of climate risk on macroeconomic variables
Strengthening regulatory & supervisory expectations for managing climate risks	Strengthened resilience to climate risk in the financial sector	Reviewed the Climate Change and Principle-based Taxonomy Discussion Paper (key features in Diagram 3) following feedback from the public consultation process (expected issuance of final document in early 2021)
		On-going supervisory engagements with financial institutions on actions taken to improve climate risk management practices following the Bank's communication of supervisory expectations on the issue Conducted benchmarking on best practices on climate-related risk management practices (to be captured in proposed guidance to be issued in 2021)
Creating an enabling environment for green financing & investment	Greater financial sector visibility in national sustainability policies	Advocated sustainability and green considerations in national policies from financial sector perspectives through a series of roundtable and bilateral engagements with relevant Ministries and the Economic Action Council
	Implementation of impact-based assessment for assessing financing and investment proposals	Collaborated with financial industry to issue VBIAF*** Sectoral Guides on Palm Oil, Renewable Energy and Energy Efficiency in August. Work on developing Sectoral Guides on Manufacturing, Construction and Infrastructure as well as Oil and Gas is in progress (to finalise by end-2021)

* Currency in circulation

** More trends in Chapter 1.5 on Promoting Safe and Efficient Payment and Remittance Systems

*** Value-based Intermediation Financing and Investment Impact Assessment Framework. The VBIAF Sectoral Guides are part of a sectoral and activity impact-based risk management toolkit (further details in Chapter 1.4 on Promoting a Progressive and Inclusive Islamic Financial System)

Diagram 3: Key features of the Climate Change and Principle-based Taxonomy



Partnering with other regulators and financial institutions

A key platform for regulator-industry cooperation on climate resilience is the Joint Committee on Climate Change (JC3). Through this platform, the Bank and Securities Commission Malaysia work closely with the financial industry to drive and support efforts in the financial sector in managing climate-related risks and facilitating businesses to transition towards sustainable practices.

In 2020, the JC3 supported the delivery of the following plans to advance climate risk practices in the financial sector:

- Pilot implementation and enhancements to the Climate Change and Principle-based Taxonomy developed for financial institutions. Going forward, the implementation of the taxonomy by financial institutions will inform the development of reference practice documents on climate risk management and scenario analysis.
- Survey of climate-related disclosure practices of financial institutions in Malaysia against recommendations of the TCFD. Observations from the survey will serve as input to an Application Guide on Climate-Related Disclosures which is being developed to facilitate the voluntary adoption of the TCFD recommendations and improve the quality of disclosures.
- Identification of market gaps and measures to enhance the demand and supply of green finance. The possible measures include exploring alternative funding instruments and reducing barriers to innovative solutions.
- Development and organisation of several foundational and outreach programmes, in partnership with selected knowledge partners, as part of the JC3's holistic approach in building the industry's capacity and raising awareness of relevant stakeholders on climate change, its impact and need for climate actions.
- Advocacy of national policies to facilitate and accelerate the financial sector's response to climate risks through various engagements with relevant ministries and agencies. This included periodic engagements with the Ministry of Environment and Water as a platform for close engagements between the JC3 members and the Government.
- Establishment of a Data Workstream initiative to bridge the prevailing gaps in climate and environmental risks-related information which is

critical for climate risk management, disclosure and scenario analysis. The JC3 has since endorsed a preliminary workplan to take this effort forward in the coming year.

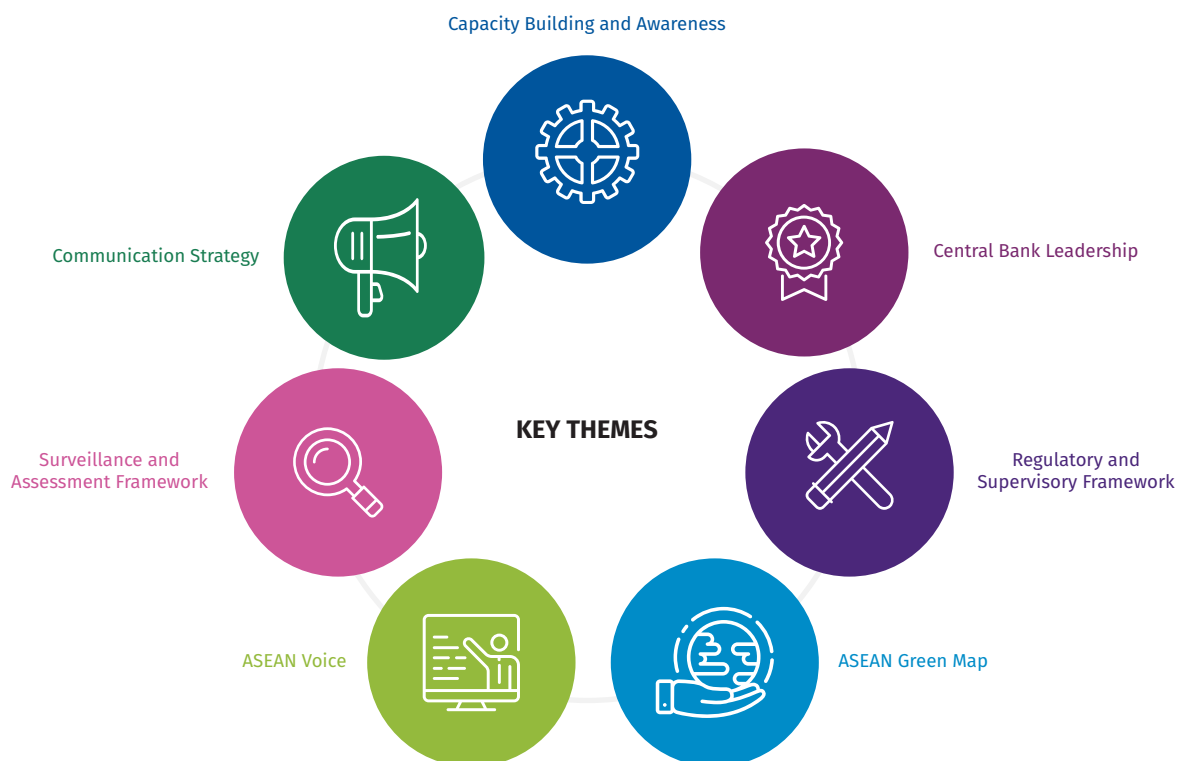
Contributing to regional and international thought leadership

The Bank is active at both the regional and international levels on climate-related issues affecting the Bank’s mandates. Within ASEAN, the Bank led the Task Force on the Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks. The aim was to better understand how ASEAN central banks view the implications of climate and environment-related risks for both financial and monetary stability, as well as their roles and limitations in addressing these risks. A report was published in November 2020, putting forth a set of non-binding recommendations for ASEAN central banks, following approval by ASEAN Governors in October 2020 (Diagram 4). The non-binding recommendations focus on the banking sector and

at the same time highlight the importance of cross-sectoral and multi-stakeholder collaboration. Key priorities include developing a regional taxonomy, enhancing technical capacity, developing an ASEAN Green Map and considering establishment of an ASEAN data collection framework.

Beyond the region, the Bank became a new member of the Steering Committee of the Central Banks and Supervisors Network for Greening the Financial System (NGFS), reflecting its commitment and active involvement in the mission and initiatives of the NGFS. The NGFS is an important platform for policymakers to come together, share best practices and contribute to the development of climate risk management in the financial sector. The network continues to make significant strides in providing intellectual leadership through its research projects, and developing a strong suite of practical resources for supervisors and policymakers to aid efforts to mainstream green financial services. The increasing diversity in its membership is welcomed to encourage an inclusive process in responding to what is ultimately a global challenge.

Diagram 4 : Key themes of the non-binding recommendations from the “Report on the Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks”





Group photo of ASEAN Task Force members

Increasing awareness through communication

During the year, the Bank stepped up its initiatives to enhance awareness on climate risk and its impact on financial stability. These included efforts to share the Bank's climate initiatives and perspectives on the need for financial sector to manage climate and environment-related risks. Our senior management members and officers participated as speakers in various domestic and international climate change-related forums and webinars. These included the Financing Climate Action Conference 2020 organised by the Malaysian Green Technology and Climate Change Centre; the Climate Change Webinar organised by the Ministry of Environment and Water;

the Working Meeting on Climate Finance that was chaired by the French President Emmanuel Macron to commemorate the fifth year anniversary of the Paris Agreement; the Economist Climate Risk Asia Week; and the Launch of the World Bank Sustainable and Inclusive Finance Forum.

Through these engagements, the Bank continued to advocate and support collective actions to address the climate challenge. In particular, key focus areas of the Bank's external engagements include collective actions in support of efforts to improve climate-related financial disclosures and strengthen climate risk analysis and management in the financial sector. As an ASEAN economy, we also benefitted from continued close cooperation with central banks in the region. The sharing of valuable

Governor Nor Shamsiah Yunus as a speaker in a Working Meeting on Climate Finance: Towards Carbon Neutrality 2050 chaired by French President Emmanuel Macron





Governor Nor Shamsiah Yunus as a speaker in Climate Risk Asia Week 2020, organised by The Economist

perspectives, insights and experiences in addressing common climate and environmental issues faced by economies in the region serve as important inputs to inform the policies and strategies pursued by the Bank to secure an orderly transition to a greener economy. Such cooperation is also being extended to leverage the regional operations of financial institutions in ASEAN to accelerate and scale up climate risk management and green financing initiatives.

Going forward

Looking ahead, we aim to further empower the financial sector to drive the sustainable finance

agenda as we continue to strive for a conducive and coherent ecosystem towards a low-carbon economy. Advancing the readiness of the financial industry on climate risk management and disclosure remains a priority. In the coming year, our focus will be on creating strong familiarity and traction for the industry-wide adoption of the Climate Change and Principle-based Taxonomy and the VBIAF. This will facilitate better understanding and measurement of climate and environmental impact from economic activities. In addition, a risk management and scenario analysis reference guide is being developed for consultation with financial institutions later this year. These will support concurrent initiatives to promote the wider adoption of climate-related

Deputy Governor Jessica Chew Cheng Lian as a panellist in a webinar organised by Climate Bonds Initiative



Assistant Governor Fraziali Ismail delivered the Closing Remarks at the Climate Governance Malaysia Showcase during Climate Week New York 2020

disclosure by financial institutions in line with the TCFD recommendations.

Another priority is to widen green finance instruments and address market gaps in sustainable finance, particularly for products and solutions that cater to business disruptions from frequent climate disasters faced by the country such as floods. Alongside these efforts, we will work with the industry through the JC3 to further expand the availability of structured

technical programmes to build capacity in climate risk management within the financial sector.

We will also continue to engage relevant Government ministries and agencies to align financial sector priorities with nationally determined contribution and commitments to a greener economy. This will include providing inputs to the Government on the role of the financial sector in the fight against climate change and environmental degradation.

Risk Management and Internal Controls

The Bank is exposed to a range of risks, which if not managed, may affect our ability to deliver on our mandates.

As the country's central bank, the Bank's financial risk exposure comes from activities and operations that impact our balance sheet, such as our holding and management of international reserves. These include exposure to market risk whereby movements in exchange rates, interest rates and other market prices have the potential to adversely affect the value of our investments. The Bank is also exposed to credit risk, the potential for loss arising from default of an issuer or a counterparty.

We are exposed to non-financial risks arising from our day-to-day operations and a wide range of external factors. These include operational events that can disrupt our operations or cause systemic implications. The Bank is also exposed to reputational risk from the conduct of staff, engagement with stakeholders and events relating to our operations and policy decisions.

To systematically address these risks, the Bank has put in place a risk management framework that helps ensure that we conduct our operations and activities prudently and responsibly. We adopt an integrated and cohesive approach towards risk management, ensuring that significant risks confronting the organisation are identified, assessed, monitored and managed effectively.

In addition to formal structures and processes, the Bank emphasises a strong risk culture that promotes risk awareness and open communication on risk. Our aim is for all staff – at all levels and from all across the organisation – to be able to identify, understand, escalate and act on risks facing the Bank.

Our risk governance structure emphasises a shared responsibility for risk that begins with business units and is reinforced through strong risk management and control functions. The Board – supported by the Board Risk Committee – has overall responsibility on risk governance and oversight. The Board also sets the “tone from the top” in fostering a sound risk culture.

Management is responsible for implementing sound risk management frameworks and practices across the functions and operations of the Bank. This is discharged through the Risk Management Committee (RMC) and Reserve Management Committee. These committees meet regularly to deliberate on strategic and critical risks faced by the Bank. The Financial Risk Management Committee and the Operational Risk Management Committee support the RMC in providing oversight on the management of financial and operational risks respectively.

To support the Board and Management in discharging their risk oversight, responsibility within the organisation for addressing and managing risk is clearly assigned through a “three lines of defence” model. Each of the three lines has an important part to play to effectively manage risks.

Delivering on our mandates requires the Bank to take on risks. We recognise that we cannot eliminate all risks. Rather, we seek to operate within our Board-approved risk appetite and tolerance. We also evaluate the costs, benefits and other trade-offs involved in controlling or mitigating risks. For this purpose, a process for identifying, assessing, prioritising, reporting and monitoring our financial, operational and reputational risk exposures is in place.

To manage financial risks, the Bank closely monitors its market, liquidity and credit risk exposures, and has in place risk limits and controls. In our international reserves portfolio, investments are guided by a Board-approved diversified investment

benchmark that outlines the Bank’s long term appetite for risk and returns. Deviation from the benchmark is controlled using risk limits, clearly defined decision authorities and investment guidelines. The Bank also has in place a credit risk framework that outlines permissible investments and activities. For the Bank’s general operations such as budgeting, procurement and payments, governance and controls are in place to ensure that the Bank allocates its expenditures and manages its finances prudently.

To manage non-financial risks, the Bank has put in place structures to identify and monitor risks on an ex-ante or pre-emptive basis. These include tools for the first line to conduct risk assessments, monitor risk levels and conduct simulations based on scenarios. These tools aid the Board and Management in ensuring that there are effective and adequate safeguards to mitigate the risks that the Bank is exposed to. An incident reporting system also complements these tools by facilitating systematic escalation of risk incidents, which in turn enables the

organisation to respond more quickly to operational incidents, including business disruptions. A consistent framework for analysing the impact and likelihood of risks enables the Bank to identify and respond expediently to risk of disruptions that may have systemic implications, supported by business continuity and crisis management plans that are regularly updated.

Managing risks during the pandemic

The Covid-19 pandemic posed new challenges that tested the Bank’s resilience as an organisation. The Bank swiftly implemented measures to ensure we would be able to deliver on our mandates. This entailed managing risks in four areas, namely, the safety and well-being of staff, continuity of critical functions, vulnerabilities posed by remote working, and reputational risks arising from policy decisions (Diagram 1). Valuable experiences from the crisis were used to review and strengthen our risk management

Diagram 1: Risk Management Focus Areas during COVID-19



Source: Bank Negara Malaysia

practices and crisis preparedness, so that we will be better prepared to face future challenges.

Business continuity and crisis management

All critical systems and functions continued to operate smoothly without any major disruption. These included critical functions such as treasury operations, currency management and payment systems. Staff in these critical functions were divided into three recovery teams, and split operations were activated at the onset of the crisis. Pre-identified isolation sites were also provided to staff who may have been exposed to higher risk of infection. Effective and clear lines of communication were established, including with relevant authorities¹. This enabled swift transmission of information, timely escalation of critical issues, and quick decision-making.

Managing health risk

Keeping the staff safe was a priority for the Bank (for more information on the way the Bank adapted its working arrangements, refer to the chapter on People). Public-facing functions and processes such as press conferences, meetings, BNM LINK and Museum and Art Gallery operations were migrated online. We also introduced initiatives to support staff's well-being. These included provision of counselling and mental health programmes, online training and learning, as well as regular virtual engagement with the Bank's leaders.

Information security, cyber security and technology risk management

The Bank remained vigilant against cyber risks. In 2020, we continuously improved and strengthened our information security controls for remote access and information sharing to manage risks associated with working from home. The controls aimed to mitigate risk of data loss, exposure to technology risk and cyber threats. We continued our efforts to inculcate a more robust cyber security awareness culture among staff.

Reputational risk management

We focused on stakeholder management and communication strategies to manage the risks arising from the policies to assist individuals and businesses affected by the pandemic. The strategies were useful to help the public understand our policies and increase their efficacy. We utilised

various communication channels, including social media in our outreach efforts. Engagement with stakeholders played a key role in supporting the effective implementation of policy measures in response to the pandemic. This included regular engagements with the financial industry and affected borrowers in implementing and fine-tuning the relief and recovery funds established by the Bank, as well as the loan repayment assistance measures to help borrowers in need.

Internal audit

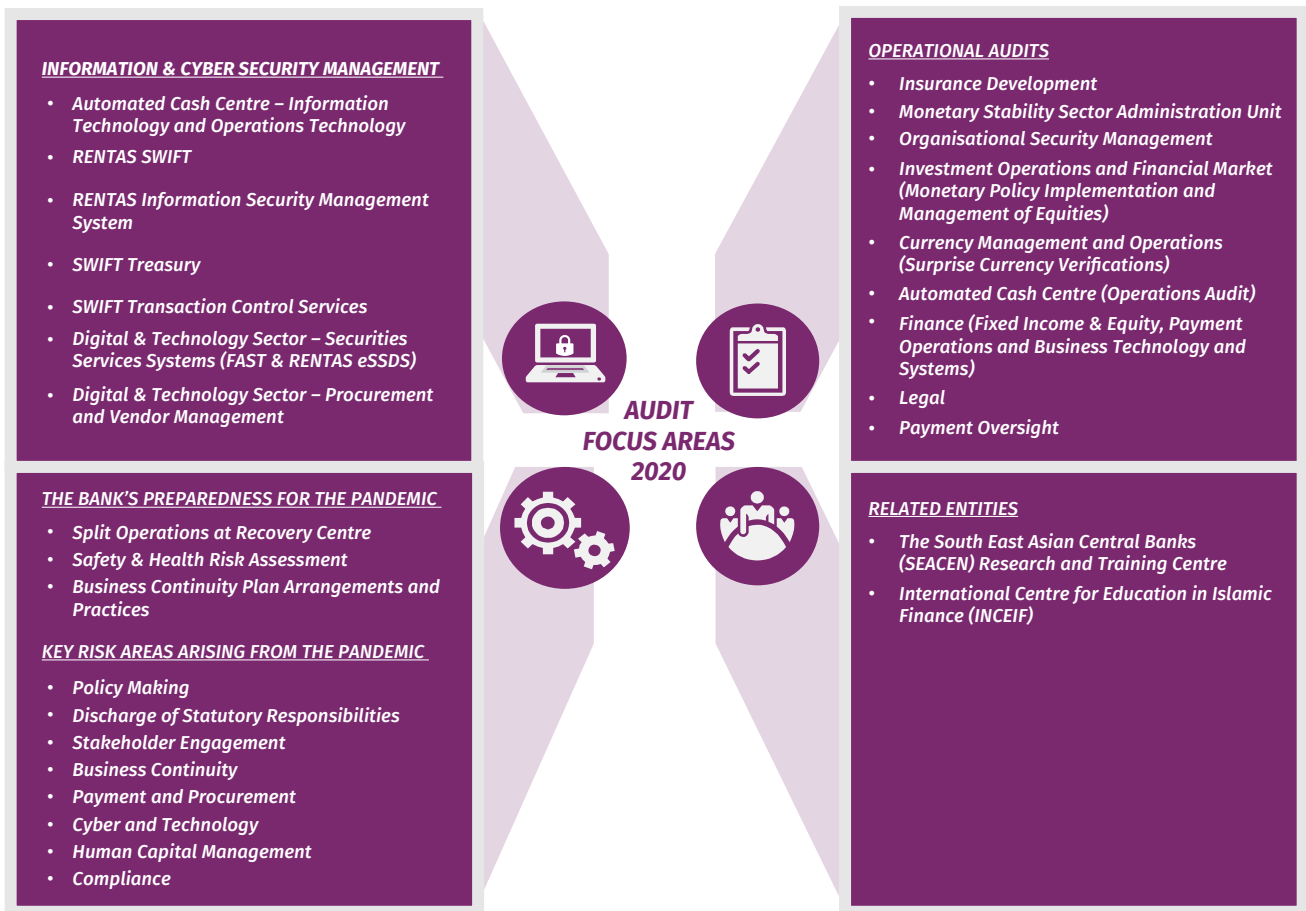
The Board Audit Committee (BAC) is responsible for reviewing the effectiveness of the Bank's internal controls and compliance with legal and regulatory requirements. It provides oversight over the internal audit function of the Bank. It is also responsible for the integrity of our financial statements.

The Internal Audit Department provides independent assurance to the BAC on the adequacy and effectiveness of the Bank's governance, risk management and internal control processes. The department conducts regular assessments on the activities of the Bank and entities related to the Bank, to identify and address risks. An audit plan is developed each year and reviewed quarterly to ensure that audit activities reflect changes in the Bank's risk profile and emerging risks. Apart from providing assurance, the department also participates as an independent observer in several of the Bank's key projects and committees to help ensure that internal controls and governance arrangements are consistently upheld. Audit activities are conducted in conformance to the requirements of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. The principles espoused by the Committee of Sponsoring Organizations of the Treadway Commission are embedded in the audit approaches for assessing the Bank's control environment.

The Internal Audit Department also provides the Minister of Finance with an independent quarterly report on the Bank's international reserve management activities. This is to assure the Minister that the international reserves have been managed effectively in accordance with established policies and guidelines approved by the Board.

¹ These include the National Security Council, Royal Malaysian Police and Ministry of Health.

Diagram 2: Audit Focus Areas



Source: Bank Negara Malaysia

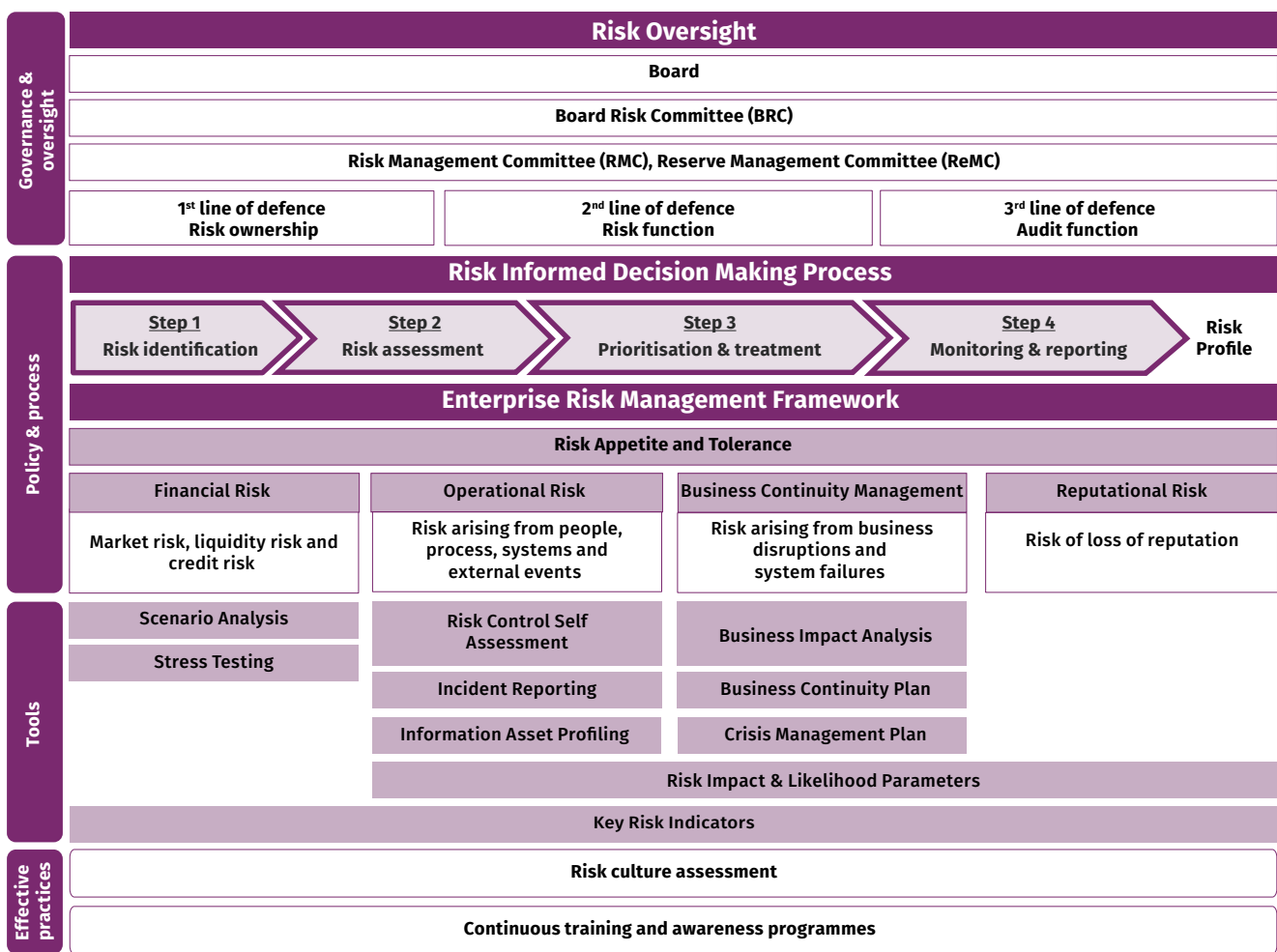
Audit priorities in 2020 were adapted and aligned to account for the changes in the Bank's priorities and risk arising from the pandemic. Audits conducted during the year focused on the Bank's cybersecurity and technology infrastructure, stakeholder engagement, human capital management, policy formulation, and compliance with legal and regulatory requirements (Diagram 2). Several measures were also undertaken to improve the audit framework and assessments. These included introducing continuous off-cycle audit engagements, greater use of technology and data analytics in audit assessments and assessments on value for money to help improve the effectiveness and efficient use of resources. Good practices observed in audit assessments across the Bank were also shared to improve quality of controls.

Conclusion

The pandemic has further reinforced the need for risk management and internal governance arrangements to be both pragmatic and agile to respond to emerging threats. This involves consistently aligning our risk management philosophy with best practices, specifically in risk analytics, technology and cybersecurity. It also entails strengthening the risk culture throughout the Bank. Prudent risk management is key to ensure the Bank is effective in discharging our mandates and responsible in managing our resources.

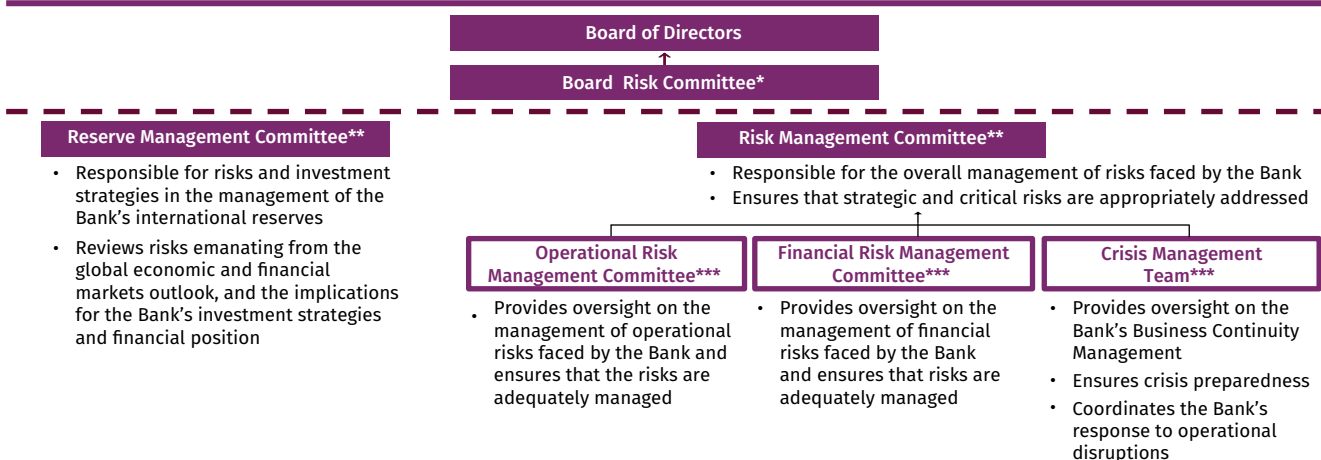
References

Enterprise Risk Management



Source: Bank Negara Malaysia

Risk Management Governance Structure



* Chaired by an Independent Non-Executive Director of the Bank

** Chaired by Governor

*** Chaired by a Deputy Governor

Source: Bank Negara Malaysia

Engaging Malaysians

Our policies and actions affect millions of Malaysians and businesses. For this reason, we strive to maintain an open and transparent approach in our communications, to help our stakeholders understand the Bank's work and mission.

Engagements with stakeholders were key in implementing our policies to mitigate the wide-ranging effects of the pandemic. We thus intensified our outreach efforts to members of the public, financial institutions and the business community through virtual meetings, webinars and engagement sessions. We also reached out to various stakeholders through print, digital and social media platforms. Through these, we were able to respond to the needs of the public for information, especially to help individuals and businesses manage their financial circumstances through a highly challenging period.

Measures to support affected individuals and small and medium enterprises (SMEs)

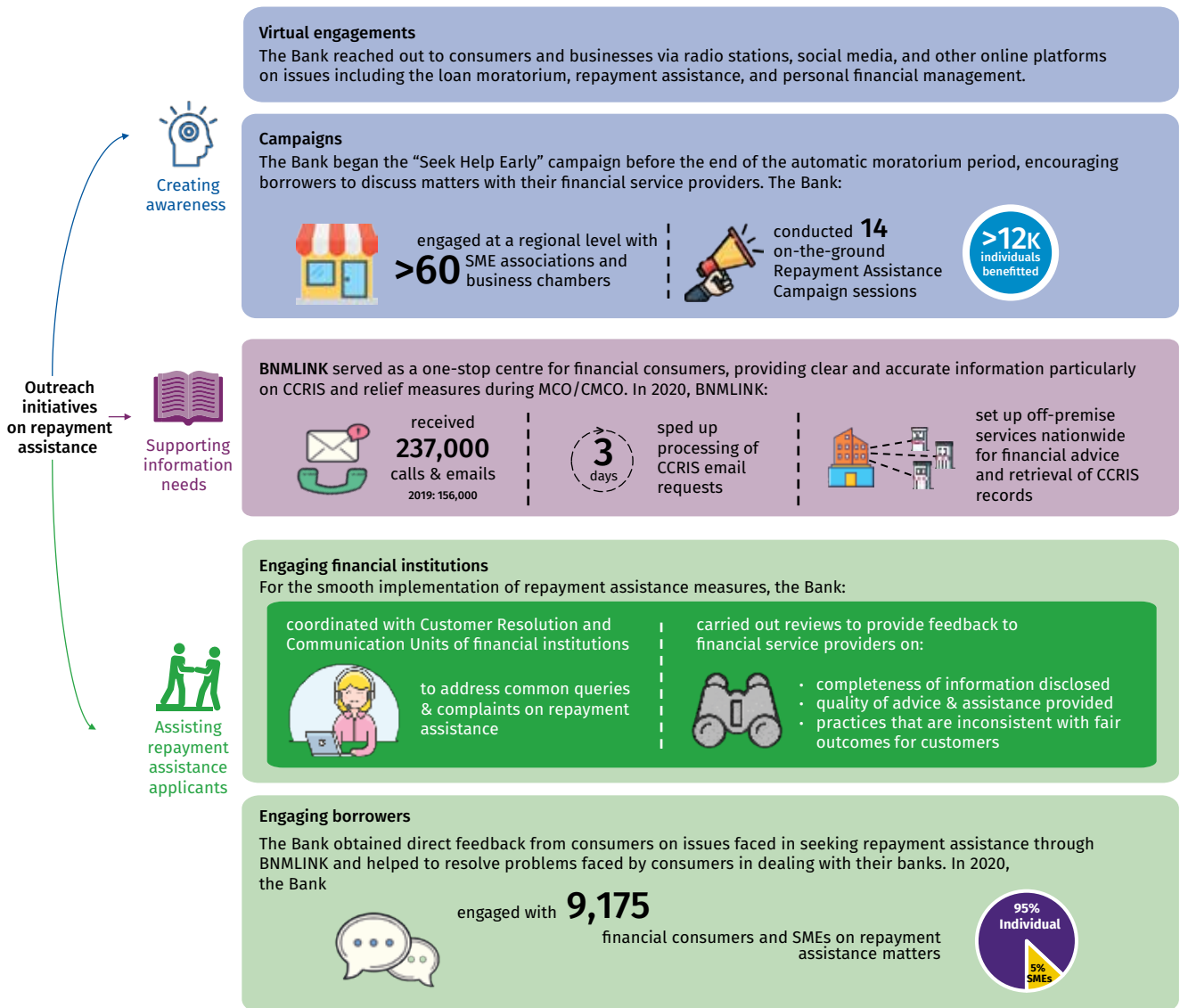
To support the implementation of the automatic loan moratorium and the Targeted Repayment Assistance (TRA) programme (refer to the chapter "Promoting Financial Stability" for more information), we worked closely with *Agensi Kaunseling dan Pengurusan Kredit* (AKPK), the banking associations and banks, to provide information and advice to affected borrowers. In addition, we published pathway-to-action guides and other postings on our social media platforms to help borrowers through the processes involved in obtaining relief assistance.

The "Seek Help Early" campaign was launched to encourage affected borrowers to discuss their financial obligations with their financial service providers. In total, more than 150 awareness programmes were conducted on TRA that helped more than 1.2 million borrowers manage their loan repayments.

We reached out directly to various stakeholders such as businesses, business chambers, consumer associations, government ministries and agencies, members of parliament and religious leaders across the country on the measures that the Bank implemented to mitigate the impact of the pandemic. This included explaining the intent, cost and benefits of repayment assistance including the loan moratorium. In addition, many of the engagement sessions were used to promote and obtain feedback on the financing facilities established by the Bank, including the High Tech Facility–National Investment Aspirations (HTF-NIA) fund. We also transferred the functions of the Small Debt Resolution Scheme (SDRS) to AKPK in order to make it more convenient for SMEs to get assistance and advice to restructure their loans. For more information, please refer to the chapter "Promoting a Progressive and Inclusive Financial System".

Print and electronic media played an important role in the dissemination of information on the automatic moratorium, TRA and the SME financing facilities. We spoke at more than 17 programmes on regional radio stations, reaching out to more than 400,000 listeners and worked with several television stations to run a series of public service announcements on the TRA. In addition, we worked with government agencies, regulators and telecommunication companies to create awareness and address the misconceptions on the moratorium and TRA via public service announcements (SMS blasts) to a total of 43 million subscribers.

Diagram 1: Public engagement and communication initiatives for repayment assistance



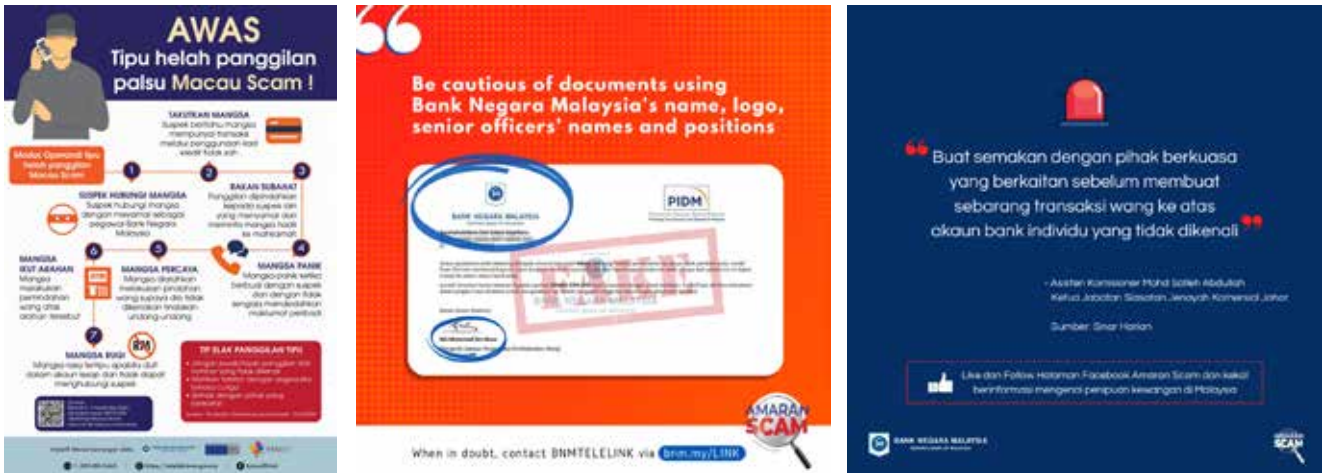
Enhancing awareness on financial scams

The challenging economic conditions, low interest rates on deposits and various assistance packages offered by financial institutions and the Government led to scammers fabricating financial opportunities to take advantage of the vulnerable and less informed members of the public. Thus educating the public on financial scams took on a greater urgency. We established a Facebook page called *Amaran Scam* on 1 July 2020 to provide regular updates, including posts from other law enforcement agencies, on financial scam-related information, tips and the modus operandi of

various financial scams. The page content is designed to be easily shareable and equally important, the public can share their personal experiences on this page. The aim is to remind the public to stay alert and make informed decisions regarding their finances.

Avenue for the public

BNMLINK acts as a key touchpoint for engaging with the general public and small businesses. Its services are accessible from its main office in Kuala Lumpur and our five BNM Offices around the country. However, due to movement restrictions and containment measures, engagements were



Various tips on financial scams are shared on the Amaran Scam Facebook page to create awareness amongst the public to avoid falling victim to these scams.

mostly conducted virtually during the year. An electronic form called “eLINK” was introduced to manage inquiries and complaints from individuals and businesses more efficiently.

Against the backdrop of movement restrictions, BNMLINK became an important reference point for financial consumers seeking information on matters such as repayment assistance, loan moratorium, Central Credit Reference Information System (CCRIS) and financial scams. There was a 74% increase in daily average interactions (pre-MCO: 453 interactions; MCO: 787 interactions). BNMLINK via

bnm.my/RAsurvey served as a key touchpoint to refer and resolve issues faced by affected borrowers with their respective banks on the TRA.

We continued to provide access to CCRIS reports to assist financial consumers in assessing their outstanding financial obligations. We shortened the turnaround time for CCRIS report email requests to three days to meet the more urgent needs of borrowers. The Bank offices throughout the nation also set-up temporary kiosks to provide financial advisory and access to CCRIS reports for financial consumers.



As part of efforts to reach out to the public, we worked with broadcast channels to share information on Targeted Repayment Assistance.



Financial service providers came together as part of a Repayment Assistance Campaign (RAC) event in Shah Alam to provide the public with an avenue to discuss their loan repayment options, face-to-face.

8 Tanggapan Salah Mengenal Bantuan Bayaran Balik Pinjaman Bersasar

- Tanggapan Salah #1: "Tanpa moratorium menyeluruh, peminjam sukar mendapat bantuan"**
 - Peminjam daripada industri yang terjejas akibat pandemik tidak semestinya layak mendapat bantuan.
 - Bantuan hanya diberikan kepada yang memenuhi syarat.
 - Bagi peminjam yang layak permohonan, kebajikan yang dituntut bergantung kepada jenis pinjaman.
- Tanggapan Salah #2: "Bantuan bayaran balik pinjaman bersasar hanya untuk B40"**
 - Bantuan diberikan untuk semua yang terjejas akibat pandemik.
 - Memandangkan:
 - Keperluan kewangan individu & keluarga terjejas pandemic.
 - Tidak semua individu yang B40 dan layak mendapat pinjaman bersasar.
- Tanggapan Salah #3: "Bank minta terlalu banyak dokumen"**

BAG*	Tidak perlu
Majikan B40*	Tidak perlu
M40*	Perlu (dikurusi sahaja)
PKS*	Dokumen mudah
- Tanggapan Salah #4: "Proses permohonan terlalu lama"**

Penerima BSN dan perusahaan mikro	24 Jam
Penerima BPN	5 Hari
PKS	14 Hari
- Tanggapan Salah #5: "Saya tidak dapat memohon kerana PKPD dan PKPB"**
 - Bank masih beroperasi.
 - Anda boleh memohon melalui beberapa saluran seperti: telefon, e-mail atau secara dalam talian.
- Tanggapan Salah #6: "Bantuan masih tidak cukup untuk menampung hutang"**
 - Anda boleh bocong dengan bank untuk bantuan-bantuan lain.
 - Memandangkan:
 - Keperluan kewangan individu & keluarga terjejas pandemic.
 - Tidak semua individu yang B40 dan layak mendapat pinjaman bersasar.
 - Hubungi AAKP untuk bantuan lanjut.
- Tanggapan Salah #7: "Tiada kos tambahan untuk bantuan bayaran balik pinjaman bersasar"**
 - Faedah akan terus dikenakan ke atas semua pinjaman.
 - Pertimbangan pinjaman anda dengan bank.
 - Sambung ansuran pinjaman jika anda mampu.
- Tanggapan Salah #8: "Rekod CCRIS saya akan terjejas"**
 - Semua permohonan Bantuan Bayaran Balik Pinjaman Bersasar sebelum 30 Jun 2021 tidak akan dipaparkan dalam rekod CCRIS anda.

Sekiranya memerlukan bantuan bayaran balik pinjaman, ingat **3** langkah ini:

1. Hubungi bank anda terlebih dahulu.
2. Telefon, e-mail atau secara berusul web bank anda untuk bantuan lanjut.
3. Hubungi AAKP untuk dapatkan nasihat atau pilihan bantuan bayaran balik alternatif.

Jika masih menghadapi kesulitan, adakah boleh hubungi www.bankamarta.gov.my

8 misconceptions on Targeted Repayment Assistance were identified and clarified through a series of social media postings.

Engagement with youths

In line with our emphasis on the importance of financial education and upskilling, we had more virtual engagements with youth, focusing on students in public and private universities. Through highly interactive sessions with students at University Technology MARA (Sarawak branch), International Medical University (IMU), Sunway University, Universiti Utara Malaysia (UUM) and INCEIF, we listened to the aspirations of young

Malaysians and heard their views on key economic and financial issues faced by the country. By sharing our perspectives on the impact of COVID-19 on the Malaysian economy, the policy measures to mitigate its impact, the importance of personal financial management and other contemporary topics of interest such as climate change and youth unemployment, we aim to stimulate more interest and awareness among the next generation of graduates on important issues of the day, and what it takes to succeed and be resilient.



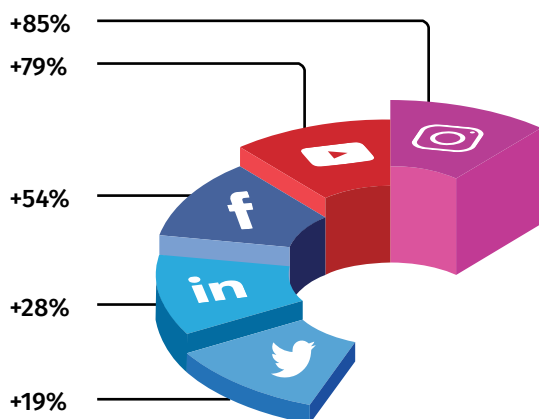
The virtual engagement sessions with the university students had at one time 1,000 participants, indicating their wide acceptance and interest in sessions such as these.

Growth of the Bank’s digital media platforms

A positive effect of the pandemic was the much greater interest among the public in the Bank’s activities. This led to significant growth in our social media presence via Facebook, Instagram, Twitter, LinkedIn and YouTube. Press conference and other informational videos, testimonials from SME business owners and infographics, were widely disseminated through digital channels to help the public and businesses identify relevant solutions and gain information to improve their financial well-being. To encourage two-way interaction, we developed interactive and bite-sized information snippets for social media platforms.

Chart 1: Greater public engagement via social media

Growth in followers of BNM’s social media platforms, year-on-year (%)



Source: Bank Negara Malaysia

With more regular scheduled postings, and new features including interactive engagements such as polls and stories, the Bank’s social media presence grew significantly in the past year. The restrictions in movement also saw the need for video content, with more than triple the number of videos produced and uploaded on our YouTube channel.

Museum and Art Gallery (MAG)

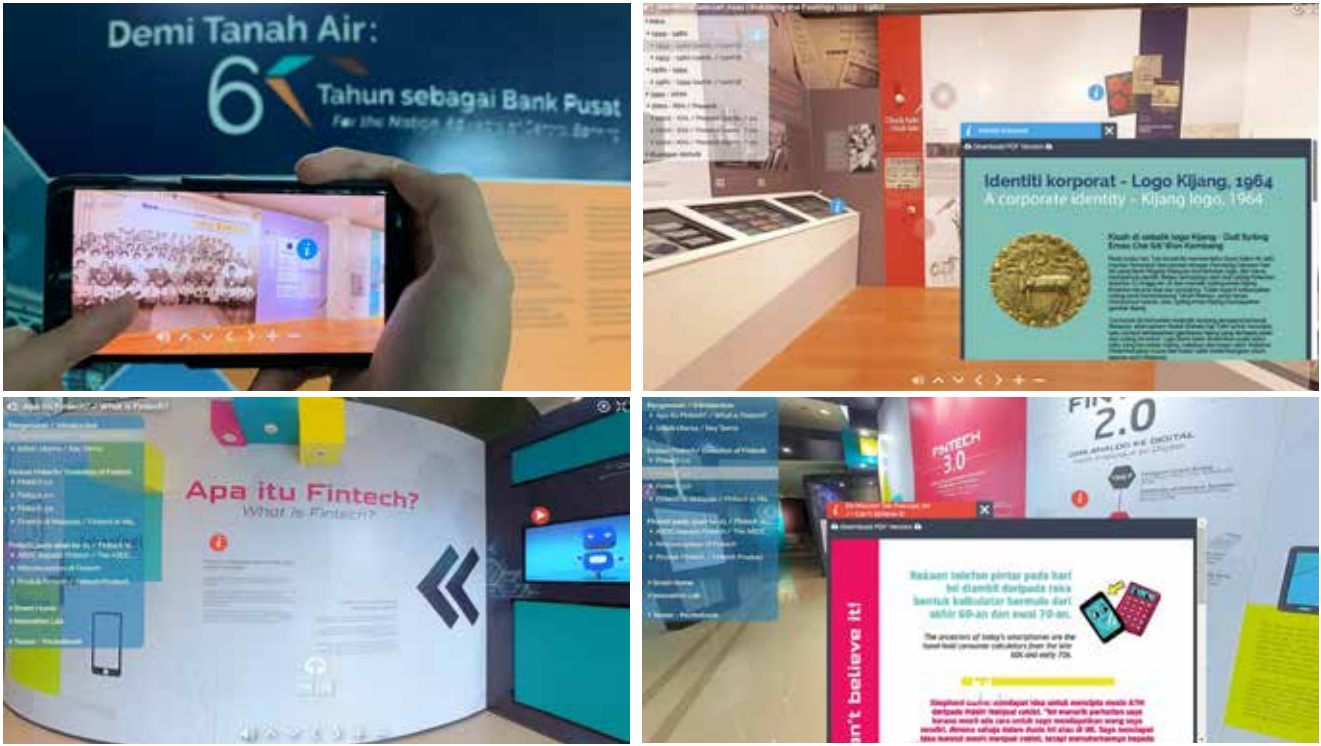
Our Museum and Art Gallery in Kuala Lumpur serves as an important informal learning platform for engaging the public. Through its exhibitions and education programmes, the Museum not only encourages an appreciation for numismatic and art heritage, but also promotes public awareness and understanding of the Bank’s role in the economy and financial sector.

In 2020, MAG had to temporarily close its doors to the public due to the pandemic, but we transformed our contents virtually. These included a virtual tour of MAG and two virtual exhibitions on the Bank’s 60th anniversary, ‘For the Nation: 60 Years of Central Banking’ (bnm.gov.my/bnm60th) and one on technology in finance (Fintech), ‘Technology in Finance: Bricks to Clicks’ (bnm.gov.my/fintech). Our virtual educational programmes are aimed at all levels of society and mainly revolved around financial education, national numismatics and socioeconomic-related art heritage and climate change. The programmes which are available across MAG’s social media channels, included stories, short lessons, contest-based learning

Engaging Malaysians

and virtual talk series. These exhibitions and educational programmes reached over five million visitors virtually, including students, children and

young adults, and hopefully provided them with a meaningful learning experience to the world of finance and economics.



MAG transformed two of its exhibitions 'For the Nation: 60 Years of Central Banking' and 'Technology in Finance: Bricks to Clicks' virtually, enabling the public to access and interact with these exhibitions.

A Primer on Taking Control of Your Finances

Managing our finances well is an important life skill. As with any skill, it requires knowledge, patience, perseverance and practice to be successful.

The way we make financial decisions is influenced by many factors¹. Being aware of these factors and understanding our individual strengths and weaknesses help us tune our behaviour to be consistent with our goals. For example, if we want to retire comfortably, we need to save, not overspend and manage our finances accordingly. This will require planning for the long term and discipline in making the necessary lifestyle adjustments.

The first step on this journey to manage our finances is to be financially literate. The survey conducted by Bank Negara Malaysia in 2018 showed that one in three Malaysians considered themselves to have low level of financial knowledge².

There are many aspects of financial literacy. The first is to understand basic financial concepts (Diagram 1) such as the time value of money, inflation, interest rates and compounding interest. There is also a need to understand the nature of financial risks and the benefits of diversification.

Diagram 1: Basic Financial Concepts



Knowing these key concepts will help empower consumers to make informed financial decisions throughout their lives. They will be more likely to achieve their goals of effectively managing their finances.

Understanding these concepts will help consumers better appreciate the importance of managing their finances prudently. This especially applies to saving and building emergency funds. A good guide of sufficient buffer is to have savings of between three to six months of monthly expenses. As with most habits, it is important to start small and be consistent in saving. Perseverance is key. There are also many other simple tips that can make a huge difference in improving our finances. Diagram 2 highlights some of these important tips.

¹ This relates to the concept of behavioural biases. For example, see Kahneman, D. (2011). Thinking, fast and slow. London: Allen Lane.

² Excerpts from Bank Negara Malaysia Financial Stability and Payment Systems Report 2018 on Financial Capability and Inclusion Demand Side Survey (page 102-104).

Diagram 2: Tips on Prudent Financial Management

-  Pay yourself first – spend what is left after savings and not the other way around
-  Protect your wealth against losing it. You work hard for it
-  Start saving now, no matter how small. Don't forget emergency funds. Automate your savings, e.g. auto-debit or salary deduction
-  Identify risks, e.g. higher educational and medical costs, natural disaster, loss of income. Include insurance/takaful as part of financial planning
-  Try to pay in full, otherwise have small outstanding balance due on your credit card. Review statements periodically to monitor usage
-  Be alert. Avoid falling prey to financial scams
-  Have a budget to keep track of your expenses, even the small ones
-  Plan for retirement regardless of your age
-  Diversify your investment portfolio to minimise risks
-  Review and align your financial plans with the changing reality

Part of managing our finances may include borrowing prudently to fund large purchases such as our home, cars and motorcycles or to expand our businesses. In doing so, one should not only be aware of how borrowings work (e.g. how interest is calculated), the terms and conditions, but also the rights that consumers have (Diagram 3). As a good guide, the total monthly debt repayments should not be more than 60% of a borrower's net income, after taking into account statutory deduction for taxation, contribution to the Employees Provident Fund and the Social Security Organisation.

Diagram 3: Tips on Responsible Borrowing






- 
- 1** Borrow within your means
 - 7** Understand key terms and fine prints in loan agreements before signing (ask if you are not clear)
 - 2** Shop around and consider options
 - 8** Understand costs and other charges for different loan products
 - 3** Understand debt to income ratio (learn how to keep it low)
 - 9** Negotiate the terms (e.g. instalment amount, loan tenure) with your bank
 - 4** Ensure sufficient balance after loan repayments for daily expenses and buffers for emergencies
 - 10** Know when and where to seek help when financially distressed
 - 5** Do not forget additional costs (out of pocket expenses) related to the borrowings, e.g. legal fees, car maintenance, insurance premium
 - 11** Notify financial institutions if you change your contact details
 - 6** Make loan repayments by due date (to avoid additional charges)
 - 12** Respond to financial institutions promptly when contacted via letter, email or phone

Diagram 4: Rights of Borrowers to Disclosures

-  To be given a Product Disclosure Sheet which contains key information on effective financing rate, monthly instalment, total repayment amount, fees and charges
-  To be provided with a loan statement at least once a year
-  To be notified 7 days in advance when your monthly instalment is revised due to a change in financing rate
-  To be notified 21 days in advance before the financial institution makes any changes to the terms of your loan agreement

Being prepared for changes in life circumstances is important. Just as the recent pandemic has shown, unexpected challenges can alter our lives in many unexpected ways. Consumers should be aware of steps that they can take when this happens. In this regard, consumers who are struggling to repay debt should seek help early and discuss their situation with their financial institutions.

Alternatively, consumers who are financially affected can reach out to *Agensi Kaunseling dan Pengurusan Kredit* (AKPK) for help. This help includes financial counselling and practical advice on money management. AKPK also provides financial education on the responsible use of money and debt management at various life stages.

In the event that borrowers experience difficulties with financial institutions, they may lodge a complaint with BNMTELELINK at bnm.my/RAsurvey. Consumers seeking redress can also approach the Ombudsman for Financial Services (OFS) at www.ofs.org.my. The OFS provides an independent, fair and efficient avenue to resolve disputes against financial institutions.

Diagram 5: Assistance and Advisory Services for Consumers



AKPK

- ✓ Financial counselling and advice on financial management
- ✓ Financial education on responsible use of money and debt management at various life stages
- ✓ More information at www.akpk.org.my



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

BNMTELELINK

- ✓ Complaints on Repayment Assistance via bnm.my/RAsurvey
- ✓ Complaints and advisory services for financial consumers via www.bnm.gov.my/complaint-redress



OMBUDSMAN FOR FINANCIAL SERVICES
OMBUDSMAN PERKHIDMATAN KEWANGAN

OFS

- ✓ Independent, fair and efficient avenue to resolve disputes against financial institutions
- ✓ More information at www.ofs.org.my

Last but not least, an informed consumer will also be able to differentiate between genuine investments and financial scams. This comes from understanding that risks are inherent in financial activities, and promises of high returns without risk is more often than not, a warning sign. Diagram 6 below highlights some of the key features of scams to look out for and Diagram 7 highlights some ways on how to avoid being victims of financial scams. For more information, consumers can visit *Amaran Scam Facebook* at <https://www.facebook.com/amaranpenipuan>.

Diagram 6: Key Features of Financial Scams to Look Out for



Diagram 7: How to Avoid Being Victims of Financial Scams



In conclusion, managing our finances well is a responsibility that we have towards our dependents and ourselves. By taking control, we can avoid considerable difficulties and challenges in life. Taking control of our finances can improve our lives by giving us more freedom and peace of mind. Financial consumers can benefit from practising useful money management tips readily available from books, webinars, podcasts, articles and sharing by legitimate financial experts.

International Engagements

Malaysia remains committed to actively engaging with our counterparts globally.

The domestic and global implications of the COVID-19 pandemic significantly influenced the mode of the Bank's international engagements in 2020. Stronger international cooperation has become even more important given the global nature of this pandemic and economic crisis.

Engagements in 2020

Addressing the impact of COVID-19

In 2020, global and regional forums focused on exchanging policy insights and experiences on the COVID-19 pandemic. Meetings among policymakers, which transitioned to virtual modes, were held more frequently during the year in line with evolving conditions. The Bank actively participated in various platforms at both international and regional levels, including at the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), Association of Southeast Asian Nations (ASEAN) and ASEAN+3, namely PR China, Japan and Korea. Discussions focused on the dynamics of financial markets volatility in the region; financial stability challenges related to implementation and exit of COVID-19 measures; solvency and credit risks; thematic issues on big data and cyber risks; as well as longer term issues associated with low interest rates, labour market weakening, potential long term economic scarring and permanent output loss. Participation in these platforms provided us with valuable perspectives that informed and facilitated our ongoing assessment of evolving risks and policy responses.

In support of Asia Pacific Economic Cooperation (APEC) 2020 hosted by Malaysia, we collaborated

with Malaysia Digital Economy Corporation (MDEC) and the United Nations Capital Development Fund (UNCDF) to organise the APEC Gig Economy Challenge (GEC). The GEC delivered various innovative digitally based solutions aimed at helping gig workers to sustainably improve incomes and economic security by facilitating the upskilling of workers and improving access to more affordable financial products. The top submissions were given the opportunity to showcase their winning solutions at the APEC Finance Ministers Meeting. These companies also received technical assistance and grants from UNCDF Malaysia as well as engaged in dialogues with the Bank on regulatory matters.

Ensuring resilience

Financial safety net: To further strengthen Malaysia's resilience against financial crises, we continued efforts to strengthen the country's financial safety net. To this end, a USD3 billion bilateral swap arrangement with the Bank of Japan was established. This is expected to contribute to financial market stability and further strengthen economic and trade ties between the two countries. We also renewed our KRW5 trillion/RM15 billion bilateral local currency swap arrangement with the Bank of Korea for an additional three years. This is envisioned to promote bilateral trade for economic development and deepen financial cooperation between both countries.

Members of the ASEAN+3 forum also agreed to increase the Chiang Mai Initiative Multilateralisation (CMIM) IMF De-Linked Portion (IDLP)¹ from 30% to 40%. This increases Malaysia's CMIM IDLP access from USD6.8 billion to USD9.1 billion. Additionally, we established access to the US Federal Reserve Foreign and International Monetary Authorities (FIMA) repo facility. This facility can be used to alleviate US dollar funding needs when needed.

¹ CMIM financing has two parts, namely the IMF De-Linked Portion (IDLP) and IMF Linked Portion (ILP). The CMIM-IDLP refers to a members' maximum arrangement amount that may be provided under a CMIM arrangement that is not contingent upon an IMF lending programme. The CMIM-ILP refers to a members' maximum arrangement amount that may be provided under a CMIM arrangement and is only accessible in parallel with an IMF lending programme.

Diagram 1: Infographic on APEC Gig Economy Challenge

APEC Gig Economy Challenge

An accelerator programme to seek innovative solutions to drive the financial well-being of gig economy workers

- More than **100** applications globally
- **10 teams** participated in the eight-week bootcamp and innovation programme
- **USD30,000** each for top three teams and technical assistance
- **Malaysia as a testbed** to refine the ideas to improve the financial health of gig workers in the Asia Pacific region
- **Top three teams**



PAY-WATCH

- Provides workers instant access to earned wages, in real time, before pay day.
- Minimises the likelihood of gig workers having to turn to informal lenders.

Versa

- Provides returns on par with Fixed Deposits, but with similar liquidity as a Savings Account.
- Helps gig workers to optimise their idle cash while meeting liquidity needs.

hyred

- “Zasss” marketplace to match gig workers to income-generating opportunities.
- Encourages them to develop a variety of skills and expertise.



Climate-related and sustainability agenda: The Bank played an active role in accelerating efforts to manage climate and environment-related risks in the financial sector at the ASEAN forum. Through our chairmanship of the ASEAN Senior Level Committee (SLC) on Financial Integration, we led the formulation and publication of the ‘Report on the Roles of ASEAN Central Banks in Managing Climate and Environment-related Risks’ (the Report). The Report assessed the implications of climate and environment-related risks for both financial and monetary stability, and the roles and limits of central banks. The Report, which also put forward a set of non-binding recommendations to ASEAN Central Banks, has been published and shared with the Network for Greening the Financial System (NGFS). It has mobilised ASEAN central bank cooperation to manage climate and environment-related risks and contributed to shaping the climate agenda for ASEAN Finance Ministers and Central Bank Governors in the coming years (Details of the Report’s recommendations are provided in the chapter “Towards a Greener Financial System”).

Our collaboration with central banks and financial regulators globally to provide an effective international response to climate risk intensified this year as we became a member of the NGFS Steering Committee. We also continued to advocate the importance of addressing climate change, including as part of global economic recovery efforts through our participation in various regional and international events. This included the Singapore Fintech Festival 2020, the Launch of the World Bank Sustainable and Inclusive Finance Forum, the Islamic Finance News (IFN) Asia Forum, the Financing Climate Action Conference and the Economist Climate Risk Asia Week.

Cybersecurity: The Bank continued to work closely with its regional counterparts to manage risks associated with the rapid digitalisation of finance. In 2020, we led regional efforts to operationalise the ASEAN Cybersecurity Resilience and Information Sharing Platform (CRISP) with the signing of a memorandum of understanding (MOU) among the participating members. The ASEAN CRISP is a platform for ASEAN central banks to share

information and best practices on cybersecurity threat intelligence, as well as build technical capacity in this field.

Deepening integration for trade and investment

As part of our ASEAN SLC chairmanship, we played a critical role in further deepening regional financial integration. ASEAN Governors approved initiatives to facilitate greater use of local currencies for trade and investment in the region, drive greater payments efficiency, and facilitate cross-border retail payments. The initiatives included the ASEAN Guidelines on Local Currency Settlement Cooperation Framework, the Implementing Policy Guidelines (IPG) of ASEAN Payments Framework for Cross-Border Real-Time Retail Payments within the ASEAN region as well as the Annex on Use Cases of the IPG.

The Bank also led in negotiating and finalising the country's financial services commitments for the Regional Comprehensive Economic Partnership (RCEP), the world's largest free trade agreement. The RCEP was signed on 15 November 2020. This agreement will open doors for trade and investments to flourish further, including for the financial services sector.

Leadership and partnerships

In 2020, the Bank concluded its leadership of several forums, including the chairmanship of the Islamic Financial Services Board (IFSB) Council; co-chairmanship of the ASEAN SLC on Financial Integration with the National Bank of Cambodia (2018-2020); and co-deputy chairmanship of the EMEAP Monetary and Financial Stability Committee (MFSC) and various EMEAP working groups in the areas of banking supervision and payments and market infrastructure (2018-2020). We also began our co-chairmanship of the Asia/Pacific Group on Money Laundering (APG) (2020-2022), an inter-governmental organisation focused on ensuring that its members effectively implement the international standards against money laundering, terrorist financing and proliferation financing related to weapons of

mass destruction (Details of the Bank's regional work on money laundering are provided in the chapter "Maintaining Financial Integrity").

In addition, we were appointed as a member of the BIS Markets Committee in recognition of the growing importance of emerging market economies in the global financial system. This committee looks at financial market developments as well as longer-term structural trends that may have implications for financial market functioning and central bank operations.

We continued to share our technical experience and expertise with other central banks, supervisory authorities and related institutions. Our support was delivered via seminars and workshops on a range of issues, including on macroeconomic policy, capital flow management, and central bank foreign currency operations. We worked closely with the South East Asian Central Banks (SEACEN) Research and Training Centre, Alliance for Financial Inclusion (AFI) and the World Bank to deliver some of these programmes. In 2020, while there was a sharp decline in the number of bilateral technical cooperation engagements, we still engaged with 62 countries on technical cooperation. This included a virtual programme with AFI in November 2020 that covered 37 countries.

Going forward

Global recovery remains uneven, with reshuffling of global supply chains and reorienting of business strategies. Key drivers of change include the accelerating adoption of digitalisation, globalisation and evolving regionalism. In 2021, we will continue with collaborations that promote sustainability of economic growth in the region, coordinate efforts, where relevant, to safely exit support measures as recovery takes hold, and more generally preserve international monetary and financial system stability. Other priorities on the international front include advancing the sustainability and climate change agenda, development of the digital economy and financial inclusion.



Governance

106 Board of Directors, Senior Management
and Statutory Committees of the Bank

Governance



Governance

Bank Negara Malaysia is responsible for promoting monetary and financial stability conducive to the sustainable growth of the Malaysian economy. Our governance arrangements ensure that we continue to discharge our mandates effectively as a credible and independent institution. These arrangements are set out by statute – in the Central Bank of Malaysia Act 2009 and other laws that the Bank administers – as well as internal policies developed within the institution over the years. In addition to clarifying roles and responsibilities, our governance structures are designed to promote accountability and high standards of integrity in discharging our duties and conducting our operations.

Board of Directors

The Board is chaired by the Governor and comprises the Deputy Governors, the Secretary General of the Treasury as well as Independent Non-Executive Members who form the majority within the Board. His Majesty the Yang di-Pertuan Agong appoints all members of the Board, except the Deputy Governors, who are appointed by the Minister of Finance. As set out in the Central Bank of Malaysia Act 2009, the Board is responsible for overseeing the management and operations of the Bank to ensure that the Bank remains financially and operationally sound and that its financial resources are utilised effectively and efficiently for purposes of delivering its mandates.

As the Board is statutorily required to meet at least once a month, the Board had its first virtual monthly meeting in March 2020 following the nationwide Movement Control Order. Throughout the challenging period in 2020, the Board and the Senior Management

team had continuous engagements on the Bank's policy responses including its public communications and engagements with key stakeholders, risk and control environment, governance frameworks and human capital development initiatives. In this regard, the Board provided oversight and advice on the Bank's policy measures to address the impact of the pandemic for affected individuals and businesses, and to effectively preserve monetary and financial stability conducive to the sustainable growth of the Malaysian economy during this challenging period. The Board was also highly supportive of the Bank in navigating towards the new way of working and remaining disciplined, prudent and responsible in managing its resources.

In 2020, the Board secured an attendance rate of 96.4% for Board meetings and full attendance for Board Committees meetings, as illustrated in the following table:

Board of Directors

Designation	Members	Board	BGC	BAC	BRC
Chairman	Nor Shamsiah Yunus	14/14			
Ex-officio	Abdul Rasheed Ghaffour	14/14			
	Jessica Chew Cheng Lian	14/14			
	Marzunisham Omar ¹	8/8			
	Dato' Asri Hamidon @ Hamidin ² (Secretary General of the Treasury)	5/9*			
Independent Non-Executive	Dato' N. Sadasivan a/l N.N Pillay ³	14/14	7/7	6/6	
	Dato Sri Lim Haw Kuang	14/14	7/7		6/6
	Dato' Paduka Sulaiman Mustafa	14/14	7/7	6/6	2/2
	Chin Suit Fang	14/14	1/1	6/6	6/6
	Dato' Dr. Nirmala Menon a/p Y.B. Menon ⁴	11/12*		4/4	5/5
	Tan Sri Mohamed Azman Yahya ⁵	8/8	6/6		4/4

Retired during 2020

Ex-officio	Tan Sri Ahmad Badri Mohd Zahir (Secretary General of the Treasury)	4/4			
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Note:

¹ Appointed as Deputy Governor and Board member on 15 June 2020.

² Appointed on 14 May 2020, subsequent to the retirement of Tan Sri Ahmad Badri Mohd Zahir on 1 May 2020.

³ Reappointed on 1 March 2020.

⁴ Appointed on 16 March 2020.

⁵ Appointed on 1 June 2020.

*Due to unavoidable prior commitments.

Board Induction and Development

The Bank has in place a comprehensive on-boarding programme designed to provide newly appointed Board members with perspectives on the key mandates, policy priorities, governing frameworks and operational aspects of the Bank, thus equipping them to perform their oversight role efficiently. The Independent Non-Executive Members of the Board bring together a collective set of skills, knowledge and experience, as well as valuable wisdom and insight, in macroeconomics and policy formulation perspectives, in-depth understanding of issues in the financial, business and public sector as well as extensive experience in accounting, finance, public communication, information and technology, risk management and audit. Throughout the year, the Board participated in various training sessions on contemporary themes such as digital currencies, cybersecurity, climate change risks and agile governance in the post pandemic world in order to remain current and anticipatory of emerging trends and latest developments that may affect the Bank.

Board of Directors*

- 1 **Nor Shamsiah Yunus**
Chairman
- 2 **Abdul Rasheed Ghaffour**
- 3 **Jessica Chew Cheng Lian**
- 4 **Marzunisham Omar**
- 5 **Dato' Asri Hamidon @ Hamidin**
- 6 **Dato' N. Sadasivan a/l N.N Pillay¹**
- 7 **Dato Sri Lim Haw Kuang**
- 8 **Dato' Paduka Sulaiman Mustafa**
- 9 **Chin Suit Fang**
- 10 **Dato' Dr. Nirmala Menon a/p Y.B. Menon**
- 11 **Tan Sri Mohamed Azman Yahya**



¹ The Board of Directors wishes to extend our appreciation and gratitude to our long-serving member of 21 years, Dato' N. Sadasivan a/l N.N Pillay, who completed his term on 14 March 2021.

* As at 1 March 2021

Board Committees

The Board is supported by three committees consisting solely of Independent Non-Executive Members - the Board Governance Committee, Board Audit Committee and Board Risk Committee. Each of these Committees is guided by its own terms of reference to assist the Board in providing oversight of the administration of the Bank.

During the year, these committees reviewed and deliberated on key matters affecting the Bank, with the objective of ensuring adequate internal checks and balances on the management and operations of the Bank.

	Board Governance Committee (BGC)	Board Audit Committee (BAC)	Board Risk Committee (BRC)
Number of Meetings	7	6	6
Membership	<p>Chairman: Dato' Paduka Sulaiman Mustafa</p> <ul style="list-style-type: none"> · Dato' N. Sadasivan a/l N. N Pillay · Dato Sri Lim Haw Kuang · Tan Sri Mohamed Azman Yahya⁶ <p>Note: ⁶Appointed on 1 June 2020. Subsequently, Chin Suit Fang stepped down from BGC, for purpose of rotation of Board Committees' memberships.</p>	<p>Chairman: Chin Suit Fang⁷</p> <ul style="list-style-type: none"> · Dato' N. Sadasivan a/l N. N Pillay · Dato' Paduka Sulaiman Mustafa · Dato' Dr. Nirmala Menon a/p Y.B. Menon⁸ <p>Note: ⁷Appointed as Chairman on 16 March 2020 to replace Dato' N. Sadasivan as part of Board's succession planning. ⁸Appointed on 16 March 2020.</p>	<p>Chairman: Dato Sri Lim Haw Kuang</p> <ul style="list-style-type: none"> · Chin Suit Fang · Dato' Dr. Nirmala Menon a/p Y.B. Menon⁹ · Tan Sri Mohamed Azman Yahya¹⁰ <p>Note: ⁹Appointed on 16 March 2020. Subsequently, Dato' Paduka Sulaiman Mustafa stepped down from BRC. ¹⁰Appointed on 1 June 2020.</p>
Roles and Responsibilities	<ul style="list-style-type: none"> • Responsible for overseeing the Bank's governance framework and practices • Reviews and makes recommendations to the Board on the Bank's budget, operating plan and remuneration policies • Recommends to the Board on the appointment and reappointment of members of the Board and other committees of the Bank 	<ul style="list-style-type: none"> • Responsible for the integrity of the Bank's accounts and financial statements • Provides oversight over the adequacy of the Bank's internal controls and compliance with legal requirements • Reviews and approves the Bank's audit framework, audit charter, internal audit plan and audit reports, and oversees management actions to address material findings 	<ul style="list-style-type: none"> • Responsible for oversight of financial, operational, reputational, technology and cybersecurity risks • Oversees the implementation of the Bank's enterprise risk management framework • Makes recommendations to the Board on the risk appetite statement and key risk policies of the Bank

Senior Management

As provided by the Central Bank of Malaysia Act 2009, the Governor is responsible for the management of the Bank in discharging its mandates. In performing these duties, the Governor is assisted by a senior management team consisting of Deputy and Assistant Governors. The Bank's organisation structure is designed to promote clear lines of reporting and accountability across its wide-ranging functions.

Various management committees are established to enable the senior management team and other senior officers of the Bank to deliberate on the Bank's business, and in particular those involving the organisation's strategy and top-most priorities. These management committees include policy committees such as the Financial Stability Committee and the Joint Policy Committee, a committee tasked to deliberate cross-cutting issues and coordinate policies that may have impact on the financial system and the broader economy. The management committees enable the Bank to draw on diverse functional backgrounds and insights across the Bank to arrive at well-informed decisions through open and candid deliberations.

Supported by these structures, senior management sets internal policies and leads the operations of the Bank to ensure that it gives effect to its objects, carries out its functions and uses its resources in a manner that is effective, prudent and consistent with the interests of the Bank, for the benefit of the nation.

Senior Management*



Nor Shamsiah Yunus
Governor



Abdul Rasheed Ghaffour
Deputy Governor



Jessica Chew Cheng Lian
Deputy Governor



Marzunisham Omar
Deputy Governor



Norzila Abdul Aziz
Assistant Governor



Mohd. Adhari Belal Din
Assistant Governor



Abu Hassan Alshari Yahaya
Assistant Governor



Adnan Zaylani Mohamad Zahid
Assistant Governor



Aznan Abdul Aziz
Assistant Governor



Fraziali Ismail
Assistant Governor



Dr. Norhana Endut
Assistant Governor

* As at 31 March 2021.

Other Senior Officers*

Economics Monetary Policy International Data Management and Statistics	Idwan Suhardi Hakim Dr. Mohamad Hasni Sha'ari Raja Syamsul Anwar Raja Mohammed Affandi Ong Li Ming
Investment Operations and Financial Markets <i>Representative Offices:</i> London Representative Office New York Representative Office Beijing Representative Office Foreign Exchange Policy	Mohamad Ali Iqbal Abdul Khalid Shahredza Minhat Azizul Sabri Abdullah Soo Woan Chin Albert See Choon Kwang
Financial Development and Innovation Islamic Banking and Takaful Insurance Development Development Finance and Inclusion	Suhaimi Ali Madelena Mohamed Lau Chin Ching Arlina Ariff
Financial Conglomerates Supervision Banking Supervision Insurance and Takaful Supervision Risk Specialist and Technology Supervision Payments Oversight	Vijayakumar MV Nair Mohd Zabidi Md Nor Hew Ee-Lu Daniel Chin Shen Li Shahariah Othman
Financial Intelligence and Enforcement	Mohd Fuad Arshad
Financial Surveillance Prudential Financial Policy Consumer and Market Conduct Money Services Business Regulation	Qaiser Iskandar Anwarudin Cindy Siah Hooi Hoon Lim Hsin Ying Nik Mohamed Din Nik Musa

* As at 31 March 2021.

Currency Management and Operations	Azman Mat Ali
Finance	Affendi Rashdi
LINK and BNM Offices	Nor Rafidz Nazri
BNM Office Johor Bahru	Rosnani Mahamad Zain
BNM Office Pulau Pinang	Hasjun Hashim
BNM Office Kuching	Mohd Irman Haji Mohd Din
BNM Office Kota Kinabalu	Zambre Ismail
BNM Office Kuala Terengganu	Adlis Khairil Sazli Mohd Zaini
Centralised Procurement Unit	Shum Sook Yi

Strategic Human Capital	Abd. Rahman Abu Bakar
Human Capital Development Centre	Kristina Rai
Human Capital Services	Faizal Muhammad Sudin

Chief Information Officer	Tay Gim Soon
Business Technology	Victor Khor Eng Swee
Digital Technology Infrastructure	Leong Kwan Seng
Cyber Security and Data Protection	Aizuddin Mohd Ghazali

Chief Services Officer	Shamsuddin Mohd Mahayidin
Facility Management Services	Razman Samsudin
Hospitality and Museum	Hairi Adam
Organisational Security Management	Ahmad Azaharudin Mohd Anuar

Governor's Office	Abd. Rahman Abu Bakar
Ethics and Integrity Office	Santamarie Shamni Arulanandam
Internal Audit	Marina Abdul Kahar
Risk Management	Beh Cheng Hoon
Legal	Izhar Ismail
Strategic Communications	Shasha Kartini Ridzam

Statutory Committees

In certain areas, the responsibility for decision-making is placed beyond the direct remit of the Board or Management. These matters are reserved for specific organs created by statute.

Monetary Policy Committee

The primary objective of monetary policy in Malaysia is to maintain price stability while giving due regard to developments in the economy. Under the Central Bank of Malaysia Act 2009 (CBA 2009), the Monetary Policy Committee (MPC) of Bank Negara Malaysia is charged with the responsibility of formulating monetary policy and the policies for the conduct of monetary policy operations.¹ In this regard, the MPC decides on the policy interest rate, the Overnight Policy Rate (OPR), to influence other interest rates in the economy.

In carrying out this mandate, the MPC determines the direction of monetary policy based on its assessment of the balance of risks to the outlook for both domestic growth and inflation. The MPC also monitors risks of destabilising financial imbalances given their implications for the prospects of the economy. The Committee meets at least six times a year to decide on the OPR and publishes the Monetary Policy Statement (MPS) following each meeting to explain its decisions.

The MPC comprises the Governor, the Deputy Governors, and not less than three but not more than seven other members, including external members who are appointed by the Minister of Finance upon the recommendation of the Bank's Board Governance Committee. At present, the MPC has eight members, two of whom are external members. The membership of the MPC seeks to bring together a diversity of expertise and experience that is critical for sound decision-making on monetary policy.

Members*

Nor Shamsiah Yunus (Chairman)

Abdul Rasheed Ghaffour

Jessica Chew Cheng Lian

Marzunisham Omar

Norzila Abdul Aziz

Dr. Norhana Endut

Dato' Dr. Gan Wee Beng (External Member)

Nor Zahidi Alias (External Member)

* As at 31 March 2021.

¹ For a detailed account of the evolution of the MPC, and its governance and processes, refer to the 'Box Article: Evolution of the Monetary Policy Committee of Bank Negara Malaysia: Key Milestones over the Years' in the Bank's Annual Report 2015.

Financial Stability Executive Committee

The Financial Stability Executive Committee (FSEC) was established in 2010 pursuant to Section 37 of the Central Bank of Malaysia Act 2009 (CBA 2009). The FSEC supports the Bank's statutory mandate of preserving financial stability through its powers to decide on specific policy measures that may be taken by the Bank to avert or reduce risks to financial stability.

In carrying out this mandate, the FSEC reviews, assesses and decides on proposals tabled by the Bank to:

- Issue orders to a person or financial institution that is not regulated nor supervised by the Bank to undertake specific measures in the interest of financial stability;
- Extend liquidity assistance to a financial institution that is not regulated nor supervised by the Bank, or to the overseas operations of a licensed financial institution in Malaysia; and
- Provide capital support to a licensed financial institution in Malaysia that has ceased to be viable or is likely to become non-viable.

This serves to ensure continuous and effective financial intermediation, including the orderly functioning of the money market and foreign exchange market, and preserve public confidence in the financial system.

The FSEC consists of seven members, a majority of whom are non-executive members who are independent of the Bank's Management. Members are subject to the FSEC's Code of Ethics and Conflict of Interest, which serves to preserve the integrity of the FSEC's decisions. In 2020, the FSEC met twice to discuss risks to financial stability, with a focus on the potential impact from the COVID-19 pandemic on the financial system.

Members*

Nor Shamsiah Yunus (Chairman)

Abdul Rasheed Ghaffour

Dato' Asri Hamidon @ Hamidin

Datuk Syed Zaid Albar

Rafiz Azuan Abdullah

Yoong Sin Min (External Expert)

Dato' Abdul Rauf Rashid (External Expert)

* As at 31 March 2021.

Shariah Advisory Council

The Shariah Advisory Council of Bank Negara Malaysia (SAC) was established in May 1997 as the highest Shariah authority for Islamic banking and takaful in Malaysia. The Central Bank of Malaysia Act 2009 (CBA 2009) reinforces the roles and functions of the SAC as the authority for the ascertainment of Islamic law for the purposes of Islamic financial activities which are supervised and regulated by the Bank.

The SAC assumes a pivotal role in ensuring the consistency of Shariah rulings applied by the Islamic banking and takaful industry. The Shariah rulings by the SAC serve as a main reference for Islamic financial institutions to ensure end-to-end Shariah compliance in the structure and implementation of their financial activities. In addition, the CBA 2009 provides that Shariah matters brought to the court or raised in any arbitration proceeding must be referred to the SAC for clarity and certainty.

The SAC provides the Shariah basis for the development of a comprehensive Shariah contract-based regulatory framework for Islamic banking and takaful in Malaysia. In this regard, the SAC defines the essential features of the contracts taking into consideration the various Shariah views, research findings, as well as custom and market practices. The SAC, through its members, individually and collectively provides continuous support for more product innovation and also encourages harmonisation of Shariah interpretation in addressing the fundamental values of Islamic finance, consistent with the social and market needs locally and globally.

The SAC members are appointed with approval by Yang di-Pertuan Agong, on the advice of the Minister of Finance after consultation with the Bank. Currently, the SAC has nine members of Shariah scholars and practitioners with vast experience, domestically and abroad, particularly in the areas of Shariah, laws, Islamic economics and finance. During the year, the Bank revised the SAC's Terms of Reference as part of its periodic review to strengthen the quality and rigour of Shariah deliberation. The revision emphasised the Bank's expectations on the breadth and depth of Shariah knowledge and relevant disciplines, professional experience, commitment and diligence, and research capabilities of the SAC's members. Such diversity would ensure that the SAC is equipped to deal and respond to evolving issues confronting the Islamic financial sector in Malaysia.

Members*

Datuk Dr. Mohd Daud Bakar (Chairman)

Prof. Dr. Ashraf Md. Hashim (Deputy Chairman)

Sahibus Samahah Dato' Dr. Haji Anhar Haji Opir

Dato' A. Aziz. A. Rahim

Prof. Dr. Mohamad Akram Laldin

Prof. Dr. Engku Rabiah Adawiah Engku Ali

Dr. Marjan Muhammad

Burhanuddin Lukman

Zainal Abidin Jamal

* As at 31 March 2021.

Monetary Penalty Review Committee

The Monetary Penalty Review Committee (MPRC) is an independent committee legislated under section 238 of the Financial Services Act 2013 (FSA) and section 249 of the Islamic Financial Services Act 2013 (IFSA). The MPRC considers appeals from persons (individuals or institutions) against the administrative monetary penalties or pecuniary remedies imposed by the Bank in exercising its administrative enforcement powers under the FSA, the IFSA and the Development Financial Institutions Act 2002.

The MPRC provides an independent avenue for aggrieved parties to appeal against the Bank's decisions. The MPRC may decide to either confirm the Bank's decision or require the Bank to reconsider and reach a decision in accordance with the findings of the MPRC. The members of MPRC are appointed by the Minister of Finance from among the Non-Executive Directors of the Bank or other persons external to the Bank.

Members*

Tan Sri Hasan Lah (Chairman)

Prof. Dr. Choong Yeow Choy

Chin Suit Fang

Lillian Leong Bee Lian

* As at 31 March 2021.

Our Finances

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as at 31 December 2020
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Ended 31 December 2020
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Year Ended 31 December 2020

Our Finances



Our Finances

The Bank manages its finances with the objective of ensuring that it has the resources to discharge its mandates to promote monetary and financial stability conducive to the sustainable growth of the Malaysian economy. In keeping with these mandates, we are committed to being responsible, prudent and disciplined in managing our resources.

Although we are a statutory body, we do not rely on public funds from the Government to support our day-to-day operations. Instead, our operations are funded by income generated from our investments of the country's international reserves. In 2020, we generated total income of RM13,492 million (2019: RM11,129 million), net of costs associated with managing the international reserves portfolio and conducting monetary operations.

Against this, we incur expenses to manage and administer our day-to-day operations ("recurring expenditure") and also expenses to finance developmental and long term projects in line with our principal objects and functions ("development expenditure"). This includes expenditures incurred for our currency operations and to maintain the country's payment infrastructure. In 2020,

these expenditures amounted to RM3,219 million (2019: RM2,161 million).

In 2020, we generated RM10,235 million in net profit after tax (2019: RM8,926 million). Of this, RM6,235 million will be transferred into the General Reserve Fund (2019: RM26 million). The remaining RM4,000 million (2019: RM3,500 million) in net profit will be paid as dividend to the Government.

Our assets, as at 31 December 2020, totalled RM488,044 million (2019: RM458,967 million), with the RM432,373 million (2019: RM431,457 million) of international reserves portfolio constituting the bulk (89%) of our assets.

Our liabilities arise mainly from deposits by financial institutions (RM146,028 million) and currency in circulation (RM130,424 million).



**CERTIFICATE OF THE AUDITOR GENERAL
ON THE FINANCIAL STATEMENTS OF
BANK NEGARA MALAYSIA
FOR THE YEAR ENDED 31 DECEMBER 2020**

Certificate on the Audit of 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 2020 and Income Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 127 to 140.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank Negara Malaysia as at 31 December 2020, and of its financial performance for the year then ended in accordance with the Malaysian Financial Reporting Standards (MFRS) and Central Bank of Malaysia Act 2009 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.

Basis for Opinion

The audit was conducted in accordance with the Audit Act 1957 and the International Standards of Supreme Audit Institutions. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my certificate. 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 the Bank Negara Malaysia and I have fulfilled my other ethical responsibilities in accordance with the International Standards of Supreme Audit Institutions.

Information Other than the Financial Statements and Auditor's Certificate Thereon

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

Responsibilities of the Board for the Financial Statements

The Board is responsible for the preparation of Financial Statements of the Bank Negara Malaysia that give a true and fair view in accordance with Malaysian Financial Reporting Standards (MFRS) and Central Bank of Malaysia Act 2009 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 Board is also responsible for such internal control as it is necessary to enable the preparation of the Financial Statements of the Bank Negara Malaysia that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities 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's Certificate 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

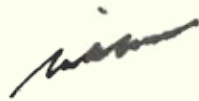
As part of an audit in accordance with the International Standards of Supreme Audit Institutions, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- a. Identify and assess the risks of material misstatement of the Financial Statements of the 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 Board.
- d. Conclude on the appropriateness of the Board 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 of the Bank Negara Malaysia's ability to continue as a going concern. If I conclude that a material uncertainty exists, I have to draw attention in my Auditor's Certificate to the related disclosures in the Financial Statements of the 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 Auditor's Certificate.
- e. Evaluate the overall presentation of the Financial Statements of Bank Negara Malaysia, including the disclosures, and whether the Financial Statements of Bank Negara Malaysia represents the underlying transactions and events in a manner that achieves fair presentation.

I also provide the Board with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other Matters

This certificate is made solely to the Board in accordance with Central Bank of Malaysia Act 2009 and for no other purpose. I do not assume responsibility to any other person for the content of this certificate.



(DATUK NIK AZMAN NIK ABDUL MAJID)
AUDITOR GENERAL
MALAYSIA

PUTRAJAYA
16 MARCH 2021



BANK NEGARA MALAYSIA

**STATEMENT BY CHAIRMAN
AND ONE OF THE DIRECTORS**

We, Nor Shamsiah Yunus and Chin Suit Fang, 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 2020 and of the results of operations for the year ended on that date, in accordance with the Central Bank of Malaysia Act 2009 and the 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,



NOR SHAMSIAH YUNUS
CHAIRMAN

26 FEBRUARY 2021
KUALA LUMPUR

On behalf of the Board,



CHIN SUIT FANG
DIRECTOR

26 FEBRUARY 2021
KUALA LUMPUR

BANK NEGARA MALAYSIA

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

I, Affendi 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 2020, 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 26 February 2021.)



Before me,



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

BANK NEGARA MALAYSIA

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

		2020 RM million	2019 RM million
ASSETS	Note		
Gold and Foreign Exchange	3	421,775	422,211
International Monetary Fund Reserve Position	4	5,829	4,584
Holdings of Special Drawing Rights	4	4,769	4,662
Malaysian Government Papers	5	11,145	1,978
Deposits with Financial Institutions	6	2,996	2,630
Loans and Advances	7	17,520	7,112
Land and Buildings	8	4,164	4,162
Other Assets	9	19,846	11,628
Total Assets		488,044	458,967
LIABILITIES AND CAPITAL			
Currency in Circulation		130,424	114,097
Deposits from: Financial Institutions		146,028	163,714
Federal Government		3,648	3,568
Others	10	15,056	543
Bank Negara Papers	11	9,614	15,834
Allocation of Special Drawing Rights	4	7,788	7,619
Other Liabilities	12	4,810	2,959
Total Liabilities		317,368	308,334
Capital	13	100	100
General Reserve Fund	14	14,857	14,831
Risk Reserve	15	144,746	131,436
Land Revaluation Reserve	16	738	740
Unappropriated Profits	17	10,235	3,526
Total Capital		170,676	150,633
Total Liabilities and Capital		488,044	458,967

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

BANK NEGARA MALAYSIA

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 RM million	2019 RM million
Total Income	18	13,492	11,129
Less:			
Recurring Expenditure	19	(1,251)	(1,325)
Development Expenditure	20	(1,968)	(836)
Total Expenditure		(3,219)	(2,161)
Net Profit Before Tax		10,273	8,968
Less: Taxation	21	(38)	(42)
Net Profit After Tax		10,235	8,926
Less: Transfer to Risk Reserve	15	-	(5,400)
Unappropriated Profits of the Year	17	10,235	3,526

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 2020

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 26 February 2021.

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 the 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 the applicable 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 the Bank's responsibilities for the formulation and conduct of effective monetary policy and for promoting financial stability, are of the opinion that, it is appropriate to differ, in certain aspects, from the applicable accounting standards.

BANK NEGARA MALAYSIA

- (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.

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 gains or losses arising from the translation of foreign currency assets and liabilities are recognised in the 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 the Risk Reserve. Realised gains or losses from the sale of gold are recognised in the Income Statement.

2.5 Foreign Securities

Foreign securities comprising fixed income securities and equities are stated at fair value. Fair value changes are recognised in the 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 the Bank's 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.

BANK NEGARA MALAYSIA

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 10 years with any surplus arising on revaluation to be recognised directly in the Land Revaluation Reserve.
- (d) Freehold land is not depreciated while leasehold land is amortised over its remaining life. Land (freehold and leasehold) is 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.
- (e) Any 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 the Land Revaluation Reserve is transferred to Unappropriated Profit.

2.9 Other Fixed Assets

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

2.10 Impairment of Assets

All assets are periodically assessed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such an indication exists, an impairment review is performed to assess whether the carrying amount of the asset is fully recoverable.

3. Gold and Foreign Exchange

	2020 RM million	2019 RM million
Gold	9,463	7,723
Foreign Securities	382,279	383,051
Foreign Deposits	5,409	8,929
Balances with Other Central Banks	12,842	13,116
Others	11,782	9,392
	421,775	422,211

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

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.

BANK NEGARA MALAYSIA

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 a 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 to members.

Holdings of Special Drawing Rights (SDR)

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 (SDR)

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

	2020 RM million	2019 RM million
IMF Reserve Position	5,829	4,584
Holdings of Special Drawing Rights (SDR)	4,769	4,662
Allocation of Special Drawing Rights (SDR)	(7,788)	(7,619)
Net position with IMF	<u>2,810</u>	<u>1,627</u>

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.

	2020 RM million	2019 RM million
Malaysian Government Securities	9,939	1,819
Malaysian Government Investment Certificates	1,206	159
	<u>11,145</u>	<u>1,978</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 advances extended by the Bank to participating institutions under various schemes aimed at providing relief and to support the recovery of small and medium-sized enterprises affected by COVID-19 pandemic as well as to help home buyers from the lower income group to finance the purchase of their first homes. The extensions of these advances are provided under section 48, section 49 and section 100 of the Central Bank of Malaysia Act 2009.

BANK NEGARA MALAYSIA

	2020 RM million	2019 RM million
Funds for Small and Medium Industries	16,210	5,766
Fund for Affordable Homes	1,000	1,000
Others	310	346
	<u>17,520</u>	<u>7,112</u>

8. Land and Buildings

	2020 RM million	2019 RM million
Land, at cost		
Freehold	3,318	3,314
Land, at revaluation		
Freehold	694	694
Leasehold	152	154
	<u>4,164</u>	<u>4,162</u>

	2020 RM million	2019 RM million
Leasehold land		
As at 1 January	154	167
Less: Accumulated Amortisation	(2)	(13)
As at 31 December	<u>152</u>	<u>154</u>

	2020 RM	2019 RM
Buildings, at nominal value		
Freehold	2,240	2,230
Leasehold	1,370	1,380
	<u>3,610</u>	<u>3,610</u>

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

9. Other Assets

Included in Other Assets are securities purchased under reverse repurchase agreements and investments in shares and bonds acquired under section 48(1) and section 100 of the Central Bank of Malaysia Act 2009.

BANK NEGARA MALAYSIA

	2020 RM million	2019 RM million
Reverse Repurchase Agreements	14,833	6,490
Investments in Shares and Bonds	4,390	4,390
Others	623	748
	<u>19,846</u>	<u>11,628</u>

10. Deposits from Others

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

11. Bank Negara Papers

Bank Negara Papers are papers issued by the Bank as an additional monetary policy tool to manage liquidity in the domestic money market. It also includes Bank Negara Interbank Bills (BNIB) in foreign currency and this is part of the Bank's market operations to manage foreign currency liquidity in the domestic money market.

12. Other Liabilities

Other Liabilities include securities sold under repurchase agreements of RM2,577 million (2019: RM1,643 million).

	2020 RM million	2019 RM million
Repurchase Agreements	2,577	1,643
Accruals	1,858	954
Others	375	362
	<u>4,810</u>	<u>2,959</u>

13. Capital

In accordance with section 6 of the Central Bank of Malaysia Act 2009, the capital of the Bank shall be RM100,000,000 and is owned by the Government of Malaysia.

14. General Reserve Fund

	2020 RM million	2019 RM million
As at 1 January	14,831	14,810
Amount approved and transferred to the General Reserve Fund during the year	26	21
As at 31 December	<u>14,857</u>	<u>14,831</u>

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Appropriations of net profits to the General Reserve Fund and dividends to the Government are recognised upon the approval by the Board and 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 2019 of RM26 million was approved by the Minister on 3 April 2020.

15. 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.

	2020 RM million	2019 RM million
As at 1 January	131,436	113,477
Movements during the year	13,310	12,559
Transfer from net profits	-	5,400
As at 31 December	<u>144,746</u>	<u>131,436</u>

16. Land Revaluation Reserve

The Land Revaluation Reserve relates to unrealised surplus of land (freehold and leasehold) upon their revaluation. Upon disposal, the realised surplus relating to the realised asset is transferred to Unappropriated Profits.

17. Unappropriated Profits

	2020 RM million	2019 RM million
Balance 1 January	3,526	2,521
Less: Appropriations approved during the year		
Transfer to General Reserve Fund	(26)	(21)
Dividend paid to the Government	(3,500)	(2,500)
	<u>-</u>	<u>-</u>
Current year's unappropriated profits	10,235	3,526
Balance 31 December	<u>10,235</u>	<u>3,526</u>

In accordance with section 7 of the Central Bank of Malaysia Act 2009, appropriations to the General Reserve Fund and the declaration of dividends to the Government are subject to the approval by the Board and the Minister, and if approved will be recognised in the next financial year ending 31 December 2021.

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The dividend paid to the Government for the year ended 2019 amounted to RM3.5 billion was approved by the Minister on 3 April 2020.

For the year ended 31 December 2020, the Board of Directors recommends a transfer to the General Reserve Fund of RM6.235 billion and dividend payable of RM4.0 billion to the Government.

18. **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.

19. **Recurring Expenditure**

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

20. **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.

21. **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.

22. **Contingencies and Commitments**

22.1 **Contingent Assets**

Total contingent assets as at 31 December 2020 amounted to RM1,840 million. These comprise the Bank's total funding to the International Centre for Leadership in Finance (ICLIF) Trust Fund of RM1,000 million and International Centre for Education in Islamic Finance (INCEIF) Trust Fund of RM840 million to finance activities related to training, research and development of human resource in banking and financial services managed by Asia School of Business (ASB) and INCEIF, respectively. It is provided in the Trust Deeds that the total funding will be returned to the Bank when these Centres become self-sufficient in the future.

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22.2 Commitments

Total commitments as at 31 December 2020 comprise the following:

	Note	2020 RM million	2019 RM million
Total Commitments			
International Monetary Fund (IMF)	(a)		
Unpaid Quota	(i)	15,417	16,371
New Arrangement to Borrow (NAB)	(ii)	1,883	1,823
Bilateral Contribution	(iii)	4,017	4,093
Investment with Bank for International Settlements (BIS)	(b)	70	68
Swap Arrangements	(c)		
ASEAN Swap Arrangement	(i)	1,205	1,228
Bilateral Currency Swap Arrangement with			
People's Bank of China (PBOC)	(ii)(a)	105,706	110,000
Bank of Korea (BOK)	(ii)(b)	15,000	15,000
Bank of Indonesia (BI)	(ii)(c)	8,000	8,000
Bank of Japan (BOJ)	(ii)(d)	12,051	-
Chiang Mai Initiative Multilateralisation	(iii)	36,571	37,263
Repurchase Agreement with EMEAP Members	(iv)	20,085	20,465
		<u>220,005</u>	<u>214,311</u>

(a) Membership with IMF

- (i) The Bank has an obligation to pay to IMF SDR2,665 million, equivalent to RM15,417 million (2019: SDR2,892 million, equivalent to RM16,371 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 2020, the amount of undrawn credit under the NAB is SDR325 million, equivalent to RM1,883 million (2019: SDR322 million, equivalent to RM1,823 million).
- (iii) On 23 July 2012, the Bank has pledged a USD1,000 million, equivalent to RM4,017 million (2019: USD1,000 million, equivalent to RM4,093 million) bilateral contribution to the IMF for precautionary and financial crisis resolution purposes.

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

The Bank has a commitment of SDR12 million, equivalent to RM70 million (2019: SDR12 million, equivalent to RM68 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) **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 2020, the Bank's total commitment amounted to USD300 million, equivalent to RM1,205 million (2019: USD300 million, equivalent to RM1,228 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 August 2018, the Bank renewed the Bilateral Currency Swap Arrangement (BCSA) agreement with the People's Bank of China (PBOC) with the objective of promoting and facilitating trade settlement in the local currency between the two countries. As at 31 December 2020, the Bank's total outstanding commitment under the BCSA is RM105.7 billion (2019: RM110 billion).

(b) On 25 January 2017, the Bank renewed the Bilateral Currency Swap Arrangement (BCSA) agreement with the Bank of Korea (BOK) with the objective of promoting bilateral trade and facilitating trade settlement in local currency between the two countries. As at 31 December 2020, the Bank's total commitment under the BCSA is RM15 billion (2019: RM15 billion) and there has been no request to activate the BCSA during the financial year.

(c) On 27 September 2019, the Bank has signed Local Currency Bilateral Swap Arrangement (LCBSA) agreement with the Bank of Indonesia (BI) with the objective of promoting bilateral trade and facilitating trade settlement in local currency between the two countries. As at 31 December 2020, the Bank's total commitment under the LCBSA is RM8 billion (2019: RM8 billion) and there has been no request to activate the LCBSA during the financial year.

(d) On 18 September 2020, the Bank signed a Bilateral Swap Arrangement (BSA) agreement with the Bank of Japan (BOJ). This BSA enables both authorities to swap their local currencies for US Dollar and the arrangement will provide up to USD3 billion for both countries. As at 31 December 2020, the Bank's total commitment under the BSA is RM12.1 billion and there has not been any request to activate the BSA during the financial year.

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(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 2020, the Bank's total commitment is USD9.1 billion, equivalent to RM36.6 billion (2019: USD9.1 billion, equivalent to RM37.3 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 RM20.1 billion (2019: USD5 billion, equivalent to RM20.5 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 2020, there was no request for liquidity assistance from any counterpart.

23. **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, thus ensuring investments in issuers and with counterparties of good credit standing. 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 risk 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 risk 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.

24. 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 as 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 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 as the Staff Welfare Account.

25. Comparative Figures

Certain comparative figures have been restated to conform with the changes in the accounting policy in the current year. In previous years, the Bank recorded foreign securities at amortised cost. With effect from 2020, the Bank changed its accounting policy to measure foreign securities at fair value. The change in the accounting policy requires an adjustment to the carrying value of foreign securities and risk reserve respectively. The effect of this change on the comparative figures are as follows:

	As previously stated RM million	Fair value adjustment RM million	As restated RM million
<u>Statement of Financial Position</u>			
Gold and Foreign Exchange (Note 3)	414,844	7,367	422,211
Risk Reserve (Note 15)	124,069	7,367	131,436