2011

GOVERNANCE, ORGANISATIONAL DEVELOPMENT AND COMMUNICATIONS

The Bank is entrusted with the core mandate of preserving monetary and financial system stability and supporting sustained medium and long-term growth. The success of the Bank in delivering on its mandate is made possible through sustained efforts in the areas of governance and organisational development. During the year, the Bank had further solidified its efforts in these areas to enhance effectiveness and efficiency, and to strengthen its agility in responding to the challenges ahead.

GOVERNANCE

The Board of Directors of the Bank has the key role in ensuring that the Bank continues to deliver on its mandate of promoting monetary stability and financial stability in an environment that is conducive to the sustainable growth of the Malaysian economy. In discharging its duties, the Board of Directors exercises oversight over the management of the Bank and reviews the performance of the Bank in delivering its mandates and in discharging the responsibilities placed upon the Bank. The Board of Directors also reviews the allocation and utilisation of resources, the Bank's financial position, and oversees other administrative matters that influence the effectiveness and efficiency of the Bank's operations. To support the Board in performing these functions, a comprehensive governance, control and risk management framework has been put in place to provide the appropriate supporting infrastructure for the Board to discharge its oversight function and to keep the Board well informed on all key matters affecting the Bank.

In 2011, the Board of Directors met twelve times to deliberate on various aspects of the Bank's operations. One of the key permanent Board agenda items is the discussions on the economic and financial conditions, and how domestic and external developments may impact the economy and affect the Bank's operations to achieve its mandate. This also involves deliberation of policy measures being considered by the Bank to address emerging issues. Also discussed at each meeting are the Bank's financial condition, reserve management and currency management. This enables the Board to keep under constant review the performance of the Bank in giving effect to its object. Policy developments and the risk outlook involving the conventional and Islamic financial systems and payment systems are also brought to the Board's attention on a regular basis.

One of the key outcomes of the Bank in 2011 was the publication of the Financial Sector Blueprint. In formulating the Blueprint, the Board discussed on the policy thrusts to be adopted that would shape the development of the financial sector over the next ten years. Another key outcome during the year was the completion of a comprehensive review of existing regulatory laws governing financial institutions, markets and payment systems under the purview of the Bank, which culminated with the recommendation for an integrated new legislation. In considering the proposals, the Board's deliberations took into account the global regulatory reform measures, the increasing cross-border presence of Malaysian entities operating aboard and financial conglomeration, and how the new legislation will serve to complement the Central Bank of Malaysia Act 2009.

Organisational development and well-being are also overseen by the Board of Directors. In 2011, several initiatives were undertaken with respect to human capital management policy to ensure that the Bank continues to have highly skilled knowledge workers to deliver its mandates. In deliberating these initiatives, the Board considered initiatives that will enable the Bank to achieve a higher level of performance while ensuring that the staff receive the relevant development, interventions and competitive remuneration. Equally important is the organisational culture through continuous support for the enhancement to the Bank's internal policies relating to governance, internal controls and risk management.

In carrying out its oversight function, the Board is supported by three Board Committees namely, the Board Governance Committee (BGC), the Board Audit Committee (BAC) and the Board Risk Committee (BRC). The respective Board Committees comprises three independent and non-executive Board members and are governed by its own by-laws as approved by the Board. (Details of the responsibilities for each Committee are available in the 2010 Annual Report white box article *'Operationalisation of the Central Bank of Malaysia Act 2009'*).

The budget and operating plan of the Bank are reviewed by the BGC which includes an assessment of its efficiency in budgeting and financial management activities. Amongst the areas discussed were prioritisation of the Bank's projects and initiatives, and cost-saving initiatives including intensifying efforts to migrate to e-payments. One of the key areas of focus for the BAC during the year was the review pertaining to the internal audit function to ensure its effectiveness in providing an independent assessment of governance, internal control and risk management measures. The BAC also ensured that appropriate remedial actions were taken to address issues raised in the audit reports prepared by the National Audit Department. The BRC monitored closely the Bank's management of enterprise-wide risks, in areas that could lead to financial loss, disruption of operations and failure to attain objectives or damage to the Bank's reputation. In 2011, the BRC also worked closely with the BAC to ensure the successful implementation of risk management policies and processes within the Bank.

Risk Management

Risk management is a fundamental component of the governance framework to enable effective and efficient delivery on the mandates of the Bank while safeguarding the assets and reputation of the Bank. In 2011, the Bank continued to strengthen its risk management governance framework to ensure that it is sufficiently robust to face the challenges ahead. The Bank also undertook initiatives to further enhance its risk management culture, including further embedding risk management processes into all strategic initiatives, policy making and operations of the Bank.

Risk Management framework

The Bank adopts an Enterprise Risk Management (ERM) approach to effectively manage risks that are increasingly becoming more complex and interlinked across the different functions of the Bank. This overall framework sets out the general principles and processes to ensure consistent and effective management and oversight of risks in the Bank. Under ERM, the Operational Risk Management and Financial Risk Management frameworks are designed to provide greater clarity in managing specific risk types. The ERM is also supported by more detailed policies, standards, procedures and guidance to ensure that risk interlinkages are addressed at all levels.

Risk Management governance structure

The Bank's risk management governance and structure provides clear accountabilities and responsibilities, which ensure that the risk management strategies remain effective and that significant risks are promptly and adequately identified, assessed, monitored, managed and reported.

At the top of the governance structure, the Board and BRC provide the overall oversight over the management of risks in the Bank. The Board provides strategic direction on risk management by the Bank and ensures that the Bank identifies its key risks and has in place the appropriate systems, processes and resources to manage these risks.

The Risk Management Committee (RMC), which is chaired by the Governor, is responsible for managing organisational risks related to the achievement of the Bank's mandates and strategic objectives. It is also a platform for focused deliberations on issues and concerns arising from any aspect of the Bank's activities that could expose the Bank to substantial risks, and it also ensures effective management of risks within the Bank. All significant risk events will also be escalated to the BRC and the Board. In equipping the Bank to face a more challenging environment, the RMC also drives enhancements to the Bank's risk management frameworks, practices and culture. Two sub-committees, the Operational Risk Management Committee as well as the Financial Risk Management Committee, each headed by a designated Deputy Governor, provide the essential platforms to assist the RMC in making informed decisions on operational and financial risks. The Committees provide effective oversight over risks pertaining to the Bank's systems, people and processes, as well as the Bank's financial risk.

The Reserve Management Committee (ReMC) oversees risks and returns related specifically to the management of the nation's international reserves. It provides a platform for a centralised and holistic review of all the risks emanating from the management of the international reserves to ensure a thorough risk assessment is undertaken on all investment strategies. This includes the assessment of returns on strategic investments that are measured on a risk-adjusted-return basis. Quarterly meetings, as well as daily and weekly reporting by risk managers to the members of the ReMC, on market, credit and operational risks of all investment exposures ensure that all risks are within the approved investment guidelines and risk appetite of the Bank, and that investment decisions are executed in a timely and accurate manner.

Strengthening the Risk Management framework

The implementation of the three lines of defence in the governance approach institutionalises effective risk management practices within the Bank and provides clarity to the roles, responsibilities and accountabilities of all parties in the organisation.

The first line of defence comprises the line departments which are responsible for identifying, assessing, mitigating and reporting risks within their own areas. They are expected to be fully conversant with the risks undertaken and are accountable for ensuring that adequate controls are in place. In addition, they must also be able to align their risk management strategies to ensure their ability to perform the Bank's mandates and that the strategic objectives are not compromised.

The second line of defence refers to the risk management functions within the Bank which provide oversight and advice to the line departments. There are three main parts of the Bank involved, the first being the Strategic and Risk Management Department (SRMD), which is responsible for developing and maintaining the overall risk management framework. SRMD also reviews the risk assessments made by the line departments, identifying enterprise-wide risks events for deliberation at the relevant risk committees. The second also includes the Risk Policy Owners (RPOs) that manage specific transversal risks (risks which result from activities/processes that are common to all other business processes), for example, people, technology and legal risks. Also included in this second line is the Treasury Risk Management section of the Investment Operations and Financial Markets Department, which is responsible for monitoring the risk exposures and risk management related to management of international reserves in the areas of market, credit and operations risks.

The third line of defence refers to the Internal Audit Department which provides independent assurance and verification on the implementation and effectiveness of the risk management practices.

Key initiatives in 2011

The establishment of a more structured periodic reporting of organisational risks provided a consistent assessment and monitoring mechanism for RMC and BRC to perform their oversight over the Bank's risk taking activities. This has also triggered a more robust identification, assessment and deliberation of key risks facing the Bank. More comprehensive and quality risk identification and assessments were achieved through increased accountability demonstrated by the first line of defence, coupled with the validation process as well as advisory services provided by SRMD. There was also a greater linkage of the year's risk assessments with the strategic outcomes of the Business Plan. Active top-down views added strategic perspectives for more effective management of risks at enterprise level. The enhanced process and governance provides greater clarity for senior management to actively manage risks within their respective sectors.

Risk management strategies have become more pre-emptive, with special focus being given to addressing risks related to new initiatives such as the issuance of the new currency notes and coins, as well as the newly emerging risks such as cyber threats and information security risks posed by mobile devices. Significant emerging risks such as the impact of the European crisis on the Bank's reserves and strategic portfolios were also deliberated by the RMC and BRC.

The implementation of the system based Risk Control Self Assessment (eRCSA) has facilitated Bank-wide horizontal assessment of risks based on risk events and causes. In formulating the Bank's Business Plan for 2012-14, the different sectors performed risk assessments on emerging environmental risks, as well as risks that may hinder Bank's achievement of its mandates.

This year has also seen more active involvement among the RPOs in managing transversal risks. The concept of RPOs was introduced to ensure that departments that are accountable for transversal risks are effectively managing the risks. Greater involvement of RPOs encourages a more effective management of transversal risks in the Bank and ensures that all types of risks are well accounted for.

In view of the importance of preserving the credibility and reputation of the Bank, during the year, efforts were dedicated to formulating an effective strategy for managing reputational risk. Greater efforts were made towards creating increased clarity across the organisation about risk events that could impact the Bank's reputation. This would enable the Bank to develop a more systematic approach in understanding the nature of the specific reputational risk event and direct resources to address the root causes. A key component in this initiative is the formulation of the Stakeholder Engagement Framework.

Enchancing BCM infrastructure, framework and policy

The Bank's Business Continuity Management (BCM) remains a crucial agenda in ensuring that the Bank is prepared to provide continuous critical central banking functions, as well as to protect the Bank's staff and assets in crisis situations.

The Bank's state of readiness and its response capabilities during business disruptions were further strengthened with the enhancements to its business recovery infrastructure, particularly through the upgrading of the Recovery Centre which now has an increased capacity to house critical operations of the Bank in the event of crisis events lasting up to one month. The Bank also continued to conduct Bank-wide live runs, call tree exercises and systems connectivity tests throughout the year.

The Bank was also involved in the national level disaster recovery platform. This includes participation in recovery exercises, such as the annual national level cyber drill, to ensure greater collaboration and coordination with other regulatory agencies as well as the institutions supervised by the Bank. The Bank leveraged on its involvement at national level to gain increased access to the national level recovery infrastructure to further strengthen its recovery capabilities. A strategic relationship between the Bank and Majlis Keselamatan Negara (National Security Council) was established to further strengthen the robustness of the Bank's Business Continuity Plan during emergency situations.

Additionally, the Bank's BCM Framework was revised in 2011 to align it with current industry BCM practices. Among the key enhancements was the establishment of a more effective BCM governance structure. The scope of critical functions was also expanded, taking into consideration all the principal objects of the Bank as outlined in the Central Bank of Malaysia Act 2009. The revised BCM Framework also institutes a more systematic communication strategy in the form of enhanced coordination and collaboration with the financial industry in preparing for potential systemic risk or operational disruptions in the financial sector.

Embedding a Risk Management culture at all levels

The socialisation of the new Operational Risk Management and Financial Risk Management frameworks instilled a consistent understanding of the Bank's risk management framework. Improvements made to the Risk Control Self Assessment (RCSA), including linking it to the strategic outcomes of the business plan and further facilitated by the new eRCSA system, have resulted in greater commitment and involvement of senior officers within the first line of defence. This annual risk assessment exercise has enabled the line departments to inculcate greater understanding among their staff of the risks facing their areas, the root causes and the controls that are in place to mitigate the risks. The new frameworks have also shaped a common risk management language and taxonomy used throughout the Bank, which has facilitated a more consistent assessment and risk reporting of risks. At the enterprise level, aggregation of self assessments provides a platform for greater deliberation of risks within sectors and across the organisation.

To facilitate staff compliance to internal policies and guidelines, SRMD had embarked on establishing a central repository for the Bank's internal policies and guidelines. This platform will provide a single point of reference and allow easy access by all staff, and is expected to be fully operational in early 2012. Greater focus was also given to information security management to ensure that the Bank's confidential and strategic information is adequately safeguarded.

Risk Management outlook

The Bank anticipates greater challenges in managing the risks that are dynamic in nature as well as in building the right risk management culture. Several initiatives are in the pipeline to prepare for the challenges.

Greater integration of risk management tools is planned for a more robust risk management methodology that can be applied for business planning and decision making. For this purpose, a more holistic ERM strategy will be developed to incorporate the integration and enhancement of the risk management methodology. Among the priorities is the seamless integration of risk, strategic, financial and resource management. A more structured and clearer approach in defining risk appetite and tolerance is also considered a key area for enhancement.

Risk management awareness and culture is expected to grow with the maturity of the risk assessment tools, where the tools are expected to be embedded within daily operations and decision making at all levels in the Bank

Risk management awareness and culture is expected to grow with the maturity of the risk assessment tools, where the tools are expected to be embedded within daily operations and decision making at all levels in the Bank. This will be augmented by efforts targeted specifically at elevating the risk management awareness including risk management training and structured engagement sessions.

In addition, risk management in the Bank will continue to be monitored through continuous benchmarking with industry best practices, particularly with other central banks. These initiatives are geared towards developing a risk management methodology that can provide strong support to the Bank in fulfilling its mandate and achieving its strategic objectives.

Internal Controls

The Internal Audit Department (IAD) provides an independent and objective assessment on the Bank's risk management measures, internal controls and governance processes with respect to the key functions and activities of the Bank with the aim of supporting the BAC in fulfilling its mandates. The audit activities are planned over a three year period, and regular reviews are undertaken to allow for adjustments to be made due to changes in the Bank's activities and operating environment. IAD regularly engages SRMD and other key line departments to ensure that its audit plan remains focused on the Bank's priority areas and key risks.

The IAD continued its three-pronged audit approach during the year, to facilitate an end-to-end review of the Bank's core processes, thematic reviews of common activities for benchmarking purposes and reviews of significant activities that are specific to the respective line departments and entities. In this regard, concurrent audits were also conducted in a coordinated manner on relevant departments and entities in order to achieve several objectives, such as the identification of risks in the chain of activities of core processes and the uncovering of risks which are systemic across departments. The identification of such risks would allow IAD to assess the adequacy of the Bank's risk management practices and controls, and to recommend Bank-wide measures to address such risks. In addition, IAD also carried out audits of the Bank's subsidiaries and affiliates to provide a holistic assessment of the key risks that might affect the Bank's achievement of its mandates and objectives.

To complement its audit activities, IAD had provided inputs to various working committees, taskforces, line departments and related third party entities, in its effort to promote internal controls, governance processes and risk management measures that are sufficiently robust to mitigate the key risks to the Bank. In addition, as part of IAD's efforts to continuously improve the quality and effectiveness of its deliverables, feedback and comments on the conduct and performance of the audit teams were solicited and action has been taken to address valid issues relating to the audit quality and effectiveness. The feedback and improvement measures were also reported to the BAC and Management of the Bank.

For 2011, IAD had completed its audit plan, and additional ad-hoc assignments requested by the BAC and Management. During the year, the auditors made recommendations that were accepted and implemented by the respective line departments and entities to facilitate further enhancements to the risk management and control functions in the operational areas of the Bank, and in the respective entities to ensure that key risks continue to be actively managed.

ORGANISATIONAL DEVELOPMENT

Becoming a High Performance Organisation

This year marked the conclusion of the Bank's Business Plan 2009-2011 ("Business Plan"). The implementation of the Business Plan had contributed significantly to the Bank's transformation to being a strategy-focused and high performing organisation. See white box *'Bank Negara Malaysia's Business Plan 2009-2011'* for an overview and achievements of the Business Plan.

For 2011, the Bank remained focused on delivering on its core mandates of monetary and financial stability, which was particularly challenging given the volatile global economic and financial environment. In line with the desired outcomes set in the Business Plan, strategies continued to be implemented to strengthen the Bank's effectiveness and efficiency in discharging its responsibilities. To further improve the Bank's decision making process, internal committees in the Bank were streamlined and the Bank's participation in external committees was also reviewed and consolidated. Risk management practices were enhanced through stronger risk frameworks, tools and methodologies. In addition, a new framework to improve stakeholder engagement and communications was also finalised.

In preparation for the next business plan for the period of 2012-2014, the Bank improved the strategic planning process with enhanced tools, methodologies and processes. Environmental scanning and analysis was strengthened to better understand the current and prospective, external and internal environment and the expected trends moving forward for the next three years.

The Senior Management Conference 2011 themed 'Strategic. Smart. Sustainable' was designed to provide a platform to discuss balancing the need to meet increased expectations of stakeholders while preserving a sustainable working environment. It was also an opportunity to identify and discuss critical enabling factors in ensuring successful delivery on the Bank's mandates. Renowned speakers were invited to share experiences in the areas of risk management, leadership and innovation to achieve breakthrough performance.

Human Capital Management

Focus on human capital

The Bank continued with the integrated human capital approach and in 2011, implemented several initiatives to develop a competent and progressive workforce encompassing the supply and demand of talent, development, performance and reward. The Bank forged ahead with progressive measures to attract, assess, develop, reward and retain talent to drive the performance of the Bank.

Sasana Kijang as a regional centre for thought leadership in central banking

During the year, the Bank launched Sasana Kijang - a modern centre of excellence for central banking and financial services which promotes regional and international collaboration. The building hosts the Islamic Financial Services Board and the SEACEN Research and Training Centre and is fully equipped with the state-of-the-art meeting and conference facilities

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Greater job and role fit to enhance performance

A key initiative in human capital management introduced in 2011 was the job families. The approach, which is characterised by the grouping of jobs with similar characteristics such as common competencies, skills and knowledge as well as having similar purpose or processes into specific families, would enable the Bank to effectively implement more differentiated human capital strategies, encompassing recruitment, development, performance management and reward. The job family approach recognises the different value contributions and accountabilities. It also enables the Bank to reward staff on a differentiated basis to better attract, motivate and retain talent. The first phase of the implementation of the new job families was rolled out in June 2011 for the first level executives.

The Bank also strengthened the technical specialist ladder framework. The technical specialist ladders enabled staff with high and distinguishing technical skills to progress within the ladder and continue

Bank Negara Malaysia's Business Plan 2009 – 2011

Introduction

Bank Negara Malaysia's three-year Business Plan is an important strategic management process aimed at providing clarity and focus to the organisation's policies and activities towards achieving the mandates of the Bank. Amidst a changing and often challenging operating environment, organisation-wide clarity and alignment of key outcomes and deliverables are essential in ensuring that the Bank is effective in discharging its roles and functions. The Business Plan is also a key tool in ensuring the Bank achieves its vision of being a progressive and high performing central bank that is committed to the highest standards of excellence.

Overview

The last three-year Business Plan, 2009 – 2011, outlined eight strategic focus areas, each comprising of key strategic outcomes with corresponding strategies and action plans to achieve these outcomes. The strategic focus areas were clustered around the key mandates of the Bank, namely ensuring monetary and financial stability, developing a progressive financial sector, and fostering a reliable and efficient payment system. In addition, priority was also placed on strengthening the internal capacity and capability of the Bank, specifically in the areas of human capital development, risk management practices, financial resources management, and physical and information technology infrastructure. Another key focus area was in external communications and stakeholder engagement to ensure the Bank's policies and initiatives are well understood and achieved their intended outcomes.

The Business Plan is outcome driven, and for the period 2009 – 2011, a total of 33 strategic outcomes were identified as key priorities for the Bank. To ensure the effective implementation of the Business Plan, a robust strategic management process was put in place to achieve organisation-wide clarity of the strategic objectives, create line-of-sight to organisational goals, provide a greater appreciation of interdependencies among policy outcomes and emphasises the need for effective horizontal collaboration across the Bank. In addition, the Business Plan also allowed for more informed decision making on the optimal allocation of resources to areas that were of strategic importance.

Key Achievements of Business Plan 2009 – 2011

As 2011 concluded, the Bank achieved almost all strategic outcomes. During this period, the Bank created a conducive operating environment through implementation of wide ranging policies to sustain domestic growth with price stability, financial stability and orderly domestic money and foreign exchange markets. As an economic adviser to the Government, the Bank was also involved in the formulation of macroeconomic policies to mitigate the impact of the global financial crisis on the domestic economy, and in providing advice on key strategies for the long-term transformation of the Malaysian economy. The financial system remained stable and resilient during the year and continued to function without disruption of the intermediation process. Important in this endeavour is the robust surveillance mechanism, as well as the strengthened regulatory and supervisory framework. The Bank also strengthened cooperation and coordination on surveillance and crisis management with other central banks and regulatory agencies in the region. Success was also achieved in further strengthening the internationalisation of Islamic finance as well as market conduct and consumer protection.

To ensure a high level of effectiveness and efficiency, the Bank embarked on initiatives to strengthen its internal capacity and capability, with emphasis on governance, risk management, human capital development, and communications and stakeholder engagement. The enactment of the new Central Bank of Malaysia Act 2009 equipped the Bank with enhanced capacity to pursue its mandates reinforced by the institutionalisation of the governance framework that ensures a high level of accountability and transparency. The Board's oversight function was also further strengthened through the establishment of Board Risk Committee and Board Governance Committee that enabled a higher level checks and balances. Risk management practices were further reinforced by adopting new Operational Risk Management and Financial Risk Management frameworks, as an integral part of the Bank's decision-making process.

In continuing to build a competent and progressive workforce, the Bank strengthened its leadership pipeline, streamlined roles and job functions with a competitive remuneration package and invested in an effective knowledge management system. Communications and stakeholder engagement strategies enabled the Bank to more effectively provide its views and perspectives while receiving feedback on its policies and issues.

Moving forward

The Bank's Business Plan 2009 – 2011 created the foundation to ensure organisational continuity and preparedness to better face the challenges going forward in achieving the Bank's desired outcomes. In line with the implementation of the Financial Sector Blueprint, focus will be given to developing a more inclusive financial system, promoting greater integration of Malaysia into the regional and global economic and financial system as well as sustaining the high performance of the Bank. These issues and priorities are being addressed in the new Business Plan 2012 – 2014 to ensure that the Bank continues on its path towards becoming a strategically-focused, outcome-driven and sustainable organisation.

to focus in specific technical areas with minimal involvement in administrative matters with attractive reward packages as a retention effort. To date, three specialist ladders in the areas of risk, actuary and legal have been established to meet the demand for internal technical advisory service in the organisation.

To maintain a healthy leadership pipeline, scheduled talent assessments were performed to facilitate strategic progression and movement within mission critical positions. Continuous effort is undertaken to create healthy and strong succession pool through leadership profiling of potential managers via the Leadership Profiling Center (LPC). The Bank's talent pool was further reinforced via strategic external hires for manager level and above in instances where specific skills were sought.

Targeted development for greater value add

Targeted talent and leadership development as well as intensification of career growth continued to be given greater focus for succession and potential new roles in the Bank. During the year, a structured leadership development framework was developed to strengthen the leadership pipeline and to assist individual staff to enhance their leadership qualities. This structured framework provides a set of leadership development programmes (LDP) to improve staff performance as well as to support leaders in transitioning across various levels in the Bank. The LDP combines on-the-job experiential learning, mentoring, coaching, classroom programmes and other relevant exposures.

On the technical competencies, learning programmes in 2011 were organised with greater emphasis on central banking knowledge and specific technical subject areas such as financial sector regulation and supervision, macroeconomics, payment systems and financial surveillance. To ensure a more structured and holistic development, the Bank is refining its technical competency framework and learning roadmaps to meet the different knowledge and requirements and within the newly implemented job families.

Apart from refining both the leadership and technical competency frameworks, the design of the various learning programmes was also strengthened to ensure greater value add to the stakeholders. Greater emphasis was placed on measuring learning effectiveness, particularly on the transfer of learning from classroom to the workplace. In line with the sophisticated and advanced training and learning facilities established in Sasana Kijang, the delivery processes of learning programmes have also been streamlined and enhanced to ensure greater efficiency and effectiveness.

Managing the talent pool

To sustain a high performance workforce and effectively manage staff based on their different performance levels, 2011 was the second year of implementation of the Performance Improvement Programme to assist staff to improve their performance. Staff enrolled in this programme would be provided with structured developmental interventions with support from their supervisors. Management of scholars continued as an important activity as a source of talent pool for the Bank. In 2011, the Bank awarded scholarships to 54 selected students with excellent results to pursue pre-university, first degree and post graduate programmes in selected universities. The Bank also continued to support staff to pursue further studies in relevant fields by providing scholarship opportunities.

As a firm commitment to utmost excellence and nation building as well as to recognise exceptional achievements of the nation's best and brightest, the Bank awarded three Kijang Emas Scholarship Awards to students with exemplary results in the Sijil Pelajaran Malaysia (Malaysian Certificate of Education) in 2011. This brought the total recipients of Kijang Emas Scholarship Awards to 35 since its inception in 2004. Being the most prestigious scholarship awards granted by the Bank, the recipients have the freedom to pursue their own field of study in selected top universities in any country of their choice, with no bond imposed except for the requirement to serve the nation upon the completion of their study.

Staff strength

As the role of the Bank evolved, several departments were realigned and rationalised to increase efficiency and effectiveness. To ensure an optimum level of manpower at all levels, a holistic approach was considered, taking into account technology, process improvements and staff competency. In 2011, the staff strength of the Bank increased by 3.8% to 2,838 from 2,734 in 2010. Attrition remained at 4.7%. The ratio of executive to non-executive staff was sustained at 3:2 in 2011.

Moving forward

Targeted and strategic differentiation as well as a systematic approach in development intervention will be a major milestone in 2012 to promote a competent and progressive workforce. Further development in the job families encompassing the whole staff population will be implemented to enhance the Bank's competitive edge.

To promote a competent and progressive workforce, the Bank will continue to invest in developing its talent and the LDP is one of the key initiatives. In terms of operational efficiency, more streamlined work to focus and improve operational processes and the effectiveness of human resource services to harness the full potential of knowledge resources and technology will be implemented. The Bank will continue to invest in the modernisation of human capital practices and its supporting IT infrastructure to enhance its sourcing processes and human resource operations.

Knowledge Management Centre

To provide the opportunity and environment to network, exchange views and share knowledge, the Bank has re-engineered and relocated the Knowledge Management Centre (KMC) to Sasana Kijang in July 2011 for the staff. In addition to the staff, the KMC is also accessible to external parties including other central bankers, researchers and academicians. In an effort to be the regional resource and research centre in the areas of central banking, Islamic Finance and financial services, KMC has continued to acquire knowledge resources, both physical and online.

International Technical Cooperation Programmes

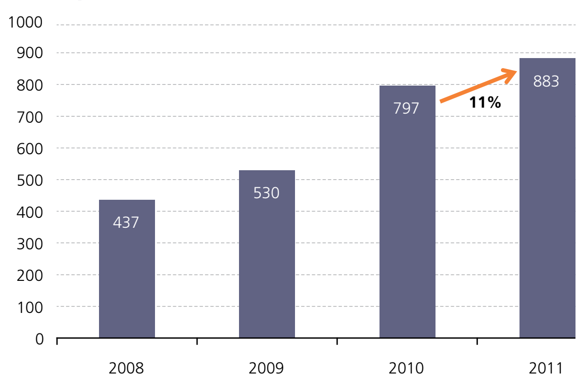
The Bank's international technical cooperation programmes continued to provide strong support to the objective of enhancing collaboration and knowledge sharing among regional and international central banks and regulatory authorities. The international technical cooperation programmes provide a powerful platform to share Malaysia's experience in central banking, and also create opportunities to learn from central banks from other parts of the world.

During 2011, 883 participants from 85 countries participated in the Bank's international technical cooperation programmes. Participants were keen to learn about the methods and systems that have contributed to the development of the Malaysian economy and financial system. Areas that were of interest included Islamic finance, organisational development, financial inclusion, consumer protection and financial education. The Bank's international technical cooperation programmes created opportunities for the Bank to engage more with counterparts from South-East Asia, Central Asia, Western Asia and Africa.

In its efforts to improve the outreach, breadth and depth of the technical cooperation programmes, the Bank collaborated with many international and domestic partners. The international partners included the South East Asian Central Banks Research and Training Centre (SEACEN), the Islamic Development Bank (IDB), Alliance for Financial Inclusion (AFI), International Finance Corporation (IFC), the World Bank,

Chart 5.1

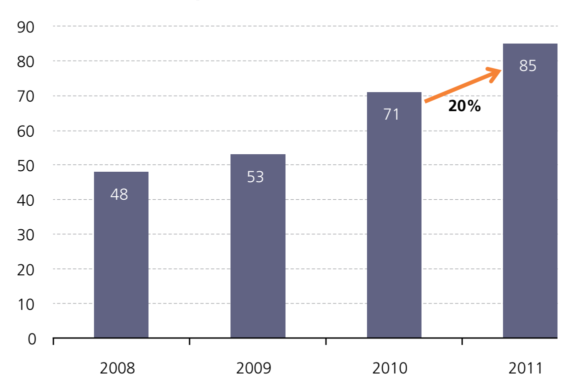
Technical Cooperation Programmes: No. of Participants



Source: Bank Negara Malaysia

Chart 5.2

Technical Cooperation Programmes: No. of Countries Participated



Source: Bank Negara Malaysia

Consultative Group to Assist the Poor (CGAP), Organisation for Economic Cooperation and Development (OECD), the Asian Development Bank (ADB), Japan International Cooperation Agency (JICA) and German International Cooperation (GIZ). The Bank's domestic partners, such as the Asian Institute of Finance (AIF), ICLIF Leadership and Governance Centre, International Centre for Education in Islamic Finance (INCEIF), International Shari'ah Research Academy for Islamic Finance (ISRA) and various industry players also contributed to the sharing of new ideas and practices.

The growing global interest in Islamic finance was evident from the 235 participants representing 33 countries that participated in various Islamic finance programmes during the year. This encouraging development can be attributed to the long partnership between the Bank and IDB which played a key role in supporting the programmes organised in Kuala Lumpur and Ankara, Turkey. New programmes for 2011 included two Islamic finance programmes in French and Russian introduced for the Central Asian countries and the Western African countries, thus increasing the outreach to non-English speaking countries; and three new technical workshops focusing on Islamic Liquidity Management, Risk Management and Islamic Capital Markets. These international technical cooperation programmes created a platform that brought together policymakers and practitioners of Islamic finance from many parts of the world to discuss the development of the Islamic financial services industry, thereby supporting the continued internationalisation of Islamic finance.

Another area of importance is financial inclusion. The objective of supporting capacity building for policymakers and practitioners is to contribute to the global agenda of building more inclusive financial systems to enable those who remain underserved to have the opportunity to undertake financial transactions, generate income, accumulate assets and protect themselves financially against unexpected adverse events, thereby enabling them to benefit from economic progress. Highlights for the year included the 4th Financial Inclusion Advisor (FIA) programme conducted in Namibia in collaboration with the Bank of Namibia and AFI; the Financial Inclusion Policymakers Forum in collaboration with CGAP and the OECD International Network on Financial Education (INFE); and the Retail Credit Risk Management workshop with the IFC. These international dialogues focused on topical issues, such as consumer protection, financial education, sound market conduct, the effective use of credit information to promote access to finance and the need for a coherent national agenda that supports the development of more inclusive financial systems.

The Bank also conducted programmes in various aspects of institutional capacity building, from enterprise risk management and auditing to governance, leadership and financial accounting. These programmes focused on the modernisation of the internal processes and structures of central banks, with the goal of achieving sustainable organisational performance improvements and greater flexibility to respond to new challenges.

Given the uncertainties and challenges arising from the more globalised financial environment, cross-border collaboration and knowledge sharing is becoming integral to good policy making. As the Bank moves forward, the international technical cooperation programmes will continue to provide a platform for central bankers to network, exchange views and share experiences to be better positioned to meet future challenges.

Leveraging on Technology for High Performance Workplace

The performance bar for Information and Communications Technology (ICT) services was raised in year 2011, with the implementation of new technology focusing on the delivery of an enabling environment for the achievement of business outcomes.

The year started with the focus being on the new converged network infrastructure deployed in Sasana Kijang and the Bank's newly established Regional Offices in Pulau Pinang and Johor Bahru. The converged network, based on the Internet Protocol (IP) standard, enables Bank staff to easily access information and business applications across multiple locations, thus encouraging greater work collaboration and improved process efficiencies. These services include dedicated and better quality video and audio conferencing and streaming, and integrated systems for building management and security.

In line with the objective to provide members of public with greater opportunities to access and interface with the Bank, remote access to ICT systems supporting the LINK operations were configured in MobileLINK. Enhanced accessibility to the designated systems utilised in MobileLINK enabled the capturing of public information such as customer biodata, photograph and supporting documents via data capturing devices, integrated process for monitoring public enquiries and complaints, as well as the provision of convenient self-generated personal credit report facilities. Internal organisational process efficiencies were also further enhanced by the implementation of the Bank's new Financial Management System and an integrated and centralised portal for staff to have easy access to human resource services.

The critical factor that is fundamental to the successful deployment of a resilient, robust and secured ICT infrastructure is stringent security surveillance and management. Internal and external ICT security risk assessments were conducted on a quarterly basis to ensure that the protection of the Bank's information and ICT assets were sustained at all times. In addition, progressive reviews of the Bank's security perimeter defences were conducted to counter more sophisticated attacks that target end-users through social engineering and mobile applications. Business Continuity Management processes for ICT system resiliency and capacity were also further enhanced for the critical ICT applications in the Bank. A heightened state of readiness (covering all three aspects of systems, people and processes) continued to be the underlying objective guiding the improvements.

Moving forward, the priority is to drive new ICT services for high-efficiency and seamless collaboration capabilities for the Bank, whilst ensuring greater mobility and assurance of security embedded in its business applications and processes. Planned deployment for an integrated information system catering to the Bank's requirements for advanced statistical analysis of financial, monetary and macroeconomic data is also in the pipeline.

COMMUNICATIONS

The Bank's communications function remained important in fostering confidence, especially amid the uncertain global economic and financial environment of 2011. More frequent communications were undertaken, on the Bank's assessment of the impact of external developments on the Malaysian economy and financial sector as well as to highlight the underlying strength of domestic economic fundamentals in sustaining the growth momentum of the domestic economy.

Providing comprehensive assessments of the economy and the financial sector

The Annual Report and Financial Stability and Payment Systems Report briefings, the quarterly GDP press conferences and the periodic Quarterly Bulletins and Monthly Statistical Bulletins are now the established communications platforms for the Bank. Aside from providing the Bank's assessments of economic and financial developments, the sessions provided feedback from the public and other stakeholders. Regular in-depth discussions with key stakeholders such as representatives from various sectors of the economy, rating agencies, economists/analysts, fund managers, businesses and consumer associations provide additional perspectives that supplement the Bank's own surveillance and analysis.

Monetary policy communications

The Monetary Policy Statement (MPS) is the main medium for conveying the decisions by the Monetary Policy Committee (MPC) of the Bank. Additional communication is undertaken through senior management engagements with the industry, analysts, economists and the media through media interviews as well as commentaries at major conferences. In the first half of the year, monetary policy communications centered on conveying the assessment underlying the decision to raise the Overnight Policy Rate (OPR). Through the MPS and other communications, the Bank elucidated that the policy rate was normalised further as a pre-emptive measure to prevent an accumulation of financial imbalances, against the backdrop of sustained economic activity and risks to inflation. In the second half of the year, however, the focus shifted towards providing the assessment underlying the decision to keep the policy rate unchanged. The operating environment had changed as downside risks to domestic economic growth had increased significantly due to the deteriorating global economic and financial conditions, whereas the upside risks to inflation had subsided. The decision to raise the statutory reserve requirement (SRR) were pre-emptive measures to ensure that the risks arising from the build-up of liquidity within the financial system did not result in macroeconomic and financial imbalances. These decisions were conveyed in separate statements and not in the MPS. This was to emphasise that the SRR was an instrument to manage liquidity and not a signal on the stance of monetary policy. Changes in the stance of monetary policy are solely reflected in the decisions on the OPR.

Reinforcing confidence on the strength of the financial sector

The Financial Sector Blueprint (2011-2020) was launched in December 2011 to provide direction on the future development of the financial sector, as well as the role of the financial sector in promoting the effective intermediation towards the achievement of a high income economy. In finalising the Blueprint and its strategies, the Bank had benefited from in-depth discussions with the various stakeholders. The cumulative efforts from the industry, the public sector and other regulators are key to realising the goals of the Blueprint.

Communications efforts were also undertaken in providing the strategic intent of the introduction of two macro prudential measures – namely, promoting responsible financing practices and prudent utilisation of credit cards. Various engagement sessions were held with the key stakeholders on these pre-emptive measures. The overriding messages in these sessions can be broadly classified, namely, that consumers who have the affordability will have access to financing and on a macro level, the measures will ensure household debt remains at a healthy level and thereby contribute not only to financial stability but also in sustaining domestic economic growth.

The year also saw promotional efforts in expediting migration to e-payments through collaboration with key entities in communication plans to inform the public on the benefits of using e-payments. These include the Bank's strategic partnership with the Public Services Department, MEPS and MyClear to execute promotional strategies for e-payments adoption nationwide as well as collaborating with MEPS and representatives of financial institutions in promoting mobile banking.

Meanwhile, the Money Services Business Act 2011 was successfully legislated, following strategic and comprehensive engagements with all key stakeholders. Explanation was given on how the new Act would provide an enabling environment for more modern and professional money services business activities, with the appropriate protection for consumers and safeguards to preserve the integrity of the industry against money laundering, terrorist financing and illegal activities. The consultative approach with the money changing and remittance industry paved the way for a smooth transition to the new regulatory framework.

The New Motor Cover Framework which was announced in March 2011 was a culmination of the strategic engagement with all key stakeholders in addressing their concerns and issues, leading to the formulation of feasible and effective measures to be incorporated in the Framework. Subsequently, in January 2012, the first adjustment of the motor insurance premium (after thirty years of non-adjustment) was undertaken.

Public outreach programme continues to be an important part of the Bank's developmental agenda

A major initiative by the Bank during the year was the upgrading of the role and status of its branches in Pulau Pinang and Johor Bahru to become Regional Offices (ROs) of the Bank. The objective is to strengthen the Bank's presence and economic surveillance at the northern and southern regions. In addition to the previous role of the branches in ensuring efficient cash management, the role of the ROs were expanded to include consumer financial redress and advisory services, undertaking economic and financial surveillance and driving the execution of the Bank's agenda, including the promotion and enhancement of financial inclusion. Through heightened engagements with the industry and public, the ROs have obtained valuable insights on the regions' economic developments which serve as inputs to the Bank's policy analysis and review. Financial consumers and SMEs continued to benefit from the access to financial information and consumer redress mechanism channels namely, BNMLINK (walk-in services) and BNMTELELINK (acting as a call centre). The number of individuals and businesses seeking advice on financial matters rose to about 320,000 in 2011 (+14%). More than 90% of the 10,000 complaints received against the financial institutions had been resolved. The introduction of MobileLINK services in December 2011 was aimed at reaching out to the underserved communities in semi urban and rural areas.

The Bank continued to intensify its outreach efforts to create and enhance awareness on access to financing for SMEs and micro enterprises. During the year, the Bank had conducted various briefings and seminars on its schemes and services particularly on Special Funds, *Pembiayaan Mikro* and Green Technology Financing Scheme. In addition, as a member of the National SME Development Council, the Bank forged collaborative efforts supporting SME outreach programmes such as seminars and exhibitions organised by the various ministries and government agencies, banking institutions and business associations. This has partly contributed to the healthy growth of SMEs and microfinance loans, by 17.1% and 14.3% respectively.

Efforts were also taken to continuously increase awareness of the public, through various channels, so that they do not fall prey to financial scams. These included new, fast and effective channels such as SMS blasts to about 27.2 million subscribers, wide media coverage on successful raids and alerts issued on financial scams in the Bank's website, BNM Facebook and Twitter as well as part of the MobileLINK services.

Meanwhile, Credit Counselling and Debt Management Agency (AKPK) counseled a higher number of customers, of close to 32,000 nationwide, with more than 50% of them being further assisted via its debt management programme. Furthermore, a specially designed programme targeted primarily for young individuals and new borrowers with the aim of empowering this group to effectively manage their finances, known as the Pengurusan Wang Ringgit Anda (POWER!) Programme was rolled out by AKPK in early 2011. By end of the year, around 23,000 individuals have benefited from the programme. The online version of the POWER! Programme was launched in November, targeting the wider online community to acquire personal money management skills conveniently. A total of 947 banking sector cases and 1,270 insurance sector cases were registered with the Financial Mediation Bureau for resolution, with the majority of cases related to Internet banking, credit card and motor and life insurance issues. However, the actual cases resolved for the year were much higher, with 1,284 banking and 1,560 insurance sector cases, bringing the total to 2,844 cases.

Issuance of new currency series

The new Malaysian currency series was launched in December 2011 by the Prime Minister, creating excitement and with extensive coverage in the media. The Bank has also engaged closely with financial institutions, businesses and cash handling vendors to ensure a smooth transition to the new series with the coins and notes coming into circulation in 2012.

Online communications - an increasingly effective delivery channel

The Bank continues to leverage on web technology to expand its web presence, increase its outreach and to better engage with the general public. In 2011, visitors to the Bank's website have increased by 2.1 million (+3.6%), with about 5.6 million visits (+2.1%) and viewed about 14 million pages (+1.6%). Of significance is the 200% increase (+300,000 visits) via mobile devices. To increase the Bank's web presence, the Bank has started to share its corporate videos and photographs in social media such as YouTube and Flickr besides broadcasting relevant messages through Facebook and Twitter. Reflecting all these positive developments, the Bank was awarded a 5-star rating in MAMPU's Malaysia Government Portals and Websites Assessment for 2011.

The Bank has also introduced a new financial education website for financial consumers, the Islamicfinanceinfo (www.islamicfinanceinfo.com.my), consisting of easy to understand contents related to Islamic banking and Takaful such as Shariah concepts and products available in the retail market.

Moving towards a more robust stakeholder engagement framework

With the Bank's operating environment expected to be increasingly challenging in the coming years, the Bank has placed significant priority on enhancing the effectiveness of the interface with the key stakeholders. The introduction of the Stakeholder Engagement Framework sets out the respective stakeholder engagement governance, disciplines and methodology, and the socialisation process for the Bank. With the Framework in place, the Bank's engagement undertakings will be more systematic, dynamic and meaningful, thereby equipping the Bank to deliver on its mandate effectively.

BANK NEGARA MALAYSIA
Organisation Structure

- **BOARD OF DIRECTORS**
  - **Board Audit Committee**
    - Secretary to the Committee: Tan Nyat Chuan
    - Internal Audit: Tan Nyat Chuan
  - **Board Governance Committee**
    - Secretary to the Committee: Donald Joshua Jaganathan
  - **GOVERNOR**: Tan Sri Dr. Zeti Akhtar Aziz
    - Secretary to the Board: Abu Hassan Alshari bin Yahaya
    - Governor's Office: Vivienne Leong Sook Leng
    - Strategic Communications: Shariffuddin bin Khalid
    - **DEPUTY GOVERNOR**: Dato' Muhammad bin Ibrahim
      - MIFC Promotion Unit: Nik Mohamed Din bin Nik Musa
      - **ASSISTANT GOVERNOR**: Dr. Sukhdave Singh
        - Economics: Fraziali bin Ismail
        - Monetary Assessment and Strategy: Dr. Norhana binti Endut
        - International: Nazrul Hisyam bin Mohd Noh
        - Statistical Services: Toh Hock Chai
      - **ASSISTANT GOVERNOR**: Norzila binti Abdul Aziz
        - Investment Operations and Financial Markets: Adnan Zaylani bin Mohamad Zahid
        - Foreign Exchange Administration: Shamsuddin bin Mohd Mahayidin
        - Currency Management and Operations: Azman bin Mat Ali
        - Legal: —
      - **ASSISTANT GOVERNOR**: Bakarudin bin Ishak
        - Financial Sector Development: S. Abd. Rasheed bin S. Abd Ghafur
        - Islamic Banking and Takaful: Wan Mohd Nazri bin Wan Osman
        - Development Finance and Enterprise: Kamari Zaman bin Juhari
        - Payment Systems Policy: Cheah Kim Ling
      - **ASSISTANT GOVERNOR**: Jessica Chew Cheng Lian
        - Financial Surveillance: Madelena binti Mohamed
        - Prudential Financial Policy: Mohd Zabidi bin Md Nor
        - Consumer and Market Conduct: Suhaimi bin Ali
        - Money Services Business Regulation: Shahariah binti Othman
    - **DEPUTY GOVERNOR**: Datuk Nor Shamsiah binti Mohd Yunus
      - **Centralised Shared Services**
        - **General Manager**: Dato' Mohd Nor bin Mashor
          - Deputy General Manager: Myrzela binti Sabtu
          - Facilities Management: Azmi bin Abd Hamid
          - Corporate Services: Lim Foo Thai
          - Security: Mior Mohd Zain bin Mior Mohd Tahir
          - Bank Negara Malaysia Museum and Art Galery: Lucien de Guise
      - **ASSISTANT GOVERNOR**: Donald Joshua Jaganathan
        - Financial Conglomerates Supervision: Che Zakiah binti Che Din
        - Insurance and Takaful Supervision: Yap Lai Kuen
        - Banking Supervision: Marina binti Abdul Kahar
        - Specialist Risk Unit: Charles Sandanasamy*
      - **ASSISTANT GOVERNOR**: Abu Hassan Alshari bin Yahaya
        - Finance: Eugene Hon Kah Weng
        - LINK and Regional Offices: Wan Hanisah binti Wan Ibrahim
        - Special Investigation: Jeremy Lee Eng Huat
        - Financial Intelligence: Aznan bin Abdul Aziz
      - **ASSISTANT GOVERNOR**: Marzunisham bin Omar
        - Strategic and Risk Management: Mohd. Adhari bin Belal Din
        - Strategic Human Capital: Jennora Bahari
        - Human Capital Development Centre: Arlina binti Ariff
        - IT Services: Alizah binti Ali
        - Central Banking Services: Thomas Tan Koon Peng
  - **Board Risk Committee**
    - Secretary to the Committee: Mohd. Adhari bin Belal Din

*Administrative Head

As at 1 March 2012