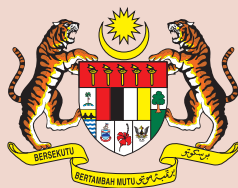


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### **REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF BANK NEGARA MALAYSIA FOR THE YEAR ENDED 31 DECEMBER 2014**

#### **Report on the Financial Statements**

I have audited the financial statements of Bank Negara Malaysia which comprise the Statement of Financial Position as at 31 December 2014 and Income Statement for the year then ended, a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial statements based on the audit. The audit has been carried out in accordance with the Audit Act 1957 and in conformity with the auditing standards approved in Malaysia. Those standards require that I comply with ethical requirements as well as to plan and perform the audit in order to obtain reasonable assurance that the financial statements are free from material misstatement or omission.

The audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement or omission of the financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers the internal control relevant to Bank Negara Malaysia in the preparation and presentation of the financial statements that give a true and fair view 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 the internal control of Bank Negara Malaysia. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

*Opinion*

In my opinion, the financial statements give a true and fair view of the financial position of Bank Negara Malaysia as at 31 December 2014 and of the financial performance and the results of its operations for the year then ended, in all material respects, in accordance with the Central Bank of Malaysia Act 2009 and the financial reporting standards approved in Malaysia to the extent that it is, in the opinion of the directors, appropriate to do so, having regard to the objects and functions of the Bank. The preparation of the financial statements differ, in some aspects, from the approved accounting standards in Malaysia. In accordance with the requirements of Section 9 of the Act, I also report that in my opinion, the accounting records and other records required by the Act have been properly kept by Bank Negara Malaysia.



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

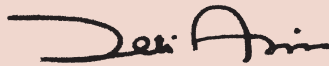
PUTRAJAYA  
17 FEBRUARY 2015



## STATEMENT BY CHAIRMAN AND ONE OF THE DIRECTORS

We, Zeti Akhtar Aziz and N.Sadasivan, being the Chairman and one of the Directors of Bank Negara Malaysia, do hereby state that in the opinion of the Board, the financial statements are drawn up so as to give a true and fair view of the state of affairs of Bank Negara Malaysia as at 31 December 2014 and of the results of operations for the year ended on that date.

On behalf of the Board,



**ZETI AKHTAR AZIZ**  
CHAIRMAN

16 FEBRUARY 2015  
KUALA LUMPUR

On behalf of the Board,



**N.SADASIVAN**  
DIRECTOR

16 FEBRUARY 2015  
KUALA LUMPUR

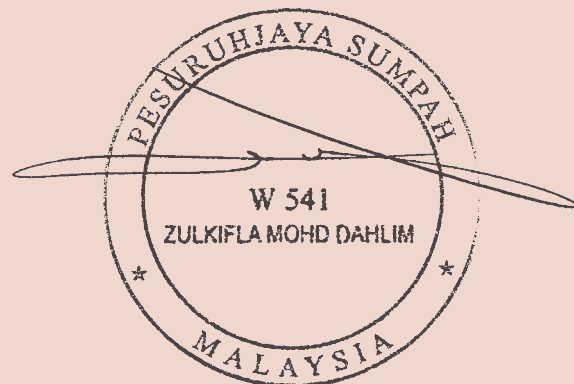
## DECLARATION BY THE OFFICER PRIMARILY RESPONSIBLE FOR THE FINANCIAL MANAGEMENT OF BANK NEGARA MALAYSIA

I, Eugene Hon Kah Weng, being the officer primarily responsible for the financial management of Bank Negara Malaysia, do solemnly and sincerely declare that the financial statements, are to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared )  
by the abovenamed at Kuala Lumpur )  
this 13 February 2015. )



Before me,



NO: 17, JALAN PETALING  
50000 KUALA LUMPUR

# Bank Negara Malaysia

## Statement of Financial Position as at 31 December 2014

		2014 RM	2013 RM
<b>ASSETS</b>			
Gold and Foreign Exchange	3	395,559,281,287	432,209,463,509
International Monetary Fund Reserve Position		3,295,258,378	3,183,163,738
Holdings of Special Drawing Rights		6,518,068,438	6,488,214,835
Malaysian Government Papers	4	2,454,717,462	1,852,122,439
Deposits with Financial Institutions	5	1,730,586,027	16,444,346,374
Loans and Advances	6	6,499,251,321	6,681,648,479
Land and Buildings	7	2,113,933,570	112,006,381
Other Assets	8	9,445,411,770	7,296,920,314
<b>Total Assets</b>		<b>427,616,508,253</b>	<b>474,267,886,069</b>
<b>LIABILITIES AND CAPITAL</b>			
Currency in Circulation		77,734,642,894	73,030,918,741
Deposits from: Financial Institutions		141,160,587,660	198,707,476,320
Federal Government		5,263,624,767	7,106,526,875
Others	9	2,033,677,999	2,892,230,514
Bank Negara Papers		105,476,712,764	105,897,166,260
Allocation of Special Drawing Rights	10	6,819,246,401	6,790,312,388
Other Liabilities	11	20,877,653,661	25,259,228,604
<b>Total Liabilities</b>		<b>359,366,146,146</b>	<b>419,683,859,702</b>
Paid-up Capital	12	100,000,000	100,000,000
General Reserve Fund	13	14,571,973,385	14,536,961,990
Risk Reserve	14	52,826,461,523	39,947,064,377
Land Revaluation Reserve	15	751,927,199	-
<b>Total Capital</b>		<b>68,250,362,107</b>	<b>54,584,026,367</b>
<b>Total Liabilities and Capital</b>		<b>427,616,508,253</b>	<b>474,267,886,069</b>

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

## Bank Negara Malaysia

### Income Statement for the Year Ended 31 December 2014

		2014 RM	2013 RM
<b>Total Income</b>	Note 16	<b>8,480,790,521</b>	<b>6,747,594,782</b>
Less:			
Recurring Expenditure	17	1,148,226,525	1,120,455,560
Development Expenditure	18	947,552,601	170,893,518
<b>Total Expenditure</b>		<b>2,095,779,126</b>	<b>1,291,349,078</b>
<b>Net Profit</b>		<b>6,385,011,395</b>	<b>5,456,245,704</b>
<b>Appropriation of Net Profit:</b>			
Transfer to Risk Reserve	19	3,350,000,000	3,900,000,000
Transfer to General Reserve Fund		35,011,395	56,245,704
Amount Payable to Federal Government		3,000,000,000	1,500,000,000
<b>Net Profit</b>		<b>6,385,011,395</b>	<b>5,456,245,704</b>

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



# Notes to the Financial Statements for the Year Ended 31 December 2014

## 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 12 February 2015.

## 2. Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies are consistently applied to both of the financial years presented, unless otherwise stated.

### 2.1 Basis of Preparation of Financial Statements

- (a) These financial statements have been prepared in accordance with the Central Bank of Malaysia Act 2009 and applicable Malaysian Financial Reporting Standards (MFRS). Section 10 of the Central Bank of Malaysia Act 2009 provides that the Bank, in preparing its financial statements, shall comply with accounting standards to the extent that it is, in the opinion of the Bank, appropriate to do so, having regard to the objects and functions of the Bank. The Bank, having considered its responsibilities for the formulation and conduct of effective monetary policy, is of the opinion that, it is appropriate to differ, in some aspects, from the MFRS.
- (b) The preparation of the financial statements on the basis stated in 2.1(a) requires the management to make judgements, estimates and assumptions based on available information that may affect the application of accounting policies and the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the financial year. Although these estimates are based on the management's best knowledge of current events and actions, the actual results could differ from those estimates.

### 2.2 Measurement 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 at the date of the Statement of Financial Position. Transactions in foreign currencies during the year are translated into Ringgit Malaysia using the exchange rate prevailing at the transaction dates.
- (c) The unrealised revaluation gains or losses arising from changes in the exchange rates are recognised in Risk Reserve.

### 2.4 Securities and Investments

Securities and investments are stated mainly at cost less provisions for diminution in value as at 31 December 2014. Financial instruments classified as Available-For-Sale are stated at fair value and the unrealised revaluation gains or losses arising from changes in market prices are recognised in Risk Reserve.

### 2.5 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.

### 2.6 Repurchase and Reverse-Repurchase Agreements

The amount borrowed under repurchase agreements is reported under 'Other Liabilities' while the amount lent under reverse-repurchase agreements is reported under 'Other Assets'. The difference between the amount received and the amount paid under repurchase and reverse-repurchase agreements is recognised as interest expense and interest income respectively on a straight-line basis.

### 2.7 Land and Buildings

- (a) In the previous years, the Bank recorded land and buildings at a nominal cost of RM10 each. With effect from the current year, the Bank changed its accounting policy to capitalise land while the recording of building will be maintained at a nominal cost of RM10 each.
- (b) The amount of land capitalised at initial recognition is the purchase price along with any further costs incurred in bringing the land to its present condition.
- (c) After initial recognition, land is stated at revalued amount. Professional valuations of the Bank's land will be carried out once every ten years with any surplus arising on revaluation to be recognised directly in the Land Revaluation Reserve.
- (d) Gain or loss arising from the disposal of land is determined as the difference between the net disposal proceeds and the carrying amount of the land and is recognised in the Income Statement on the date of disposal.

### 2.8 Other Fixed Assets

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

## 3. Gold and Foreign Exchange

	<b>2014</b>	<b>2013</b>
	<b>RM</b>	<b>RM</b>
Gold	4,774,070,324	4,617,069,254
Foreign Securities	347,070,572,889	370,973,012,213
Foreign Deposits	14,200,483,867	13,753,641,155
Balances with Other Central Banks	11,970,658,666	14,656,338,583
Others	17,543,495,541	28,209,402,304
	<u>395,559,281,287</u>	<u>432,209,463,509</u>

4. **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.

	<b>2014 RM</b>	<b>2013 RM</b>
Malaysian Government Securities	<u>2,454,717,462</u>	<u>1,852,122,439</u>

5. **Deposits with Financial Institutions**

Deposits with financial institutions comprise deposits placed by the Bank with financial institutions under section 75(i) and section 100 of the Central Bank of Malaysia Act 2009.

6. **Loans and Advances**

Loans and advances comprise mainly of advances extended by the Bank to the participating institutions under various schemes such as Fund for Small and Medium Industries and New Entrepreneur Fund aimed at promoting growth and development of small and medium business establishments. The extensions of these advances are mainly provided under section 48, section 49 and section 100 of the Central Bank of Malaysia Act 2009.

7. **Land and Buildings**

Land comprises freehold land. Land carried at cost amounts to RM1,250,000,000 and represent land purchased in 2014. Other land revalued in 2014 amounts to RM863,930,000. Buildings recorded at nominal value amounts to RM3,570.

8. **Other Assets**

Other assets include investments in shares and bonds of RM4,595,065,420 acquired under section 48(1) and section 100 of the Central Bank of Malaysia Act 2009.

9. **Deposits from Others**

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

10. **Allocation of Special Drawing Rights**

IMF member countries are allocated Special Drawing Rights (SDR) in proportion to their subscription to the IMF. The allocation represents a dormant liability of the Bank to the IMF, against which assets are received in SDR from the IMF. The net cumulative allocation of SDR was SDR1,346,143,721 equivalent to RM6,819,246,401.

11. **Other Liabilities**

Other liabilities include mainly placements by financial institutions under the repurchase agreements.

12. **Paid-up Capital**

The paid-up capital of RM100,000,000 is owned by the Government of Malaysia.

13. **General Reserve Fund**

	<b>2014 RM</b>	<b>2013 RM</b>
As at 1 January (as previously reported)	14,424,959,189	14,368,713,485
Prior year adjustment – Capitalisation of land	112,002,801	112,002,801
As restated	14,536,961,990	14,480,716,286
Transfer from Net Profit	35,011,395	56,245,704
As at 31 December	<u>14,571,973,385</u>	<u>14,536,961,990</u>

14. **Risk Reserve**

This reserve is to account for unrealised revaluation gains or losses arising from changes in exchange rates and market prices and to absorb any potential future losses resulting from unfavourable circumstances not within the control of the Bank.

15. **Land Revaluation Reserve**

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

16. **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.

17. **Recurring Expenditure**

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

18. **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.

19. **Transfer to Risk Reserve**

The transfer to Risk Reserve is made in accordance with section 7 of the Central Bank of Malaysia Act 2009.

20. **Contingencies and Commitments**20.1 **Contingent Assets**

Total contingent assets as at 31 December 2014 amounted to RM1,400,000,000. These comprise the Bank's total contributions to International Centre for Leadership in Finance (ICLIF) Trust Fund of RM800,000,000 and International Centre for Education in Islamic Finance (INCEIF) Trust Fund of RM600,000,000, to finance activities related to training, research and development of human resource in banking and financial services managed by The ICLIF Leadership and Governance Centre and INCEIF. It is provided in the Trust Deeds that the total contributions will be returned to the Bank when the Centres become self-sufficient in the future.

20.2 **Commitments**

Total commitments as at 31 December 2014 comprise the following:

(a) **Membership with IMF**

- (i) The Bank has an obligation to pay to IMF an equivalent amount of RM5,948,893,693 in SDR or other convertible currencies which represents the unpaid portion of Malaysia's quota in the IMF under the Articles of Agreement.
- (ii) On 15 December 2010, in accordance with the Board of Governors Resolution No. 66-2, the IMF adopted the "Fourteenth General Review of Quotas and Reform of the Executive

Board” under which the quotas of members of the Fund shall be increased. As at 31 December 2014, Malaysia has consented to the quota increase of SDR1,859,900,000 (equivalent to RM9,421,814,464).

- (iii) The Bank has participated in the New Arrangements to Borrow (NAB), a set of credit arrangements between the IMF and its member countries to provide supplementary source of financing to IMF for the purpose of safeguarding the stability of the international monetary system. As at 31 December 2014, the amount of undrawn credit under the NAB is SDR299,181,875 (equivalent to RM1,515,584,772).
- (iv) On 23 July 2012, the Bank has pledged a USD1,000,000,000 (equivalent to RM3,496,500,000) bilateral contribution to the IMF for precautionary and financial crisis resolution purposes.

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

The Bank has a commitment of SDR12,075,000 (equivalent to RM61,169,100) 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 2014, the Bank’s total commitment amounted to USD300 million (equivalent to RM1,049.0 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 8 February 2012, the Bank renewed the Bilateral Currency Swap Arrangement (BCSA) agreement with the People’s Bank of China with the objective of promoting and facilitating trade settlement in local currency between the two countries. As at 31 December 2014, the Bank’s total commitment under the BCSA is RM90 billion and there has been no request to activate the BCSA during the financial year.
- (b) On 20 October 2013, the Bank signed the BCSA agreement with the Bank of Korea with the objective of promoting bilateral trade and facilitating trade settlement in local currency between the two countries. As at 31 December 2014, the Bank’s total commitment under the BCSA is RM15 billion and there has been no request to activate the BCSA during the financial year.

(iii) **Chiang Mai Initiative Multilateralisation Arrangement**

The Bank has participated in the Chiang Mai Initiative Multilateralisation (CMIM) arrangement to provide financial support to ASEAN+3 member countries facing balance of payments and short-term liquidity difficulties. The effective date of the CMIM Agreement is 24 March 2010. Under the CMIM arrangement, member countries facing balance of payments and short-term liquidity constraints can obtain financial support in US dollar through swap arrangements against their respective local currencies. As at 31 December 2014, the Bank’s total commitment is USD9.1 billion (equivalent to RM31.8 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 USD5.0 billion (equivalent to RM17.5 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 2014, there was no request for liquidity assistance from any counterpart.

21. **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 return 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 such as foreign exchange rates, interest rates and equity prices. 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 than the benchmark. This deviation in investment is controlled through a set of risk management limits and investment guidelines that is also approved by the Board of Directors. Sensitivity analysis and stress testing are undertaken to assess emerging risk 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 degree of credit exposure of the Bank. This ensures investments are placed with issuers and counterparties of high credit standing and the probability of losses from this risk is low. The framework, which is approved by the Board, also incorporates market-based credit indicators such as ratings implied from financial market prices, and internal credit assessment. This enhances the credit framework by providing a more dynamic and forward-looking credit assessment.

(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 robust 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 risk in the Bank's operations for action to be taken in managing gaps and in mitigating financial losses.

22. **Income Tax**

The Bank is exempted from payment of income tax and supplementary income tax as set out in the Income Tax (Exemption) (No. 7) Order 1989.

23. **Comparatives**

Certain comparative figures have been restated to conform with the current year's presentation. In previous years, the Bank recorded land and buildings as part of Other Assets at a nominal cost of RM10 each. With effect from 2014, the Bank changed its accounting policy to capitalise

land. Buildings are recorded at a nominal cost of RM10 each. The change in accounting policy requires reclassification of the nominal sum recorded as Other Assets and an adjustment to the General Reserve Fund for the cost of land capitalised, that was previously expensed off. The effects of these changes on the comparative figures are as follows:

	<b>As restated RM</b>	<b>As previously stated RM</b>
Other Assets	7,296,920,314	7,296,923,894
Land and Buildings	112,006,381	-
General Reserve Fund	14,536,961,990	14,424,959,189

