BANK OF PAPUA NEW GUINEA

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2021

BANK OF PAPUA NEW GUINEA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2021

For the advantage of the people of Papua New Guinea, the objectives of the Central Bank are

(a) to formulate and implement monetary policy with a view to achieving and maintaining price stability and promoting employment and economic growth, especially of the non-mineral and non-petroleum sector; and

(b) to formulate financial regulation and prudential standards to ensure stability and development of the financial system in Papua New Guinea; and

(c) to promote an efficient national and international payments system; and

(d) to provide efficient and responsive banking services to the Government.

Central Banking Act 2001

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Chairman's Foreword

Mr David Toua, Chairman

With the passing of significant amendments to the Central Banking Act in 2021, the role of the Board of the Bank of Papua New Guinea has expanded. Accordingly, the Chairman of the Board presents the Foreword of the Annual Report for 2021.

Over the course of 2021 the PNG economy started to rebuild from the damage inflicted by the COVID-19 pandemic. Increased fiscal support from the Government, improvements in international trade and commodity prices and the lifting of the COVID-19 containment measures all contributed to the recovery of the domestic economy.

The progress of the recovery, however, was not uniformly strong and smooth. The ongoing challenges of the Government's revenue collection and uncertainties over business investment decisions and operations slowed its pace. Given the huge shortfall in revenue collection, the Government's ability to support expenditure requirements depended heavily on debt financing. In turn, in the domestic market the increase in the Government's borrowing had the effect of luring banking sector liquidity away from private sector lending towards the perceived attractiveness of investing in government securities.

Against this backdrop, the Bank of Papua New Guinea (BPNG) adopted an accommodative monetary policy stance throughout 2021, complementing the Government's effort to boost economic recovery. BPNG kept the Kina Facility Rate at 3.0 percent and the Cash Reserve Requirement at 7.0 percent to maintain high liquidity, with the aim to encourage lending to the private sector. In spite of these policy decisions, the Bank's efforts to drive private sector lending to support economic activity were hindered by the commercial banks' increased appetite for government securities, as well as the perception that lending to the private sector was high risk, which translated to high interest rates on loans.

On the inflation front, fiscal and monetary stimulus strategies put in place by the world's advanced economies created pressure on prices in PNG and led to a modest increase in the overall domestic price level in 2021. As measured by the Consumer Price Index, the annual headline inflation declined from 5.1 percent in 2020 to 3.3 percent in the June quarter of 2021, before rising to 5.7 percent in the final quarter of 2021. This moderate inflation environment supported the Bank's accommodative monetary policy stance during the year.

In the context of the foreign exchange market, improved export revenue mainly from the mineral sector, as well as the Government's external Budget support funds and proceeds from concessional loans, assisted with supporting international reserves. However, the Government's substantial fiscal deficit spending to support the economy during the pandemic translated into high import demand in 2021. To provide foreign exchange liquidity to reduce the level of outstanding orders in the market, the Bank implemented monthly intervention, in line with the International Monetary Fund Staff Monitoring Program.

With outbreaks of new COVID-19 variants during the year, several times during 2021 the Bank invoked its Business Continuity Plan (BCP), as well as the procedures introduced to reduce the chance of staff contracting the virus. In spite of the precautions and safety practices, several staff members tested positive for COVID-19. Two staff members did not survive the virus. We send our sincere condolences to their families, friends and communities.

Aside from the tragic human cost, the pandemic tested BPNG's risk management strategies and processes, especially in dealing with operational risks such as cyber security, health and safety, capability and the Bank's delivery of its roles and functions. The COVID-19 BCP also delayed the implementation of some strategic initiatives, strategic programs and business improvement projects. The Bank decided to extend the 2016-2020 Strategic Plan to 2022 to enable the completion of the projects.

To help develop the domestic financial market, BPNG continued to work on the Certificate for Security Deposit (CSD) system, designed to automate the auction of Government securities in the market. The project's second phase will roll out the system at the retail end, enabling investors to use the secondary market to trade securities with other investors.

> "In its role as banker to the Government, BPNG continued to enhance processes to facilitate government payments and prevent fraudulent transactions."

Over the course of the year the Kina Automated Transfer System (KATS) became fully functional, with the addition of enhanced capabilities for anti-money laundering screening and the interface with the CSD system to improve the efficiency of liquidity management actions.

The Bank continued to play an active role in financial services development and the continued expansion of financial inclusion and financial intelligence monitoring.

In the context of financial intelligence monitoring, the Financial Analysis and Supervision Unit in the Bank continued to perform its functions to protect PNG and the integrity of the PNG financial system against money laundering and counter-terrorist financing (AML/CTF).

In its role as banker to the Government, BPNG continued to enhance processes to facilitate government payments and prevent fraudulent transactions.

The rollout by the Department of Finance of the Government's Integrated Financial Management System extended the availability of electronic payments to all provinces and eighty-three districts. This system improves the efficiency and accuracy of processing government payments electronically and ensures that payments comply with requirements such as the anti-money laundering legislation.

Chairman's Foreword

During 2021 Government commissioned a significant review of the *Central Banking Act 2000* ('CBA' or 'the Act') with several aims, including modernising the central bank (BPNG) by considering its role and relationship with Government, strengthening its corporate governance structure and improving the processes of monetary policy formulation.

The review led to major changes to the Act, with the passing of the *Central Banking (Amendment) Act 2021* late in the year.

Amendments included the addition of 'employment and growth' as a factor within the Bank's price stability objective, refinements to the structure and composition of the board, changes to the terms and conditions of board membership, changes to the Bank's organisation structure, including terms and conditions for the governor and deputy governor positions, and arrangements surrounding deficit financing from the Bank to the Government.

In terms of deficit financing, the CBA amendments authorise an increase to the Temporary Advance Facility limit to K1.5 billion, to enable the Government to manage its cash flow more effectively. The risk associated with increasing the level of BPNG's financing of Government deficit is the potential build-up of excess liquidity, which could impair the effectiveness of monetary policy and put pressure on the exchange rate. Going forward, the challenge for the Government and the Bank will be to work together to find the right combination of fiscal and monetary policies to achieve both price stability and economic growth and employment.

In line with its long tradition of building staff capacity, BPNG continued to encourage staff to participate in relevant learning and development activities. With COVID-19 limiting opportunities for face-to-face learning in 2021, the Bank turned to technology to enable staff to participate in online distance learning where in-person attendance was not available. Over the course of the year staff attended 26 international training programs and 180 local programs, including those offered by the South East Asia Central Banks (SEACEN) Research and Training Centre and the International Monetary Fund (IMF) Singapore Regional Training Institute (STI).

By any measure, 2021 was a very challenging year for the Bank of Papua New Guinea. I am proud to report that we have been able to conduct our business to deliver on our responsibilities and provide our services in the face of significant upheaval. My sincere thanks go to the members of the Bank's Board, the senior management and staff for their support, contribution and commitment to making sure the Bank performs its core functions.

David Toua
Chairman

Mission Vision Values

Mission

The Bank of Papua New Guinea's MISSION is to serve the people of Papua New Guinea by conducting effective monetary policy and maintaining a sound financial system. We will act at all times to promote macro-economic stability, provide a first-class payments system, issue the national currency and help foster economic growth of our country.

Vision

A contemporary central bank and regulator excelling in performing our core functions and making a distinct and valuable contribution to the economic well-being of Papua New Guinea.

Values

With **INTEGRITY** we build good governance and credibility.

With **EFFICIENCY** we produce quality results, on time and on budget.

With **TRANSPARENCY** our decisions stand scrutiny.

Through **ACCOUNTABILITY** we take responsibility for our decisions and actions.

Through **TEAMWORK** we benefit from sharing skills, knowledge and experience.

Through **PROFESSIONALISM** we strive for best practice.

Governance

David Toua, Chairman

Benny Popoitai MBE,
Acting Governor

Richard Kuna

Des Yaninen

James Gore

Ulato Avei

Members of the Board of the Bank of Papua New Guinea from December 2021

The Bank of Papua New Guinea has adopted best corporate governance principles, practices and standards. In line with the CBA 2000, its strategic plans and code of conduct, the Bank's adherence to good corporate governance is reflected in its operations, processes, procedures and systems.

These good corporate governance practices include the role, structure and composition of the Board, including its sub-committees, and the clear demarcation of the roles of the Board and management. Good governance also includes commitment to clear and unambiguous management and organisational structure, including the Bank's various internal management committees.

Governance Review 2021

In December 2021 the *Central Banking Act 2000* was amended to include the most significant changes made to the Act since it came into effect in 2000. These amendments substantially changed the Bank's objectives, governance structure and the composition of the Board and its sub-committees.

The most significant changes included:

- the Bank's objectives were changed to add promoting employment and economic growth and providing efficient and responsive banking services to the Government.
- the Board assumed additional powers and functions that were previously the responsibility of the Governor, to provide oversight of policy, regulatory and investment matters.
- the terms of appointment of the Governor, Deputy Governors and Board members were reduced.
- the legislating of various sub-committees of the Board. Previously the Board held the prerogative to establish such sub-committees.
- the position of Governor does not include the role of Chairman of the Board.

As a result of the adoption of the *Central Banking Act (amended) 2021*, the individuals who held the positions of Governor and Deputy Governor at the time of the changes were made redundant and the terms of some Board members were terminated.

The Board

Composition of the Board from December 2021

The Board of the Bank of Papua New Guinea comprises members who are either *ex officio* (by virtue of the offices they hold) or *non-ex officio* (appointed by the Head of State, acting on advice).

Under the *Central Banking Act (Amendment) Act 2021*, the composition of the 9 person board is

- Governor (*ex officio*)
- one Deputy Governor (*ex officio*), selected by the Governor if there is more than one Deputy Governor
- five members appointed by the Head of State acting on advice, in consultation with the Board – Section 27(2)(c)
- two members appointed by the Head of State acting on advice, on recommendation of the Board, one of whom must have international experience in central banking and not be a resident of PNG – Section 27(2)(d).

The term of office on the Board for the Governor and Deputy Governor is four years. The Governor and Deputy Governor are eligible for re-appointment for a total maximum of two terms and may not serve for a total of more than eight years.

The maximum term of office for Section 27(2)(c) *non-ex officio* Board members is two years for the first term and four years for a subsequent term.

The maximum term of office for Section 27(2)(d) *non-ex officio* Board members is one year for the first term and three years for a subsequent term.

A further change resulting from the 2021 amendments to the CBA provided for the Board to select its Chairman and Deputy Chairman from the external members.

The new composition of the Board differs significantly from the previous structure. Prior to the CBA amendments, the Governor and Deputy Governor held the positions of Chairman and Deputy Chairman respectively. Board members included five *ex officio* members from a range of prominent institutions within the PNG community (civil, church, regulatory, workers' representation and industry bodies) and three *ex officio* members appointed by the Head of State acting on advice from the NEC.

Members of the Board

Prior to December 2021

Prior to the implementation of the CBA amendments in late 2021, Mr Loi M Bakani CMG held the position of Governor, Chairman of the Board and Registrar of Savings and Loan Societies in PNG. As a result of the implementation of the CBA amendments Mr Bakani's term of office in these positions was terminated.

Mr Joseph Teria had held the positions of Deputy Governor and Board member. His term of office was terminated.

The terms of office of Board members Mr John Leahy, Bishop Denny Bray Guka and Mr John Paska were also terminated.

Members of the Board

From 22 December 2021

Chairman

Mr David Toua

Mr Toua was originally appointed to the Board in February 2019 for a term of 3 years as a *non-ex officio* member. After the CBA amendments he was reappointed for a term of 4 years from 22 December 2021.

Mr Toua is a very experienced business executive with comprehensive management and operational skills. He has served in various senior management executive positions in several corporate organisations.

He is Chairman of ABAC (APEC Business Advisory Council) and the NCD Health Authority. He is a Board Member of the Business Council of PNG, the Employers Federation of PNG and the Mineral Resources Authority, an Independent Member of the PNG Incentive Fund Strategic Management Group, a Director with Post (PNG) Ltd and New Britain Palm Oil Ltd, and an Advisory Board Member of the Royal Port Moresby Golf Club.

Mr Toua holds a Bachelor of Arts (English Literature, Economics and Government) from the University of Queensland, Australia.

Acting Governor

Mr Benny Popoitai MBE

Mr Popoitai MBE was appointed Acting Governor on 22 December 2021.

A career central banker, he has held senior positions within BPNG for many years, with experience across a range of the Bank's operational areas, including 15 years as Deputy Governor between 2000 and 2015. More recently, he held the position of Director with the Financial Analysis and Supervision Unit (FASU) within the Bank.

He also serves as a Member of the Board of the Sir Buri Kidu Heart Foundation.

Mr Popoitai holds a Bachelor of Economics with Honours from the University of Papua New Guinea.

Mr Richard Kuna

Mr Richard Kuna was originally appointed an *ex officio* member of the Board in November 2001 in his capacity as the President of Certified Practising Accountants PNG (CPA PNG). Following the CBA amendments he was reappointed for a term of 4 years from 22 December 2021.

Mr Kuna is a Partner with Kuna Taberia Kiruwi Accountants & Advisors. He is the President of CPA (PNG), a Member of the Accountants Registration Board of Papua New Guinea and a Director of Wereck Insurance Brokers Ltd.

Mr Kuna holds a Bachelor of Business in Accounting from the University of Technology, Sydney, Australia, and is a qualified Certified Practising Accountant.

Mr Des Yaninen

Mr Yaninen was appointed a member of the Board on 22 December 2021 for a term of 2 years.

Mr Yaninen is an entrepreneur and a private businessman with a wealth of experience, skill and knowledge in corporate and strategic management. A former employee of the National Development Bank (NDB) for more than 13 years, who rose through the ranks to hold various senior management positions. He is currently the Chief Executive Officer at Pacifund Financial Services.

He is also the President of Micro, Small & Medium Enterprises (MSME) Council Inc, the peak body that represents the micro and small business sector in PNG.

Mr Yaninen's qualifications include a Bachelor of Business in Management and Accounting from Pacific Adventist University and a Diploma in Financial Services. He studied for a Master of Business Administration at the Edinburgh Business School at Herriot-Watt University in Scotland. He is a qualified Certified Practising Accountant and member of the PNG Institute of Directors.

Mr James Gore

Mr Gore was appointed a member of the Board on 22 December 2021 for a term of 2 years.

A former senior manager with PwC in Australia and in PNG, and an audit partner with Ernst & Young, he established Gore Accountants & Business Advisors in 2009. The business has since expanded to include Gore Accountants, Gore Consulting and Gore Business Academy, for which he is the Managing Partner.

He is a Board member of several organisations, including Director of Kumul Consolidated Holdings Ltd, Chairman of Logohu Group of Companies, and a Member of the Advisory Board of HBS Group.

Mr Gore holds a Bachelor of Commerce (Accountancy) from the PNG University of Technology. He is a registered company auditor, a registered public accountant and a Certified Practising Accountant. Mr Gore is a member of the PNG Institute of Directors and the Australian Institute of Company Directors.

Ms Ulato Avei

Ms Avei was appointed a member of the Board on 22 December 2021 for a term of 2 years.

A former public servant, Ms Avei has held a range of senior management positions within the Departments of Transport, PM & NEC, National Planning, and Petroleum.

Over the course of her professional career, Ms Avei has served as a director on a number of industry boards in the agriculture and mining sectors. She is Chairperson and Director of Gas Resources PNG, LNG Plant Limited and Director of Central Province Health Authority. She is also the President of the PNG Netball Federation and a Board Member for the Oceania Netball Federation.

Ms Avei holds a Bachelor of Public Administration from the University of Canberra, Australia, and a master's degree in Public Administration from the University of New South Wales She has also completed tertiary studies in project management, advanced leadership and management, and the directors program conducted by the Australian Institute of Company Directors.

Board Meetings

The Board meets at least once every three months. Due to the travel restrictions arising from the COVID-19 pandemic, all Board meetings in 2021 were held in Port Moresby, NCD.

Board Member (to 22 December 2021)	Meetings Eligible to Attend	Meetings Attended
Mr Loi M Bakani CMG	3	3
Mr Joseph Teria	3	3
Mr David Toua		
Mr Richard Kuna		
Mr John Leahy	3	3
Bishop Denny Bray Guka	3	3
Mr John Paska	3	3

Board Member (to 22 December 2021)	Meetings Eligible to Attend	Meetings Attended
Mr David Toua	4	4
Mr Benny Popoitai MBE	0	0
Mr Richard Kuna	4	4
Mr Des Yaninen	0	0
Mr James Gore	0	0
Ms Ulato Avei	0	0

Board Sub-Committees

Prior to the CBA amendments two Sub-Committees established by the Board were in operation, the Board Audit & Governance Committee and the Board Remuneration and Governance Committee.

With the passing of the CBA Amendments into law at the end of 2021, the previous Board committees were made redundant, making way for the establishment of four Board Sub-Committees, mandated by the new legislation:

- Audit & Risk Committee
- Governance Committee
- Budget & Investment Committee
- Monetary Policy Committee.

Governance

Management Structure

Up until the passing of the CBA amendments at the end of 2021, the Deputy Governor, the Assistant Governors, the Internal Audit Department Manager and the Corporate Secretary all reported directly to the Governor. Other Department Managers reported either to the Deputy Governor or to an Assistant Governor, who held responsibility for a functional group comprising related departments. The Governor had also established several inter-departmental management committees to perform various functional and management responsibilities.

The CBA amendments mandated a number of significant changes to the reporting lines within the Bank, including more involvement of the Board in decision-making that had been the sole responsibility of the Governor.

With the amendments announced right at the end of 2021, there was no opportunity to make the necessary changes to the Bank's management structure.

Other Governance Measures

Internal Management Committees

Several internal management committees also continued through 2021, each with specific roles and responsibilities to ensure the probity of the Bank's activities. They included the Executive Committee, the Monetary Policy Committee, the Currency Committee, the Investment Committee, the Tender Committee and the Budget Committee.

With the establishment of the four new mandated Board Sub-Committees covering most of these responsibilities, the role and function of the internal management committees will be reviewed.

Internal Audit

A strong, independent and objective internal audit function is a key part of the Bank's overall commitment to good corporate governance practice. Although the regular operation of the Bank's internal audit function was disrupted by the impact of the pandemic, over the course of 2021 the focus of internal audit reviews included cyber security, currency management and cash handling, financial accounts, the impact of changes to International Financial Reporting Standards on Inscribed stock accounting and provided advice and support on a range of enquiries.

Risk Management

With the ongoing impact of the pandemic, over the course of 2021 the Bank's risk management effort was focussed mainly on monitoring the Bank's business continuity management systems and risk awareness and risk profiling.

External Checks and Balances

As part of its commitment to good governance, BPNG continues to ensure there are external verification measures in its operation. These include the annual auditing of the Bank's financial statements, scrutiny of staff employment conditions by the Department of Personnel Management.

A more far-reaching scrutiny of the Bank's governance practices was the review of the CBA conducted in 2021 by an external review panel. The review led to the significant changes enacted through *Central Banking Act (Amendment) Act 2021*, with implementation commencing at the end of the year.

Peer review

The Bank continues to maintain a practice of peer reviews with a range of organisations, including the central banks of Australia and New Zealand, the IMF, other regulatory authorities, such as the Australian Prudential Regulatory Authority (APRA) and through its membership of SEACEN and PFTAC.

Co-operation with Government Agencies

The Bank continues its relationships with other Government agencies in its operations, which help to mitigate the risk of fraud and other threats to the PNG financial and payments system.

Setting the right example

The Bank sets its expectations through the Values Statement, which provides clear guidance to Bank employees to conduct themselves with the highest standard of behaviour.

Financial Management

Operating Income

Total operating income for the year ended 31 December 2021 was K397.2 million, a decrease of K62.4 million from the 2020 level of K495.4 million. The lower income level resulted from a K58.2 million revenue decrease in gains on financial assets, fees and commissions on foreign exchange trading, and a decrease of K4.2 million on interest revenue from domestic investments due to a decline in government securities holdings.

Operating Expenditure

Total operating expenditure, comprising interest expenses and general administration costs, was K365.9 million, an increase of K36.7 million from the 2020 level of K328.6 million. General and administration expenses increased by K1.7 million, while interest expenses surged by K36.0 million, mainly driven by an increase in interest on investment holdings.

Net Operating Profit

The Bank recorded a net operating profit of K31.7 million for the 2021 financial year, compared to an operating profit of K130.9 million in 2020.

Unrealised Gain/(Loss)

The Bank recorded a net foreign and domestic financial assets revaluation loss of K147.9 million for the year ended 31 December 2021, which was transferred to the Unrealised Gain/(Loss) Reserve. This resulted from the appreciation of the kina against major currencies and a rise in interest rates that affected the market price of overseas investments during the financial year. Gold valuation loss of K9.6 million was transferred to the Gold Reserve.

Appropriation

Under the terms of the CBA 2000 and its amendments, the Board of the Bank of Papua New Guinea, in consultation with the Minister for Treasury, determines the allocation of the Bank's operating profit, including the amount to be allocated to the Bank's retained earnings and any balance of net profit to be paid into the Government's Consolidated Revenue Fund (CRF).

However, the CBA 2000 authorises the Board to decide that no amount is to be paid into the CRF if the assets of the Bank are less than the sum of its liabilities and paid-up capital, or would be if a payment was made.

Furthermore, under the terms of Section 50(1) of the CBA 2000, the net profit arising from the revaluation of the Bank's assets and/or liabilities, and/or from foreign exchange rate movements shall not be made available for distribution as dividend to the Government or paid into the CRF.

Distribution of Profit

	2021 K'm	2020 K'm	2019 K'm	2018 K'm	2017 K'm
Total Comprehensive Income/(Loss)	(125.9)	495.4	441.5	372.3	390.0
Unrealised Profit/(Loss)	(157.5)	364.5	285.0	185.1	216.2
DISTRIBUTABLE PROFIT/(LOSS)	31.7	130.9	156.5	187.2	173.8
ALLOCATIONS MADE:					
Property Revaluation Reserve	(14.6)	0.0	11.8	24.8	0.0
Unrealised Profits Reserve	(147.9)	302.9	236.9	155.3	193.1
Gold Reserve	(9.6)	61.6	36.3	5.0	23.1
General Reserve	0.0	0.0	30.0	0.0	0.0
Building Reserve	50.0	0.0	0.0	73.8	0.0
Retained Profit/(Loss)	31.7	(19.1)	6.5	13.4	73.8
Consolidated Revenue Fund (Government)*	0.0	150.0*	150.0	100.0	100.0

** In consultation with the Minister for Treasury, the Bank paid a dividend of K150 million to the Government, out of the retained profits for the 2020 financial year.*

2022 Budget Forecast

	Budget 2022 K'm	Actual 2021 K'm
Operating Income		
Interest received – overseas	109.0	72.3
Interest received – domestic	309.0	234.3
International trading/foreign exchange fees	33.0	67.0
Other income	21.5	23.4
TOTAL INCOME	**472.5**	**397.0**
Operating Expense		
Interest expenses – domestic operations	134.9	121.5
Financial markets & EFM expenses	11.5	11.2
Staff costs	106.6	106.1
Staff training and development	5.8	1.1
Premises and equipment	12.8	13.4
Depreciation of property and equipment	23.0	21.1
Amortisation of notes and coins production expenses	17.0	16.8
Currency distribution expenses	3.9	1.8
Audit fee	1.8	1.8
Travel	6.8	4.8
Legal & consultancy fees	9.5	7.2
Board & meeting expenses	1.5	0.4
Information & communication technology	29.5	23.0
Special Projects	10.0	3.5
Other expenses	44.5	31.6
TOTAL EXPENSES	**419.1**	**365.3**
NET OPERATING PROFIT/(LOSS)	**53.9**	**31.7**

Core Functions

MONETARY POLICY

MONETARY POLICY FORMULATION

The Bank is required by the Act to issue six monthly monetary policy statements (MPS) to set out the Bank's monetary policy stance.

In 2021 the MPS were issued on 31 March and 30 September. They were produced during the ongoing COVID-19 pandemic, which affected data collection and information gathering.

The MPS can be viewed on the Bank's website www.bankpng.gov.pg

The Bank maintained an accommodative monetary policy stance over the course of 2021, maintaining the Kina Facility Rate (KFR) at 3.0 percent and the Cash Reserve Requirement (CRR) at 7.0 percent. The policy aim was to achieve a high level of liquidity to encourage lending to the private sector, particularly for small to medium enterprises. In spite of the Bank's efforts to support economic activity, commercial bank lending remained low, partly a response to the downturn in the economy resulting from the pandemic. It was also a reaction to the relatively high lending interest rates that were on offer, which did not reflect the reality of the economic conditions.

Economic activity continued to recover slowly in 2021. The recovery in the global economy, which resulted in increases in commodity prices, had a positive impact on the balance of payments and domestic activity. It was supported by the Government's expansionary fiscal policy to revamp economic activity through spending on key priority areas. As the pandemic continued to have a negative impact on revenue collections, the Government continued to borrow heavily to fund its expenditure plan for the year.

This continued deficit financing had a significant impact on the level of liquidity in the banking system, but instead of encouraging the commercial banks to increase lending to the private sector, it resulted in the commercial banks investing in Government securities.

Inflation continued to fall in response to the easing of COVID-19 restrictions and improvement in both the global and domestic supply chains, as the large fiscal and monetary stimulus programs put in place by advanced economies started to have an impact on global inflation, and domestic prices started to come down in the latter part of 2021. Annual headline inflation as measured by the CPI declined from 5.1 percent in the 2020 December quarter to 3.3 percent in the June quarter of 2021, before increasing to 5.7 percent in the December quarter of 2021. Without the relative stability in the exchange rate throughout 2021, inflation may have risen much higher. Based on the inflation trend, the Bank maintained the KFR at 3.0 percent over the course of the year.

The amendments to the CBA introduced into law at the end of 2021 included the addition of 'growth' and 'employment' as primary objectives alongside the Bank's existing price stability objective. Including these objectives in the amended Act requires BPNG to consider ways to achieve growth and employment as well as ensuring stable price movements when formulating and implementing monetary policy by taking exchange rates, interest rates and inflation.

Improvement in Monetary Policy Framework

Transmission process improvement

The implementation of International Monetary Fund Technical Assistance recommendations on transmission process improvements was stalled during 2021, as the pandemic disrupted many activities throughout the Bank other than essential work.

Balance of payments data collection improvement

The Bank compiles cross-border transactions data between PNG and the rest of the world relating to trade in goods and services, income, transfers and financial flows, to produce Balance of Payments (BOP) data. The information is used to produce the MPS, the Quarterly Economic Bulletins (QEB), the monthly KFR determination, and for IMF publications. BOP developments and forecasts are discussed with the Department of Treasury for the National Budget.

BOP data compilation was hampered by the COVID-19 pandemic in 2021. However, implementing IMF recommendations by IMF Technical Assistance on external sector statistics continued.

Work continued in 2021 on improving efficiency in the submission, processing and analysis of BOP data through automation, as well as industry consultation, was held with AFEDs.

Staff capacity building took place during the year to improve compilation and reporting of external sector statistics, with staff attending virtual IMF training.

CBA amendment objective addition

With the addition of 'promoting employment and economic growth' to the 'achieving and maintaining price stability' objective for formulating and implementing monetary policy, the Bank commenced the process of considering the impact of the CBA amendments on the monetary policy framework.

MONETARY POLICY IMPLEMENTATION

Open market operations, including trading Government securities (Treasury bills and bonds) and the Bank's Central Bank Bills (CBBs), continued to be the main tool used to implement monetary policy during 2021.

The implementation involved conducting the weekly Central Bank Bill auctions in coordination with Government's Treasury bill weekly and Treasury bond monthly auctions.

The collateralised Repurchase Agreements (REPOs) were also offered mainly for overnight term to commercial banks who needed additional funds for settlement of transactions in their Exchange Settlement Accounts, and the Tap investment facility, which continued to be offered to investors unable to participate in the primary market auctions.

Over the course of the year most open market auctions were fully subscribed or over-subscribed, reflecting the high level of liquidity in the market and an increased appetite for investing in Government securities by investors, particularly the commercial banks. With the KFR maintained at 3.0 percent over the course of the year, in general, the commercial banks showed reluctance to feed through to customers the benefits of the lower policy rate to reduce their loan interest rates. BPNG's desired intention of supporting economic growth through expanded lending was not achieved, with the commercial banks attracted to investing in the relatively high and secure returns from Government securities rather than taking the perceived higher risks they associated with lending.

The persistently high liquidity in the banking system, combined with the behaviour of the commercial banks in failing to pass on the lower policy rate, hampered effective transmission of monetary policy during 2021.

During the year the Bank continued to reduce its exposure to Government debt by retiring its Treasury bill holdings, previously taken up as slacks or purchased under the quantitative easing program in the first quarter of 2020. BPNG continued its secondary market trading by selling its Inscribed stock holdings to institutional investors including commercial banks, superannuation funds and fund managers as well as to individual investors. As a result, the Bank's level of Inscribed stocks reduced to K2,135.5 million in 2021.

FOREIGN EXCHANGE

Over the course of the year the kina remained unchanged at 0.2850 against the US dollar. Good mining revenue inflows and BPNG's market interventions were the main contributors to the stability of the kina exchange rate.

However, in spite of the improvement in inflows, the market recorded a net outflow of K2,564.0 million for 2021, compared to a net outflow of K2,240.0 million in 2020. The increase was largely driven by an increase in fiscal expenditure, including costs associated with various concessional loans made to the Government to deal with COVID-19, and to support budget-related expenditure aimed at stimulating economic growth, as well as increased demand for foreign currency.

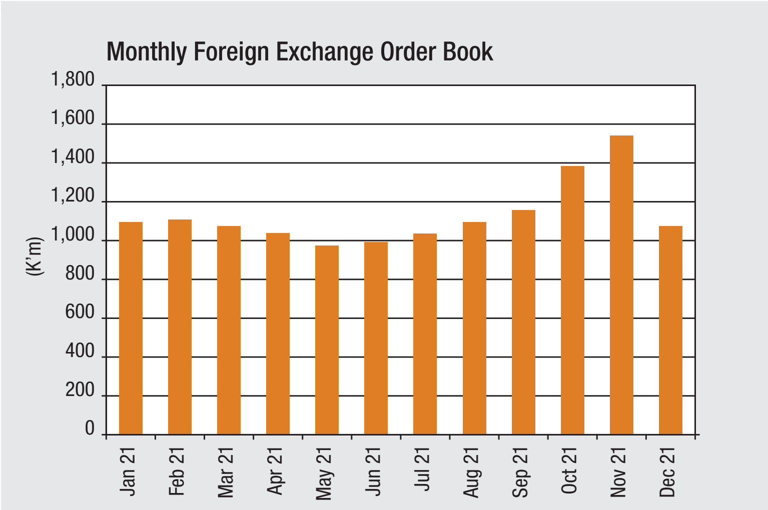
Over the reporting period foreign currency inflows increased by 7.01 percent, while outflows increased by 8.29 percent. The mining sector, represented by OTML and Lihir Gold Limited, were the main suppliers of foreign currency into the domestic market. The Finance & Business, Retail, and Manufacturing sectors were the main sectors demanding foreign currency.

Major Sector Contributions to Foreign Exchange Flows

	2021 K'm	2020 K'm	Change
Total FX Inflows	**16,185.25**	**15,125.60**	**7.01%**
Top 5 Sectors			
Mining	6,614.5	6,211.7	6.48%
Agriculture	2,745.1	1,806.6	51.95%
Finance & Business	2,051.2	1,889.9	8.53%
Forestry	1,088.9	932.1	16.82%
Petroleum	632.3	920.9	-31.34%
Total FX Outflows	**18,812.24**	**17,372.60**	**8.29%**
Top 5 Sectors			
Finance & Business	3,702.5	3,338.9	10.89%
Retail	3,502.7	2,993.2	17.02%
Manufacturing	3,264.2	2,594.0	25.84%
Petroleum	1,536.1	1,742.5	-11.84%
Transport	1,499.5	1,205.3	24.42%

Kina trading

Total outstanding sell kina orders brought into the market by Authorised Foreign Exchange Dealers (AFEDs) declined to K1.04 billion at the end of 2020, down from K1.56 billion at the end of 2019. Inflows from the mining sector and external sources for budgetary support to the Government, particularly regarding the pandemic, contributed towards reducing foreign exchange orders. BPNG's interventions also assisted in meeting some of the import demand.



Intervention

In 2021 the Bank sold US$663.7 million (K2,329 million) in the foreign exchange market, compared to US$579.6 million (K2,007 million) in 2020.

During the year the Bank's regular intervention aimed to reduce outstanding foreign exchange orders and to comply with the IMF-recommended Staff Monitored Program intervention benchmark.

Exchange Rates

	End of Dec 2021	End of Dec 2020	YTD (%)
PGK/USD	0.2850	0.2850	0.00%
PGK/AUD	0.3928	0.3699	6.18%
PGK/EUR	0.2520	0.2319	8.67%
PGK/GBP	0.2112	0.2091	1.00%
PGK/JPY	32.8050	29.39	11.62%
PGK TWI	27.6184	26.61	3.79%

The kina appreciated against all the major currencies in 2021 except for the US dollar. The appreciation reflected a stronger US dollar, mainly due to the positive economic sentiment in the US and safehaven buying in other economies, fuelled by COVID-19 concerns.

Foreign currency and interest rates risk

Global GDP growth generally improved in 2021 as economies came out of recession and posted growth. The re-opening of economies and the lifting of lockdown measures supported economic activity. However, global growth was uneven, as the slow recovery in the production sectors was unable to keep up with the increased global consumption fuelled by governments pouring fiscal and monetary stimulus into their economies.

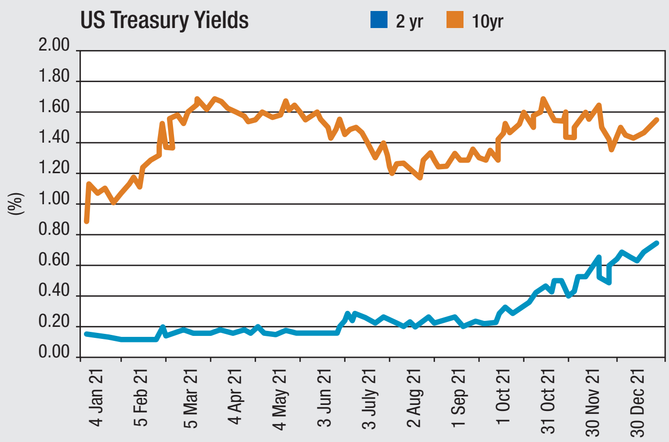
The imbalance between global production and consumption led to an increase in global inflation, made worse by supply chain limitations arising from the pandemic. Disruptions in energy, food and commodity markets caused price rises. The increased prices pointed towards the normalisation of global monetary policy, transition into a tighter monetary policy and tapering of quantitative easing (QE) by the major central banks. Against this background, government bond yields increased in the latter part of 2021.

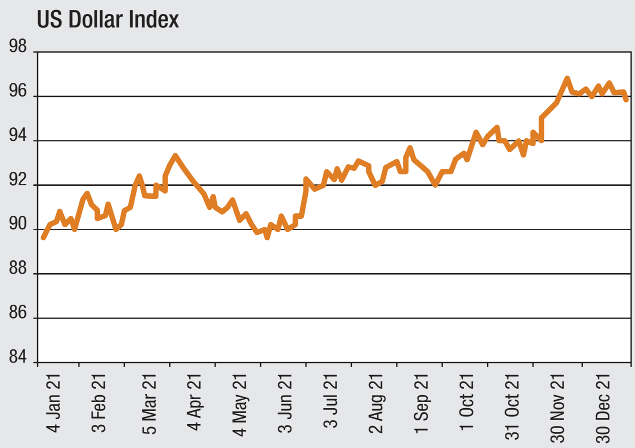
All major central banks kept interest rates on hold throughout 2021 and maintained their bond purchase programs, except for the US Fed. The Fed began to taper its bond purchasing program in November and indicated future interest rate hikes.

This prompted increased bond yields in the US in the last quarter of 2021.

The US dollar remained firm against other major currencies in 2021, supported by positive economic sentiment and expectations for the normalisation of the Federal Funds rate.

In response to these market developments, BPNG maintained an accommodative portfolio duration and currency exposure strategy throughout 2021.





FOREIGN RESERVES MANAGEMENT

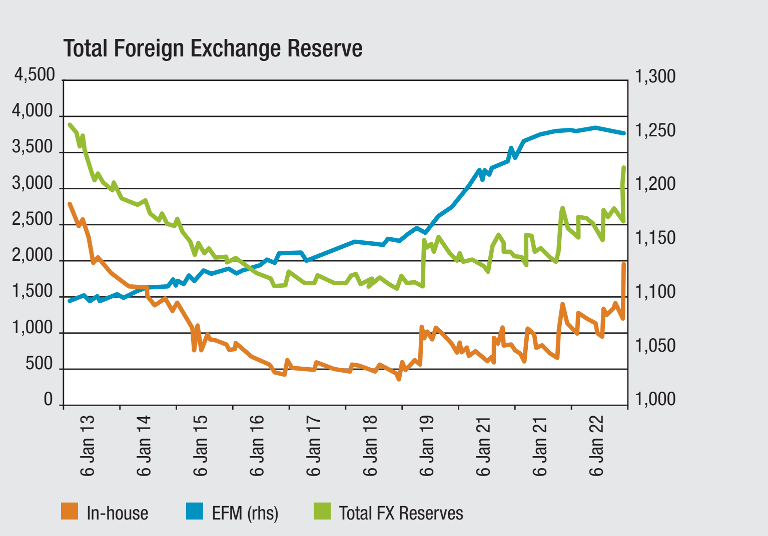
The Bank of Papua New Guinea is responsible for the management of PNG's international reserves, including foreign exchange and gold.

The main reasons for the Bank to hold foreign exchange reserves are to:

- support price stability (one of the core objectives of the Bank's monetary policy)
- service the State's foreign debt
- minimise the impact of external shocks on the domestic economy.

In terms of investing foreign exchange reserves, the Bank's primary objectives are to:

- preserve the capital value of the foreign exchange reserves
- maintain adequate foreign currency liquidity
- manage credit risk conservatively
- earn an acceptable rate of return on the investment of reserves
- accumulate savings for the future generations.



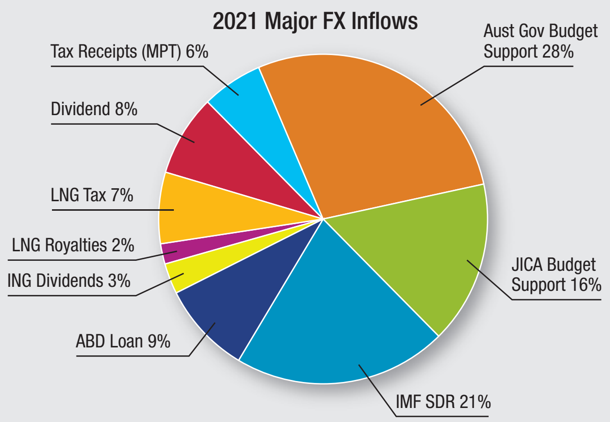
The total foreign exchange reserves at end December 2021 stood at US$3,290.30 million (K11,346.00 million), an increase of 21.4 percent from December 2020. The increase in reserves mainly reflected the inflow of budget support grants from Australia, the European Union and PNG's international partners.

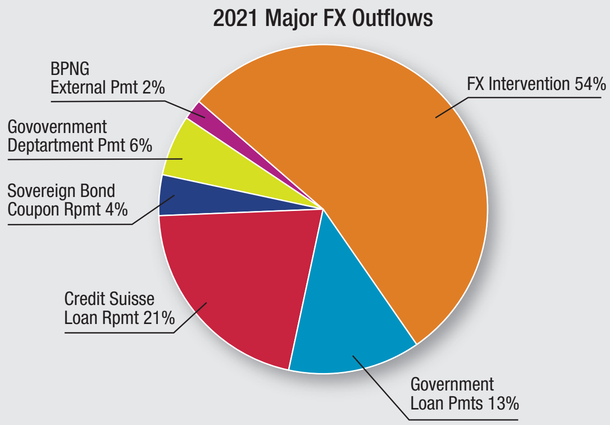
Composition of Foreign Exchange Reserves

FX Reserve Components	2021	2020	Change in USD	Change in %
In-house Managed Reserves	1,590.37	*1,364.01	226.36	16.60%
Externally Managed Reserves	1,251.34	1,254.30	-2.96	-0.24%
Gold	77.92	80.96	-3.03	-3.75%
Total Invested Reserves	**2,919.63**	***2,699.26**	**220.37**	**8.16%**
SDR & Others	370.47	9.60	360.86	3757.90%
IBRD	0.25	0.25	0.00	0.00%
Total	**3,290.35**	**2,709.12**	**581.23**	**21.45%**

Foreign Exchange Reserves Inflows and Outflows

In 2021 total inflows to the reserves was US$1,485.5 million compared to total outflows of US$1,232.2 million. This resulted in a net inflow of US$253.3 million.





Major inflows comprised:

- US$465.1 million in government budget support from the Australian government
- US$273.4 million in government budget support from Japan (JICA).
- US$358.1 million from the IMF in Special Drawing Rights for COVID-19 support
- US$150.0 million from ADB as a support loan for State Owned Enterprises
- US$57.0 million in LNG dividends
- US$28.8 million in LNG royalties
- US$116.9 million in LNG tax
- US$138.5 million in dividends
- US$95.1 million in mineral & petroleum taxes.

Major outflows included:

- US$663.8 million in domestic foreign exchange (FX) market intervention
- US$159.6 million in PNG government debt payments
- US$261.5 million final payment of Credit Suisse loan
- US$41.9 million in coupon payments for the sovereign bond
- US$72.9 million for PNG government department payments
- $20.7 million for BPNG external payments.

Fund Performance

In-house Managed Funds

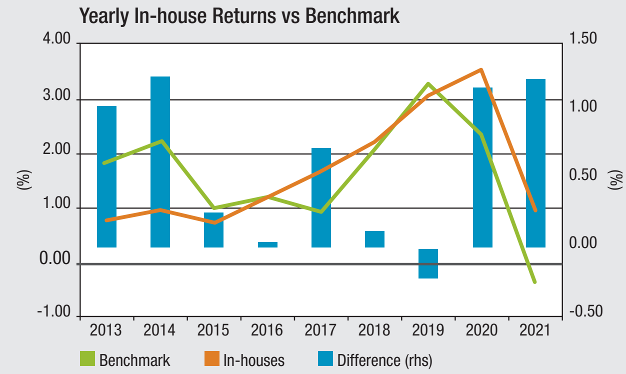
The Bank's In-house Funds returned 0.87 percent for the 12 months to December 2021, outperforming the benchmark returns of -0.37 percent by 1.24 percent. Interest on bonds and gains from foreign exchange transactions were the main contributors to the returns.

For much of the year, yields increased, driven by the rollout of vaccinations and the re-opening of major economies. This development saw prices of securities drop, which led to losses recorded in the benchmark as well as in the investment portfolios.

In-house Funds Performance

Performance for In-house reserves is calculated monthly and is measured against the FTSE Russell Government Bond Index 1 – 3 year USD Hedged.

In-house Funds –
Comparative Performance to Benchmark



Performance Summary

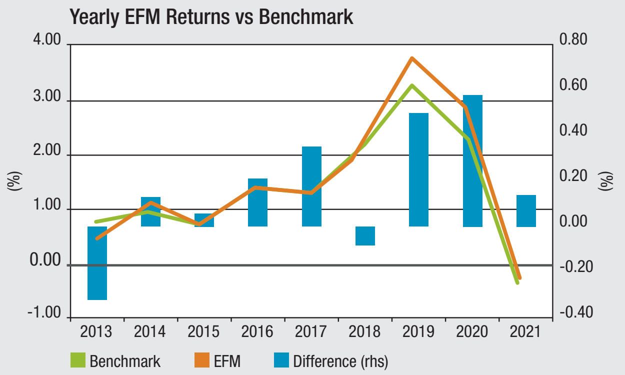
	Return	Benchmark	Difference
2016	1.20%	1.18%	0.02%
2017	1.66%	0.92%	0.74%
2018	2.19%	2.06%	0.13%
2019	3.04%	3.26%	-0.22%
2020	3.52%	2.34%	1.18%
2021	0.87%	-0.37%	1.24%

Externally Managed Reserves

The externally managed reserves (EFM) generated a return of -0.23 percent, 0.14 percent higher than the benchmark.

By December 2021 total outsourced funds had grown to US$1,251.3 million, an increase of 25.1 percent (US$251.3 million), since the inception of the outsourcing program.

Externally Managed Funds – Comparative Performance to Benchmark



Performance Summary

	EFM	Benchmark	Difference
2016	1.39%	1.18%	0.21%
2017	1.26%	0.92%	0.35%
2018	1.98%	2.06%	-0.08%
2019	3.76%	3.26%	0.50%
2020	2.92%	2.34%	0.58%
2021	-0.23%	-0.37%	0.14%

Foreign Exchange Reserves Management – Annual Return (%)

Source	2021	2020	2019
In-house managed funds	0.87	3.52	3.04
EFM	-0.23	2.92	3.76
Benchmark	-0.37	2.21	3.28

International Transactions Monitoring

Foreign Currency Accounts

Opening and operating a domestic and offshore foreign currency account (FCA) requires BPNG's approval.

During the year 25 FCA applications were received, 18 were new FCA applications and 7 were applications for maintaining existing approved FCAs. The Bank approved 6 new applications and declined 12. Of the 7 applications to maintain existing accounts, 6 were approved and 1 was declined for failing to meet the conditions of its approval requirements.

The Bank monitors FCAs for compliance with monthly actual and forecast reporting requirements. During 2021 the compliance review process uncovered 12 unauthorised FCAs, which the Bank closed.

Gold export licences

Residents and non-residents are allowed to buy and sell gold freely within PNG. However, companies must obtain a licence from the Bank to export gold. Subject to complying with the conditions of the gold export licence (GEL) each year, a new licence is granted to the licence-holder for the following year.

Applications Received in 2021	14
Existing licensed exporters – GEL issued	**7**
Enga Gold Exporters (PNG) Limited	
Aviga Impex Limited	
Golden Valley Enterprise Limited	
Issacc Lete Lumbu Gold Buyers Limited	
Italpreziosi South Pacific Limited	
Mi-Do Gold Buyers & Exporters Limited	
Panners Gold Limited	
New applications – GEL issued	**3**
ARC Resources Group Limited	
GoldBox PNG Limited	
Woodlark Mining Limited	
New applications requiring more information	**4**

Domestic Lending in Foreign Currency

Lending contracts between PNG residents denominated in any foreign currency require the prior approval of BPNG and their settlements must be made in kina.

Applications Received in 2021	2
Value of transactions	US$9,500 million K33.3 million

Contingent Guarantees Issued in Favour of Non-Residents

The Bank's prior approval is required to issue guarantees (or indemnities) for the benefit of non-residents.

Applications received in 2021	17
Applications approved	17

Removal of Physical Cash Currency from PNG

The Bank's prior approval is required to remove or take cash and numismatic banknotes in excess of K20,000.00 in value out of the country.

Prior approval of the Bank is also required to take or remove cash and numismatic banknotes of both domestic and foreign currency in excess of K20,000.00 out of the country. In 2021, only 1 application was received and approved for physical cash to be taken out.

Applications received and assessed in 2021	1
Applications approved	1
Value of approved transactions	K700,000.00
Value of physical cash	K700,000.00
Value of approved numismatic notes exported	K0.00

FINANCIAL SYSTEM

The financial system of PNG includes institutions authorised, regulated and supervised by the Bank of Papua New Guinea ('regulated institutions') and financial institutions regulated by other authorities ('licenced institutions').

The Bank conducts prudential supervision of the regulated institutions to ensure stability of the financial system.

This is achieved through:

- setting licensing requirements
- promoting proper standards of conduct
- developing and issuing prudential standards and guidelines for sound and prudent business practices
- ensuring the institutions comply with the relevant legislation and prudential standards through effective supervisory activities.

The Financial System

Type of institution	31 Dec 2021	31 Dec 2020
Commercial banks	4	4
Licensed financial institutions, including microbanks (LFIs)	13	14
Savings & loan societies (SLSs)	16	16
Authorised superannuation funds (ASFs)	4	4
Licensed trustees	4	4
Licensed investment managers (LIMs)	5	5
Licensed fund administrators (LFAs)	3	3
Life insurance companies (LICs)	4	4
Life insurance brokers (LIBs)	6	6
Authorised money changers	7	8
Money remitters	2	2
Foreign exchange dealers (AFEDs)	2	2
Authorised mobile network operator	1	1
TOTAL ASSETS (K billion)	**64.6**	**59.3**
Banking industry (%)	74.3	74.3
ASFs (%)	25.3	25.3
LICs (%)	0.4	0.4
TOTAL DEPOSITS (K billion)	**34.8**	**31.9**
Commercial banks (%)	94.0	93.6
LFIs (%)	2.8	3.2
SLSs (%)	2.2	2.5
Microbanks (%)	0.7	0.7
TOTAL LOANS OUTSTANDING (K billion)	**20.7**	**21.0**

* Best Nation Investment Ltd surrendered its Bureau of Currency Exchange licence during the year.

REGULATION AND SUPERVISION

Licences and approvals

In 2021 the Bank considered and made decisions on several applications regarding acquisitions, surrender, expansion and closures. The Bank assessed 7 new licence applications over the course of the year. 1 licence was granted, 1 was declined and 5 are in progress. Best Nation Investment Limited surrendered its licence as an authorised money changer.

Conditional approval had been granted in 2017 to the BSP Financial Group Limited (BSP) to list on the Australian Stock Exchange (ASX). Among the conditions set by the Australian regulator, APRA, was the requirement for Bank of South Pacific Limited to change its name to BSP Financial Group Limited (BSP). With final requirements met, BSP's dual listing on both the Port Moresby Stock Exchange (PomSox) and the ASX took effect in May 2021.

BPNG issued a preliminary notice of objection to the application by Kina Securities Limited (Kina Bank) to acquire Westpac Bank (PNG) Ltd on 6 December 2021, giving Kina Bank 28 days to respond pursuant to Sec 22(3) of the *Banks and Financial Institutions Act 2000*.

Supervisory enforcement actions

Reviews

The Bank conducts prudential reviews or examinations of regulated institutions as part of its supervisory role in strengthening the risk management systems and compliance capacity. In 2021 the Bank conducted five onsite prudential reviews or examinations on 1 bank, 3 licensed financial institutions and 1 savings and loan society.

The Bank also held 15 prudential consultations with 3 banks, 8 licensed financial institutions including 3 microbanks, 5 savings & loan societies and 2 life insurance brokers.

Tripartite Meetings

The Bank conducted 8 tripartite meetings with the 4 commercial banks, and 3 licensed financial institutions, including 1 microbank and 1 savings & loan society.

Supervisory Colleges

The Bank conducted supervisory colleges with 2 banks, ANZ Bank PNG Limited and BSP Financial Group Limited.

Employer Contribution Enforcement

By the end of 2021 the Bank had received 86 complaints from employees against non-complying employers. BPNG referred most of these complaints to be addressed by the relevant ASFs.

Onsite visits to non-complying employers were put on hold due to travel restrictions imposed by the Bank in line with COVID-19 safety protocols.

Prosecution of a non-complying employer progressed during the year, with the matter committed to trial before the National Court and proceedings commenced.

Statutory administration, management and liquidation activities

Comrade Trustee Services Limited (CTSL) continued to be under statutory management in 2021.

The liquidation process for Workers Mutual Insurance (PNG) Limited and Eastern Highlands Savings and Loan Society continued during the year.

Regulation and Supervision Development

Risk-Based Supervision Framework

The work on the risk-based supervision framework continued through 2021, with the focus on reviewing several prudential standards for the banking sector, developing new standards for macro-prudential supervision and reviewing the *Banks and Financial Institutions Act 2000*.

Directors Pipeline Project

As part of its commitment to helping regulated institutions to adhere to good governance practices, the Bank supported a development program for intending directors. Four of the 7 candidates who enrolled for the Post Graduate Diploma in Corporate Governance at the University of PNG graduated successfully in July 2021. The remaining three candidates will graduate upon completing their internship requirements.

Pacific e-KYC Facility

In 2021 Pacific KYC progressed, with the project team conducting initial meetings with national database owners, including Motor Vehicle Insurance Limited and the Immigration and Citizen Authority, to consider the information technology aspects of the facility and workshop plans for its future implementation.

The regional 'Know Your Customer' facility ('Pacific KYC'), a SEACEN initiative, aims include improving customer due diligence, lowering legal compliance risks and protecting against money laundering and terrorism financing, and increasing the cost-effectiveness of financial transactions as it supports banking services in the region.

Financial Services Sector Development

Superannuation and Life Insurance Review Project

During 2021 the Review Committee produced a detailed assessment of the issues relating to superannuation and life insurance, circulated a discussion paper and invited written submissions from a range of stakeholders. The invitation to comment on the issues was well-received, with the Bank receiving a good number of responses.

The committee's evaluation of the submissions is in progress.

Financial Consumer Protection (FCP) Framework

The legal development process for the FCP framework progressed during the year, with the Bank receiving legal advice relating to the draft legislation. BPNG subsequently met with the IFC drafting team to discuss the recommendations for amendments to the draft.

SME Accelerator Project

The SME Accelerator project continued through 2021, with the focus on reducing the barriers to SME growth in PNG. The incorporation of Credit Guarantee Corporation commenced during the year, a very important step in establishing an effective credit guarantee system that would operate in partnership with the commercial banks and other financial institutions.

PAYMENT SYSTEM

National payment system update

In 2021 the emphasis was on providing consistent, uninterrupted payment services during the ongoing COVID-19 pandemic, to ensure that people were able to buy necessary goods and services. The Bank used a combination of staff rostering and working from home arrangements to provide continuity of services.

Electronic payment options became the preferred method for retail payments to minimise contact while purchasing essential goods and services.

Between the Kina Automated Transfer System (KATS) and the Retail Electronic Payments System (REPS), all services were maintained and saw transaction volumes grow to record levels. The KATS system experienced an outage in July. The Bank responded with the introduction of a regular switching schedule to make sure critical systems can be switched over readily to the disaster recovery facilities when needed.

Enhancements and improvements to the payments system

Planning for an upgrade to the KATS system commenced in the fourth quarter of 2021, with completion expected in 2023. The upgrade will provide improved capabilities, including enhanced anti-money laundering screening. Planning for the upgrade will involve the commercial banks to make sure the changes will be aligned with their systems.

The KATS team also provided input to the implementation of the new Central Securities Depository (CSD) project to interface the two systems for enhanced liquidity management.

The focus for the REPS program during the year was on ensuring uninterrupted operations for cards and instant payment transactions (IPTs), which were added in March 2021. Non-bank members MiBank, Nasfund Contributors Savings and Loan Society (NCSL), and People's Micro Bank Limited (PMBL) implemented the new, real-time digital transfers.

Development of a new message format commenced in 2021, with the aim of enabling the commercial banks to complete their system development to send and receive IPTs. IPTs will form the basis for improved access and expanded services into the future.

Work to implement a disputes portal for more efficient dispute processing, a fraud module and enhanced system monitoring continue during the year. Although training and testing related to these functions were also completed during the year, the ongoing impact of the pandemic prevented implementation of the full system.

National Payments Council activities

The National Payments Council provides guidance for planned developments and updates, including the National Payments System Strategy. During 2021 the Council continued its quarterly meetings, utilising virtual capabilities to conduct meetings during lockdown periods.

Payment Trends

The volume of digital payments, both real-time electronic payments and direct credits, continued to grow over the course of 2021, reaching record volumes in December. The use of cheques continued to decline.

The increased volume and total value of RTGS transactions was mainly a result of payments for securities (T bills and T bonds), Government payments such as payroll, and interbank borrowing between the Banks.

Volumes by Types of Payments

Year	RTGS	Cheques	Direct Credits
2017	80,067	1,222,793	2,663,180
2018	96,857	1,073,319	3,062,576
2019	108,887	959,876	3,508,368
2020	105,488	705,048	3,958,155
2021	129,783	586,675	4,318,630

Values by Payment Type

Year	RTGS (K'm)	Cheques (K'm)	Direct Credits (K'm)
2017	42,972	28,356	18,740
2018	84,360	26,242	26,683
2019	98,102	23,460	31,052
2020	65,248	19,135	32,121
2021	64,324	17,577	36,679

CURRENCY MANAGEMENT

Currency banknotes and coins

One of the Bank's key responsibilities is to issue currency notes and coins. This role involves ensuring an adequate supply of quality currency in circulation, withdrawing damaged and spoiled banknotes from circulation and monitoring the overall supply of currency.

Currency distribution

The Bank distributes cash from its head office in Port Moresby, NCD and from the Currency Processing Facility (CPF) in Lae, Morobe province. It also distributes from the Cash Distribution Centre in Kokopo, East New Britain province.

Currency in Circulation

By the end of 2021 the value of currency banknotes in circulation had risen to K2,450.5 million (2020: K2,338.2 million), an increase of K129.3 million. The value of coins in circulation at the end of 2021 was K101.4 million (2020: K95.9 million).

The total value of currency in circulation by 31 December 2021 was K2,551.9 million (2020: K2,434.1 million), an increase of K117.5 million, attributed to increased demand for most denominations by the commercial banks.

Notes and Coins in Circulation

Notes Denomination	Value (K'm) 2021	Value (K'm) 2020
K2	71.2	67.4
K5	68.9	60.6
K10	87.2	80.3
K20	219.6	217.9
K50	610.7	593.7
K100	1,392.9	1,318.3
Sub Total	**2,450.5**	**2,338.2**
Coins Denomination		
K2	0.2	0.2
K1	34.9	32.3
50 Toea	10.1	8.5
20 Toea	24.2	23.9
10 Toea	24.6	23.9
5 Toea	7.4	7.3
Sub Total	**101.4**	**95.9**
Total	**2,551.9**	**2,434.1**

New Notes and Coins

The Bank issued new notes and coins in 2021 to the value of K618.1 million (2020: K791.25 million). The decline was mainly due to the pandemic affecting the distribution of currency to the commercial banks.

Notes Denomination	Value (K'm) 2021	Value (K'm) 2020
K2	21.0	26.5
K5	29.5	16.5
K10	44.5	30.1
K20	71.3	128.4
K50	145.4	216.9
K100	300.4	365.4
Sub Total	**612.0**	**783.7**
Coins Denomination		
K1	3.30	4.36
50 Toea	0.85	0.41
20 Toea	1.00	1.97
10 Toea	0.88	0.69
5 Toea	0.13	0.12
Sub Total	**6.16**	**7.55**
Total	**618.16**	**791.25**

Destruction of Soiled Notes

Notes Denomination	Value of Soiled Notes destroyed (K'm) 2021	Value of Soiled Notes destroyed (K'm) 2020
K2	11.3	21.0
K5	16.7	20.3
K10	34.3	35.8
K20	89.8	87.9
K50	68.4	211.1
K100	116.0	286.2
Total	**336.5**	**626.3**

Numismatic items

The Bank sells commemorative items to the public and currency collectors worldwide. The total value of sales was K80.0 in 2021 (2020: K100.0).

While the COVID-19 pandemic continued to have a significant negative impact on numismatic sales, the 2008 35th Anniversary K2 note and coins sets, the 2012 K5 uncirculated coin set, the 1998 50 toea coin set and the uncirculated numismatic banknotes did attract buyers.

GOVERNMENT BANKING AND AGENCY SERVICES

Government Bank Accounts and Facilities

The Bank of Papua New Guinea provides banking services to the National Government and other authorities as part of its statutory function.

The financial activities of the National Government are conducted by the Department of Finance through the Waigani Public Account (WPA), from which transfers of funds are initiated and executed to the various national government departmental drawing, trust, provincial and local level government, and statutory authority accounts that are maintained at the Bank.

By the end of 2021 the Government's Integrated Financial Management System (IFMS) had rolled out to all 21 provinces and 83 districts, except the Autonomous Region of Bougainville, resulting in each province and district opening and maintaining new drawing accounts with BPNG.

The IFMS system streamlines Government payments. Together with improvements to cheque processing, including cheque truncation, standardising cheques and automated clearance, the time required to receive cleared funds had been shortened considerably. With the system improvements also providing an enhanced level of security, very few incidents of fraud have been reported.

Other improvements provided to government department services include the installation of terminals in IRC, Customs and the Department of Finance offices, enabling those agencies to view balances, run statements and provide their customers with reports. The Department of Finance's full implementation of the electronic files transfer (EFT) system, enabled payments such as provincial, district and local-level government grants, development grants for the provinces, statutory bodies transfers, and grants to hospitals to be paid by EFT.

Tax and customs revenue collection

The Internal Revenue Commission (IRC) and PNG Customs Service (Customs) maintain their main bank accounts with BPNG.

By the end of the year all organisations and businesses were able to pay their tax or customs assessments electronically, with direct transfers from their commercial bank business accounts to the IRC and Customs accounts held at BPNG.

Temporary Advance Facility

The National Government operates a Temporary Advance Facility (TAF) with BPNG to meet temporary cash flow mismatches. The total amount of TAF advances at any time is limited to 12 percent of the annual average total revenue and grants receipts averaged over the previous 3 years. The Government is required to repay the advance to BPNG as soon as practicable, but in any case, no later than the end of the financial year. During 2021 the TAF limit was K1.5 billion.

Government Agent Operations

The Bank of Papua New Guinea is the Agent for the National Government as an authorised issuer, registrar and paying agent for Government securities.

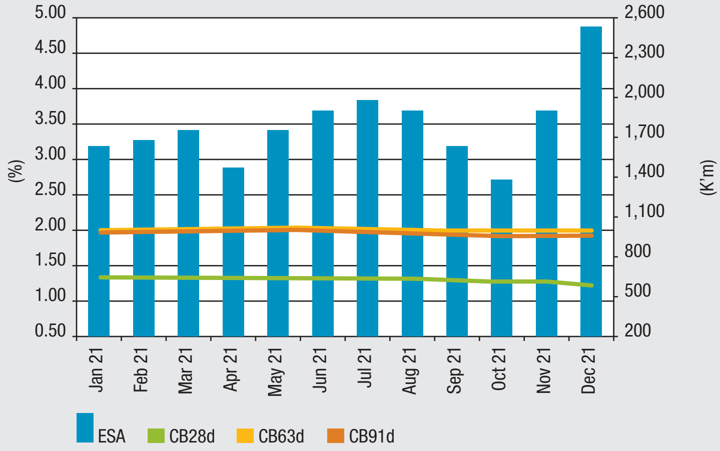
The Bank is also a member of the Government's Public Debt Committee (PDC). Representatives from the Bank attend the weekly PDC meetings convened by the Department of Treasury.

Central Bank Bills

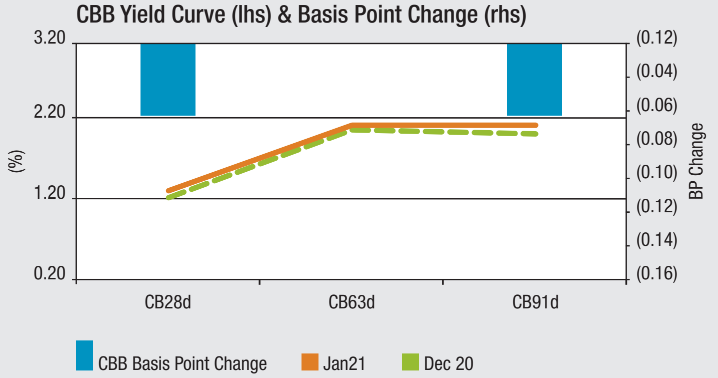
The Bank issued its Central Bank Bill (CBB) mainly in the shorter terms, 28 days, 63 days and 91 days. In 2021 CBB interest rates declined compared to 2020. CBB auctions were mostly over-subscribed, reflecting high demand from investors.

Banking system liquidity, as measured by the Exchange Settlement Account (ESA) balances, averaged around K1,859.0 million in 2021, K397 million higher than the 2020 level. The increase in ESA level reflected Government Inscribed stocks maturity, including coupon interest payments, and from liquidity injected through Government spending.

CBB Average Interest Rates (lhs) & ESA (rhs)



CBB Yield Curve (lhs) & Basis Point Change (rhs)



Tap Facility

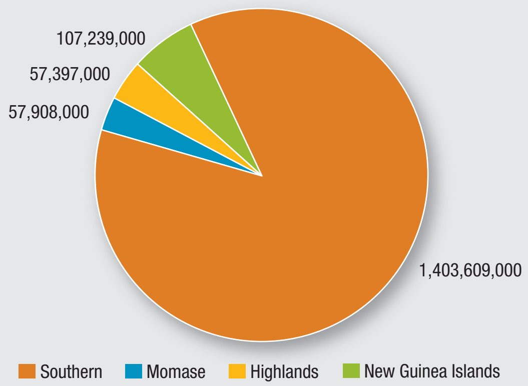
The CBB Tap facility aims to encourage investment by individuals, to help develop a savings culture within PNG. It provides an opportunity for individuals and small businesses, ineligible to participate in the primary auctions, to invest in government securities.

Trading in the Tap facility continued throughout 2021, with demand continuing to increase. Under the facility, both T bills and T bonds were offered with a minimum investment amount of K5,000.00. T bills were offered in shorter-dated terms of 63, 91, 182, 273 and 364 days, while T bonds were offered in longer-dated terms of 2, 4, 8, and 10 years.

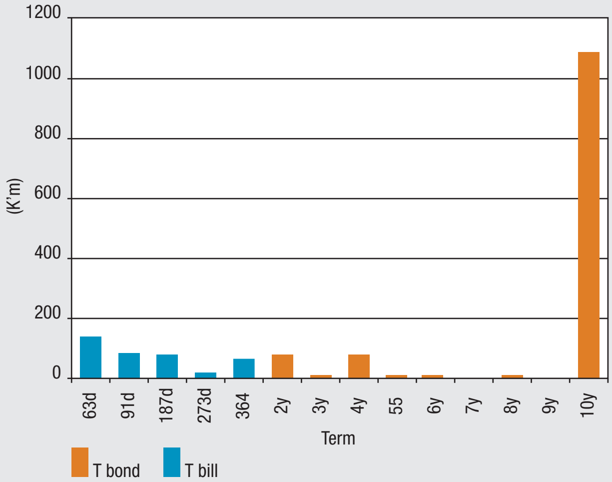
Total sales by the end of 2021 reached K1,052.9 million, an increase of 21.8 percent over the 2020 sales result. The 10 year T bond was the most preferred term.

The strong result was attributed to favourable interest rates and the concerted efforts of the Bank staff, such as the awareness building activities conducted at the Central Provisional Government Agro-Tourism Show in Kwikila.

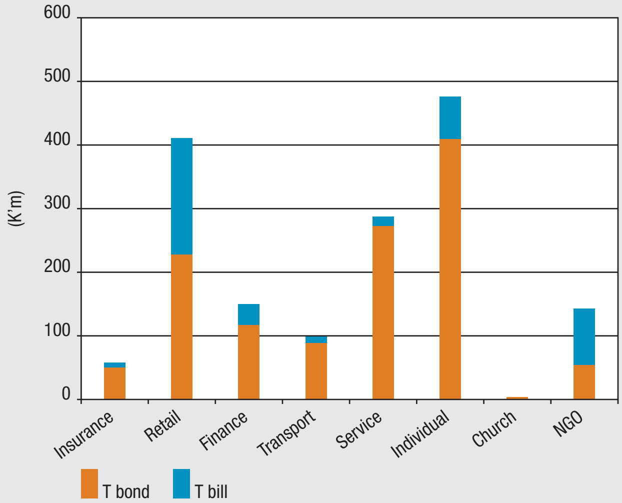
Tap Sales by Region as at 31/12/2021



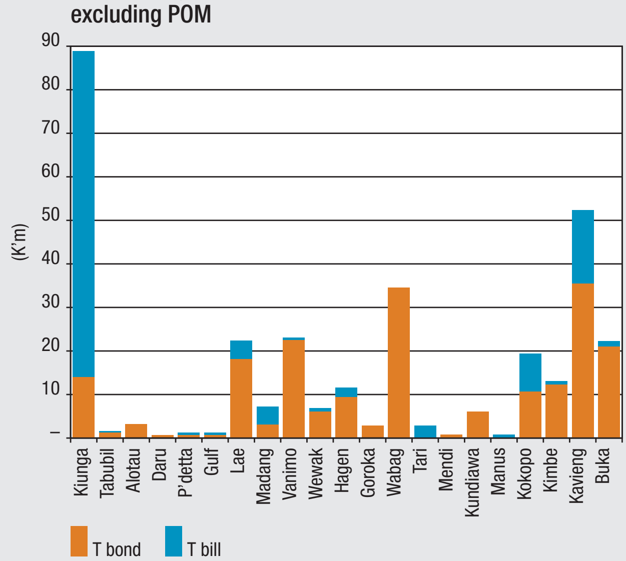
Tap Sales by Term as at 31/12/2021



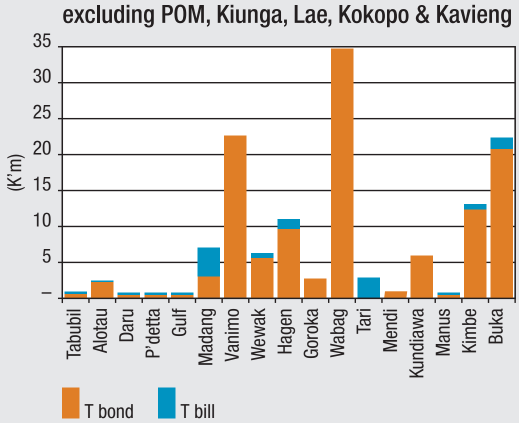
Tap Sales by Sector as at 31/12/2021



Tap Sales by Centre as at 31/12/2021 - excluding POM



Tap Sales by Centre as at 31/12/2021 – excluding POM, Kiunga, Lae, Kokopo & Kavieng



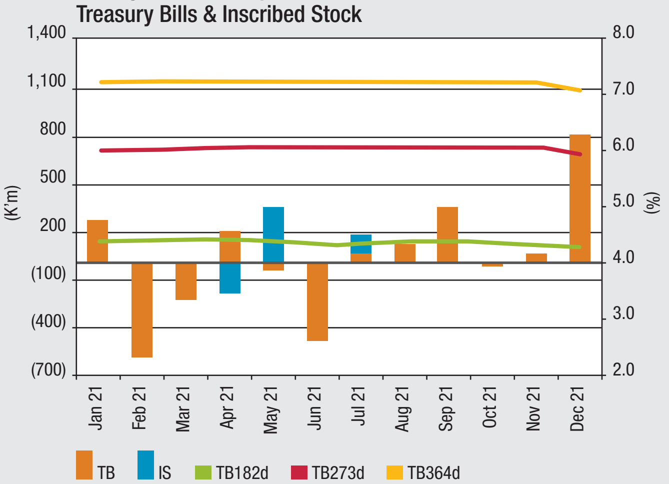
Treasury bills and Treasury bonds (Inscribed stock)

The Bank continued to consult closely with the Government on matters concerning the coordination of budget financing. In 2021 the Government issued its Treasury bills mainly in the 182, 273 and 364 day terms. The Treasury bonds were issued in the 2, 3, 5, 6, 8, 9 and 10 year terms.

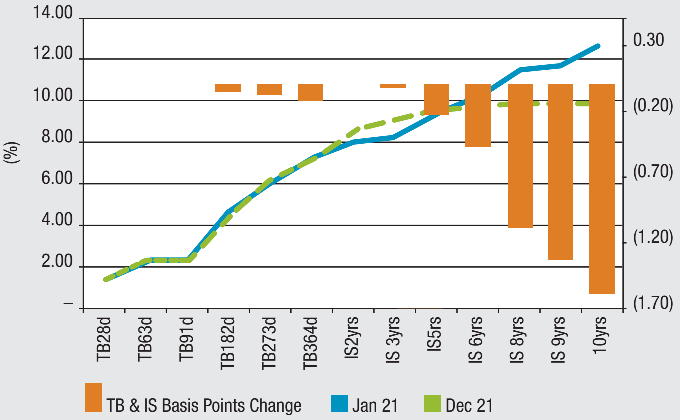
The Government's main issuance strategy in 2021 for Treasury bill holdings was rolling over its maturities and for Treasury bonds the strategy was to issue new COVID-19 Bonds, in accordance with the 2021 Budget appropriation.

The interest rates for all Treasury bills terms remained steady in 2021. The rates for Treasury bonds terms declined mostly in the longer-dated terms, due to new lines offered with reduced coupon rates.

Average Net Subscription Volumes & Interest Rates – Treasury Bills & Inscribed Stock



Government Yield Curve (lhs) & Basis Point Change (rhs)



Treasury bills – 'Slacks' and Quantitative Easing

In 2021 the Bank maintained the decision not to take up any further new slacks and continued to retire its Treasury bill slack holdings. At the end of 2021, total slacks maturities declined to K10.36 million and total QE T bills to K150 million.

The Bank did not undertake any quantitative easing (QE) program-related trades during 2021.

Secondary Market Development

The secondary market had limited activity during the year. The Bank bought a K1.0 million T bond holding from an investor, and sold a total of K150.0 million of its T bond holdings to investors on the secondary market. These transactions resulted in a net reduction in the Treasury bond holdings of the Bank.

Collaterised Repurchase Agreement Facility

The Collateralised Repurchase Agreement facility (REPO) aims to secure lending to commercial banks, by buying outright a nominated security asset (either T bills or T bonds) and repurchasing at a predetermined maturity date. The ownership of the security transfers to BPNG at the first stage and reverses at the second stage after the commercial bank successfully repays at maturity of the security. REPO transactions generate interest income for the Bank.

During 2021 16 Repo contracts were completed, with a total value of K397 million (2020: K4 million).

Government Debt

At the end of 2021 total borrowing by the Government from the public amounted to K24.1 billion (2020: K21.1 billion).

The borrowing comprised K10.8 billion in T bonds (Inscribed stock) and K13.3 billion in T bills.

Treasury bills

	K'm
Outstanding as at 31 Dec 2020	11,902
Issued in 2021	14,118
Slack Issued 2021	3
Maturities in 2021	12,723
Slack Maturities in 2021	3
Net Issuance	1,395
Outstanding as at 31 Dec 2021	13,297

Treasury bonds (Inscribed stock)

	K'm
Issued in 2021	2,647
Maturities in 2021	1,046
Net Issuance	1,601
Outstanding as at 31 Dec 2021	10,833
Outstanding as at 31 Dec 2020	9,233
Increase in Balance	1,601
BPNG Holdings 31 Dec 2021	2,135
BPNG Holdings 31 Dec 2020	1,434
Net Maturity in BPNG Holdings	7,010

BPNG Holdings T bills and Holdings

	K'm
BPNG Holdings 31 Dec 2019	2,010
Net Maturity in BPNG Holdings	576
BPNG Holdings 31 Dec 2020	1,434

Central Bank Bills

	K'm
Outstanding as at 31 Dec 2020	753
Issue in 2021	8,018
Slack Issued in 2021	
Maturities in 2021	6,777
Slack Maturities in 2021	
Net Maturity	1,242
Outstanding as at 31 Dec 2021	1,994

BPNG Bill Tap facility

	K'm
Outstanding as at 31 Dec 2020	39
BPNG Bill Tap Issued in 2021	31
BPNG Bill Tap Maturity 2021	51
BPNG Bill Early Redemption	0
Net Maturity	20
Outstanding as at 31 Dec 2021	19

BPNG Bond Tap facility

	K'm
Outstanding as at Dec 2020	826
Maturity in 2021	756
BPNG Bond Early Redemption in 2021	47
Issued In 2021	263
Net Issuance	208
Outstanding as at Dec 2021	1

Secondary Functions

ECONOMIC ADVICE TO GOVERNMENT

The Bank of Papua New Guinea provides the National Government with economic advice to help optimise fiscal and economic policy. The Governor is required to advise the Treasurer of the effect government policy may have on monetary policy.

The Governor or his representatives provide economic advice through presentations at various official forums and the Governor's 6 monthly Monetary Policy Statements. Bank staff also present economic information at technical meetings attended by officers from the Department of Treasury and other Government departments.

In accordance with the CBA 2000 (as amended), special reports must also be provided to the Minister on adverse conditions that threaten the country's monetary stability, affect monetary policy or the economic and financial policies of the Government.

INCREASING ECONOMIC KNOWLEDGE

Research activities within BPNG are key to increasing economic knowledge, as well as aiding policy analysis, decision making and forecasting, which are essential in preparing the Bank's Monetary Policy Statements.

In 2021 the continuing COVID-19 pandemic severely curtailed the Bank's capacity to conduct its main research into sources of sales and employment data, the quarterly Business Liaison Surveys and Sales and Employment Surveys.

Other research projects, presentations, collaborative research and training were also delayed by the impact of the pandemic.

It was possible for research staff to participate in training activities, through zoom meetings conducted through the Bank, and more advanced online training conducted through the IMF Training and Development Centre.

Virtual research training and development sessions included the SEACEN Virtual Regional Research Seminar in July, during which member central banks presented their research papers. BPNG presented a paper on *COVID-19 and MSMSE Sector: Opportunities and Challenges*.

Research topics considered during the year, and compiled into research papers, included dynamic effects of average personal and company income tax rates in PNG, now casting inflation in PNG, and effectiveness of Bank of PNG's foreign exchange interventions on kina exchange rate volatility.

The Bank continued its collaborative research work with Griffith University, Australia during 2021. The following papers were produced:

- *Assessment of investment and trade policy in PNG*.
- *Impact of Interest Rates on Housing prices in PNG*.
- *Advancing Financial Inclusion in PNG using contemporary digital technology.*
- *Factors affecting ease of doing business in PNG*.

FINANCIAL SERVICES DEVELOPMENT AND INCLUSION

Promoting employment and economic growth are clear objectives for the Bank, as set out in the 2021 amendments to the CBA.

Maintaining the Bank's key involvement in the implementation of the PNG National Financial Inclusion Strategy, continued to be a key focus through 2021, through its close relationship with the Centre for Excellence in Financial Inclusion (CEFI), the apex organisation responsible for coordinating all financial inclusion activities in PNG.

2021 key financial inclusion results*

	End 2021	End 2020
Total number of deposit accounts	3,474,922	3,301,496
Access points	15,031	14,205
Branches	220	221
ATMs	469	473
EFTPOS merchants	13,325	13,099
Agents	516	412
Mobile financial services accounts	1,058,163	848,695

** Information sourced from CEFI*

2021 Financial Inclusion Highlights

*(Information sourced from CEFI. Further information about the activities of CEFI is available on **www.thecefi.org**)*

- CEFI signed a partnership memorandum with the Department of Education to introduce financial education into the school curriculum.
- West New Britain, Milne Bay, East New Britain and New Ireland signed as partners with CEFI to the Provincial Government engagement program to roll out financial inclusion activities.
- With funding from NZ Aid, CEFI commenced a project for the development of a green finance policy for PNG.
- In partnership with the Fresh Produce Development Authority, CEFI started the Market for Village Farmer's project. The project will introduce 25,500 fresh produce farming families in Western Highlands, Jiwaka, Simbu, Eastern Highlands, Morobe and East New Britain to the benefits of financial inclusion.
- CEFI partnered with the Women Entrepreneur's Finance Initiative and the Asian Development Bank to design and deliver online training on digital financial literacy, business planning & debt management and e-commerce to 195 businesswomen.
- CEFI and the Institute of Banking and Business Management (IBBM) launched the first Digital Microfinance Professional course in July 2021 for the staff of commercial banks, microbanks and savings and loan societies.
- CEFI in partnership with Business Link Pacific launched the SME lending products online portal, Finance Finder in August 2021. The Finance Finder is designed to help SMEs in PNG find appropriate financing options.

FINANCIAL INTELLIGENCE MONITORING

The Financial Analysis and Supervision Unit (FASU) is PNG's Financial Intelligence Unit (FIU). FASU is an operationally independent unit established by legislation in the Bank of Papua New Guinea. Its role is to coordinate efforts to protect PNG and the integrity of the PNG financial system against money laundering and counter terrorist financing (AML/CTF) and other serious financial crimes.

AML/CTF Supervision and Compliance

FASU is mandated to conduct onsite inspections on registered reporting entities under the *AML/CTF Act*.

In 2021 the pandemic continued to prevent FASU from conducting many of its planned AML/CTF activities. This meant that only one onsite inspection of a financial institution was able to be conducted during the year. However, FASU continued ongoing reviews of supervision and compliance action items that had been conducted in 2020. In addition, FASU requested and reviewed the AML/CTF programs of 3 registered reporting entities during the year.

FASU undertook its first enforcement action during 2021, invoking the *AML/CTF Act* against BSP Financial Group Limited (BSP) to publish a formal warning, appoint an external auditor to review BSP's conduct and issue an enforcement notice to remove 4 members of BSP's executive management. Two executive managers tendered their resignations. FASU continued to work closely with BSP and the external auditor to complete the comprehensive audit.

Two registered reporting entities, Westpac Bank (PNG) Limited and Young & Williams Lawyers, submitted self-disclosure reports. In response, FASU conducted assessments on their AML/CTF processes and procedures.

Capacity Building

In 2021 FASU received capacity building assistance from several international organisations, including the Australian Transaction Reports and Analysis Centre (AUSTRAC), Australia Attorney Generals Department (AGD), United Nations Office on Drug and Crime (UNODC), INTERPOL, United Nations Development Programmes (UNDP) and Asia-Pacific Group on Money Laundering (APG).

Ongoing technical assistance (TA) from AUSTRAC, in collaboration with the PNG Department of Justice and Attorney General (DJAG), and the Australian Department of Home Affairs (DHA), continued through 2021. TA from UNODC and INTERPOL relating to financial crimes in the forestry sector also continued through the year. FASU staff also participated in training activities, workshops and conferences in 2021.

Domestic Co-operation

During the year FASU and DJAG co-hosted several meetings of the National Coordinating Committee on Anti-Money Laundering and Counter Terrorist Financing (NCC), which is established to ensure PNG has a robust AML/CTF system. Meeting participants included NCC member agencies, peer regulators and law enforcement agencies. Two of the meetings were held outside Port Moresby for the first time, one in Kokopo, East New Britain Province and the other in Madang, Madang Province.

International Co-operation

The inaugural Pacific Financial Intelligence Community (PFIC) meeting was conducted by video conference in 2021. PFIC members, Pacific region FIUs, meet quarterly to design and implement strategies to combat regional money laundering and terrorist financing matters.

FASU also participated in virtual meetings convened by the Pacific Supervisory Forum during 2021, to discuss AML/CTF risk management and supervisory practices.

Awareness Building

As well as presenting several sessions at the request of agencies and reporting entities during the year, FASU conducted awareness and education sessions in the outer provinces of Morobe, ENB and Madang in 2021. The sessions covered FASU's role and functions, and the registration requirements and reporting obligations of reporting entities.

Institutional Support

STRATEGIC AND OPERATIONAL MANAGEMENT

Risk Management

The impact of the pandemic was felt throughout the Bank during 2021, on a personal level as well as on a business level, with several staff members and their families seriously affected by COVID-19.

The Bank invoked its Business Continuity Plans (BCP) several times during the year, which enabled BPNG to continue to operate, with critical staffing rosters, working from home arrangements and virtual meetings.

As it did with most organisations, the pandemic exposed the Bank to operational risks, including cyber security, health and safety, capability, and delivery. BPNG responded to these threats with authentication and authorisation controls for access to the critical ICT systems, clear vaccination and COVID-19 testing policies, teamwork and collaboration between departments to ensure collective management of crises, and adoption of the 'Niupela Pasin' (New Normal) protocols.

Review of the Enterprise Risk Management (ERM) framework had progressed through the year. However, the amendments to the CBA 2000 passed at the end of 2021 had an impact on a range of issues in the review and the assessment was paused as new Board and Executive appointments were made.

Strategic Management

As a direct result of the pandemic preventing finalisation of key projects, the Bank extended the 2016-2020 Strategic Plan for 12 months and commenced developing the next plan for the period 2022-2026.

HUMAN RESOURCE MANAGEMENT

Staff Numbers

Staff Category	2021	2020	2019
Non-management level staff	463	457	462
Management	60	63	63
Executive	7	7	6
Total	**530**	**527**	**531**

Projects Undertaken in 2021

Several key projects were delivered or progressed during 2021. These included:

- the Business Continuity Manual, which set out practices and procedures for workplace changes and compliance with 'new normal requirements', such as working from home and shift roster arrangements
- automation of the payroll system
- organisational design review
- succession planning framework.

Employee Capacity Development

With continued learning and development challenges brought by the pandemic, the Bank made extensive use of virtual platforms to fulfil the Bank's ongoing commitment to building employee capacity.

During the year staff attended 26 international programs online, including virtual learning sessions offered by the SEACEN Research and Training Centre, the International Monetary Fund (IMF), and other international organisations. Staff members attended 180 local training sessions, workshops, meetings and conferences, both in-person and online. The Bank also sponsored 18 staff members in their long-term studies.

The Bank has recognised the benefit of continuous affiliation with professional bodies, to maintain its network and the professional standing of its employees. BPNG continues to encourage staff to hold memberships from relevant industry associations.

Institutional Support

The Bank continued to encourage staff to participate in basic standards programs, such as the short-course programs facilitated by IBBM, as well as employee engagement activities, and leadership and communication skills building activities.

Gender Equity and Social Inclusion

In 2021 the Bank produced a draft Family and Sexual Violence (FSV) Policy, as part of the Bank's commitment to best practice Gender Equity & Social Inclusion (GESI), and an Employee Handbook to ensure the workplace reflects an environment where employees feel free of fear, intimidation, abuse and all types of violence.

The Bank hosted the 'Pathway to Safety' forum in September 2021 and produced a guide for the Bank's referral pathway. The forum featured presentations from a wide range of public and private sector organisations about the resources available to deal with issues relating to gender-based violence. The Department of Personnel Management and the PNG Business Coalition for Women (BFCW) provided technical support for the Pathway to Safety program.

By the end of 2021, GESI and FSV practices and procedures had become mainstream throughout the Bank, with guidelines put in place for dealing with complaints and disclosures from unfairly-treated employees and for referring staff for counselling and other supports through the referral pathway.

INFORMATION AND COMMUNICATION TECHNOLOGY

The Information & Communication Technology (ICT) function within the Bank provides oversight, management and delivery of enterprise-wide ICT services.

In 2021 the Bank's ICT focus was directed at supporting the Business Continuity Plan, specifically to ensure the Bank's critical functions were consistently available and secure. This involved finding new ways of working, introducing new systems and technology to ensure accessibility and availability of internet services and critical business systems outside their physical locations, and making sure none of the changes and adaptations would compromise the Bank's ICT security.

COMMUNICATION SERVICES

The Bank's communications and events staff were involved in a wide range of activities to support the Bank's performance of its key functions and promote public awareness of the role of the central bank.

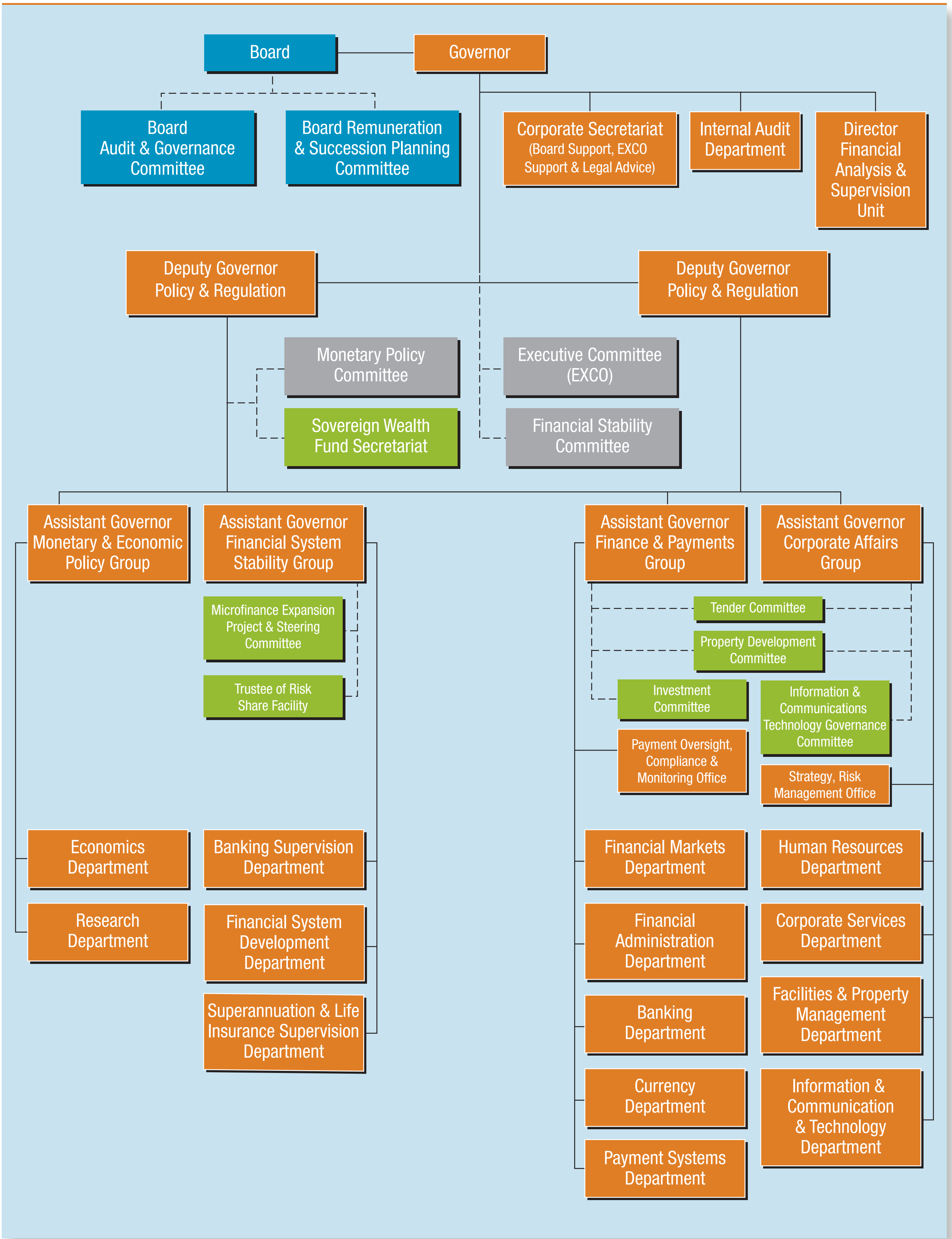
These included coordinating significant events, including the board meetings, staff functions and announcements, and presentations to various non-government organisations and community groups. As well as major events, the Bank produced and conducted the public release of two Monetary Policy Statements, issued a range of public information, including the Quarterly Economic Bulletin and Monthly Economic Review and going public information campaigns.

Community Support

The Bank supports a number of professional, cultural, sporting and health-related causes.

Manager, Corporate Services Department, Jerome Peniasi and Assistant Governor Elizabeth Genia on behalf of the Bank opening the footbridge donated by the Bank to the Banapa community in Rabaraba, Milne Bay Province

Organisation Chart 31 December 2021



Senior officers 31 December 2021	
Governor	**Benny BM Popoitai, MBE (Acting)**
Corporate Secretary	Tau Vini
Internal Audit	
Department Manager	Benek Beriso
Manager, Operations Audit	Frieda Kamakom
Manager, IT Audit	Justin Wohuinangu
Financial Analysis and Supervision Unit	
Director	Benny Popoitai MBE
Deputy Director	Wilson Onea
Manager, Supervision & Compliance Division	Rosa Banik
Manager, Intelligence Management Division	Edric Ogomeni
Manager, Policy Development & Coordination Division	Emete Enare
Monetary & Economic Policy Group	
Assistant Governor	Sali David
Economics	
Department Manager	Thomas Jiki
Manager, Monetary Policy and Analysis	Wilson Jonathan
Manager, Balance of Payments	Vacant
Manager, Library	Polycarp Reu (Acting)
Manager, International Transactions Monitoring	Elim Kiang
Research	
Department Manager	Jeffrey Yabom
Manager, Economic Analysis	Williamina Hubert
Manager, Projects	Boniface Aipi

Senior officers 31 December 2021	
Financial System Stability Group	
Assistant Governor	Ellison Pidik
Manager, Small Medium Enterprise Accelerator Program	Dominic Sikakau
Principal Senior Analyst	Peter Samuel
Banking Supervision	
Department Manager	Sabina Deklin
Manager, Banks & Finance Companies	Boas Irima
Manager, Savings & Loan Societies	Nickson Kunjil
Superannuation & Life Insurance Supervision	
Department Manager	Elizabeth Gima
Manager, Superannuation	Tom Milamala
Manager, Life Insurance	Joseph Nukints
Manager, Employer Contributions Enforcement	Nonza Makip
Financial System Development	
Department Manager	George Awap
Manager, Macro-Prudential Supervision	Mark Ofoi
Manager, Financial System Policy	Tanu Irau
Manager, Licensing and Compliance	Walio Gamini
Finance & Payments Group	
Assistant Governor	Simon Gaius
Payments Oversight & Compliance Office	
Manager	Alfred Napun
Manager, Monitoring & Analytics	Francis Poko
Manager, Assessment & Compliance	Raylene Semi

Institutional Support

Senior officers 31 December 2021	
Financial Markets	
Department Manager	Rowan Rupa
Manager, Foreign Reserves	Seta Kila (Acting)
Manager, Money Markets	Winnie Linken
Manager, Registry	Marie Martin
Manager, Middle Office	Ambrose Papis
Financial Administration	
Department Manager	Danny Ganak
Manager, Management Reporting	Noine Noine
Manager, Accounting & Payments	Pala Tau
Manager, Settlements	Soms Yankey
Banking	
Department Manager	Jason Tirime
Manager, Customer Services	So'on Drewei
Manager, Clearing Accounts	Aiva Aku
Manager, Government Accounts	Priscilla Ipu
Currency	
Department Manager	David Lakatani
Manager, Control	John Yenas
Manager, Processing	Edward Kisaku
Manager, Lae Cash Processing Facility	Ron Sikar
Manager, Control, Lae Cash Processing Facility	Agnes Mark
Manager, Processing, Lae Cash Processing Facility	Frank Ababa
Payment Systems	
Department Manager	Gaona Gwaibo
Manager, Switch Operations & Support	Stephen Pouru
Manager, KATS Operations & Support	Kelly Pukai

Senior officers 31 December 2021

Corporate Affairs Group	
Assistant Governor	Elizabeth Genia
Strategy & Risk Management Office	
Manager	Nathan Maire
Manager, Support Services Office, Lae Cash Processing Facility	William Tiki
Human Resources	
Department Manager	Mairi Mathew
Manager, Strategy Planning and Development	Saima Kalis
Manager, Administrative Support	George Geberi (Acting)
Manager, Client Support	Zhennah Enai (Acting)
Information & Communication Technology	
Chief Information Officer	Naime Kilamanu
Manager, Corporate Systems	Elvis Haoda
Manager, Operations	Manea Joseph
Manager, Security Unit	Bernadette Caleb
Manager, Service Delivery	Ivan Gubis
Corporate Services	
Department Manager	Jerome Peniasi
Manager, Media and E-Communications	Vacant
Manager, General Services	Monica Toisenegila
Manager, Events, Marketing and Publications	Alice Japhlom (Acting)
Facilities & Property Management	
Department Manager	Bruce Kitchen
Manager, Building	Gibson Param
Manager, Building, Lae Cash Processing Facility	Trevor Gankarch
Manager, Security , Lae Cash Processing	Bravo Vaieke
Manager, Security	David Rutana

BANK OF PAPUA NEW GUINEA

FINANCIAL STATEMENTS
FOR THE YEAR ENDING
31 DECEMBER 2021

Table of contents

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2021

	Notes	2021 K'000	2020 K'000
Revenue from foreign currency investments			
Interest revenue	**2**	63,211	83,073
Realised gain on financial assets		9,131	45,316
Foreign exchange gains and commissions		67,005	69,254
Total revenue from foreign currency investments		**139,347**	**197,643**
Expenses on foreign currency investments			
Interest expense on liabilities with IMF		(194)	(1,411)
Custodian and investment management fees		(7,165)	(6,943)
Total expenses from foreign currency investments		**(7,359)**	**(8,354)**
Net foreign currency income		**131,988**	**189,289**
Revenue from domestic operations			
Interest revenue	**3**	234,265	242,324
Other income	**4**	23,359	19,471
Total revenue from domestic operations		**257,624**	**261,795**
Expense on domestic liabilities			
Interest expense	**5**	(121,532)	(85,502)
Total expenses on domestic liabilities		**(121,532)**	**(85,502)**
Net domestic income		**136,092**	**176,293**
Total net operating income		**268,080**	**365,582**
Operating expenses			
General and administration expenses	**6**	(236,420)	(234,721)
Profit excluding unrealised income		**31,660**	**130,861**
Other unrealised income			
Fair value and foreign exchange revaluation (loss)/gain on foreign currency investments		(203,249)	345,299
Fair value revaluation gain/(loss) on domestic investments		55,272	(42,363)
(Loss)/Profit for the year		**(116,317)**	**433,797**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
(Loss)/Gain on gold asset revaluation		(9,558)	61,583
Items that will not be subsequently reclassified to profit or loss			
Gain on property valuation		-	-
Other comprehensive (loss)/income for the year		**(9,558)**	**61,583**
Total comprehensive (loss)/income for the year		**(125,875)**	**495,380**

The financial statements are to be read in conjunction with the notes on pages 47 to 82.

Statement of Financial Position

For the year ended
31 December 2021

	Notes	2021 K'000	2020 K'000
Assets			
Cash and cash equivalents	8	3,457,725	3,074,377
Financial assets at fair value through profit or loss	9	6,338,154	5,972,573
Assets held with IMF and other financial organisations at fair value through profit or loss	7	1,272,750	30,510
Accrued interest		15,596	19,024
Total foreign currency financial assets		**11,084,225**	**9,096,484**
Government of Papua New Guinea securities	10	2,376,976	1,659,141
Other government receivables	7	1,259,438	-
Loans and advances	11	2,270	1,792
Accrued interest and other receivables		67,864	38,663
Total local currency financial assets		**3,706,548**	**1,699,596**
Total Financial Assets		**14,790,773**	**10,796,080**
Non-financial assets			
Gold		270,045	279,602
Property and equipment	13	457,730	450,497
Investment properties	14	39,170	39,170
Other assets	12	80,924	72,730
Total non-financial assets		**847,869**	**841,999**
Total Assets		**15,638,642**	**11,638,079**
Liabilities			
Foreign currency financial liabilities			
Liabilities to IMF at fair value through profit or loss	7	1,861,793	640,069
Other financial liabilities	19	2,988	5,697
Total foreign currency financial liabilities		**1,864,781**	**645,766**
Local currency financial liabilities			
Deposits from banks and third parties	15	4,044,663	3,619,138
Deposits from Government and Government entities	16	2,563,187	1,623,971
Debt securities issued	17	3,041,490	1,612,924
Accrued interest payable on debt securities		1,204	636
Currency in circulation	18	2,654,906	2,431,093
Other financial liabilities	19	97,317	62,877
Total local currency financial liabilities		**12,402,767**	**9,350,639**
Total financial liabilities		**14,267,548**	**9,996,405**
Non-financial liabilities			
Provisions for employee entitlements	20	41,259	35,964
Total non-financial liabilities		**41,259**	**35,964**
Total Liabilities		**14,308,807**	**10,032,369**

	Notes	2021 K'000	2020 K'000
Equity			
Capital	22	145,540	145,540
Gold revaluation reserve	22	249,437	258,995
Property revaluation reserve	22	80,409	95,028
Unrealised gain/(loss) reserve	22	418,028	573,890
Building reserve	22	173,800	123,800
General reserve	22	30,000	30,000
Retained earnings	22	232,621	378,457
Total Equity		**1,329,835**	**1,605,710**
Total Liabilities and Equity		**15,638,642**	**11,638,079**

The financial statements are to be read in conjunction with the notes on pages 47 to 82.

Statement of Changes in Equity

For the year ended 31 December 2021

	Capital K'000	Gold Revaluation Reserve K'000	Property Revaluation Reserve K'000	Unrealised gain (loss) Reserve K'000	Building Reserve K'000	General Reserve K'000	Retained Earnings K'000	Total K'000
Balance at 1 January 2020	**145,540**	**197,412**	**95,028**	**299,888**	**73,800**	**30,000**	**418,662**	**1,260,330**
Profit for the year	-	-	-	302,936	-	-	130,861	**433,797**
Net transfers from unrealised profit/(loss) reserve to retained earnings	-	-	-	(28,934)	-	-	28,934	**-**
Other comprehensive income	-	61,583	-	-	-	-	-	**61,583**
Net transfers from retained earnings to building reserve	-	-	-	-	50,000	-	(50,000)	**-**
Revaluation of PPE	-	-	-	-	-	-	-	**-**
Dividend declared and paid	-	-	-	-	-	-	(150,000)	**(150,000)**
Balance at 31 December 2020	**145,540**	**258,995**	**95,028**	**573,890**	**123,800**	**30,000**	**378,457**	**1,605,710**
Profit for the year	-	-	-	(147,977)	-	-	31,660	**(116,317)**
Net transfers from unrealised profit/(loss) reserve to retained earnings	-	-	-	(7,885)	-	-	7,885	**-**
Other comprehensive income	-	(9,558)	-	-	-	-	-	**(9,558)**
Net transfers from property reserve to retain earnings	-	-	(14,619)	-	-	-	14,619	**-**
Net transfers from retained earnings to building reserve	-	-	-	-	50,000	-	(50,000)	**-**
Revaluation of PPE	-	-	-	-	-	-	-	**-**
Dividend declared and paid	-	-	-	-	-	-	(150,000)	**(150,000)**
Balance at 31 December 2021	**145,540**	**249,437**	**80,409**	**418,028**	**173,800**	**30,000**	**232,621**	**1,329,835**

The realised profit for the year is K31.7 million. The unrealised gain/(loss) reserve and net asset balance at 31 December 2021 are K418.0 million and K1.3 billion, respectively. *The Central Banking (Amendment) Act 2021* (Section 49.3) states that no distribution will be made where, in the opinion of the Central Bank, the assets of the Bank are, or after the payment would be, less than the sum of its liabilities and paid-up capital.

The financial statements are to be read in conjunction with the notes on pages 47 to 82.

Statement of Cash Flows

For the year ended 31 December 2021

	Notes	2021 K'000	2020 K'000
Cash Flows from Operating Activities			
Interest received on foreign investments		66,639	83,763
Interest received on domestic investments		205,065	262,609
Fees, commissions and other income received		90,364	88,725
Interest paid on IMF liabilities		(194)	(1,411)
Interest paid on domestic liabilities		(120,964)	(87,247)
Payments to employees		(100,817)	(103,303)
Payments to suppliers		(85,709)	(90,748)
Fees and commissions paid		(7,165)	(6,943)
Net proceeds from (purchases)/sale of foreign investments		(580,216)	236,031
Net (payments)/receipts to Government Securities		(1,922,001)	707,466
Net loans (issued)/repaid		(478)	124,301
Net Cash Flow (used in)/provided by Operating Activities		**(2,455,476)**	**1,213,243**
Cash Flows from Investing Activities			
Purchase of property and equipment		(12,367)	(8,877)
Payments for construction costs on capital projects		(16,067)	(20,698)
Proceeds from sale of property and equipment		139	23
Net Cash Flow used in Investing Activities		**(28,295)**	**(29,552)**
Cash Flows from Financing Activities			
Net movement of currency in circulation		223,813	132,519
Net movement in debt securities issued		1,428,565	(162,807)
Distributions to the Government		(150,000)	(150,000)
Net movement in deposits from Government		939,216	272,811
Net movement in deposits from banks		425,525	(6,699)
Net Cash Flow provided by Financing Activities		**2,867,119**	**85,824**
Net Increase in Cash and Cash Equivalents		**383,348**	**1,269,515**
Cash and cash equivalents at 1 January		3,074,377	1,804,862
Cash and Cash Equivalents at 31 December	**8**	**3,457,725**	**3,074,377**

The financial statements are to be read in conjunction with the notes on pages 47 to 82.

Notes to the Financial Statements

For the year ended
31 December 2021

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank of Papua New Guinea (the 'Bank') is domiciled in Papua New Guinea and is the country's central bank and regulator of monetary policy, the financial sector and payments system.

The principal accounting policies applied in the preparation of these financial statements are set out below. The application of these policies are consistent with the review and approval from the Bank's Board as at 30th June 2022.

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and in accordance with the *Central Banking (Amendment) Act 2021* (the 'Act'). In relation to matters for which no provision is made in applicable financial reporting standards and that are not subject to any applicable rule of law, accounting policies that are appropriate to the circumstances of the Central Bank and have full authoritative support within the accounting profession in Papua New Guinea shall apply.

All amounts are expressed in kina rounded to the nearest thousand unless otherwise stated. Fair value accounting is used for all the Bank's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for land and buildings. In all other cases, a historical cost basis of accounting is used. Revenues and expenses are brought to account on an accrual basis.

Going concern

The financial statements continue to be prepared on a going concern basis. The Bank recorded a net asset position of K1.33 billion as at 31 December 2021 (2020: net asset of K1.61 billion) as a result of the appreciation of kina against other major currencies.

Section 50(2) of the Act provides that where the Bank incurs a loss due to a change in the value of assets or liabilities, the Minister shall cause to be paid to the Bank such amount out of the Consolidated Revenue Fund as is necessary to avoid the loss. Subsection 50(4) of that Act further provides that the Minister may create and issue to the Central Bank non-interest bearing non-negotiable notes for an amount not exceeding any payment made by the Minister to the Central Bank out of the Consolidated Revenue Fund in accordance with Subsections (1) and (2) of the Act. The above provisions of the Act effectively require the Government to provide financial support to the Bank.

(b) Functional and presentation currency

Transactions in foreign currency are translated to kina being the functional and presentation currency of the Bank at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to kina at the foreign exchange rate prevailing at reporting date. Foreign exchange differences arising on translation are recognised in the Statement of Profit or Loss and Other comprehensive Income.

(c) Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment in the year ended 31 December 2021 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

Note 24 (iv) – determination of the fair value of financial instruments with significant unobservable inputs;

Note 14 – fair value of investment properties; and

Note 13 – fair value of land and buildings.

(ii) Accounting estimates

Fair value of financial instruments that are not traded in an active market (for example over the counter derivatives or PNG Government Inscribed stock) is determined using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Derivative transactions are entered into on behalf of the Bank by the external fund managers and similar valuation techniques are used in valuing these derivatives.

(d) Standards issued but not adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Bank has not early adopted them in preparing financial statements. The following amended standards are not expected to have a significant impact on the Bank's financial statements.

- COVID 19 Related Rent Concessions (Amendment) - For annual periods beginning on 1 January 2021
- Interest Rate Benchmark Reform Phase 2 - For annual periods beginning on 1 January 2021 and 1 July 2021
- COVID 19 Related Rent Concessions beyond 30 June 2021 - For annual periods beginning on 1 July 2021

(e) IFRS 16 Leases

This standard was effective for the Bank's annual reporting period beginning on 1 January 2019. IFRS 16 requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Under the standard, the Bank will reflect in the Statement of Financial Position the right-of-use assets and lease liabilities in respect of the lease agreements.

(i) The Bank as lessee

The Bank assesses whether a contract is, or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less or residential leases) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its Kina Facility Rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is included under 'Other financial liabilities' in the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using the current Kina Facility Rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in the Property and equipment line in the Statements of Financial Position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in note 21.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line Other expenses in Profit or Loss.

(ii) The Bank as lessor

The Bank enters into lease agreements as a lessor with respect to its investment properties.

Leases for which the Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases.

(f) Financial Instruments

Classification and measurement of financial instruments

Definition of financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank's financial instruments are its domestic government securities, foreign government securities, Central Bank Bills issued, bank deposits, cash and cash equivalents, deposit liabilities and currency in circulation. The Bank accounts for its financial instruments in accordance with IFRS 9 and reports these instruments under IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurement.

(i) Recognition and initial measurement

Financial instruments are initially recognised when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument.

(ii) Classification and subsequent measurement of financial assets

The Bank classifies financial assets into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL).

The classification of debt instruments is determined based on:

a) the business model under which the asset is held; and

b) the contractual cash flow characteristics of the instrument.

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The business model for debt instruments is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model. The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI). Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortisation of premium/discount. Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs, and a profit margin. If the Bank identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Solely payments of principal and interest (SPPI) criteria

The SPPI test requires that the contractual terms of the financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding i.e. cash flows that are consistent with a basic lending arrangement.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money — e.g. periodical reset of interest rates.

Financial assets measured at amortised cost – financial assets are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash, flows where those cash flows represent solely payments of principal and interest. After initial measurement, financial assets in this category are carried at amortised cost. Interest income on these instruments is recognised as interest income using the effective interest rate method.

Financial assets measured at FVTPL – financial assets are measured at FVTPL if assets:

i) are held for trading purposes;

ii) are held as part of a portfolio managed on a fair value basis; or

iii) whose cash flows do not represent payments that are solely payments of principal and interest.

Financial assets measured at FVTOCI – financial assets are measured at FVTOCI if the financial assets are held within a business model that is achieved by both collecting contractual cash flows and selling, which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest. These comprise primarily marketable securities. They are recognised at the trade date when the Bank enters into contractual arrangements to purchase and are derecognised when they are sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains or losses) are recognised in Other comprehensive income until the assets are sold. Upon disposal, the cumulative gains and losses in the comprehensive income are recognised in the income statement as Gains and losses from financial instruments. Financial assets measured at FVOCI are included in the impairment calculations and the impairment is recognised in profit or loss.

(iii) Classification of financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortised cost except for liabilities with IMF. Interest on financial liabilities is calculated using the effective interest rate method, is recognised as interest expense. Financial liabilities measured at fair value through profit or loss – the Bank designates financial liabilities to eliminate, or significantly reduce, inconsistencies that would otherwise arise from measuring assets and liabilities on different bases. The relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair value basis.

(iv) Reclassification of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing the financial assets.

(v) Impairment of financial assets carried at amortised cost

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9.

Expected credit loss impairment model

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

- **Stage 1 –** 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month probability of default that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.
- **Stage 2 –** When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining estimated life of the financial asset. Credit loss allowances are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.
- **Stage 3 –** Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses. Under IFRS 9, the Bank will consider a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held).

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of key statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.

- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

The Bank formulates a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information. This process involves developing four different economic scenarios, which represent a range of scenarios linked to housing and interest rate variables. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments, choosing scenarios that specifically test the resilience of the Bank to financial stress.

ECL calculation

Expected credit losses are calculated by identifying scenarios in which a loan or receivable defaults, estimating the cash shortfall that would be incurred and then multiplying that loss by the probability of the default happening. When an ECL is identified, the carrying amount of the asset would be reduced and the amount of ECL is recognised in the income statement.

(vi) Derecognition of financial instruments

Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Bank transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Bank has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Bank has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Bank derecognises the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Bank retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value.

The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the profit or loss.

(vii) Modification of financial instruments

Modification of financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original assets are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the modification of a financial asset measured at amortised cost or FVTOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

Modification of financial liabilities

The Bank derecognises a financial liability when its terms are modified and cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(viii) Domestic Government securities

The Bank holds inscribed stocks with fixed coupon rates issued by the Government. Interest is received biannually at the coupon rate and the principal is received at maturity. The inscribed stock securities are managed by the Bank on a fair value basis, and are held to implement monetary policy and may be sold or lent, typically for short terms, under repurchase agreements, thus they are designated as FVTPL under IFRS 9. In accordance with this standard, the securities are accounted for on a fair value basis using the discounted present value model, with realised and unrealised gains and losses taken to profit. The Bank also holds treasury bills purchased at a discount. The securities are held to collect contractual cash flows hence are measured at amortised cost.

Interest earned on the securities is accrued over the term of the security and included as revenue in the Statement of Profit or Loss and Other Comprehensive Income.

(ix) Foreign exchange holdings

Foreign exchange holdings are invested mainly in securities (issued by the Governments of Australia, the United Kingdom, United States of America, Germany, France and Japan) and bank deposits (with highly-rated international banks, central banks and international agencies). They are available to be traded in managing the portfolio of foreign exchange reserves. In accordance with IFRS 9, these assets are measured as ‘fair value through profit or loss’. External fund managers engaged by the Bank also enter into forward exchange contracts to hedge the returns of portfolios under their management to the US Dollar. No PNG Kina forward contracts are entered into.

(x) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to kina equivalents at the prevailing exchange rate on balance date in accordance with IAS 21 – The Effects of Changes in Foreign Exchange Rates. Realised and unrealised gains or losses on foreign currency are taken to profit or loss, but only realised gains are available for distribution.

(xi) Foreign government securities

Foreign government securities include coupon and discounted securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. They are available to be traded in managing the portfolio of foreign exchange reserves and are managed by the Bank on a fair value basis, thus they are measured as FVTPL under IFRS 9. In accordance with this standard, these securities are valued at market bid prices on balance date. Realised and unrealised gains or losses are taken to profit; only realised gains and losses are available for distribution in accordance with the *Central Banking (Amendment) Act 2021*. Interest earned on securities is accrued as revenue in the Statement of Profit or Loss and Other Comprehensive Income.

(xii) Foreign deposits

The Bank holds its foreign currency reserves in deposits with highly-rated international banks. Deposits are classified as 'cash and cash equivalents' under IAS 7 and recorded at their face value. Foreign deposits are revalued at period end using the applicable foreign exchange bid rate. Any gains or losses due to changes in the foreign exchange rates between periods are taken to profit.

(xiii) Foreign currency forward contracts

External fund managers engaged to manage part of the Bank's investment portfolio enter into over the counter forward foreign exchange contracts to hedge the return of portfolios under their management to the US Dollar. Gains/(losses) on this portfolio are treated as unrealised by the Bank and recorded in a separate equity reserve as such gains and losses are not available for distribution. These forward contracts are accounted for on a fair value basis, with all changes in fair value being reflected in the Statement of Profit or Loss and Other Comprehensive Income in accordance with IFRS 9. The fair values are determined with reference to prevailing exchange rates at balance date.

(xiv) Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. In a reverse repurchase agreement, securities are initially bought and this transaction is reversed at an agreed price on an agreed future date. Reverse repurchase agreements provide the Bank's counterparties with cash for the term of the agreement and the Bank treats it as a cash receivable. Securities purchased and contracted for sale under reverse repurchase agreements are classified under IFRS 9 as 'held to collect' and measured at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue. Repurchase agreements result in cash being paid to the Bank and are treated as a liability, reflecting the obligation to repay cash.

(xv) Deposit liabilities

Deposits include deposits at call. Deposits are financial liabilities classified and measured at amortised cost under IFRS 9 and are included in Note 15 and Note 16.

(xvi) Central Bank Bills on issue

The Bank has issued Central Bank Bills as part of its money market operations. These are classified as financial liabilities. The bills issued have maturities ranging from 28 days to 181 days and are recorded at their amortised cost using the effective interest method. Interest is paid at maturity.

The Bank is also issuing Central Bank bond with maturities ranging from 2 to 10 years and are also recorded at amortised cost using the effective interest method. Interest is paid semi-annually.

(xvii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable repayment terms that are not quoted in an active market. Loans are receivables and initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method under IFRS 9. Loans and advances owing from previous staff are treated as financial assets measured at amortised cost and will be assessed for impairment based on an expected credit loss model in accordance with IFRS 9; however, loans and advances to current staff represent a prepaid employee benefit.

(xviii) Assets and liabilities with the International Monetary Fund (IMF)

As Papua New Guinea is an IMF member nation, special drawing rights (SDR) are periodically allocated. The Bank recognises the holdings as an asset and allocation as a liability. The IMF assets and liabilities are denominated in SDR which are based on the weighted average of five main trading currencies. These are translated to PGK using the SDR market rate at balance date. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs upon request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies. These assets and liabilities are managed by the Bank on a fair value basis and are measured as FVTPL in accordance with IFRS 9.

(xix) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. It is recorded at face value in the Statement of Financial Position.

(xx) Revenue

Interest income

Interest income is recognised as it accrues in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate ('EIR') method in line with requirements of IFRS 9.

Foreign exchange gains and commissions

Foreign exchange gains and commissions include gains and losses on trading in foreign currency and profit or loss impact of conversion to functional currency of foreign currency denominated assets and liabilities.

Realised gains/(loss) on financial assets

Gains and losses realised from the sale of foreign financial instruments are reflected in the Statement of Profit or Loss and Other Comprehensive Income at the time of transaction.

Other income

Rental income is brought to account as the performance obligations are satisfied over time. All rents are payable on a monthly basis. All other income sources are generally brought to account as the performance obligations are satisfied at a point in time, with the exception of license and application fees which are brought to account over time.

(g) Determination of fair value

For financial instruments trading in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes quoted debt instruments on major trading exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from the exchange, dealer, broker, pricing service or regulatory agencies, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, foreign exchange rates, volatilities and counterparty spreads) existing at the dates of the Statement of Financial Position.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted debt securities and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

(h) Property and equipment

Formal valuations of all the Bank's properties are conducted on a triennial basis. The properties are valued by local independent valuers. The most recent independent desktop valuation of the properties was conducted in the financial statements at 31 December 2020. In accordance with IAS 16 – Property Plant and Equipment, properties are valued at fair value, which reflects observable prices and is based on the assumption that assets would be exchanged between knowledgeable, willing parties at arm's length. Reflecting their specialised nature, the Bank's head office at ToRobert Haus and the Lae Currency Processing Facility are valued at depreciated replacement cost. Valuation gains and losses are transferred to the property revaluation reserve. Management has assessed the fair value of all property and equipment as at year end and consider them to be appropriate. Property revaluations are done and accounted for at the end of the year applying the elimination method to any accumulated depreciation.

Annual depreciation is based on fair values less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in the profit or loss. The range of useful lives used for each class of assets is:

	Years
Residential Properties	20 – 30
Office Buildings	50
Computer Equipment	5
Vehicles	4
Equipment	5
Intangible - Computer Software License	13

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(i) Computer software

Computer software that is internally developed or purchased is accounted for in accordance with IAS 38 – Intangible Assets. Intangibles are recognised at cost less accumulated amortisation and impairment adjustments (if any), details of which are included in Note 13.

Amortisation of computer software is calculated on a straight-line basis using the estimated useful life of the relevant asset which is usually a period of between three to five years. The useful life of core banking software may be up to 13 years, reflecting the period over which the future economic benefits are expected to be realised from this asset.

(j) Gold

Gold reserves placed on deposit with a financial institution are valued at the kina equivalent of the prevailing exchange rate at balance date. On this basis, the underlying transaction means that the Bank holds a gold asset which is separately disclosed as gold. Unrealised gains and losses on gold are transferred to other comprehensive income.

(k) Investment properties

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other unrealised income: Fair value revaluation gain on domestic investment.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(l) Investment property rental income

Rental income from investment property is recognised in other income from domestic investments on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(m) Derecognition

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition under IFRS 9. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(n) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(o) Inventory – notes and coins

The cost of the printing of notes and minting of coins are initially capitalised until such time as they are issued into circulation at which point the related cost is expensed. The weighted average cost method is used to calculate the number of pieces issued into circulation. All other expenditures of a non-capital nature are expensed when incurred.

(p) Cash and cash equivalents

Cash and cash equivalents comprise balances with a maturity of less than three months from the date of acquisition, including cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(q) Other receivables

Other receivables are stated at amortised cost.

(r) Employee benefits

(i) Pension Fund

The Governor and Deputy Governor contribute to the Bank's defined benefit pension fund and all other employees contribute to an approved external superannuation fund. Interest is paid on the Bank's pension fund balance half yearly based on the average interest rate of Nasfund and Nambawan Superannuation Fund.

Contributions to the Bank's pension fund and external superannuation fund are recognised as an expense in the Bank's Statement of Profit or Loss and Other Comprehensive Income. The value of the Bank's pension fund defined benefit obligations and the fair value of the Bank's pension fund assets are determined with sufficient regularity to ensure that the amounts recognised in the Bank's financial statements do not differ materially from the amounts that would be determined at the balance date.

(ii) Provision for Leave Entitlement

The Bank maintains provisions for accrued annual leave in accordance with IAS 19 - Employees Benefits, calculated on salaries expected to prevail when leave is anticipated to be taken. The Bank also maintains provisions for long service leave. The provision of employee benefits for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' service provided to balance date. The provision is calculated using expected future increases in wages and salary rates including related on-costs and expected settlement dates based on staff turnover history and is discounted using the rates attaching to PNG Government bonds at balance date which most closely match the terms of maturity of the related liabilities.

(s) Other liabilities

Other liabilities are initially recognised at their fair value and subsequently recognised at amortised cost.

(t) Reserves

The Bank maintains the following reserves. Their purpose and method of operation is to be as follows:

(i) Bank of Papua New Guinea Reserve Fund

The *Central Banking (Amendment) Act 2021* Section 42, allows the bank to create reserve funds for meeting contingencies that arise in the course of operations in carrying out its functions. The Bank currently has a General Reserve and Building Reserve fund.

(ii) Property Revaluation Reserve

The property revaluation reserve reflects the impact of changes in the fair value of property.

(iii) Unrealised Profits Reserve

Unrealised gains and losses on foreign exchange balances and domestic securities are recognised in the unrealised loss reserve until such gains and losses are realised whereby they are recognised in profit and loss from ordinary activities. Such gains and losses are not available for distribution.

(iv) Distributable Profit Reserve

The distributable profit reserve reflects closing distributable profit which may be distributed to the Government of Papua New Guinea after ensuring that the current financial position of the Bank meets the requirements under the *Central Banking (Amendment) Act 2021* Section 49(3).

(v) Gold Revaluation Reserve

Unrealised gains and losses arising from revaluation are recognised in the Gold Revaluation Reserve at end of the accounting period. Realised gains and losses are recognised in profit and loss from ordinary activities.

(u) Determination of distributable profit

Profits of the Bank are determined and dealt with in accordance with Sections 49 and 50 of the *Central Banking (Amendment) Act 2021* as follows:

(i) Section 50 (1) states that net profit arising from revaluation and foreign currency movements shall not be available to be distributed to the Government or paid into the Consolidated Revenue Fund. Accordingly such unrealised profits are transferred to the Unrealised Profits Reserve.

(ii) The Board of the Bank is required to determine the net profit of the Bank and then consult with the Minister for treasury to determine the amount of profit that is to be placed to the credit of the Bank's reserves.

(iii) The balance of net profit after any transfer in (a) and (b) in accordance with Sections 49(2)(a) and 50(1) of the Act is paid to the Consolidated Revenue Fund.

(iv) The amount shall not be paid into the Consolidated Revenue Fund under the above sections where, in the opinion of the Central Bank, the assets of the Central Bank are, or after the payment would be, less than the sum of its liabilities and paid-up capital.

(v) The unrealised profit reserve of the Bank represents gains or losses arising from the revaluation of gold, properties and other financial assets of the Bank. These gains and losses are separately classified under the respective reserves in the Statement of Changes in Equity.

(v) Tax Exemption

Bank of Papua New Guinea is exempt from income tax under section 87 of the *Central Banking (Amendment) Act 2021.*

(w) Comparatives

Comparative financial information has been reclassified to conform to current year presentation where necessary.

(x) Rounding

Financial information has been rounded to the nearest thousand kina.

	2021 K'000	2020 K'000
Note 2: INTEREST REVENUE – FOREIGN CURRENCY INVESTMENTS		
Foreign securities and bank deposits	63,211	83,073
	63,211	**83,073**

Interest income on foreign investments includes interest earned on foreign bonds, treasury bills, nostro accounts and other foreign investments. Income of K44.7 million (2020: K60.0 million) is in relation to investments managed by external fund managers and the remainder of K18.5 million (2020: K23.0 million) relates to investments managed by the Bank. Coupon rates during the year varied between 0.005% and 8.3% (2020: 0.8% and 1.0%) and yields varied between 0.02% and 8.2% (2020: 0.0% and 0.4%). Interest is recognised on an effective interest rate basis.

	2021 K'000	2020 K'000
Note 3: INTEREST REVENUE – DOMESTIC OPERATIONS		
Inscribed stock and other Government securities	205,027	230,388
Temporary advances to Government	29,167	11,189
Overnight lending to Commercial Banks	71	747
	234,265	**242,324**

Interest income earned on government Inscribed stock amounted to K193.2 million (2020: K207.3 million) while K11.3 million was earned from government treasury bills (2020: K33.9 million). During the year coupon rates on Inscribed stock varied between 8.5% and 12.5% (2020: 8% and 12.5%) while yields on treasury bills varied between 4.7% and 7.2% (2020: 4.7% and 7.2%). Interest is recognised on an effective interest rate basis.

	2021 K'000	2020 K'000
Note 4: OTHER INCOME – DOMESTIC OPERATIONS		
Licensing and other fees	16,474	13,814
Numismatic currency	18	163
Property rent	5,373	5,085
Other	1,494	409
	23,359	**19,471**

	2021 K'000	2020 K'000
Note 5: INTEREST EXPENSE – DOMESTIC OPERATIONS		
Central Bank bills issued	120,143	84,538
Other deposits held	773	281
Lease interest expense	616	683
	121,532	**85,502**

Interest on securities issued varied between 1.24% and 11.92% during the year (2020: 1.4% and 12.03%). Interest is recognised on an effective interest rate basis.

	2021 K'000	2020 K'000
Note 6: GENERAL AND ADMINISTRATION EXPENSES		
Staff costs	106,112	105,469
Premises and equipment	43,812	43,265
Other expenses	31,639	26,631
Depreciation of property and equipment	21,063	27,479
Travel	4,803	6,139
Amortisation of notes and coins production expenses	16,766	13,130
Legal & consultancy fees	7,058	6,487
Staff training and development	1,138	2,252
Board & meeting expenses	386	1,256
Currency distribution expenses	1,779	1,140
Audit fee	1,864	1,473
	236,420	**234,721**
Note 7: IMF AND OTHER FINANCIAL ORGANISATION RELATED ASSETS & LIABILITIES		
Assets – mandatorily measured at FVTPL		
IMF SDR holdings and deposits and other organisations	1,272,750	30,510
	1,272,750	**30,510**
Liabilities – designated as FVTPL		
IMF number 1 and 2 loan accounts	6,392	5,939
SDR allocation	1,855,401	634,130
	1,861,793	**640,069**
Other Government Receivable – measured at AC		
SDR Kina equivalent paid to the State	1,259,438	-
	1,259,438	**-**

Papua New Guinea has been a member of the IMF since 1975. The Bank of Papua New Guinea acts as the fiscal agent on behalf of the Government. As fiscal agent, the Bank of Papua New Guinea is authorised to carry out all operations and transactions with the Fund.

Special Drawing Rights (SDR) are allocated by the IMF to members on the basis of members' quota at the time of the SDR allocation. The Bank of Papua New Guinea pays interest on its SDR allocations and earns interest on its holdings of SDR.

In August 2021 newly created SDR was credited to IMF members participating in the SDR Department in proportion to their existing paid quotas in the Fund. Papua New Guinea being a participating member was credited an amount of SDR 252 million (K1.2 billion). BPNG as the fiscal agent of the PNG Government has taken up this allocation as an increase in asset (SDR holdings) and a matching increase in long term liabilities (SDR Allocation).

The Other Government Receivable is measured at amortised cost and at its face value. It reflects the ultimate responsibility to fund the repayment of the SDR by the Independent State of Papua New Guinea in accordance with the *International Financial Organisations Act 1975.*

	2021 K'000	2020 K'000
Note 8: CASH & EQUIVALENTS		
Foreign currency holdings - Nostro accounts	3,457,725	3,074,377
	3,457,725	**3,074,377**

The nostro accounts represent the Bank's foreign currency holdings with corresponding foreign banks.

	2021 K'000	2020 K'000
Note 9: FINANCIAL ASSETS AT FAIR VALUE		
Foreign investments – mandatorily measured at FVTPL	6,331,307	6,020,402
Derivative assets – mandatorily measured at FVTPL	6,847	(47,829)
	6,338,154	**5,972,573**

Foreign investments include K4.3 billion (2020: K4.3 billion) of investments managed by external fund managers. The remainder of K2.0 billion (2020: K1.7 billion) is managed directly by the Bank. The investments comprise foreign bank debt securities, sovereign debt securities and over the counter derivative currency contracts.

	2021 K'000	2020 K'000
Note 10: GOVERNMENT OF PAPUA NEW GUINEA SECURITIES		
Inscribed stock – measured at FVTPL	2,226,170	1,478,939
Treasury bills – measured at Amortised Cost	150,806	180,202
	2,376,976	**1,659,141**

	2021 K'000	2020 K'000
Note 11: LOANS AND ADVANCES		
Agricultural export commodity support loans	1,386	1,386
Loans and advances to staff (including housing loans)	5,598	5,120
Temporary advances facility to PNG government	-	-
Allowance for doubtful loans	(4,714)	(4,714)
	2,270	**1,792**

The Temporary Advance Facility is governed by the provisions of the *Central Banking (Amendment) Act 2021*. The interest rate charged is the 6 monthly treasury bills rate, approximately 7.2% p.a. The facility limit has increased from K200 million to K1.5 billion in 2020. As at 31 December 2021 there was no TAF overdraft balance.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained based on the Bank's credit evaluation of the counterparty. Collateral may include:

- A floating charge over all assets and undertaking of an entity;
- Specific or inter-locking guarantees;
- Specific charge over defined assets of the counterpart and
- Loan agreements including affirmative and negative covenants.

The loans and advances are measured at amortised cost. The related expected credit loss allowances are immaterial. Accordingly, detailed disclosure regarding expected credit loss impairment has not been made.

	2021 K'000	2020 K'000
Note 12: OTHER ASSETS		
Inventory notes and coins	32,531	22,188
Prepaid employee benefits	36,260	40,509
Other non-financial assets	12,133	10,033
	80,924	**72,730**

	Land and Buildings at Fair Value K'000	Equipment K'000	Motor Vehicles K'000	Computer Equipment K'000	Computer Software K'000	ROU Asset K'000	Capital Work-In-Progress K'000	Total K'000
Note 13: PROPERTY AND EQUIPMENT								
At 31 December 2020								
Cost or fair value	276,908	40,934	5,843	17,639	42,758	18,285	103,403	505,770
Accumulated depreciation	-	(11,031)	(3,218)	(12,118)	(20,259)	(8,647)	-	(55,273)
Net Book Amount	**276,908**	**29,903**	**2,625**	**5,521**	**22,499**	**9,638**	**103,403**	**450,497**
Year ended 31 December 2021								
Opening net book amount	276,908	29,903	2,625	5,521	22,499	9,638	103,403	450,497
Additions	447	1,472	-	1,575	-	8,709	16,067	28,270
Reclass/Transfers	70,346	-	-	-	-	-	(70,346)	-
Revaluation	-	-	-	-	-	-	-	-
Disposals	-	-	(139)	-	-	-	-	(139)
Depreciation charges	(7,143)	(1,647)	(1,067)	(1,568)	(4,078)	(5,395)	-	(20,898)
Closing Book Amount	**340,558**	**29,728**	**1,419**	**5,528**	**18,421**	**12,952**	**49,124**	**457,730**
At 31 December 2021								
Cost or fair value	347,701	42,406	5,843	19,214	42,758	26,994	49,124	534,040
Accumulated depreciation	(7,143)	(12,678)	(4,424)	(13,686)	(24,337)	(14,042)	-	(76,310)
Net Book Amount	**340,558**	**29,728**	**1,419**	**5,528**	**18,421**	**12,952**	**49,124**	**457,730**

The increase in property and equipment during the year pertains primarily to capital work-in-progress additions.

The property known as Kermadec Flats at Ela Beach in Port Moresby was burned to ashes by fire on the 28th December 2021 hence was de-recognised in the balance sheet as at 31st December 2021. Prior to de-recognition, it was used by bank staff for residential purposes. At the date of destruction, the property had fully depreciated. An amount of K14.6 million relating to previous revaluation gains for the property was transferred from Property Revaluation Reserve to Retain Earnings on the 31st December 2021.

Land and buildings carried at fair value

The fair values of land and building carried at fair value were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in location and category being valued. The independent valuers provide the fair value of the Bank's properties on a triennial basis. The most recent valuation was done in 2019. A desktop valuation was performed in 2020.

The carrying amount of land and buildings had they been recognised under the cost model are land K50.6 million (2020: K8.5 million) and buildings K263 million (2020: K230 million).

	2021 K'000	2020 K'000
Note 14: INVESTMENT PROPERTIES		
Balance at 1 January	39,170	39,170
Acquisitions	-	-
Reclassification from property and equipment	-	-
Change in fair value	-	-
Balance at 31 December	**39,170**	**39,170**

Investment property comprises two commercial properties that are leased to third parties. The fair values of investment properties were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in location and category being valued. The independent valuers provide the fair value of the Bank's investment property every 3 years. The most recent valuation was done in 2019. A desktop valuation was performed in 2020. The fair value measurements for all of the investment properties have been categorised as level 3 fair value measurements. Rental income from investment properties is K5.4 million (2020: K5.1 million).

	2021 K'000	2020 K'000
Note 15: DEPOSITS FROM BANKS & THIRD PARTIES		
Banks		
Exchange settlement accounts	2,241,600	2,037,176
Cash reserve requirement	1,789,848	1,570,868
Other Deposits	13,215	11,094
	4,044,663	**3,619,138**

	2021 K'000	2020 K'000
Note 16: DEPOSITS FROM GOVERNMENT AND GOVERNMENT ENTITIES		
Deposits from government and government entities	2,563,187	1,623,971
	2,563,187	**1,623,971**

	2021 K'000	2020 K'000
Note 17: DEBT SECURITIES ISSUED		
Central Bank bills issued	3,041,490	1,612,924
	3,041,490	**1,612,924**

Securities issued are debt securities issued by the Bank of Papua New Guinea for terms of twenty-eight days, three or four months. CBB Bond has tenures 1 – 10 years. These bills are used to manage liquidity in the money supply and open market operations in the domestic financial markets.

	2021 K'000	2020 K'000
Note 18: CURRENCY IN CIRCULATION		
Currency in Circulation	2,654,906	2,431,093
	2,654,906	**2,431,093**

Currency in circulation represents currency issued having a claim on the Bank of Papua New Guinea. The liability for currency in circulation is recorded at face value, which is equivalent to its fair value in the Statement of Financial Position.

	2021 K'000	2020 K'000
Note 19: OTHER FINANCIAL LIABILITIES		
Foreign Currency		
Foreign currency deposits	2,988	5,697
	2,988	**5,697**
Local Currency		
Expense creditors	83,816	52,700
Lease Liability	13,501	10,177
	97,317	**62,877**

Expense creditors include cheques or warrants issued by the Bank but not yet presented for clearance and subsequent encashment by government departments, investors and suppliers.

	2021 K'000	2020 K'000
Note 20: PROVISIONS FOR EMPLOYEE ENTITLEMENTS		
Provision for gratuity	5,172	5,896
Provision for long service leave	26,438	24,630
Provision for annual leave	9,649	5,438
	41,259	**35,964**
Reconciliation of leave provisions		
Balance at 1 January	35,964	33,798
Net charged to statement of profit or loss	5,295	2,166
Balance at 31 December	**41,259**	**35,964**

Note 21: LEASES

A. Leases as lessee

Right-of-use assets

Right-of-use assets relate to leased offices and warehouses that are presented within property and equipment.

	2021 K'000	2020 K'000
Balance at 1 January	9,638	12,487
Depreciation charge for the year	(5,395)	(4,279)
Additions	8,709	1,430
Balance at 31 December	**12,952**	**9,638**

Lease liabilities

The following table sets out a maturity analysis of lease payments, included under Other financial liabilities on Note 24(iii)(c).

	2021 K'000	2020 K'000
One to three months	1,530	1,063
Three to twelve months	4,731	3,266
One to five years	7,240	5,848
	13,501	**10,177**

	2021 K'000	2020 K'000
Amounts recognised in profit or loss		
2019 – Leases under IFRS 16		
Interest expense on lease liabilities	616	683
Expenses relating to short-term leases	5,385	4,112
Amounts recognised in statement of cash flows		
Total cash outflow for leases	11,396	9,073

B. Leases as lessor

Operating lease

The Bank leases out its investment property. The Bank has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

2021 – Operating leases under IFRS 16		
Less than one year	1,546	3,876
One to two years	225	225
Two to five years	-	-
More than five years	-	-
Total	**1,771**	**4,101**

Note 22: SHARE CAPITAL

At 31 December 2021, the authorised and subscribed capital of the Bank was K145.5 million (2020: K145.5 million). The capital is fully subscribed by the Government of Papua New Guinea.

Capital		
At the beginning of the year	145,540	145,540
At the end of the year	**145,540**	**145,540**
Other Reserves		
Gold revaluation reserve	249,437	258,995
Property revaluation reserve	80,409	95,028
Unrealised gain/(loss) reserve	418,028	573,890
Building reserve	173,800	123,800
General reserve	30,000	30,000
Retained earnings	232,621	378,457
Total other reserves	**1,184,295**	**1,460,170**
Total owner's equity	**1,329,835**	**1,605,710**

Note 23: SEGMENT REPORTING

The Bank's primary function as a Central Bank is the implementation of monetary policy in one geographical area - Papua New Guinea.

Note 24: RISK MANAGEMENT

Note 24(i): Financial Risk Management

International Financial Reporting Standard (IFRS) 7 – Financial Instruments: Disclosures – requires disclosure of information relating to financial instruments, their significance, performance, accounting policy, terms and conditions, fair values and the Bank's policies for controlling risks and exposures relating to the financial instruments.

A financial instrument is defined as any contract that gives rise to both a financial asset of one enterprise and financial liability or equity instrument of another entity. The identifiable financial instruments for the Bank of Papua New Guinea are its domestic government securities, its foreign government securities, loans and advances, bank deposits, central bank bills, currency in circulation and deposit liabilities.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Bank of Papua New Guinea's recognised instruments are carried at amortised cost or current market value.

The Bank is involved in policy-oriented activities. Therefore, the Bank's risk management framework differs from the risk management framework for most other financial institutions. The main financial risks to which the Bank is exposed include commodity price risk, credit risk, foreign exchange risk, liquidity risk and interest rate risk. In the management of foreign reserves, minimising liquidity risk is the prime consideration in order to ensure the availability of currency as required. Like most central banks, the nature of the Bank's operations creates exposure to a range of operational and reputational risks.

Bank management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring and managing risk exposure. Experienced staff conduct the Bank's local currency, foreign currency reserves management, and foreign exchange dealing operations in accordance with a clearly defined risk management framework, including delegated authority limits as set by the Governor.

The Bank is subject to an annual audit by an external auditor. Auditing arrangements are overseen by an Audit & Governance Committee of the Board to monitor the financial reporting and audit functions within the Bank and the committee reviews the internal audit functions as well. The committee reports to the Board of Directors on its activities.

The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risk. The Bank seeks to ensure the risk management framework is consistent with financial market best practice. The risks tables in this note are based on the Bank's portfolio as reported in its Statement of Financial Position.

Note 24(ii): Credit Risk

(a) Credit risk management

Credit risk is the potential for financial loss arising from a counterparty defaulting on its obligation to: repay principal, make interest payments due on an asset, or settle a transaction.

The Bank manages credit risk by employing the following strategies;

Selection of a counterparty is made based on their respective credit rating. Investment decisions are based on the credit rating of the particular issuer, the issue size, country limits and counterparty limits in place to control exposures.

Foreign currency placements are made in approved currencies with Government, Government guarantees or other approved counterparties. Geographical exposures are controlled by country limits. Limits are updated periodically where necessary based on the latest market information. Credit risk in the Bank's portfolio is monitored, reviewed and analysed regularly.

(b) Concentration of credit exposure

The Bank's end-of-year concentrations of credit exposure by industry type were as follows:

	2021 K'000	2020 K'000
Foreign Governments, Banks & Financial Organisations		
Nostro accounts	3,457,725	3,074,377
Foreign investments (note 9)	6,338,154	5,972,573
Assets held with IMF and other financial organisations	1,272,750	30,510
Accrued interest receivable	15,596	19,024
Papua New Guinea Government		
Government of Papua New Guinea securities (note 10)	2,376,976	1,659,141
Other Government Receivable (note 7)	1,259,438	-
Temporary advance to PNG government (note 11)	-	-
Accrued interest receivable TAF	2,591	5,236
PNG commercial banks (note 11)	-	-
Bank staff and employees (note 11)	5,598	5,120
Other Government Institutions (note 11)	1,386	1,386
	14,730,214	**10,767,367**

The Bank's maximum exposure to credit risk is limited to the amount of financial assets carried in the Statement of Financial Position. 10% (2020: 6%) of the total assets have a credit rating of A-1+ or above in short term investments and 46% (2020: 49%) of long term investments have a credit of A+ or above.

(c) Credit exposure by credit rating

The following table represents the Bank's financial assets based on Standard and Poor's and Moody's credit ratings of the issuer. Under Standard and Poor's ratings, AAA is the highest quality rating possible and indicated the entity has an extremely strong capacity to pay interest and principal, AA is a high grade rating, indicating a very strong capacity, and A is an upper medium grade, indicating a strong capacity; BBB is the lowest investment grade rating, indicating a medium capacity to pay interest and principal. Non-rated ('NR') indicates the entity has not been rated by Standard and Poor's and Moody's.

Investment in Financial Assets	2021 K'000	% of 2021 Financial Assets	2020 K'000	% of 2020 Financial Assets
Short term foreign investments				
A-1+	814,194	10	431,994	6
A-1	125,121	1	443,971	6
A-2	125,121	1	-	-
A-3	-	-		
NR	24,853	-	(39,703)	-
	1,089,289	**12**	**836,262**	**12**
Long term foreign investments				
AAA	1,394,304	16	1,307,560	17
AA+	-	-	-	-
AA	2,603,420	30	2,463,094	32
AA-	-	-	-	-
A+	-	-	-	-
A	794,398	9	793,876	10
A-	-	-	-	-
BBB+	-	-	-	-
BBB	433,767	5	548,365	8
BBB-	22,976	-	23,416	-
	5,248,865	**60**	**5,136,311**	**67**
Total foreign investments	**6,338,154**	**72**	**5,972,573**	**79**
Short term domestic investments				
B-	150,806	2	180,202	2
	150,806	**2**	**180,202**	**2**
Long term domestic investments				
B-	2,226,170	26	1,478,939	19
	2,226,170	**26**	**1,478,939**	**19**
Total domestic investments	**2,376,976**	**28**	**1,659,141**	**21**
Total investments	**8,715,130**	**100**	**7,631,416**	**100**

The majority of financial assets are measured at FVTPL. The ECL allowances related to the treasury bills, loans and advances measured at amortised cost and loans to the PNG government, are immaterial, hence no quantitative disclosure of ECL have been made. No financial assets designated at FVTPL have been reclassified to amortised cost.

Note 24(iii): Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

(a) Foreign exchange risk

Currency risk (foreign exchange rate risk) is a form of risk that arises from the change in price of one currency against another, which directly affects the value of foreign exchange reserves as well as investments. At the Bank, foreign exchange reserve management and investment functions are guided by an Investment Committee. The decision of the Investment Committee and dealing practices approved by the Investment Committee serve as operational guidelines for the Bank's reserve management and investments. The guidelines are directed towards managing different types of risks, while earning a reasonable return. There is an approved benchmark for investment in terms of currency composition, portfolio duration and proportion of different assets within the Bank. Dealers/portfolio managers endeavour to comply with this benchmark through rebalancing the investment portfolio following benchmarking daily/weekly as approved by the Investment Committee. The currency of denomination of Gold assets is USD.

As at 31 December 2021 Bank of Papua New Guinea's net exposure to major currencies in kina terms was as follows:

	CURRENCY OF DENOMINATION							
As at 31 December 2021	USD K'000	Euro K'000	AUD K'000	GBP K'000	JPY K'000	SDR K'000	Other K'000	Total K'000
Foreign Currency Assets:								
Foreign currency	2,149,899	195,270	957,853	98,019	53,538	-	3,146	3,457,725
Investments	5,190,542	74,570	998,063	68,132	-	-	-	6,331,307
Derivative assets	6,847	-	-	-	-	-	-	6,847
Assets held with IMF	-	-	-	-	-	1,272,750	-	1,272,750
Accrued interest	14,020	249	1,258	69	-	-	-	15,596
	7,361,308	**270,089**	**1,957,174**	**166,220**	**53,538**	**1,272,750**	**3,146**	**11,084,225**
Foreign Currency Liabilities:								
Liabilities with IMF	-	-	-	-	-	1,869,793	-	1,869,793
Foreign currency liabilities	2,988	-	-	-	-	-	-	2,988
	2,988	**-**	**-**	**-**	**-**	**1,869,793**	**-**	**1,872,781**
Net Foreign Currency exposure	**7,358,320**	**270,089**	**1,957,174**	**166,220**	**53,538**	**(597,043)**	**3,146**	**9,211,444**

	CURRENCY OF DENOMINATION							
As at 31 December 2020	USD K'000	Euro K'000	AUD K'000	GBP K'000	JPY K'000	SDR K'000	Other K'000	Total K'000
Foreign currency assets:								
Foreign currency	1,877,941	76,653	926,581	140,096	49,813	-	3,293	3,074,377
Investments	4,913,563	132,734	935,934	38,171	-	-	-	6,020,402
Derivative assets	(47,829)	-	-	-	-	-	-	(47,829)
Assets held with IMF	-	-	-	-	-	30,510	-	30,510
Accrued interest	16,354	854	1,794	22	-	-	-	19,024
	6,760,029	**210,241**	**1,864,309**	**178,289**	**49,813**	**30,510**	**3,293**	**9,096,484**
Foreign currency liabilities:								
Liabilities with IMF	-	-	-	-	-	640,069	-	640,069
Foreign currency liabilities	5,697	-	-	-	-	-	-	5,697
	5,697	**-**	**-**	**-**	**-**	**640,069**	**-**	**645,766**
Net Foreign currency exposure	**6,754,332**	**210,241**	**1,864,309**	**178,289**	**49,813**	**(609,559)**	**3,293**	**8,450,718**

The functional currency of all operations is kina.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The Bank is exposed to considerable interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security due to the associated income stream is fixed for a longer period.

The Bank manages interest rate risk by investing in securities with different maturity dates to mitigate against any adverse fluctuation in interest rates.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities in its operations. The ultimate source of liquidity is kina and the Bank has the authority to create liquidity by issuing unlimited amounts of kina.

Liquidity risk is also associated with financial assets to the extent that the Bank may have to sell a financial asset at less than its fair value. The Bank manages this risk by holding a diversified portfolio of highly liquid domestic and foreign assets. The Bank's assets held for managing liquidity risk comprise cash and bank balances with other central banks and Government bonds and other securities that are readily acceptable in repurchase agreements with other central banks.

The table below summarises the maturity profile of the Bank's financial liabilities based on the contractual repayment date determined on the basis of the remaining period at the reporting date to the contractual maturity date.

		MATURITY PROFILE					
As at 31 December 2021	Balance Total K'000	On demand K'000	0 to 3 months K'000	3 to 12 months K'000	1 to 5 years K'000	Over 5 years K'000	No specified maturity K'000
Assets							
Foreign Currency Financial Assets:							
Cash and cash equivalents	3,457,725	2,509,139	948,586	-	-	-	-
Financial assets at fair value	6,338,154	-	669,382	1,307,240	3,521,377	840,155	-
Assets held with IMF	1,272,750	-	-	-	-	-	1,272,750
Accrued interest	15,596	-	892	1,940	12,153	611	-
	11,084,225	**2,509,139**	**1,618,860**	**1,309,180**	**3,533,530**	**840,766**	**1,272,750**
Local Currency Financial Assets:							
Government of Papua New Guinea securities	2,376,976	-	130,865	541,125	1,704,986	-	-
Other Government Receivable	1,259,438	-	-	-	-	-	1,259,438
Loans and advances	2,270	-	-	2,270	-	-	-
Accrued interest and receivables	67,864	-	2,713	65,151	-	-	-
	3,706,548	**-**	**133,578**	**608,546**	**1,704,986**	**-**	**1,259,438**
Non-Financial Assets:							
Gold	270,045	-	-	-	-	-	270,045
Property and equipment	457,730	-	-	-	-	-	457,730
Investment properties	39,170	-	-	-	-	-	39,170
Other financial assets	80,924	-	-	-	-	-	80,924
	847,869	**-**	**-**	**-**	**-**	**-**	**847,869**
Total Assets	**15,638,642**	**2,509,139**	**1,752,438**	**1,917,726**	**5,238,516**	**840,766**	**3,380,057**
Liabilities							
Foreign Currency Financial Liabilities:							
Liabilities with IMF	1,861,793	-	-	-	-	-	1,861,793
Other financial liabilities	2,988	-	2,988	-	-	-	-
	1,864,781	**-**	**2,988**	**-**	**-**	**-**	**1,861,793**
Local Currency Financial Liabilities:							
Deposits from bank and third parties	4,044,663	4,044,663	-	-	-	-	-
Deposits from Government	2,563,187	2,563,187	-	-	-	-	-
Securities issued	3,041,490	-	2,001,556	25,345	98,774	915,815	-
Accrued interest payable	1,204	-	1,204	-	-	-	-
Currency in circulation	2,654,906	2,654,906	-	-	-	-	-
Lease liability	13,501	-	1,530	4,731	7,240	-	-
Other financial liabilities	83,816	-	83,816	-	-	-	-
	12,402,767	**9,262,756**	**2,088,106**	**30,076**	**106,014**	**915,815**	**-**
Non-Financial Liabilities:							
Employee provision	41,259	-	41,259	-	-	-	-
Total Liabilities	**14,308,807**	**9,262,756**	**2,132,353**	**30,076**	**106,014**	**915,815**	**1,861,793**

As at 31 December 2020	Balance Total K'000	MATURITY PROFILE On demand K'000	0 to 3 months K'000	3 to 12 months K'000	1 to 5 years K'000	Over 5 years K'000	No specified maturity K'000
Assets							
Foreign Currency Financial Assets:							
Cash and cash equivalents	3,074,377	2,730,410	343,967	-	-	-	-
Financial assets at fair value	5,972,573	-	958,053	973,255	3,471,925	569,340	-
Assets held with IMF	30,510	-	-	-	-	-	30,510
Accrued interest	19,024	-	1,737	5,044	11,691	552	-
	9,096,484	**2,730,410**	**1,303,757**	**978,299**	**3,483,616**	**569,892**	**30,510**
Local Currency Financial Assets:							
Government of Papua New Guinea securities	1,659,141	-	122,758	334,747	729,125	472,511	-
Loans and advances	1,792	-	1,792	-	-	-	-
Accrued interest and receivables	38,663	-	7,072	31,591	-	-	-
	1,699,596	**-**	**131,622**	**366,338**	**729,125**	**472,511**	**-**
Non-Financial Assets:							
Gold	279,602	-	-	-	-	-	279,602
Property and equipment	450,497	-	-	-	-	-	450,497
Investment properties	39,170	-	-	-	-	-	39,170
Other financial assets	72,730	-	-	-	-	-	72,730
	841,999	**-**	**-**	**-**	**-**	**-**	**841,999**
Total Assets	**11,638,079**	**2,730,410**	**1,435,379**	**1,344,637**	**4,212,741**	**1,042,403**	**872,509**
Liabilities							
Foreign Currency Financial Liabilities:							
Liabilities with IMF	640,069	-	-	-	-	-	640,069
Other financial liabilities	5,697	-	5,697	-	-	-	-
	645,766	**-**	**5,697**	**-**	**-**	**-**	**640,069**
Local Currency Financial Liabilities:							
Deposits from bank and third parties	3,619,138	3,619,138	-	-	-	-	-
Deposits from Government	1,623,971	1,623,971	-	-	-	-	-
Securities issued	1,612,924	-	765,687	29,373	65,774	752,090	-
Accrued interest payable	636	-	636	-	-	-	-
Currency in circulation	2,431,093	2,431,093	-	-	-	-	-
Lease liability	10,177	-	1,063	3,266	5,848	-	-
Other financial liabilities	52,700	-	52,700	-	-	-	-
	9,350,639	**7,674,202**	**820,086**	**32,639**	**71,622**	**752,090**	**-**
Non-Financial Liabilities:							
Employee provision	35,964	-	35,964	-	-	-	-
Total Liabilities	**10,032,369**	**7,674,202**	**861,747**	**32,639**	**71,622**	**752,090**	**640,069**

Note 24(iv): Fair value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk. IFRS requires that the fair value of the financial assets and liabilities be disclosed according to their classification under IFRS 9. The following table summarises the financial assets and liabilities in accordance with IFRS 9 classifications.

	2021 K'000	2020 K'000
Financial Assets		
Cash and cash equivalents	3,457,725	3,074,377
At fair value through profit/(loss)	9,837,074	7,482,022
Other Government receivable at amortised cost	1,259,438	-
Loans & advances measured at amortised cost	85,730	59,479
Treasury bills measured at amortised cost	150,806	180,202
	14,790,773	**10,796,080**
Financial Liabilities		
At fair value through profit/(loss)	1,864,781	645,766
At amortised cost	12,402,767	9,350,639
	14,267,548	**9,996,405**

Fair values are estimated to be the same as their carrying values in the Statement of Financial Position.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over-the-counter derivative contracts. The sources of input parameters are Bloomberg or Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The table below shows the Bank's assets and liabilities in their applicable fair value level. Investments managed by external fund managers include foreign Government bonds and other debt instruments for which quoted prices are available as well as derivatives which are valued with reference to observable market data. Accordingly, these are classified under levels 1 and 2 respectively.

	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
31 December 2021				
Financial assets held at fair value through profit or loss				
Domestic Government securities - Inscribed stock	-	-	2,226,170	2,226,170
Foreign Government and semi-government bonds	2,034,296	-	-	2,034,296
Derivatives managed by external fund managers	-	6,847	-	6,847
Investments in bonds and other instruments managed by external fund managers	4,297,010	-	-	4,297,010
Assets held with IMF	-	1,272,750	-	1,272,750
Total assets at fair value through profit or loss	**6,331,306**	**1,279,597**	**2,226,170**	**9,837,073**
Non financial assets at fair value				
Gold	270,045	-	-	270,045
Property and equipment	-	-	457,730	457,730
Investment property	-	-	39,170	39,170
Total assets at fair value	**270,045**	**-**	**496,900**	**766,945**
Financial liabilities held at fair value through profit & loss				
Derivatives	-	2,988	-	2,988
Liabilities with IMF	-	1,861,793	-	1,861,793
Total liabilities at fair value through profit or loss		**1,864,781**	**-**	**1,864,781**
31 December 2020				
Financial assets held at fair value through profit or loss				
Domestic Government securities - Inscribed stock	-	-	1,478,939	1,478,939
Foreign Government and semi-government bonds	1,661,499	-	-	1,661,499
Derivatives managed by external fund managers	-	(47,829)	-	(47,829)
Investments in bonds and other instruments managed by external fund managers	4,358,903	-	-	4,358,903
Assets held with IMF	-	30,510	-	30,510
Total assets at fair value through profit or loss	**6,020,402**	**(17,319)**	**1,478,939**	**7,482,022**
Non financial assets at fair value				
Gold	279,602	-	-	279,602
Property and equipment	-	-	450,497	450,497
Investment property	-	-	39,170	39,170
Total assets at fair value	**279,602**	**-**	**489,667**	**769,269**
Financial liabilities held at fair value through profit & loss				
Derivatives	-	5,697	-	5,697
Liabilities with IMF	-	640,069	-	640,069
Total liabilities at fair value through profit or loss		**645,766**	**-**	**645,766**

As at 31 December 2021, there were no movements between stages for any transfers to level 3.

The following table presents the changes in Level 3 financial instruments (excluding the accrued interest) for year ended 31 December 2021.

	Level 3 K'000
Opening balance	**1,478,939**
Maturities/disposals, net of additional investment	691,959
Fair value revaluation gains/(losses) on level 3 instruments	55,272
Closing balance	**2,226,170**
Total gains and (losses) for the period included in the Profit or Loss for level 3 assets held at the end of the reporting period.	**55,272**

The following table presents the changes in Level 3 financial instruments (excluding the accrued interest) for year ended 31 December 2020:

	Level 3 K'000
Opening balance	**2,113,222**
Maturities/disposals, net of additional investment	(591,920)
Fair value revaluation gains/(losses) on level 3 instruments	(42,363)
Closing balance	**1,478,939**
Total gains and (losses) for the period included in the Profit or Loss for level 3 assets held at the end of the reporting period.	**(42,363)**

	Valuation Technique	Unobservable Input	Range of Inputs		Fair value movement due to change in unobservable Input	
			2021	2020	Increase	Decrease
Domestic Government securities – Inscribed stock	Discounted cash flows present value method	Current market yield	8.5% to 12.5%	8% to 12.5%	Decrease	Increase
Investment property	Income capitalisation	Capitalisation rate	10% to 14%	10% to 14%	Stable	Increase

Note 24(v): Sensitivity analysis

The sensitivity of the Bank's profit and equity to a movement of +/- 10 percent in the value of the Kina as at 31 December 2021 is shown below. These figures are generally reflective of the Bank's exposure over the fiscal year.

	2021 K'000	2020 K'000
Changes in profit/equity due to a 10 percent appreciation in the value of the Kina	(1,135,427)	(937,609)
Changes in profit/equity due to a 10 percent depreciation in the value of the Kina	1,135,427	937,609

The figures below show the effect on the Bank's profit and equity of a movement of +/- 1 percentage point in interest rates, given the level, composition and modified duration of the Bank's interest bearing assets and liabilities.

	2021 K'000	2020 K'000
Changes in profit/equity due to an increase of 1 percentage point	111,433	93,506
Changes in profit/equity due to a decrease of 1 percentage point	(111,433)	(93,506)

Note 25: EVENTS AFTER THE BALANCE DATE

At the date of finalisation of the annual financial statements, the Bank of Papua New Guinea as part of the Government initiatives under the Medium Term Development Plan III and the revised *Central Banking (Amendment) Act 2021*, has established the Credit Guarantee Corporation (CGC) to address market failures and promote employment and economic growth. The CGC was incorporated under the *Companies Act 1997* on the 5th of January 2022 and is a wholly owned subsidiary of BPNG at the initial set up stage. The ownership shares will subsequently be diluted when other key stakeholders come on board to support this initiative.

Note 26: CONTINGENT LIABILITIES

The Bank had no contingent liabilities at 31 December 2021 (2020: nil) and there are no transactions or events that will have material impact on the financial report during the preparation of this report.

The Bank is a party to a number of litigations, the outcome of which are currently uncertain. The directors, Governor and the Deputy Governor in consultation with the Bank's legal advisors consider that these litigations are not expected to result in material loss to the Bank.

Note 27: CAPITAL COMMITMENTS

As at 31 December 2021, the Bank had a total of K49,124,407 (2020: K103,403,960) as capital commitments.

Note 28: REMUNERATION OF MEMBERS OF THE BOARD AND KEY MANAGEMENT PERSONNEL

IAS 24 – Related party disclosures require disclosure of information relating to aggregate compensation of key management personnel. The key management personnel of the Bank are members of the Board and senior staff who have responsibility for planning, directing and controlling the activities of the Bank: this group comprises 29 in total (2020: 29), including the Governor, 1 Deputy Governor, 4 Assistant Governors, 5 non-executive Board members and 19 senior staff. The Salaries and Remuneration Committee (SRC) and Salaries, Conditions & Monitoring Committee (SCMC) determine the terms and conditions on which the Governor and Deputy Governor hold office in accordance with the *Central Banking (Amendment) Act 2021*. The Governor, in consultation with the Salaries, Conditions & Monitoring Committee (SCMC), determines the remuneration of other key executives.

Key Management Personnel Remuneration

	2021 K'000	2020 K'000
Short term benefits	15,787	16,202
Post-employment benefits	1,070	1,008
Other long term benefits	8,397	7,542
	25,254	**24,752**

Short term benefits include cash salary and in the case of staff, annual leave and motor vehicle, housing benefits and superannuation which can be accessed prior to retirement. Post-employment benefits include superannuation benefit payments which can be accessed on retirement. Other long term benefits include long service leave and benefits related to loans and advances to staff. The components of benefits are reported on an accruals basis.

As at 31 December 2021, the loans owed by the key management personnel to the Bank were K4,198,235 (2020: K6,019,475).

Note 29: AUDITOR'S REMUNERATION

The total audit fee for the year was K1,364,550 (2020: K1,352,656). This represents the total statutory audit fee paid to the Auditor General's Office and other auditors in relation to external fund manager operations. These transactions are performed at arm's length.

Note 30: TRANSACTIONS WITH GOVERNMENT AND GOVERNMENT CONTROLLED ENTERPRISES

The Bank of Papua New Guinea acts as the banker to the Government and its various government departments and controlled enterprises. The Government of Papua New Guinea is restricted under the *Central Banking (Amendment) Act 2021* in actively participating in Bank's decision and policy formulations. All related party transactions are carried out with reference to market rates. Transactions entered into include:

(a) Acting as the fiscal agent, banker and financial advisor to the Government; the Bank is the depository of the Government and or its agents or institutions providing banking services to Government and Government departments and corporations.

(b) Acting as the agent of the Government or its agencies and institutions, providing guarantees, participating in loans to Government departments and corporations.

(c) As the agent of the Government managing public debt and foreign reserves.

Balances with the Government of Papua New Guinea are disclosed in note 16 Deposits from Government and Government Entities and note 11 for TAF reflecting Government loan balances with BPNG. As at December 2021, there was no TAF recorded.

Transactions with the Government of Papua New Guinea are disclosed in Note 3 Interest revenue – domestic operations.

K150 million dividend was paid to the State in 2021 from the Bank's 2020 Retained earnings.

Declaration by Management

DECLARATION BY MANAGEMENT

In our opinion, the foregoing Statement of Profit or Loss and other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash flows include the Notes to and forming part thereof, have been drawn up so as to give a true and fair view of the matters to which they relate for the year ended 31st December 2021.

For and on behalf of the Bank of Papua New Guinea.

David Toua
Interim Board Chairman

Benny B M Popoitai MBE
Acting Governor

25 May 2022

AUDITOR-GENERAL'S OFFICE
PAPUA NEW GUINEA

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Our Reference: 30-13-4

INDEPENDENT AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF
BANK OF PAPUA NEW GUINEA
FOR THE YEAR ENDED 31 DECEMBER 2021

QUALIFIED OPINION

I have audited the financial statements of **Bank of Papua New Guinea,** which comprise the Statement of Financial Position as at **31 December 2021**, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Summary of Significant Accounting Policies and Other Explanatory Notes;

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs below:

(a) the financial statements of Bank of Papua New Guinea for the year ended 31 December 2021:

  (i) give a true and fair view of the financial position and of its financial performance and cash flows for the year then ended; and

  (ii) comply with the *International Financial Reporting Standards, Papua New Guinea Central Banking Act 2000 (as amended)* and other generally accepted accounting practice in Papua New Guinea; and

(b) proper accounting records have been kept by the Bank as far as it appears from my examination of those records; and

(c) I have obtained all the information and explanation that were required.

BASIS FOR QUALIFIED OPINION

Inscribed Stock

As disclosed in *Note 10* to the Financial Statements, the Bank has Inscribed Stock amounting to K2.226 billion at 31 December 2021 and K1.489 billion at 31 December 2020. The Bank has an accounting policy of carrying the Inscribed Stock at fair value through profit or loss. In my opinion, the Inscribed Stock meets the classification criteria of amortised cost, and accordingly the classification of Inscribed Stock does not comply with *IFRS 9 Financial Instruments*.

Had the Bank classified Inscribed Stock as measured at amortised cost, a carrying value of K2.042 billion would have been recorded at 31 December 2021 and K1.396 billion at 31 December 2020, after recognising expected credit losses. Total equity would have been reduced by K140.9 million at 31 December 2021 and K113.9 million at 31 December 2020. In addition, the fair value revaluation gain on domestic investments recorded in the statement of profit or loss and other comprehensive income would have been decreased by K55.3 million for the year ended 31 December 2021 and increased by K58.2 million for the year ended 31 December 2020, interest income would have increased by K7.7 million for the year ended 31 December 2021 and reduced by K29.4 million for the year ended 31 December 2020, and credit loss expense would have decreased by K4.1 million for the year ended 31 December 2021, and K2.3 million for the year ended 31 December 2020.

Independence

I conducted my audit in accordance with *International Standards on Auditing* and the *Audit Act, 1989 (as amended)*. My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements section of my report.

I am independent of the Bank of Papua New Guina in accordance with the ethical requirements that are relevant to my audit of the financial statements in Papua New Guinea, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board, the Governor and the Deputy Governor of the Bank for the Financial Statements

The Bank's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the *International Financial Reporting Standards* and *Papua New Guinea Central Banking Act 2000* and for such internal control as the Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is also responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Independent State of Papua New Guinea either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *International Standards on Auditing* 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 this financial statements.

As part of an audit in accordance with the *International Standards on Auditing*, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, 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;

- 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 the Bank's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management;

- Conclude on the appropriateness of the Management's 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 may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

GORDON KEGA MBA, CPA
Auditor-General

21 June 2022

Notes


BANK OF PAPUA NEW GUINEA