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BANK OF PAPUA NEW GUINEA  
STATUTORY ACCOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2002

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STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 31 DECEMBER 2002

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	Note	<u>2002</u> <u>K'000</u>	<u>2001</u> <u>K'000</u>
<b>REVENUES</b>			
Interest Revenue		125,349	144,917
Net Gains/(Losses) on Securities		147,857	104,130
Fees and commissions		10,821	8,370
Other revenue		<u>2,048</u>	<u>2,495</u>
Total Revenue	2	<u>286,075</u>	<u>259,912</u>
<b>EXPENSES</b>			
Interest Expense		73,820	85,193
General Administrative Expenses		<u>26,752</u>	<u>28,012</u>
Total Expenses	2	<u>100,572</u>	<u>113,205</u>
<b>Net Profit</b>		<b>185,503</b>	<b>146,707</b>
Net revaluation adjustment in asset revaluation reserve	4	<u>21,803</u>	<u>15,226</u>
Net Profit plus net revaluation adjustment in asset revaluation reserve		<u>207,306</u>	<u>161,933</u>

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STATEMENT OF DISTRIBUTION  
FOR THE YEAR ENDED 31 DECEMBER 2002

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Net Profit	2	185,503	146,707
Transfer to Currency Movements Reserve		(203,540)	0
Transfer from/(to) Unrealised Profits Reserve	4	<u>72,100</u>	<u>(111,112)</u>
<b>Earnings Available for Distribution to Government</b>		<u>54,063</u>	<u>35,595</u>

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2002**

	<b>Note</b>	<b>2002</b> <b><u>K'000</u></b>	<b>2001</b> <b><u>K'000</u></b>
<b>ASSETS</b>			
Cash and Liquid Assets	5	<b>204</b>	195
Domestic Government Securities	1(c),6	<b>715,353</b>	752,314
Foreign Exchange	1(b),7	<b>1,292,126</b>	1,594,177
Gold	1(a)	<b>87,959</b>	66,156
Loans and Advances	1(e),8	<b>175,397</b>	57,117
Property Plant and Equipment	1(f),10	<b>17,170</b>	16,867
Other Assets	1(g),9	<b>56,012</b>	61,136
Total Assets		<b><u>2,344,221</u></b>	<b><u>2,547,962</u></b>
<b>LIABILITIES</b>			
Domestic Currency Deposits	11	<b>311,548</b>	446,863
Foreign Currency Deposits	12	<b>517,513</b>	456,765
Securities Issued	1(i)	<b>156,839</b>	598,870
Distribution Payable to Government	2,4,13	<b>54,063</b>	35,595
Other Liabilities	14	<b>89,589</b>	35,552
Currency in Circulation	15	<b>472,438</b>	385,329
Total Liabilities		<b><u>1,601,990</u></b>	<b><u>1,958,974</u></b>
Net Assets		<b><u>742,231</u></b>	<b><u>588,988</u></b>
<b>CAPITAL and RESERVES</b>			
Reserves:	1(h),4		
Asset Revaluation Reserve		<b>61,257</b>	39,454
Unrealised Profits Reserve		<b>356,434</b>	428,534
Currency Movement Reserve		<b>203,540</b>	0
General Reserve		<b>59,000</b>	59,000
Capital		<b>62,000</b>	62,000
Total Capital and Reserve		<b><u>742,231</u></b>	<b><u>588,988</u></b>

This Statement is to be read in conjunction with the accompanying Notes.

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## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

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### **Note 1. SUMMARY OF ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the Central Banking Act 2000 (the "Act") and requirements of International Accounting Standards. In the event of any conflict between the requirements of the Act and the Accounting Standards the Bank (BPNG) is required to comply with the Act.

Unless otherwise stated, the accounting policies and practices followed in these statements are consistent with those followed in the previous year.

All amounts are expressed in Kina unless another currency is indicated. Current market values are used for all BPNG's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for premises. In all other cases, a historical cost basis of accounting is used. Revenues and expenses are brought to account on an accrual basis. All revenues, expenses and profits are from ordinary activities of BPNG.

#### **a) Gold**

Gold holdings are valued at the Kina equivalent of the 3pm fix in the London gold market on the last business day of December.

#### **b) Foreign Exchange**

Foreign Exchange holdings are invested mainly in securities (issued by the governments of the United States and Australia, and by the European Union) and bank deposits (with major OECD foreign commercial banks, central banks and international agencies).

Assets and liabilities denominated in foreign currency are converted to Kina equivalents at exchange rates ruling on the last business day of December. Realised and unrealised gains on foreign currency are immediately taken to profit, but in accordance with the Central Banking Act Section 50(1)(b) they are not available for distribution and therefore transferred to reserves.

#### **Foreign Government Securities**

Foreign Government Securities comprise coupon and discount securities. Coupon securities have bi-annual interest payments depending on the currency and type of security. Interest earned on discount securities is the difference between the actual purchase cost and the face value of the security. The face value is received at maturity. Interest earned on securities is accrued over the term of the security.

Marketable securities are reported at market values on the last business day of December; realised and unrealised gains and losses arising in changes in market valuations during the year are taken to profit. Earnings on foreign currency investments are converted to Kina using the exchange rate of the day they are received.

#### **c) Domestic Government Securities**

Domestic Government Securities comprise Treasury Bills and other Government Securities with a coupon rate.

Treasury Bills are recorded at their discounted purchase price. Interest earned on Treasury Bills is the difference between the actual purchase cost and face value of the Bill. The face value is received at maturity. Interest earned on Treasury Bills are accrued over the term of the Bill.

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## ACCOUNTING POLICIES (Cont'd)

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Other Government securities are coupon securities with interest at a coupon rate. Interests earned on these securities are accrued over the term of the security. These securities are valued at cost as it is the Bank's policy to hold these securities to maturity.

### **d) Repurchase agreements**

In the course of its financial market operations, BPNG engages in repurchase agreements involving Papua New Guinea Kina securities.

Securities sold and contracted for purchase under repurchase agreements are reported on the balance sheet within the relevant investment portfolio and are valued at cost; the counterpart obligation to repurchase is included in "Other Liabilities". The difference between the sale and purchase price is recognised as interest expense over the term of the agreement.

Securities purchased and contracted for sale under repurchase agreements are reported within the relevant investment portfolio at contract amount. The difference between the purchase and sale price is recognised as interest income over the term of the agreement.

### **e) Loans and Advances**

Loans and Advances are made principally to staff or advances under an Export Agriculture Support Scheme covered by matching deposits from the Government. The Bank is of the view that given the nature of the lending and commitments it bears little risk in these exposures and has therefore raised no provisions against these loans and advances.

### **f) Property, plant and equipment**

A formal valuation of all BPNG properties is conducted on a triennial basis with the first such valuation being at 31 December 2001. The valuations are incorporated in the accounts.

Annual depreciation is based on market values and assessments of useful remaining life of assets.

Plant and equipment is recorded at cost less depreciation, which is calculated at rates appropriate to the estimated useful life of the relevant assets. Depreciation rates will be reviewed annually, and adjusted where necessary to reflect the most recent assessments of useful remaining life of assets.

Details of annual net expenditure, revaluation adjustments and depreciation of the assets are included in Note 10.

### **g) Other Assets**

Inventories are carried at the lower of cost and net realisable value.

Unissued currency stocks are carried at cost of acquisition and are amortised over a three-year period commencing in the year following acquisition.

Stocks of numismatic currency are carried at face value plus incidental costs directly attributable to the acquisition.

Other consumable inventories are taken to expense in the year of purchase.

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#### **h) Reserves**

The General Reserve fund was established in 1976 as a reserve to protect the Bank against contingencies and losses arising from its operations in the financial sector and its involvement in foreign currency.

Asset revaluation reserves reflect the impact of changes in the market value of gold and property.

Unrealised gains on foreign exchange and securities are recognised in profit from ordinary activities. Until such gains are realised, they are retained in the Unrealised Profits Reserve.

Realised gains on foreign currency are recognised in profit from ordinary activities. When they are realised they are transferred to the Currency Movements Reserve and are not available for distribution.

During 2002 the Bank adopted the average cost methodology to distinguish between realised and unrealised foreign currency profits.

#### **i) Securities Issued**

Securities issued are recorded at their discounted sale price. Interest paid on these securities is the difference between the actual sale price and the face value of the security. The face value is repaid on maturity. Interest expensed on bank securities is accrued over the term of the security.

#### **j) Provisions**

BPNG maintains provisions for accrued annual leave and long service leave calculated on salaries prevailing at balance date.

#### **k) Profits**

Profits of the Bank are determined and dealt with in accordance with Sections 49 and 50 of the Central Banking Act 2000 as follows :-

- a)** Section 50(1)(b) states that net profit arising from foreign currency movements shall not be available to be distributed to the Government or paid into the Consolidated Revenue Fund . Accordingly unrealised profits are transferred to the Unrealised Profits Reserve and realised profits to Currency Movements Reserve.
- b)** The Board of the Bank is required to determine the net profit of the Bank and then consult with the Minister to determine the amount of profit that is to be placed to the credit of the Bank's Reserve Funds.
- c)** The balance of net profit after any transfer in (a) and (b) in accordance with Sections 49(2a) and 50(1) of the Act is paid to the Consolidated Revenue Fund.

	Note	2002 K'000	2001 K'000
<b>Note 2. NET PROFITS</b>			
Interest revenue			
Domestic Government Securities	1(c)	76,845	93,913
Overseas Investments		44,846	42,979
Other		3,658	8,025
		<u>125,349</u>	<u>144,917</u>
Net gains/(losses) on securities			
Domestic Government securities		95	0
Overseas Investments		16,321	(6,982)
Foreign Currency	1 (b)	131,441	111,112
		<u>147,857</u>	<u>104,130</u>
Fees and commissions			
Management & Licensing Fees		260	(183)
Fees on Foreign Exchange Dealings		10,494	8,511
Numismatic Currency		67	42
		<u>10,821</u>	<u>8,370</u>
Other revenue			
Property rents		758	335
Other		1,290	2,160
		<u>2,048</u>	<u>2,495</u>
Total		<u>286,075</u>	<u>259,912</u>
Less:			
Interest expense			
Deposit liabilities		73,820	85,193
General administrative expenses			
Staff costs		10,149	9,791
Depreciation of property	10	357	357
Depreciation of plant and equipment		141	216
Premises and equipment		6,677	5,054
Consultant's fees	19	1,501	2,245
Travel		1,346	849
Board fees and meeting expenses	17	236	219
Other		6,345	9,281
		<u>26,752</u>	<u>28,012</u>
Total		<u>100,572</u>	<u>113,205</u>
Net Profit		<u>185,503</u>	<u>146,707</u>

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**Note 3. INTEREST REVENUE AND INTEREST EXPENSE**

Analysis for the year ended 31 December 2002

	<b>Average Balance <u>K'000</u></b>	<b>Interest <u>K'000</u></b>	<b>Average Interest Rate <u>%</u></b>
Interest Revenue			
Domestic Government Securities	707,881	<b>76,845</b>	10.86
Overseas Investments	1,515,021	<b>44,846</b>	2.96
Other	83,928	<b>3,658</b>	4.36
	<u>2,306,830</u>	<u><b>125,349</b></u>	<u>5.43</u>
Interest Expense			
Deposits from government	121,447	<b>3,436</b>	2.83
Securities issued	402,543	<b>54,492</b>	13.54
Other deposits	617,008	<b>15,892</b>	2.58
	<u>1,140,998</u>	<u><b>73,820</b></u>	<u>7.35</u>
<b>Analysis for the year ended 31 December 2001</b>			
Interest revenue total	1,580,998	<b>144,917</b>	9.17
Interest expense total	<u>624,656</u>	<u><b>85,193</b></u>	<u>13.64</u>
	<u>956,342</u>	<u><b>59,724</b></u>	<u>6.24</u>



	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 4. RESERVES</b>		
Changes in BPNG's various reserves are shown below		
Asset revaluation reserves		
<b>Gold (note 1(a))</b>		
Opening balance	37,841	24,228
Net revaluation adjustments	<u>21,803</u>	<u>13,613</u>
As at 31 December 2002	<u>59,644</u>	<u>37,841</u>
<b>Bank Properties (note 1(f))</b>		
Opening balance	1,613	0
Net revaluation adjustments	<u>0</u>	<u>1,613</u>
As at 31 December 2002	<u>1,613</u>	<u>1,613</u>
<b>Total asset revaluation reserves</b>		
Opening balance	39,454	24,228
Net revaluation adjustments	<u>21,802</u>	<u>15,226</u>
As at 31 December 2002	<u>61,257</u>	<u>39,454</u>
<b>Currency movements reserve (note 1(h))</b>		
Opening balance	0	0
Net currency movements adjustments	<u>203,540</u>	<u>0</u>
As at 31 December 2002	<u>203,540</u>	<u>0</u>
<b>Unrealised profits reserve (note 1(b))</b>		
Opening balance	428,534	317,422
Net revaluation adjustments	<u>(72,100)</u>	<u>111,112</u>
As at 31 December 2002	<u>356,434</u>	<u>428,534</u>
<b>General Reserve</b>		
Opening and closing balance	<u>59,000</u>	<u>59,000</u>
<b>Capital</b>		
Opening and closing balance	<u>62,000</u>	<u>62,000</u>
<b>Total capital and reserves</b>		
Opening balance	588,988	462,650
Net profit plus revaluation adjustment in asset revaluation reserve	207,306	161,933
Distribution to Government of Papua New Guinea	<u>(54,063)</u>	<u>(35,595)</u>
As at 31 December 2002	<u>742,231</u>	<u>588,988</u>

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 5. CASH AND LIQUID ASSETS</b>		
Other Bank Cheques Held	0	10
Tellers Holdings	<u>204</u>	<u>185</u>
Total Cash and Liquid Assets	<u>204</u>	<u>195</u>

**Note 6. DOMESTIC GOVERNMENT SECURITIES**

Inscribed Stock	94,093	112,894
Treasury Bills	<u>621,260</u>	<u>639,420</u>
Total Domestic Government Securities	<u>715,353</u>	<u>752,314</u>

**Note 7. FOREIGN EXCHANGE**

Bonds	542,983	1,061,154
Short Term Deposits	472,462	139,105
Nostro Balances	<u>276,681</u>	<u>393,918</u>
Total Foreign Exchange	<u>1,292,126</u>	<u>1,594,177</u>

**Note 8. LOANS & ADVANCES**

Domestic Banks – Agricultural Export Commodity Support	52,513	52,646
Loans and Advances to Staff (including housing loans)	3,749	3,963
Advances to Government	118,588	0
Other	<u>547</u>	<u>508</u>
Total Loans and Advances	<u>175,397</u>	<u>57,117</u>

**Note 9. OTHER ASSETS**

Accrued Interest Receivable	9,635	16,302
Government of Papua New Guinea	40,541	40,541
Sundry Debtors	1,062	1,250
Inventories	4,755	2,896
Other	<u>19</u>	<u>147</u>
Total Other Assets	<u>56,012</u>	<u>61,136</u>

The Bank has shares in the Port Moresby Stock Exchange valued at K390,000.00 as at 31 December 2002.

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 10. PROPERTY, PLANT &amp; EQUIP. (note 1(f))</b>		
Properties		
Opening balance	16,465	15,276
Additions	617	460
Disposals	0	(74)
	<u>17,082</u>	<u>15,662</u>
Depreciation prior to revaluation	0	(810)
Book value prior to revaluations	<u>17,082</u>	<u>14,852</u>
Net revaluation adjustments (note 4)	0	1,613
As at 31 December	<u>17,082</u>	<u>16,465</u>
Plant and equipment		
Opening balance	619	619
Additions	473	0
Disposals	0	0
	<u>1,092</u>	<u>619</u>
Accumulated Depreciation	(574)	0
Depreciation for the year	(430)	(217)
As at 31 December	<u>(1,004)</u>	<u>(217)</u>
Total property, plant and equipment	<u>17,170</u>	<u>16,867</u>

The first triennial independent revaluation of all Bank properties occurred as at 31 December 2001

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 11. DOMESTIC CURRENCY DEPOSITS</b>		
Banks		
Exchange Settlement accounts	8,036	33,774
Other Deposits	184,371	169,359
Government and Government Instrumentalities	117,672	242,785
Other Deposits	1,469	945
Total Domestic Currency Deposits	<u>311,548</u>	<u>446,863</u>

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 12. FOREIGN CURRENCY DEPOSITS</b>		
Loans received from International Monetary Fund (IMF)	465,676	409,108
Allocation of SDR from IMF	50,626	44,776
Other	1,211	2,881
Total Foreign Currency Deposits	<u>517,513</u>	<u>456,765</u>

Loans received from the International Monetary Fund are repayable over the next three years. All loans received from the IMF are denominated in SDRs.

The loans from IMF are secured by Promissory Notes issued by the Government of Papua New Guinea.

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 13. DISTRIBUTION PAYABLE TO GOVERNMENT</b>		
Opening Balance	35,595	49,795
Payments in the Year	(35,595)	(49,795)
Current Year's Earnings Available for Distribution	54,063	35,595
Total Distribution Payable to Government	<u>54,063</u>	<u>35,595</u>

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 14. OTHER LIABILITIES</b>		
Amount Outstanding Under Repurchase Agreement	25,580	0
Provision for employee entitlements (note 1(j))	1,534	1,853
Accrued interest on deposits and securities issued	1,135	12,127
Sundry Creditors	6,656	3,791
Other	54,684	17,781
Total Other Liabilities	<u>89,589</u>	<u>35,552</u>

Other liabilities includes an amount of K29,537,516 (2001 K13,503,332) in unrepresented cheques issued to public holders for maturities or interest on rollover of securities issued by the bank.

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Note 15. CURRENCY IN CIRCULATION</b>		
Notes	433,410	348,666
Coins	39,028	36,663
	<u>472,438</u>	<u>385,329</u>

**Note 16. CONTINGENT LIABILITIES AND OTHER ITEMS NOT INCLUDED IN STATEMENT OF FINANCIAL POSITION**

BPNG had no contingent liabilities at 31 December 2002.

At 31 December 2002 BPNG had contract commitments with external counterparties for the provision of certain premises and support services, including security, cleaning and computer system maintenance and support.

**Note 17. REMUNERATION OF BOARD MEMBERS**

Total fees, allowances, remuneration and other expenses paid to members of the Board, including the Governor and Deputy Governors of BPNG, was **K 861,425** (2001 = K784, 943).

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### Note 18. REMUNERATION OF EXECUTIVES

Total employment packages and remuneration for the 10 most highly paid officers of the Bank, including the Governor and Deputy Governors, was **K 1,825,111** (2001 = K1,337,491).

Remuneration Bands		2002	2001
		<u>Number</u>	<u>Number</u>
90,000	- 99,999	0	3
100,000	- 149,999	6	3
150,000	- 199,999	2	2
200,000	- 299,999	1	2
300,000	- 549,999	1	0

### Note 19. REMUNERATION OF AUDITOR AND CONSULTANTS

Fees paid or payable to the statutory auditor (the Auditor General) for audit services totaled **K160,000** in 2002 (2001 - K140, 000). They are included in "Consultants' fees" in Note 2. Consultants fees also include legal fees **K813,525** (2001 - K370,397) and payments to specialists for "review and advice" services.

A number of consultants are engaged to technically assist the Bank to develop and implement policies and procedures. Major consultancies were in relation to:

- ❖ Economic Policy Assistance
- ❖ Accounting Policy and Procedure Development
- ❖ Reviews of the Banks and Financial Institutions Act, Life Insurance Act and Superannuation (General Provisions) Act
- ❖ PNG Gas Project Assistance

Total charges paid in 2002 for major consultancies was **K473,607** (2001 - K1,754,321).

### Note 20. SEGMENT REPORTING

BPNG operates as a central bank, predominantly in one geographical area.

### Note 21. FINANCIAL INSTRUMENTS

International Accounting Standard IAS 32 – Financial Instruments: Disclosure and Presentation - requires disclosure of information relating to: both recognised and unrecognised financial instruments, their significance and performance, accounting policy terms and conditions; net fair values and risk information.

**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 enterprise. The identifiable financial instruments for BPNG are its domestic government securities, its foreign government securities, securities issued, bank deposits, currency in circulation and deposit liabilities.

**Net 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. Except for domestic government securities BPNG's recognised financial instruments are carried at current market value, which approximates net fair value.

**Financial risk** of financial instruments embodies price risk (currency risk and interest rate risk); credit risk; liquidity risk; and cash flow risk. IAS 32 requires disclosure of interest rate risk and credit risk.

The interest rate and credit risk tables are based on BPNG's settled portfolio as reported in BPNG's balance sheet.

### Interest rate risk

**Interest rate risk** is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The following table shows BPNG's balance sheet restated in compliance with IAS 32.

#### Interest rate risk

As at 31 December 2002

	Balance sheet Total K'000	Floating interest rate %	Repricing K'000 0 to 3 months	Period K'000 3 to 12 months	1 to 5 years	over 5 years	Not bearing interest K'000	Weighted average rate %
<b>Assets</b>								
Gold holdings	87,959						87,959	
<b>Foreign Exchange</b>								
Deposits & Other Securities	1,292,126		977,151	62,853	252,122		0	2.02
<b>Kina Securities and Advances</b>								
Government Securities	715,353		630,099	6,299	78,955			9.50
Loans & Advances	175,397		118,841	195	1,664	54,697		2.58
<b>Sub-total</b>	<b>890,750</b>		<b>748,940</b>	<b>6,494</b>	<b>80,619</b>	<b>54,697</b>		
Property Plant and equipment	17,170						17,170	
Cash and Liquid Assets	204						204	
Other Assets	56,012						56,012	
<b>Sub-total</b>	<b>73,386</b>						<b>73,386</b>	
<b>Total Assets</b>	<b>2,344,221</b>		<b>1,726,091</b>	<b>69,347</b>	<b>332,741</b>	<b>54,697</b>	<b>161,345</b>	
<b>Liabilities</b>								
<b>Foreign Liabilities</b>								
Foreign Currency Deposit	517,513				465,676		51,837	2.68
<b>Domestic Liabilities</b>								
Currency in Circulation	472,438						472,438	
Securities issued	156,839		156,839					11.37
Deposits	311,548		8,036				303,512	0.03
Other	143,652						143,652	
<b>Sub-total</b>	<b>1,084,477</b>		<b>164,875</b>				<b>919,602</b>	
<b>Total Liabilities</b>	<b>1,601,990</b>		<b>164,875</b>		<b>465,676</b>		<b>971,439</b>	
Capital and reserves	742,231							
<b>Total Liabilities and capital</b>	<b>2,344,221</b>							

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**Interest rate risk**

As at 31 December 2001

	Balance sheet Total K'000	Floating interest rate %	0 to 3 months	Repricing K'000 3 to 12 months	Period 1 to 5 years	over 5 years	Not bearing interest K'000	Weighted average rate %
<b>Total Assets</b>	<b>2,547,962</b>		<b>1,400,951</b>	<b>522,054</b>	<b>323,588</b>	<b>157,015</b>	<b>144,354</b>	<b>5.69</b>
<b>Total Liabilities</b>	<b>1,958,974</b>		<b>500,563</b>	<b>99,237</b>	<b>409,087</b>		<b>950,087</b>	<b>4.35</b>
Capital and reserves	588,988							
<b>Total Liabilities and capital</b>	<b>2,547,962</b>							

All recognised financial instruments are shown at net fair value.

All financial instruments are shown at their repricing period, which is equivalent to the remaining term to maturity

**Credit risk**

Credit risk in relation to a financial instrument is the risk that a customer, bank or other counter-party will not meet its obligation (or to be permitted to meet them) in accordance with agreed terms.

BPNG's maximum exposure to credit risk in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet. BPNG's exposures are to highly rated counter-parties and its credit risk is very low.

**Concentration of credit risk**

The following table indicates the concentration of credit risk in BPNG's investment portfolio

Security type	Risk rating of security issuer	Risk rating of counter-parties	% of total assets portfolio at 31/12/02	% of total asset portfolio at 31/12/01
<b>Kina Securities</b>				
Papua New Guinea Government Securities	B	-	30.21	29.68
<b>Foreign Investments</b>				
Holdings of Securities	AAA	AA+	22.93	42.19
Short Term Deposits	P-1	AA+	19.95	31.41

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**Note 22. CASH FLOW STATEMENT**

This statement of cash flow is included as a statutory requirement and does not add any significant meaning to the financial statements.

**Statement of Cash Flows for the year ended 31 December 2002**

	<b>2002</b>	<b>2001</b>
	<b><u>K'000</u></b>	<b><u>K'000</u></b>
<b>Cash flows from operating activities</b>		
Interest received	125,349	144,917
Other Income	232,826	3,883
Interest Expense	(73,820)	(85,193)
Administrative Expense	(26,752)	(28,012)
	<u>257,603</u>	<u>35,595</u>
<b>Cash flows from investment activities</b>		
Net expenditure on property, plant & equipment	(303)	22
	<u>(303)</u>	<u>22</u>
<b>Cash flows from financing activities</b>		
Profit Payment to Government	(35,595)	(49,795)
Net Movement in Domestic Government Securities	36,961	(51,644)
Net Movement in Foreign Exchange	229,951	(575,077)
Net Movement in Loans & Advances	(118,280)	1,619
Net Movement in Domestic Deposits	(135,315)	234,385
Net Movement in Securities Issued	(442,031)	99,464
Net Movement in Currency Deposits	60,748	329,338
Net Movement in Currency in Circulation	87,109	16,445
Other	59,161	(41,991)
	<u>(257,291)</u>	<u>(37,256)</u>
Net increase/(decrease)	9	(1,639)
Opening Cash	195	1,834
Closing Cash	<u>204</u>	<u>195</u>



## **DECLARATION BY MANAGEMENT**

In our opinion the foregoing Operating Statement and Statement of Financial Position, including 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 31 December 2002.

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

L. Wilson Kamit CBE  
Governor

Flora Carruthers (Mrs) MBE  
Deputy Governor  
Policy and Regulation

Benny Popoitai MBE  
Deputy Governor  
Management and Operations

30 June 2003

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## REPORT OF THE AUDITOR-GENERAL

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The Honourable Bart Philemon  
Minister for Finance and Treasury  
Central Government Office  
WAIGANI  
National Capital District

Dear Sir,

### **BANK OF PAPUA NEW GUINEA**

In accordance with Section 8(4) of the Audit Act 1989 (as amended), I have inspected and audited the accompanying financial statements of the Bank of Papua New Guinea for the year ended 31 December 2002, as set out on pages 2 to 17, submitted by the Bank of Papua New Guinea under Section 63(4) of the Public Finances (Management) Act 1995. The Bank's Board is responsible for the preparation and presentation of these financial statements and the information contained therein. I have conducted an independent audit of these financial statements in order to express an opinion on them to the Bank's Board.

My audit was conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly and in accordance with International Standards and statutory requirements so as to present a view which is consistent with my understanding of the Bank's financial position and the results of its operations and its cash flows.

The opinion expressed in this report has been formed on the above basis.

### AUDIT OPINION

I now report that in my opinion:-

- (a) the financial statements are based on proper accounts and records; and
- (b) the statements are in agreement with those accounts and records and show fairly the state of the affairs of the Bank as at 31 December 2002, and the results of its financial operations and its cashflows for the year then ended.

Yours faithfully,

MARK M. WANI MBE  
Auditor-General