
BANK OF PAPUA NEW GUINEA
STATUTORY ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003

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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	<u>2003</u> <u>K'000</u>	<u>2002</u> <u>K'000</u>
REVENUES			
Interest Revenue		154,042	125,349
Net Gains/(Losses) on Securities		(79,842)	147,857
Fees and commissions		5,068	10,821
Other revenue		3,320	2,048
Total Revenue	2	<u>82,588</u>	<u>286,075</u>
EXPENSES			
Interest Expense		55,071	73,820
General Administrative Expenses		<u>36,284</u>	<u>26,752</u>
Total Expenses	2	<u>91,355</u>	<u>100,572</u>
Net Profit/(Loss)		(8,767)	185,503
Net revaluation adjustment in asset revaluation reserve	4	<u>(1,866)</u>	<u>21,803</u>
Net Profit/(Loss) plus net revaluation adjustment in asset revaluation reserve		<u>(10,633)</u>	<u>207,306</u>

STATEMENT OF DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2003

Net Profit/(Loss)	2	(8,767)	185,503
Transfer to Currency Movements Reserve		(279,661)	(203,540)
Transfer from/(to) Unrealised Profits Reserve	4	<u>356,434</u>	<u>72,100</u>
Earnings Available for Distribution to Government		<u>68,006</u>	<u>54,063</u>

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2003

	Note	2003 <u>K'000</u>	2002 <u>K'000</u>
ASSETS			
Cash and Liquid Assets	5	358	204
Domestic Government Securities	1(c),6	667,444	715,353
Foreign Exchange	1(b),7	1,645,225	1,292,126
Gold	1(a)	86,093	87,959
Loans and Advances	1(e),8	114,143	175,397
Property Plant and Equipment	1(f),10	18,274	17,170
Other Assets	1(g),9	<u>68,585</u>	<u>56,012</u>
Total Assets		<u>2,600,122</u>	<u>2,344,221</u>
LIABILITIES			
Domestic Currency Deposits	11	270,990	311,548
Foreign Currency Deposits	12	450,220	517,513
Securities Issued	1(i)	421,783	156,839
Distribution Payable to Government	2,4,13	68,006	54,063
Other Liabilities	14	209,573	89,589
Currency in Circulation	15	<u>511,958</u>	<u>472,438</u>
Total Liabilities		<u>1,932,530</u>	<u>1,601,990</u>
Net Assets		<u>667,592</u>	<u>742,231</u>
CAPITAL and RESERVES			
Reserves:	1(h),4		
Asset Revaluation Reserve		59,391	61,257
Unrealised Profits Reserve		0	356,434
Currency Movement Reserve		483,201	203,540
General Reserve		60,000	59,000
Capital		<u>65,000</u>	<u>62,000</u>
Total Capital and Reserve		<u>667,592</u>	<u>742,231</u>

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2003

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.

ACCOUNTING POLICIES (Cont'd)

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.

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	2003 K'000	2002 K'000
Note 2. NET PROFITS			
Interest revenue			
Domestic Government Securities	1(c)	116,151	76,845
Overseas Investments		31,930	44,846
Other		5,961	3,658
		<u>154,042</u>	<u>125,349</u>
Net gains/(losses) on securities			
Domestic Government securities		0	95
Overseas Investments		(3,069)	16,321
Foreign Currency	1 (b)	(76,773)	131,441
		<u>(79,842)</u>	<u>147,857</u>
Fees and commissions			
Management & Licensing Fees		297	260
Fees on Foreign Exchange Dealings		4,526	10,494
Numismatic Currency		245	67
		<u>5,068</u>	<u>10,821</u>
Other revenue			
Property rents		798	758
Other		2,522	1,290
		<u>3,320</u>	<u>2,048</u>
Total		<u>82,588</u>	<u>286,075</u>
Less:			
Interest expense			
Deposit liabilities		55,071	73,820
General administrative expenses			
Staff costs		13,288	10,149
Depreciation of property	10	386	357
Depreciation of plant and equipment		441	141
Premises and equipment		6,901	6,677
Consultant's fees	19	2,112	1,501
Travel		1,411	1,346
Board fees and meeting expenses	17	315	236
Other		11,430	6,345
		<u>36,284</u>	<u>26,752</u>
Total		<u>91,355</u>	<u>100,572</u>
Net Profit/(Loss)		<u>(8,767)</u>	<u>185,503</u>

Note 3. INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 31 December 2003

	Average Balance <u>K'000</u>	Interest <u>K'000</u>	Average Interest Rate <u>%</u>
Interest Revenue			
Domestic Government Securities	687,544	116,151	16.89
Overseas Investments	1,392,354	31,930	2.29
Other	<u>82,032</u>	<u>5,961</u>	<u>7.27</u>
	<u>2,161,930</u>	<u>154,042</u>	<u>7.13</u>
Interest Expense			
Deposits from government	25,959	3,577	13.78
Securities issued	253,232	43,119	17.03
Other deposits	<u>693,695</u>	<u>8,945</u>	<u>1.29</u>
	<u>972,886</u>	<u>55,071</u>	<u>5.66</u>
Analysis for the year ended 31 December 2002			
Interest revenue total	2,306,830	125,349	5.43
Interest expense total	<u>1,140,998</u>	<u>73,820</u>	<u>7.35</u>
	<u>1,165,832</u>	<u>51,529</u>	<u>4.42</u>

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 4. RESERVES		
Changes in BPNG's various reserves are shown below		
Asset revaluation reserves		
Gold (note 1(a))		
Opening balance	59,644	37,841
Net revaluation adjustments	<u>(1,866)</u>	<u>21,803</u>
As at 31 December 2003	<u>57,778</u>	<u>59,644</u>
Bank Properties (note 1(f))		
Opening balance	1,613	1,613
Net revaluation adjustments	<u>0</u>	<u>0</u>
As at 31 December 2003	<u>1,613</u>	<u>1,613</u>
Total asset revaluation reserves		
Opening balance	61,257	39,454
Net revaluation adjustments	<u>(1,866)</u>	<u>21,802</u>
As at 31 December 2003	<u>59,391</u>	<u>61,257</u>
Currency movements reserve (note 1(h))		
Opening balance	203,540	0
Net currency movements adjustments	<u>279,661</u>	<u>203,540</u>
As at 31 December 2003	<u>483,201</u>	<u>203,540</u>
Unrealised profits reserve (note 1(b))		
Opening balance	356,434	428,534
Net revaluation adjustments	<u>(356,434)</u>	<u>(72,100)</u>
As at 31 December 2003	<u>0</u>	<u>356,434</u>
General Reserve		
Opening balance	59,000	59,000
Transfer from 2002 Profits (note 13)	<u>1,000</u>	<u>0</u>
As at 31 December 2003	<u>60,000</u>	<u>59,000</u>
Capital		
Opening balance	62,000	62,000
Additional share capital issue (note 13)	<u>3,000</u>	<u>0</u>
As at 31 December 2003	<u>65,000</u>	<u>62,000</u>
Total capital and reserves		
Opening balance	742,231	588,988
Net profit/(loss) plus revaluation adjustment in asset revaluation reserve	<u>(10,633)</u>	<u>207,306</u>
Transfer to General Reserves	1,000	0
Purchase of additional share capital	3,000	0
Distribution to Government of Papua New Guinea	<u>(68,006)</u>	<u>(54,063)</u>
As at 31 December 2003	<u>667,592</u>	<u>742,231</u>

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 5. CASH AND LIQUID ASSETS		
Other Bank Cheques Held	6	0
Tellers Holdings	<u>352</u>	<u>204</u>
Total Cash and Liquid Assets	<u>358</u>	<u>204</u>

Note 6. DOMESTIC GOVERNMENT SECURITIES

Inscribed Stock	75,523	94,093
Treasury Bills	<u>591,921</u>	<u>621,260</u>
Total Domestic Government Securities	<u>667,444</u>	<u>715,353</u>

Note 7. FOREIGN EXCHANGE

Bonds	872,930	542,983
Short Term Deposits	281,368	472,462
Nostro Balances	<u>490,927</u>	<u>276,681</u>
Total Foreign Exchange	<u>1,645,225</u>	<u>1,292,126</u>

Note 8. LOANS & ADVANCES

Domestic Banks – Agricultural Export Commodity Support	50,470	52,513
Domestic Banks – Other (RDB)	5,503	0
Loans and Advances to Staff (including housing loans)	4,975	3,749
Advances to Government	52,637	118,588
Other	<u>558</u>	<u>547</u>
Total Loans and Advances	<u>114,143</u>	<u>175,397</u>

Note 9. OTHER ASSETS

Accrued Interest Receivable	12,273	9,635
Government of Papua New Guinea	40,541	40,541
Sundry Debtors	499	1,062
Inventories	14,913	4,755
Other	<u>358</u>	<u>19</u>
Total Other Assets	<u>68,584</u>	<u>56,012</u>

The Bank has shares in the Port Moresby Stock Exchange valued at K410,000.00 as at 31 December 2003 after K20,000.00 loan was converted to shares.

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 10. PROPERTY, PLANT & EQUIP. (note 1(f))		
Properties		
Opening balance	17,082	16,465
Additions	1,063	617
Disposals	0	0
	<u>18,145</u>	<u>17,082</u>
Depreciation prior to revaluation	0	0
Book value prior to revaluations	18,145	17,082
Net revaluation adjustments (note 4)	0	0
As at 31 December	<u>18,145</u>	<u>17,082</u>
Plant and equipment		
Opening balance	1,092	619
Additions	1,029	473
Disposals	(160)	0
	<u>1,961</u>	<u>1,092</u>
Accumulated Depreciation	(1,004)	(574)
Depreciation for the year	(828)	(430)
As at 31 December	<u>(1,832)</u>	<u>(1,004)</u>
Total property, plant and equipment	<u>18,274</u>	<u>17,170</u>

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

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 11. DOMESTIC CURRENCY DEPOSITS		
Banks		
Exchange Settlement accounts	66,366	8,036
Other Deposits	87,002	184,371
Government and Government Instrumentalities	115,922	117,672
Other Deposits	1,700	1,469
Total Domestic Currency Deposits	<u>270,990</u>	<u>311,548</u>

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 12. FOREIGN CURRENCY DEPOSITS		
Loans received from International Monetary Fund (IMF)	404,186	465,676
Allocation of SDR from IMF	45,903	50,626
Other	131	1,211
Total Foreign Currency Deposits	<u>450,220</u>	<u>517,513</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.

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 13. DISTRIBUTION PAYABLE TO GOVERNMENT		
Opening Balance	54,063	35,595
Payments in the Year	(50,063)	(35,595)
Transfer to General Reserves	(1,000)	0
Additional Share Capital Issued	(3,000)	0
Current Year's Earnings Available for Distribution	68,006	54,063
Total Distribution Payable to Government	<u>68,006</u>	<u>54,063</u>

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 14. OTHER LIABILITIES		
Amount Outstanding Under Repurchase Agreement	119,816	25,580
Provision for employee entitlements (note 1(j))	1,697	1,534
Accrued interest on deposits and securities issued	7,087	1,135
Sundry Creditors	3,588	6,656
Other	77,385	54,684
Total Other Liabilities	<u>209,573</u>	<u>89,589</u>

Other liabilities includes an amount of K65,363,330 (2002 K29,537,516) in unrepresented cheques issued to public holders for maturities or interest on rollover of securities issued by the bank.

	2003	2002
	<u>K'000</u>	<u>K'000</u>
Note 15. CURRENCY IN CIRCULATION		
Notes	471,225	433,410
Coins	40,733	39,028
	<u>511,958</u>	<u>472,438</u>

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

BPNG had no contingent liabilities at 31 December 2003.

At 31 December 2003 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 910,213** (2002 = K861, 425).

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 1,795,724** (2002 = K1,825,111).

Remuneration Bands		2003	2002
		<u>Number</u>	<u>Number</u>
90,000	- 99,999	0	0
100,000	- 149,999	6	6
150,000	- 199,999	2	2
200,000	- 299,999	1	1
300,000	- 549,999	1	1

Note 19. REMUNERATION OF AUDITOR AND CONSULTANTS

Fees paid or payable to the statutory auditor (the Auditor General) for audit services totaled **K198,000** in 2003 (2002 - K160, 000). They are included in "Consultants' fees" in Note 2. Consultants fees also include legal fees **K1,467,124** (2002 – K813,525) 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 Advisory Services
- ❖ Continued Reviews of the Banks and Financial Institutions Act, Life Insurance Act and Superannuation (General Provisions) Act

Total charges paid in 2003 for major consultancies was **K446,913** (2002 – K473,607).

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 2003

	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 %
Assets							
Gold holdings	86,093					86,093	
Foreign Exchange							
Deposits & Other Securities	1,645,225	1,073,483	27,311	447,844	96,587		1.82
Kina Securities and Advances							
Government Securities	667,444	214,343	406,411	46,690			15.32
Loans & Advances	114,143	57,637	1,244	3,959	51,303		2.34
Sub-total	781,587	271,980	407,655	50,649	51,303		
Property Plant and equipment	18,274					18,274	
Cash and Liquid Assets	358					358	
Other Assets	68,585					68,585	
Sub-total	87,217					87,217	
Total Assets	2,600,122	1,345,463	434,966	498,493	147,890	173,310	
Liabilities							
Foreign Liabilities							
Foreign Currency Deposit	450,220			404,186		46,034	2.42
Domestic Liabilities							
Currency in Circulation	511,958					511,958	
Securities issued	421,783	328,499	93,284				14.37
Deposits	270,990	67,366				203,624	0.03
Other	277,579					277,579	
Sub-total	1,482,310	395,865	93,284	404,186		993,161	
Total Liabilities	1,932,530	395,865	93,284	404,186		1,039,195	
Capital and reserves	667,592						
Total Liabilities and capital	2,600,122						

Interest rate risk

As at 31 December 2002

	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 %
Total Assets	2,344,221		1,726,091	69,347	332,741	54,697	161,345	5.35
Total Liabilities	1,601,990		164,875		465,676		971,439	4.61
Capital and reserves	742,231							
Total Liabilities and capital	2,344,221							

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 31/12/03	% of total asset portfolio at 31/12/02
Kina Securities				
Papua New Guinea Government Securities	B	-	25.67	30.21
Foreign Investments				
Holdings of Securities	AAA	AA+	33.57	22.93
Short Term Deposits	P-1	AA+	10.82	19.95

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 2003

	<u>2003</u> <u>K'000</u>	<u>2002</u> <u>K'000</u>
Cash flows from operating activities		
Interest received	154,042	125,349
Other Income	284,980	232,826
Interest Expense	(55,071)	(73,820)
Administrative Expense	(36,284)	(26,752)
	<u>347,667</u>	<u>257,603</u>
Cash flows from investment activities		
Net expenditure on property, plant & equipment	(1,104)	(303)
	<u>(1,104)</u>	<u>(303)</u>
Cash flows from financing activities		
Profit Payment to Government	(50,063)	(35,595)
Net Movement in Domestic Government Securities	47,909	36,961
Net Movement in Foreign Exchange	(709,533)	229,951
Net Movement in Loans & Advances	61,254	(118,280)
Net Movement in Domestic Deposits	(40,558)	(135,315)
Net Movement in Securities Issued	264,944	(442,031)
Net Movement in Currency Deposits	(67,293)	60,748
Net Movement in Currency in Circulation	39,520	87,109
Other	107,411	59,161
	<u>(340,548)</u>	<u>(257,291)</u>
Net increase/(decrease)	154	9
Opening Cash	<u>204</u>	<u>195</u>
Closing Cash	<u>358</u>	<u>204</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 2003.

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

L. Wilson Kamit CBE
Governor

Benny Popoitai MBE
Deputy Governor

11 June 2004

REPORT OF THE AUDITOR-GENERAL

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 2003, 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 2003, and the results of its financial operations and its cashflows for the year then ended.

Yours faithfully,

MARK M. WANI MBE
Auditor-General