
BANK OF PAPUA NEW GUINEA
STATUTORY ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2004

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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	<u>2004</u> <u>K'000</u>	<u>2003</u> <u>K'000</u>
REVENUES			
Interest Revenue		123,806	154,042
Net Gains/ (Losses) on Securities		(28,135)	(79,842)
Fees and commissions		8,057	5,068
Other revenue		<u>1,500</u>	<u>3,320</u>
Total Revenue	2	<u>105,228</u>	<u>82,588</u>
EXPENSES			
Interest Expense		72,646	55,071
General Administrative Expenses		<u>43,927</u>	<u>36,284</u>
Total Expenses	2	<u>116,573</u>	<u>91,355</u>
Net Profit/ (Loss)		(11,345)	(8,767)
Net revaluation adjustment in asset revaluation reserve	4	<u>8</u>	<u>(1,866)</u>
Net Profit/ (Loss) plus net revaluation adjustment in asset revaluation reserve		<u>(11,337)</u>	<u>(10,633)</u>

STATEMENT OF DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2004

Net Profit/ (Loss)	2	(11,345)	(8,767)
Transfer from/ (to) Currency Movements Reserve		44,656	(279,661)
Transfer from/ (to) Unrealised Profits Reserve	4	<u>(15,748)</u>	<u>356,434</u>
Profit Available for Distribution		<u>17,563</u>	<u>68,006</u>

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004**

	Note	2004 <u>K'000</u>	2003 <u>K'000</u>
ASSETS			
Cash and Liquid Assets	5	273	358
Domestic Government Securities	1(c), 6	702,028	667,444
Foreign Exchange	1(b), 7	1,975,055	1,645,225
Gold	1(a)	86,101	86,093
Loans and Advances	1(e), 8	57,671	114,143
Property Plant and Equipment	1(f), 10	19,504	18,274
Other Assets	1(g), 9	14,436	68,585
Total Assets		<u>2,855,068</u>	<u>2,600,122</u>
LIABILITIES			
Domestic Currency Deposits	11	445,208	270,990
Foreign Currency Deposits	12	245,321	450,220
Securities Issued	1(i)	891,491	421,783
Profit Available for Distribution	2,4,13	17,563	68,006
Other Liabilities	14	67,484	209,573
Currency in Circulation	15	531,309	511,958
Total Liabilities		<u>2,198,376</u>	<u>1,932,530</u>
Net Assets		<u>656,692</u>	<u>667,592</u>
CAPITAL and RESERVES			
Reserves:	1(h), 4		
Asset Revaluation Reserve		59,399	59,391
Unrealised Profits Reserve		15,748	0
Currency Movement Reserve		438,545	483,201
General Reserve		69,000	60,000
Capital		<u>74,000</u>	<u>65,000</u>
Total Capital and Reserve		<u>656,692</u>	<u>667,592</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 2004

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. Interests 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	2004 K'000	2003 K'000
Note 2. NET PROFITS			
Interest revenue			
Domestic Government Securities	1(c)	77,132	116,151
Overseas Investments		45,069	31,930
Other		1,605	5,961
		<u>123,806</u>	<u>154,042</u>
Net gains/ (losses) on securities			
Domestic Government securities		15	0
Overseas Investments		758	(3,069)
Foreign Currency	1 (b)	(28,908)	(76,773)
		<u>(28,135)</u>	<u>(79,842)</u>
Fees and commissions			
Management & Licensing Fees		4,361	297
Fees on Foreign Exchange Dealings		3,682	4,526
Numismatic Currency		14	245
		<u>8,057</u>	<u>5,068</u>
Other revenue			
Property rents		794	798
Other		706	2,522
		<u>1,500</u>	<u>3,320</u>
Total		<u>105,228</u>	<u>82,588</u>
Less:			
Interest expense			
Deposit liabilities		72,646	55,071
General administrative expenses			
Staff costs		15,486	13,288
Depreciation of property	10	368	386
Depreciation of plant and equipment		606	441
Premises and equipment		7,223	6,901
Consultant's fees	19	1,725	2,112
Travel		1,202	1,411
Board fees and meeting expenses	17	547	315
Currency Distribution expenses		6,636	5,370
Other		10,134	6,060
		<u>43,927</u>	<u>36,284</u>
Total		<u>116,573</u>	<u>91,355</u>
Net Profit/ (Loss)		<u>(11,345)</u>	<u>(8,767)</u>

Note 3. INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 31 December 2004

	Average Balance <u>K'000</u>	Interest <u>K'000</u>	Average Interest Rate <u>%</u>
Interest Revenue			
Domestic Government Securities	643,933	77,132	11.98
Overseas Investments	1,823,050	45,069	2.47
Other	<u>63,829</u>	<u>1,605</u>	<u>2.51</u>
	<u>2,530,812</u>	<u>123,806</u>	<u>4.89</u>
Interest Expense			
Deposits from government	109,845	1,284	1.17
Securities issued	601,135	60,966	10.14
Other deposits	<u>562,542</u>	<u>10,308</u>	<u>1.83</u>
	<u>1,273,521</u>	<u>72,558</u>	<u>5.70</u>
Analysis for the year ended 31 December 2003			
Interest revenue total	2,306,830	154,042	7.13
Interest expense total	<u>972,886</u>	<u>55,071</u>	<u>5.66</u>
	<u>1,333,944</u>	<u>98,971</u>	<u>7.42</u>

	2004	2003
	<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	57,778	59,644
Net revaluation adjustments	8	(1,866)
As at 31 December 2004	<u>57,786</u>	<u>57,778</u>
Bank Properties (note 1(f))		
Opening balance	1,613	1,613
Net revaluation adjustments	0	0
As at 31 December 2004	<u>1,613</u>	<u>1,613</u>
Total asset revaluation reserves		
Opening balance	59,391	61,257
Net revaluation adjustments	8	(1,866)
As at 31 December 2004	<u>59,399</u>	<u>59,391</u>
Currency movements reserve (note 1(h))		
Opening balance	483,201	203,540
Net currency movements adjustments	(44,656)	279,661
As at 31 December 2004	<u>438,545</u>	<u>483,201</u>
Unrealised profits reserve (note 1(b))		
Opening balance	0	356,434
Net revaluation adjustments	15,748	(356,434)
As at 31 December 2004	<u>15,748</u>	<u>0</u>
General Reserve		
Opening balance	60,000	59,000
Transfer from 2003 Profits (note 13)	9,000	1,000
As at 31 December 2004	<u>69,000</u>	<u>60,000</u>
Capital		
Opening balance	65,000	62,000
Additional share capital issue (note 13)	9,000	3,000
As at 31 December 2004	<u>74,000</u>	<u>65,000</u>
Total capital and reserves		
Opening balance	667,592	742,231
Net profit/ (loss) plus revaluation adjustment in asset revaluation reserve	(11,337)	(10,633)
Transfer to General Reserves	9,000	1,000
Purchase of additional share capital	9,000	3,000
Profit Available for Distribution	(17,563)	(68,006)
As at 31 December 2004	<u>656,692</u>	<u>667,592</u>

	2004	2003
	<u>K'000</u>	<u>K'000</u>
Note 5. CASH AND LIQUID ASSETS		
Other Bank Cheques Held	0	6
Tellers Holdings	273	352
Total Cash and Liquid Assets	<u>273</u>	<u>358</u>

Note 6. DOMESTIC GOVERNMENT SECURITIES

Inscribed Stock	74,971	75,523
Treasury Bills	627,057	591,921
Total Domestic Government Securities	<u>702,028</u>	<u>667,444</u>

Note 7. FOREIGN EXCHANGE

Bonds	1,408,249	872,930
Short Term Deposits	296,221	281,368
Nostro Balances	270,585	490,927
Total Foreign Exchange	<u>1,975,055</u>	<u>1,645,225</u>

Note 8. LOANS & ADVANCES

Domestic Banks – Agricultural Export Commodity Support	24,090	50,470
Domestic Banks – Other (RDB)	0	5,503
Loans and Advances to Staff (including housing loans)	5,476	4,975
Advances to Government	1,338	52,637
Loans and Advances – Other (Cocoa Board)	26,220	0
Other	547	558
Total Loans and Advances	<u>57,671</u>	<u>114,143</u>

Note 9. OTHER ASSETS

Accrued Interest Receivable	3,487	12,273
Government of Papua New Guinea	0	40,541
Sundry Debtors	499	499
Inventories	9,027	14,913
Other	1,423	358
Total Other Assets	<u>14,436</u>	<u>68,584</u>

The Bank has shares in the Port Moresby Stock Exchange valued at K410,000.00 as at 31 December 2004.

	2004	2003
	<u>K'000</u>	<u>K'000</u>
Note 10. PROPERTY, PLANT & EQUIP. (note 1(f))		
Properties		
Opening balance	18,145	17,082
Additions	1,339	1,063
Disposals	<u>(606)</u>	<u>0</u>
	18,878	18,145
Depreciation prior to revaluation	<u>0</u>	<u>0</u>
Book value prior to revaluations	18,878	18,145
Net revaluation adjustments (note 4)	<u>0</u>	<u>0</u>
As at 31 December	<u>18,878</u>	<u>18,145</u>
Plant and equipment		
Opening balance	1,961	1,092
Additions	1,396	1,029
Disposals	<u>(121)</u>	<u>(160)</u>
	3,236	1,961
Accumulated Depreciation	(1,832)	(1,004)
Depreciation for the year	<u>(778)</u>	<u>(828)</u>
As at 31 December	<u>(2,610)</u>	<u>(1,832)</u>
Total property, plant and equipment	<u>19,504</u>	<u>18,274</u>

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

	2004	2003
	<u>K'000</u>	<u>K'000</u>
Note 11. DOMESTIC CURRENCY DEPOSITS		
Banks		
Exchange Settlement accounts	230,837	66,366
Other Deposits	101,193	87,002
Government and Government Instrumentalities	105,439	115,922
Other Deposits	<u>7,739</u>	<u>1,700</u>
Total Domestic Currency Deposits	<u>445,208</u>	<u>270,990</u>

	2004	2003
	<u>K'000</u>	<u>K'000</u>
Note 12. FOREIGN CURRENCY DEPOSITS		
Loans received from International Monetary Fund (IMF)	200,317	404,186
Allocation of SDR from IMF	44,993	45,903
Other	<u>11</u>	<u>131</u>
Total Foreign Currency Deposits	<u>245,321</u>	<u>450,220</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.

	2004	2003
	<u>K'000</u>	<u>K'000</u>
Note 13. PROFIT AVAILABLE FOR DISTRIBUTION		
Opening Balance	68,006	54,063
Payments in the Year	(50,006)	(50,063)
Transfer to General Reserves	(9,000)	(1,000)
Additional Share Capital Issued	(9,000)	(3,000)
Current Year's Earnings Available for Distribution	17,563	68,006
Total Available for Distribution	<u>17,563</u>	<u>68,006</u>

	2004	2003
	<u>K'000</u>	<u>K'000</u>
Note 14. OTHER LIABILITIES		
Amount Outstanding Under Repurchase Agreement	0	119,816
Provision for employee entitlements (note 1(j))	2,429	1,697
Accrued interest on deposits and securities issued	3,711	7,087
Sundry Creditors	6,117	3,588
Other	55,227	77,385
Total Other Liabilities	<u>67,484</u>	<u>209,573</u>

Other liabilities includes an amount of K38,574,164 (2003 K65,363,330) in unrepresented cheques issued to public holders for maturities or interest on rollover of securities issued by the bank.

	2004	2003
	<u>K'000</u>	<u>K'000</u>
Note 15. CURRENCY IN CIRCULATION		
Notes	489,350	471,225
Coins	41,959	40,733
	<u>531,309</u>	<u>511,958</u>

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

BPNG had no contingent liabilities at 31 December 2004.

At 31 December 2004 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 1,002,798** (2003 = K910,213).

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 1,787,996** (2003 = K1,795,724).

Remuneration Bands	2004	2003
	<u>Number</u>	<u>Number</u>
100,000 - 149,999	7	6
150,000 - 199,999	1	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 **K220,000** in 2004 (2003 - K198, 000). They are included in "Consultants' fees" in Note 2. Consultants fees also include legal fees of **K910,442** (2003 – K1,467,124) and payments to specialists for "review and advice" services.

A number of consultants are engaged to technically assist the Bank to develop and implement strategic planning and operational 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 2004 for major consultancies was **K521, 501** (2003 – K446, 913).

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 2004

	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	86,101					86,101	
Foreign Exchange							
Deposits & Other Securities	1,975,055	943,717	245,195	638,754	147,389		2.20
Kina Securities and Advances							
Government Securities	702,028	528,968	173,060				4.62
Loans & Advances	57,671	5,475	1,338	26,767	24,091		2.34
Sub-total	759,699	534,443	174,398	26,767	24,091		
Property Plant and equipment	19,504					19,504	
Cash and Liquid Assets	273					273	
Other Assets	14,436					14,436	
Sub-total	34,213					34,213	
Total Assets	2,855,068	1,478,160	419,593	665,521	171,480	120,314	
Liabilities							
Foreign Liabilities							
Foreign Currency Deposit	245,321			200,317		45,004	2.31
Domestic Liabilities							
Currency in Circulation	531,309					531,309	
Securities issued	891,491	751,495	139,996				3.64
Deposits	445,208	230,837				214,371	0.03
Other	85,047					85,047	
Sub-total	1,951,685	982,332	139,996			830,727	
Total Liabilities	2,198,376	982,332	139,996	200,228		875,361	
Capital and reserves	656,692						
Total Liabilities and capital	2,854,608						

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 %
Total Assets	2,600,122		1,345,463	434,966	498,493	147,890	173,310	19.48
Total Liabilities	1,932,530		395,865	93,284	404,186		1,039,195	16.82
Capital and reserves	667,592							
Total Liabilities and capital	2,600,122							

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 31/12/04	% of total asset portfolio at 31/12/03
Kina Securities				
Papua New Guinea Government Securities	B	-	24.59	25.67
Foreign Investments				
Holdings of Securities	AAA	AA+	49.63	33.57
Short Term Deposits	P-1	AA+	10.38	10.82

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 2004

	2004 <u>K'000</u>	2003 <u>K'000</u>
Cash flows from operating activities		
Interest received	123,806	154,042
Other Income/(Loss)	(34,326)	284,980
Interest Expense	(72,646)	(55,071)
Administrative Expense	(43,927)	(36,284)
	<u>(27,073)</u>	<u>347,667</u>
Cash flows from investment activities		
Net expenditure on property, plant & equipment	(1,230)	(1,104)
	<u>(1,230)</u>	<u>(1,104)</u>
Cash flows from financing activities		
Profit Payment to Government	(50,006)	(50,063)
Net Movement in Domestic Government Securities	(34,584)	47,909
Net Movement in Foreign Exchange	(314,082)	(709,533)
Net Movement in Loans & Advances	56,472	61,254
Net Movement in Domestic Deposits	174,218	(40,558)
Net Movement in Securities Issued	469,708	264,944
Net Movement in Currency Deposits	(204,899)	(67,293)
Net Movement in Currency in Circulation	19,351	39,520
Other	(87,940)	107,411
	<u>28,238</u>	<u>(340,548)</u>
Net increase/ (decrease)	(85)	154
Opening Cash	<u>358</u>	<u>204</u>
Closing Cash	<u>273</u>	<u>358</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 2004.

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

L. Wilson Kamit CBE
Governor

Benny Popoitai MBE
Deputy Governor

09 June 2005

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 2004, and the results of its financial operations and its cashflows for the year then ended.

Yours faithfully,

MARK M. WANI MBE
Auditor-General