
BANK OF PAPUA NEW GUINEA
STATUTORY ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2005

TABLE OF CONTENTS

<u>Item</u>	<u>Pages</u>
Statement of Financial Performance	2
Statement of Distribution	2
Statement of Financial Position	3
Notes to the Financial Statements	4 – 16
Declaration by Management	17
Report of the Auditor-General	18

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 <u>K'000</u>	2004 <u>K'000</u>
REVENUE			
Interest Revenue		99,987	123,806
Net Gains/ (Losses) on Securities		(4,894)	773
Fees and commissions		12,286	8,057
Other revenue		7,347	1,500
Total Revenue	2	<u>114,726</u>	<u>134,136</u>
EXPENSES			
Interest Expense		41,986	72,646
General Administrative Expenses		47,673	43,927
Total Expenses	2	<u>89,659</u>	<u>116,573</u>
OPERATING PROFIT		25,067	17,563
REVALUATION ADJUSTMENT			
Exchange Rate Movements	4	(143,713)	(28,908)
Asset Revaluation Adjustment	4	13,139	8
Net Profit/ (Loss) plus Revaluation Adjustment		<u>(105,507)</u>	<u>(11,337)</u>

**STATEMENT OF DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2005**

Net Profit/ (Loss)	2	(105,507)	(11,337)
Transfer from/ (to) Currency Movements Reserve		143,713	44,656
Transfer from/ (to) Unrealised Profits Reserve	4	0	(15,748)
Transfer from/(to) Asset Revaluation Reserve		<u>(13,139)</u>	<u>(8)</u>
Profit Available for Distribution		<u>25,067</u>	<u>17,563</u>



**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2005**

	Note	2005 <u>K'000</u>	2004 <u>K'000</u>
ASSETS			
Cash and Liquid Assets	5	324	273
Domestic Government Securities	1(c), 6	743,428	702,028
Foreign Exchange	1(b), 7	2,255,341	1,975,055
Gold	1(a)	99,240	86,101
Loans and Advances	1(e), 8	56,342	57,671
Property, Plant and Equipment	1(f), 10	19,667	19,504
Other Assets	1(g), 9	<u>19,696</u>	<u>14,436</u>
Total Assets		<u>3,194,038</u>	<u>2,855,068</u>
LIABILITIES			
Domestic Currency Deposits	11	977,375	445,208
Foreign Currency Deposits	12	41,041	245,321
Securities Issued	1(i)	925,530	891,491
Profit Available for Distribution	2,4,13	42,630	17,563
Other Liabilities	14	75,149	67,484
Currency in Circulation	15	<u>606,195</u>	<u>531,309</u>
Total Liabilities		<u>2,667,920</u>	<u>2,198,376</u>
Net Assets		<u>526,118</u>	<u>656,692</u>
CAPITAL and RESERVES			
Reserves:	1(h), 4		
Asset Revaluation Reserve		72,538	59,399
Unrealised Profits Reserve		0	0
Currency Movement Reserve		310,580	454,293
General Reserve		69,000	69,000
Capital		<u>74,000</u>	<u>74,000</u>
Total Capital and Reserve		<u>526,118</u>	<u>656,692</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 2005**

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.



**NOTES TO AND FORMING PARTS OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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, National Government under Temporary Advance Facility and advances under an 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 regular 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 month following payment of acquisition costs.

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.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

ACCOUNTING POLICIES (Cont'd)**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.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

	Note	2005 K'000	2004 K'000
Note 2. REVENUE AND EXPENSES			
Interest revenue			
Domestic Government Securities	1(c)	34,224	77,132
Overseas Investments		65,450	45,069
Other		313	1,605
		<u>99,987</u>	<u>123,806</u>
Net gains/ (losses) on securities			
Domestic Government securities		2	15
Overseas Investments		(4,896)	(758)
		<u>(4,894)</u>	<u>(773)</u>
Fees and commissions			
Management & Licensing Fees		2,966	4,361
Fees on Foreign Exchange Dealings		9,314	3,682
Numismatic Currency		6	14
		<u>12,286</u>	<u>8,057</u>
Other revenue			
Property rents		825	794
Other		6,522	706
		<u>7,347</u>	<u>1,500</u>
Total		<u>114,726</u>	<u>134,136</u>
Less:			
Interest expense			
Deposit liabilities		41,986	72,646
General administrative expenses			
Audit Fees	19	220	220
Consultancy Fees	19	2,771	1,432
Board fees and meeting expenses	17	430	547
Premises and equipment		9,431	7,223
Depreciation of property, plant and equipment	10	1,150	974
Staff Employment Costs		15,015	14,435
Staff Training and Development		959	1,051
Travel		1,416	1,202
Currency Distribution expenses		7,823	6,636
Other		8,458	10,207
		<u>47,673</u>	<u>43,927</u>
Total		<u>89,659</u>	<u>116,573</u>
Net Profit/ (Loss)		<u>25,067</u>	<u>17,563</u>



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

Note 3. INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 31 December 2005

	<u>Average Balance K'000</u>	<u>Interest K'000</u>	<u>Average Interest Rate %</u>
Interest Revenue			
Domestic Government Securities	605,596	34,224	5.65
Overseas Investments	2,005,789	65,450	3.26
Other	62,829	313	0.50
	<u>2,674,215</u>	<u>99,987</u>	<u>3.73</u>

Interest Expense			
Deposits from government	158,106	343	0.22
Securities issued	958,103	38,542	4.02
Other deposits	415,665	3,300	0.79
	<u>1,273,521</u>	<u>42,186</u>	<u>2.75</u>

Analysis for the year ended 31 December 2004

Interest revenue total	2,530,812	123,806	4.89
Interest expense total	972,886	72,558	5.70
	<u>1,273,521</u>	<u>57,801</u>	<u>4.02</u>



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

	2005 <u>K'000</u>	2004 <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	57,786	57,778
Net revaluation adjustments	13,139	8
As at 31 December	<u>70,925</u>	<u>57,786</u>
Bank Properties (note 1(f))		
Opening balance	1,613	1,613
Net revaluation adjustments	0	0
As at 31 December	<u>1,613</u>	<u>1,613</u>
Total asset revaluation reserves		
Opening balance	59,399	59,391
Net revaluation adjustments	13,139	8
As at 31 December	<u>72,538</u>	<u>59,399</u>
Currency movements reserve (note 1(h))		
Opening balance	454,293	483,201
Net currency movements adjustments	(143,713)	(28,908)
As at 31 December	<u>310,580</u>	<u>454,293</u>
Unrealised profits reserve (note 1(b))		
Opening balance	0	0
Net revaluation adjustments	0	0
As at 31 December	<u>0</u>	<u>0</u>
General Reserve		
Opening balance	69,000	60,000
Transfer from 2004 Profits (note 13)	0	9,000
As at 31 December	<u>69,000</u>	<u>69,000</u>
Capital		
Opening balance	74,000	65,000
Additional share capital issue (note 13)	0	9,000
As at 31 December	<u>74,000</u>	<u>74,000</u>
Total capital and reserves		
Opening balance	656,692	667,592
Net profit/ (loss) plus revaluation adjustment	(105,507)	(11,337)
Transfer to General Reserves	0	9,000
Purchase of additional share capital	0	9,000
Profit Available for Distribution	(25,067)	(17,563)
As at 31 December	<u>526,118</u>	<u>656,692</u>



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

	2005	2004
	<u>K'000</u>	<u>K'000</u>
Note 5. CASH AND LIQUID ASSETS		
Other Bank Cheques Held	2	0
Tellers Holdings	322	273
Total Cash and Liquid Assets	<u>324</u>	<u>273</u>

Note 6. DOMESTIC GOVERNMENT SECURITIES

Inscribed Stock	107,313	74,971
Treasury Bills	636,115	627,057
Total Domestic Government Securities	<u>743,428</u>	<u>702,028</u>

Note 7. FOREIGN EXCHANGE

Bonds	1,786,266	1,408,249
Short Term Deposits	280,400	296,221
Nostro Balances	188,675	270,585
Total Foreign Exchange	<u>2,255,341</u>	<u>1,975,055</u>

Note 8. LOANS & ADVANCES

Domestic Banks – Agricultural Export Commodity Support	23,782	24,090
Domestic Banks – Other (RDB)	0	0
Loans and Advances to Staff (including housing loans)	5,744	5,476
Advances to Government	49	1,338
Loans and Advances – Other (Cocoa Board)	26,220	26,220
Other	547	547
Total Loans and Advances	<u>56,342</u>	<u>57,671</u>

Note 9. OTHER ASSETS

Accrued Interest Receivable	5,423	3,487
Sundry Debtors	499	499
Inventories	8,797	9,027
Other	4,977	1,423
Total Other Assets	<u>19,696</u>	<u>14,436</u>

The Bank has shares in the Port Moresby Stock Exchange valued at K390,000.00 as at 31 December 2005.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

	<u>2005</u> <u>K'000</u>	<u>2004</u> <u>K'000</u>
Note 10. PROPERTY, PLANT & EQUIP. (note 1(f))		
Properties		
Opening balance	18,878	18,145
Additions	661	1,339
Disposals	0	(606)
	<u>19,539</u>	<u>18,878</u>
Depreciation prior to revaluation	0	0
Book value prior to revaluations	<u>19,539</u>	<u>18,878</u>
Net revaluation adjustments (note 4)	0	0
As at 31 December 2005	<u>19,539</u>	<u>18,878</u>
Plant and equipment		
Opening balance	3,236	1,961
Additions	728	1,396
Disposals	(224)	(121)
	<u>3,740</u>	<u>3,236</u>
Accumulated Depreciation	(2,610)	(1,832)
Depreciation for the year	(1,003)	(778)
As at 31 December 2005	<u>(3,613)</u>	<u>(2,610)</u>
Total property, plant and equipment	<u>19,667</u>	<u>19,504</u>

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

	<u>2005</u> <u>K'000</u>	<u>2004</u> <u>K'000</u>
Note 11. DOMESTIC CURRENCY DEPOSITS		
Banks		
Exchange Settlement accounts	185,253	230,837
Other Deposits	137,907	101,193
Government and Government Instrumentalities	645,093	105,427
Other Deposits	9,122	7,751
Total Domestic Currency Deposits	<u>977,375</u>	<u>445,208</u>

	<u>2005</u> <u>K'000</u>	<u>2004</u> <u>K'000</u>
Note 12. FOREIGN CURRENCY DEPOSITS		
Loans received from International Monetary Fund (IMF)	(18)	200,317
Allocation of SDR from IMF	41,150	44,993
Other	(91)	11
Total Foreign Currency Deposits	<u>41,041</u>	<u>245,321</u>

Loans received from the International Monetary Fund have been fully repaid in 2005. All loans received from the IMF were denominated in SDRs.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

	2005 <u>K'000</u>	2004 <u>K'000</u>
Note 13. PROFIT AVAILABLE FOR DISTRIBUTION		
Opening Balance	17,563	68,006
Payments in the Year	0	(50,006)
Transfer to General Reserves	0	(9,000)
Additional Share Capital Issued	0	(9,000)
Current Year's Earnings Available for Distribution	25,067	17,563
Total Available for Distribution	<u>42,630</u>	<u>17,563</u>

	2005 <u>K'000</u>	2004 <u>K'000</u>
Note 14. OTHER LIABILITIES		
Amount Outstanding Under Repurchase Agreement	49,950	0
Provision for employee entitlements (note 1(j))	4,482	2,429
Accrued interest on deposits and securities issued	902	3,711
Sundry Creditors	0	5,872
Other	19,815	55,472
Total Other Liabilities	<u>75,149</u>	<u>67,484</u>

Other liabilities include an amount of K2,993,485 (2004 K38,574,164) in unrepresented cheques issued to public holders for maturities or interest on rollover of securities issued by the bank.

	2005 <u>K'000</u>	2004 <u>K'000</u>
Note 15. CURRENCY IN CIRCULATION		
Notes	561,197	489,350
Coins	44,998	41,959
	<u>606,195</u>	<u>531,309</u>

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

BPNG had no contingent liabilities at 31 December 2005.

At 31 December 2005 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 429,948.25 (2004 = K 546,815.21).



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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 2,272,406** (2004 = K1,787,996).

Remuneration Bands	2005 Number	2004 Number
100,000 - 149,999	6	7
150,000 - 199,999	2	1
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 2005 (2004 – K220,000).

Consultancy Fees include legal fees of **K1,529,065** (2004 – K910,442) 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 2005 for major consultancies was **K1,241,572** (2004 – K521, 501).

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.



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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 2005

	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	99,240						99,240	
Foreign Exchange								
Deposits & Other Securities	2,255,341		887,356	214,861	886,169	266,951		2.99
Kina Securities and Advances								
Government Securities	743,428		589,658	84,680	69,090			4.7
Loans & Advances	56,342						56,342	
Sub-total	799,770		589,658	84,680	69,090		56,342	
Property Plant and equipment	19,667						19,667	
Cash and Liquid Assets	324						324	
Other Assets	19,696						19,696	
Sub-total	38,687						38,662	
Total Assets	3,194,038		1,477,014	299,541	955,259	266,951	137,927	
Liabilities								
Foreign Liabilities								
Foreign Currency Deposit	41,041		(19)		(91)		41,150	0.22
Domestic Liabilities								
Currency in Circulation	606,195						606,195	
Securities issued	925,530		923,614	1,916				2.97
Deposits	977,375		185,293				792,122	0.79
Other	117,778						116,561	
Sub-total	2,626,878		1,108,867	1,916			1,514,878	
Total Liabilities	2,667,920		1,108,867	1,916	19		1,514,878	
Capital and reserves	526,118							
Total Liabilities and capital	3,194,038							



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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 %
Total Assets	2,855,068		1,478,160	419,593	665,521	171,480	120,314	9.16
Total Liabilities	2,198,376		982,332	139,996	200,228		875,361	5.98
Capital and reserves	656,692							
Total Liabilities and capital	2,855,068							

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 31/12/05	% of total asset portfolio at 31/12/04
Kina Securities				
Papua New Guinea Government Securities	B	-	23.28	24.59
Foreign Investments				
Holdings of Securities	AAA	AA+	56.28	49.63
Short Term Deposits	P-1	AA+	8.78	10.38



**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

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 2005

	2005	2004
	<u>K'000</u>	<u>K'000</u>
Cash flows from operating activities		
Interest received	99,987	123,806
Other Income/(Loss)	14,739	10,330
Interest Expense	(41,986)	(72,646)
Administrative Expense	(47,673)	(43,927)
	<u>25,067</u>	<u>17,563</u>
Cash flows from investment activities		
Net movement in property, plant & equipment	(163)	(1,230)
	<u>(163)</u>	<u>(1,230)</u>
Cash flows from financing activities		
Profit Payment to Government	(0)	(50,006)
Net Movement in Domestic Government Securities	(41,400)	(34,584)
Net Movement in Foreign Exchange	(280,286)	(314,082)
Net Movement in Loans & Advances	1,329	56,472
Net Movement in Domestic Deposits	532,166	174,218
Net Movement in Securities Issued	34,039	469,708
Net Movement in Currency Deposits	(204,280)	(204,899)
Net Movement in Currency in Circulation	74,887	19,351
Other	2,405	(87,940)
	<u>118,860</u>	<u>28,238</u>
Effects on Exchange Rate Change on Cash & Cash Equivalents	(143,713)	(44,656)
Net increase/ (decrease)	51	(85)
Opening Cash	<u>273</u>	<u>358</u>
Closing Cash	<u>324</u>	<u>273</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 2005.

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



L. Wilson Kamit CBE
Governor



Benny Popoitai MBE
Deputy Governor
Management & Operations



Loi Bakani
Deputy Governor
Policy & Regulation

09 June 2006