



**AUDITOR-GENERAL'S OFFICE**

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**WAIGANI**

**PAPUA NEW GUINEA**

**The Governor**

Bank of Papua New Guinea

PO Box 121

**PORT MORESBY**

National Capital District

Date : July 25, 2008

Our Reference : 30-13-4

Action Officer :

Designation :

Your Reference :

Date:

Dear Sir,

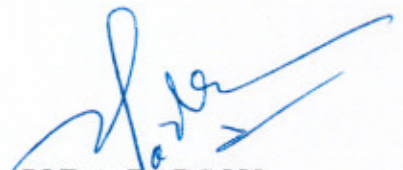
**AUDIT REPORT -  
BANK OF PAPUA NEW GUINEA  
FOR THE YEAR ENDED 31 DECEMBER 2007**

I enclose a copy of the Auditor-General's Report together with a copy of the audited financial statements for the year ended **31 December, 2007**.

In accordance with Section 63(2) of the *Public Finances (Management) Act, 1995*, please ensure that the Bank furnishes to the Minister a report of your operations during the year ended *31 December, 2007* together with the financial statements in respect of that year and the Auditor-General's Report thereon for tabling in Parliament as required under Section 63(5) of the *Public Finances (Management) Act, 1995*. A copy of such report when furnished to the Minister, should also be forwarded to this Office.

Kindly take note that Section 63(6) of the aforementioned Act requires that when a report or financial statement of a Public Body is reproduced for publication or for other purposes, the report of the Auditor-General shall be included in the reproduction.

Yours faithfully,



**JOE A. DADSON**  
Assistant Auditor-General  
(Statutory Bodies Division)  
**FOR: AUDITOR-GENERAL**





## AUDITOR – GENERAL OF PAPUA NEW GUINEA

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LEVEL 6, TISA HAUS  
P.O. BOX 423  
WAIGANI  
PAPUA NEW GUINEA

**The Honourable Patrick Pruaitch, MP**  
Minister for Finance and Treasury  
Office of the Minister  
Vulupindi Haus - 4<sup>th</sup> Floor  
P. O. Box 710  
**WAIGANI, NCD**

Date: 25 July, 2008  
Our Reference: 30-13-4  
Action Officer:  
Designation:  
Your Reference:  
Date

Dear Sir,

### **BANK OF PAPUA NEW GUINEA** **AUDIT REPORT FOR THE YEAR ENDED 31 DECEMBER 2007**

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, 2007** as set out on pages **2 to 20**, submitted by the Bank 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 of material misstatement. My audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the 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 generally accepted accounting practice, which requires, amongst other things, compliance with *International Financial Reporting Standards and Statements of Accounting Standards* of the Certified Practising Accountants of Papua New Guinea, and other statutory requirements (including the *Central Banking Act, 2000*), 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 cash flows. I believe that my audit provides a reasonable basis for my opinion.

The audit 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 financial statements are in agreement with those accounts and records, and show fairly the state of affairs of the Bank as at 31 December, 2007 and the results of its financial operations and its cash flows for the year then ended.

Yours faithfully,

**GEORGE W. SULLIMANN**  
Auditor-General

# Bank of Papua New Guinea

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Statutory Accounts  
For the year ended 31 December 2007

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**Statement of Financial Performance** for the year ended 31 December 2007  
Bank of Papua New Guinea

	Note	2007 K'000	2006 K'000
<b>Income from foreign currency operations</b>			
Interest income	1	220,867	163,936
Securities trading		30,233	3,004
Foreign Exchange Commissions		19,216	15,571
<b>Total income from foreign currency operations</b>		<b>270,316</b>	<b>182,511</b>
Less; Interest expense on Liabilities with IMF		1,672	1,515
<b>Net Foreign Currency Income</b>		<b>268,644</b>	<b>180,996</b>
<b>Income from domestic operations</b>			
Interest income	2	23,868	37,758
Other income	3	13,582	2,447
<b>Total income from domestic operations</b>		<b>37,450</b>	<b>40,205</b>
<b>Expense on domestic operations</b>			
Interest expense	4	114,692	58,108
<b>Total expenses on domestic operations</b>		<b>114,692</b>	<b>58,108</b>
<b>Net Domestic Income/(Loss)</b>		<b>(77,242)</b>	<b>(17,903)</b>
Total net operations income		191,402	163,093
<b>Less: Operating Expenses</b>			
General and administration expenses	5	48,776	47,029
<b>Operating Profit</b>		<b>142,626</b>	<b>116,064</b>
Gold revaluation gain/(loss)		19,194	(9,467)
Property Valuation gain/(loss)		23,132	0
Foreign exchange revaluation gain/(loss)		(56,149)	70,062
Domestic Government Securities revaluation gain/(loss)		1,137	2,995
<b>Net profit/(loss) for the year</b>		<b>129,940</b>	<b>179,654</b>

The accounting policies and notes to the financial statements form an integral part of these financial statements.





**Statement of Financial Position** for the year ended 31 December 2007  
Bank of Papua New Guinea

	Note	2007 K'000	2006 K'000
<b>Assets</b>			
<b>Foreign Currency Financial Assets</b>			
Gold	6(d)	100,348	81,154
Foreign Currency	7	672,558	208,315
Investments	8	5,123,571	4,010,430
Assets held with IMF	9	262	185
Other assets – Interest receivable		35,351	27,591
<b>Total Foreign Currency Financial Assets</b>		<b>5,932,090</b>	<b>4,327,675</b>
<b>Local Currency Financial Assets</b>			
Cash & cash equivalents	10	373	2,070
Government of Papua New Guinea Securities	11	205,827	788,622
Loans and Advances to Government		175	211
Loans and Advances	12	56,542	56,736
<b>Total Local Currency Financial Assets</b>		<b>262,917</b>	<b>847,639</b>
<b>Total Financial Assets</b>		<b>6,195,007</b>	<b>5,175,314</b>
<b>Other Assets</b>			
Property, Plant & equipment	13	48,802	25,706
Other assets	14	21,152	18,047
<b>Total Other Assets</b>		<b>69,954</b>	<b>43,753</b>
<b>Total Assets</b>		<b>6,264,961</b>	<b>5,219,067</b>
<b>Liabilities and Equity</b>			
<b>Foreign Currency Financial Liabilities</b>			
Liabilities with IMF	8	43,066	43,779
<b>Local Currency Financial Liabilities</b>			
Deposits from banks & third parties	15	1,026,155	451,445
Deposits from Government and Government Entities		1,343,867	805,620
Securities issued	16	2,193,700	2,483,671
<b>Total Local Currency Financial Liabilities</b>		<b>4,563,722</b>	<b>3,740,736</b>
<b>Total Financial Liabilities</b>		<b>4,606,788</b>	<b>3,784,515</b>
<b>Other Liabilities</b>			
Currency Circulation	17	818,923	693,220
Profit available for distribution	18	157,170	116,064
Other liabilities	19	26,538	25,560
<b>Total Other Liabilities</b>		<b>1,002,631</b>	<b>834,844</b>
<b>Total Liabilities</b>		<b>5,609,419</b>	<b>4,619,359</b>



**Statement of Financial Position** for the year ended 31 December 2007  
Bank of Papua New Guinea

	Note	2007 K'000	2006 K'000
<b>Equity</b>			
Capital	20	131,000	79,000
Asset Revaluation Reserve—Gold		80,652	61,458
Asset Revaluation Reserve—Property, plant & equipment		24,745	1,613
Unrealised Profits Reserve		127,745	59,211
Currency Movement Reserve		196,748	321,431
Domestic Securities Revaluation Reserve		4,132	2,995
Building Reserve		15,000	0
General Reserve		75,520	74,000
<b>Total Equity</b>		<b>655,542</b>	<b>599,708</b>
<b>Total Liabilities and Equity</b>		<b>6,264,961</b>	<b>5,219,067</b>

**Statement of Changes in Equity** for the year ended 31 December 2007  
Bank of Papua New Guinea

*In Kina thousands*

	Capital		Revaluation Reserves				Building Reserve	General Reserve	Retained Earnings	Total	
	Gold	Property, Plant & Equipment	Currency Movement	Unrealised Profit	Bond Valuation	Domestic Securities					
Balance at 1 Jan. 2006	79,000	70,925	1,613	310,580	-	-	-	74,000	-	536,118	
Net profit (loss) for the year	-	-	-	-	-	-	-	-	179,654	179,654	
Revaluation transfers for the year	-	(9,467)	-	10,851	59,211	-	2,995	-	(63,590)	-	
Transfer to General Reserve	-	-	-	-	-	-	-	-	-	-	
Distribution to Government	-	-	-	-	-	-	-	-	(116,064)	(116,064)	
<b>Balance at 31 Dec. 2006</b>	<b>79,000</b>	<b>61,458</b>	<b>1,613</b>	<b>321,431</b>	<b>59,211</b>	<b>-</b>	<b>2,995</b>	<b>-</b>	<b>74,000</b>	<b>-</b>	<b>599,708</b>
Net profit for the year	-	-	-	-	-	-	-	-	129,940	129,940	
Unrealised Revaluation Gain/(Loss)	-	-	23,132	-	68,534	-	-	-	(91,666)	-	
Revaluation transfer for the year	-	19,194	-	(131,467)	-	6,784	1,137	-	-	104,352	-
Appropriate to other reserves	52,000	-	-	-	-	-	-	15,000	1,520	-	68,520
Distribution to Government	-	-	-	-	-	-	-	-	(142,626)	(142,626)	
<b>Balance at 31 Dec. 2007</b>	<b>131,000</b>	<b>80,652</b>	<b>24,745</b>	<b>189,964</b>	<b>127,745</b>	<b>6,784</b>	<b>4,132</b>	<b>15,000</b>	<b>75,520</b>	<b>-</b>	<b>655,542</b>

The accounting policies and notes to the financial statements form an integral part of these financial statements.





**Statement of Cash Flow** for the year ended 31 December 2007  
Bank of Papua New Guinea

	Note	2007 K'000	2006 K'000
<b>Cash flows from operating activities</b>			
<b>Source;</b>			
Interest received – Foreign Currency		213,107	118,718
Interest received – Local Currency		24,817	40,934
Realised Gold gains		-	37,215
Fees, Commission and Other Miscellaneous Income Received		32,798	18,018
		<u>270,722</u>	<u>214,885</u>
<b>Disbursements;</b>			
Interest paid – Foreign Currency		(1,672)	(1,515)
Interest paid – Local Currency		(113,780)	(55,678)
Payments to employees		(20,612)	(18,681)
Payments to suppliers		(22,631)	(22,828)
Securities trading Gain/(Loss)		22,313	14,218
Fees, commissions paid		(2,989)	(3,630)
Realised Foreign Exchange gains		(56,149)	70,063
		<u>(195,520)</u>	<u>(18,051)</u>
<b>Net Cash Flow from Operating Activities</b>	<b>21</b>	<b>75,202</b>	<b>196,834</b>
<b>Cash Flows from Investing Activities</b>			
<b>Source;</b>			
Net Increase/(Decrease) in Currency Deposits		-	-
Net Increase/(Decrease) in Deposits from Banks		574,710	69,212
Net Increase/(Decrease) in Deposits from Government		495,616	203,157
Net Increase/(Decrease) in Other Liabilities		18,288	(3,289)
		<u>1,088,614</u>	<u>269,080</u>
<b>Disbursements;</b>			
Market Movement in Gold Holdings		-	(23,670)
Net Increase/(Decrease) in Gold		-	(18,086)
Net Increase/(Decrease) in Foreign Currency Investments		(1,086,711)	(1,963,216)
Net Increase/(Decrease) in Assets Held with IMF		(77)	(104)
Net Increase/(Decrease) in Government Securities		583,707	(45,194)
Net Increase/(Decrease) in Loans and Advances		230	(605)
Purchase of Property, Plant and Equipment		1,720	(7,320)
Net Increase/(Decrease) in Other Assets		(2,157)	(1,527)
		<u>(503,288)</u>	<u>(2,059,722)</u>
<b>Net Cash Flow from Investing Activities</b>		<b>585,326</b>	<b>(1,790,642)</b>
<b>Cash Flows from Financing Activities</b>			
<b>Source;</b>			
Net Issue of Currency in Circulation		125,702	87,026
Net Increase/(Decrease) in Securities issues		(289,971)	1,558,142
Net Increase/(Decrease) in Liabilities with IMF		(713)	2,738
Profit Paid to Government		(33,000)	(32,630)
		<u>(197,982)</u>	<u>1,615,276</u>
<b>Net Cash Flow from Financing Activities</b>		<b>(197,982)</b>	<b>1,615,276</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>		<b>462,546</b>	<b>21,468</b>
Cash and Cash Equivalent at 1 January		210,385	188,917
<b>Cash and Cash Equivalent at 31 December</b>	<b>22</b>	<b>672,931</b>	<b>210,385</b>





## 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) Statement of compliance

The accompanying financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB).

### (b) Basis of preparation

The financial statements are presented in Kina, rounded to the nearest thousand.

The financial statements are prepared on a historical cost basis except that the following assets and liabilities are stated at their fair value: investments held for trading and investments available for sale.

### (c) Income Statement

All items of income and expense recognised in a period are included in profit and loss unless a Standard or an Interpretation requires otherwise.

The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

### (d) Foreign Currency and Gold

Transactions in foreign currency are translated to Kina at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at a reporting date are translated to Kina at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Kina at foreign exchange rates ruling at the dates the values were determined.

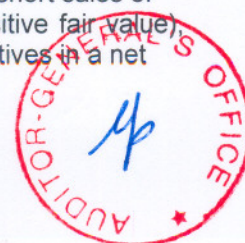
#### Gold

Gold is valued at market prices. Gains and losses arising from revaluation are recognised in the Income statement.

### (e) Financial assets/instruments

#### (i) Definition

*Trading instruments* are those that the Bank principally holds for the purpose of short term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased are reported as trading assets. All trading derivatives in a net





payable position (negative fair value) as well as any options written are reported as trading liabilities.

*Originated loans and receivables* are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans as well as bonds purchased at original issuance.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain purchased loans and advances to banks and customers and certain debt investments.

*Available-for-sale assets* are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Available-for-sale instruments include money market placements and certain debt and equity investments.

**(ii) Recognition**

The Bank recognises financial assets held for trading and available-for-sale assets on the date the asset is delivered to the Bank. From this date any gains or losses arising from changes in fair value are recognised.

Held-to-maturity assets and originated loans and receivables are recognised on the day the asset is acquired by the Bank.

**(iii) Measurement**

Financial instruments are initially measured at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method.

**(iv) Fair value measurement principles**

The fair value of a financial instrument is based on its quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using discounted cash flow techniques.

Where discounted cash flow techniques are used, the estimated cash flows are based on management's best estimate and the discount rate used is a market related rate at the reporting date for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange traded are estimated at the amount the Bank would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counter parties.

**(v) Recognition of gains and losses**

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. When the financial assets are sold, collected or otherwise disposed of the cumulative gain or loss recognised in equity shall be transferred to the income statement.

Gains and losses arising from a change in the fair value of trading instruments and available for sale assets are recognised in the income statement.





**(vi) Treatment of specific instruments**

***Cash and cash equivalents***

Cash and cash equivalents comprise notes and coins held by the Bank.

***Money market placements***

Money market placements are classified as available-for-sale assets.

***Investments***

Investments that the Bank holds for the purpose of short term profit taking are classified as trading instruments. Debt investments that the Bank has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other assets are classified as available-for-sale assets.

***Loans and advances***

Loans and advances originated by the Bank are classified as originated loans and receivables.

Loans and advances are reported net of allowances for uncollectibility to reflect the estimated recoverable amounts.

***Papua New Guinea Government Securities***

Papua New Guinea Government Securities consist of Kina denominated securities issued by the Government of Papua New Guinea and held by the Bank. Interest on these securities is accrued over the term of the security.

***Short term borrowings***

Short term borrowings are accounted for as other interest bearing borrowings

***Other liabilities evidenced by paper***

Other liabilities evidenced by paper are classified as non-trading liabilities.

**(f) De-recognition**

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise the asset. This will occur when the rights are realised, expired or surrendered. A financial liability shall be derecognised when it is extinguished.

Available-for-sale assets and assets held for trading are derecognised when sold and the corresponding receivable from the buyer for the payment is recognised.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are repaid in full by the debtor.

**(g) Repurchase agreements**

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

**(h) Offsetting**

Financial assets and liabilities are only be offset and the net amount reported in the balance sheet when the Bank has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis.

**(i) Impairment**

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the assets recoverable amount is estimated and a provision is created to cover any shortfall.





**(j) Property, plant and equipment**

**(i) Cost or valuation**

Property, plant and equipment is recorded at cost or valuation and reported less accumulated depreciation. Revaluations are made with sufficient regularity to ensure that the carrying amount of an asset does not differ materially from that which would be determined using the fair value at the balance sheet date. Any gains arising on revaluation are credited directly to the asset revaluation reserve account and not taken through the income statement.

Subsequent expenditure is capitalised where it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

**(ii) Depreciation**

Depreciation is charged to the income statement on a straight line basis with the corresponding credit to the respective accumulated depreciation account.

Depreciation rates are reviewed on an annual basis to ensure they reflect the future economic benefits embodied in the asset.

Current depreciation rates

	Number of Years
Buildings	
Residential Properties	20 & 30
Office Buildings	50
Computer Equipment	5
Vehicles	4
Plants & Equipment	5

**(k) Deferred assets/Intangibles**

The costs of the production of notes is treated as a deferred asset and amortised over a period of three years.

All other expenditure of a non capital nature is expensed as incurred.

**(l) Other receivables**

Other receivables are stated at cost less impairment losses.

**(m) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

**(n) Employee benefits**

**Pension Fund**

Contributions to the Bank's pension fund are recognised as an expense in the Bank's income statement. The value of the pension fund defined benefit obligations and the fair value of fund assets are determined with sufficient regularity to ensure that the amounts recognised in the Bank's financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

**Leave entitlement**

Unutilised leave entitlements are recognised on an accruals basis.

**(o) Provisions**

Provisions are only be recognised in the balance sheet where the Bank has a legal or constructive





obligation as the result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

**(p) Other payables**

Other payables are recognised at cost.

**(q) Reserves**

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

**(i) General reserve**

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.

**(ii) Asset revaluation reserves**

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

**(iii) Unrealised profits reserve**

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.

**(iv) Currency movements 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.

**(v) Domestic Securities Valuation reserve**

Realised gains on domestic securities are recognized in profit from ordinary activities. They are transferred to the Domestic Securities Valuation Reserve and are not available for distribution.

**(r) Determination of distributable profit**

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) 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 realise 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 1: INTEREST INCOME – FOREIGN CURRENCY OPERATIONS**

	2007 K'000	2006 K'000
Short term deposits	114,786	62,515
Bonds	106,071	72,554
Other	10	28,867
	<u>220,867</u>	<u>163,936</u>





**Note 2: INTEREST INCOME – DOMESTIC OPERATIONS**

	<b>2007</b> K'000	<b>2006</b> K'000
Treasury Bills	10,512	23,226
Inscribed Stock	13,151	14,309
Other Interest Income	205	223
	<u><b>23,868</b></u>	<u><b>37,758</b></u>

**Note 3: MISCELLANEOUS INCOME – DOMESTIC OPERATIONS**

Management & Licensing Fees	7,909	693
Numismatic Currency	39	41
Property Rents	1,126	991
Others	4,508	722
	<u><b>13,582</b></u>	<u><b>2,447</b></u>

Other income includes K4.0 million realized from writing off of liabilities for 2 toea and 1 toea coins withdrawn from currency in circulation during the year.

**Note 4: INTEREST EXPENSE – DOMESTIC OPERATIONS**

Bank Securities	109,083	49,973
Repurchase Agreements	0	1,763
Other	5,609	6,372
	<u><b>114,692</b></u>	<u><b>58,108</b></u>

**Note 5: GENERAL AND ADMINISTRATION EXPENSES**

	<b>2007</b> K'000	<b>2006</b> K'000
Staff costs	17,534	16,132
Staff Training and Development	1,371	1,222
Premises and Equipment	7,833	8,048
Depreciation of plant and equipment	1,536	1,280
Currency Distribution Expenses	7,310	6,438
Audit Fee	769	556
Travel	2,716	1,938
Legal & Consultancy Fees	2,220	3,074
Board & Meeting Expenses	455	320
Other Expenses	7,032	8,021
Total	<u><b>48,776</b></u>	<u><b>47,029</b></u>

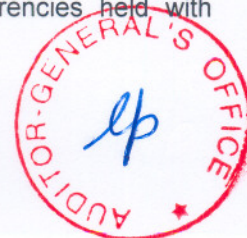
Other expenses include Kina 0.734 million (2006, Kina 3.38 million) that was written off in domestic treasury bills transactions.

**Note 6: Gold**

Gold is valued at market prices. Gains and losses arising from revaluation are recognized in the Income statement and transferred to the reserves at end of the accounting period.

**Note 7: FOREIGN CURRENCY**

The amount represents the equivalent accumulated value of different foreign currencies held with overseas central and commercial banks.





**Note 8: INVESTMENTS – FOREIGN ASSETS**

	2007 K'000	2006 K'000
Short term investment in overseas commercial banks	241,654	1,000,643
Foreign Bonds	<u>4,881,917</u>	<u>3,009,787</u>
	<u><b>5,123,571</b></u>	<u><b>4,010,430</b></u>

**Note 9: IMF RELATED ASSETS & LIABILITIES ASSETS**

	2007 K'000	2006 K'000
<b>Assets</b>		
SDR Holding	<u>262</u>	<u>185</u>
<b>Liabilities</b>		
IMF Number 1 and 2 accounts	1,558	1,558
SDR allocation	41,648	42,369
Other	<u>(140)</u>	<u>(148)</u>
	<u><b>43,066</b></u>	<u><b>43,779</b></u>

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

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

**Note 10: CASH & CASH EQUIVALENTS – DOMESTIC ASSETS**

Notes and coin held by the Bank at the end of the financial year have been netted against the liability for notes and coin in circulation because it does not represent currency in circulation. Cash equivalents comprise domestic cheques in the course of collection.

**Note 11: GOVERNMENT OF PAPUA NEW GUINEA SECURITIES**

	2007 K'000	2006 K'000
Inscribed Stock	205,827	146,937
Treasury Bills	<u>0</u>	<u>641,685</u>
	<u><b>205,827</b></u>	<u><b>788,622</b></u>

Inscribed stock is stated at market value using the effective interest rate methodology. Interest on inscribed stock is accrued.

Treasury bills earn interest at the prevailing market rates. The Treasury bills are stated at market value. i.e. cost plus interest earned up to 31 December 2007.





**Note 12: LOANS AND ADVANCES**

	<b>2007</b> K'000	<b>2006</b> K'000
Domestic Banks – Agricultural Export Commodity Support	23,782	23,782
Loans and Advances to Staff (including housing loans)	6,540	6,187
Loans and Advances – Other (Cocoa Board)	26,220	26,220
Other	0	547
<b>Total Loans &amp; Advances</b>	<b><u>56,542</u></b>	<b><u>56,736</u></b>

**Note 13: PROPERTY, PLANT & EQUIPMENT – DOMESTIC ASSETS**

	Land and Buildings	Plants & Equipment	Motor Vehicles	Computer Equipment	Total
	K'000	K'000	K'000	K'000	K'000
<b>At 31 December 2006</b>					
Cost	25,916	814	1,472	2,396	30,598
Accumulated Depreciation	(2,276)	(371)	(891)	(1,354)	(4,892)
<b>Net Book Amount</b>	<b><u>23,640</u></b>	<b><u>443</u></b>	<b><u>581</u></b>	<b><u>1,042</u></b>	<b><u>25,706</u></b>
<b>Year end December 2007</b>					
Opening Net Book Amount	23,640	443	581	1,042	25,706
Additions	773	136	504	307	1,720
Disposals	-	-	(221)	-	(221)
Revaluation	23,132	-	-	-	23,132
Depreciation Charges	(690)	(129)	(306)	(410)	(1,535)
<b>Closing Book Amount</b>	<b><u>46,855</u></b>	<b><u>450</u></b>	<b><u>558</u></b>	<b><u>939</u></b>	<b><u>48,802</u></b>
<b>At 31 December 2007</b>					
Cost	47,142	951	1,553	2,704	52,349
Accumulated Depreciation	(287)	(501)	(995)	(1,765)	(3,548)
<b>Net Book Amount</b>	<b><u>46,855</u></b>	<b><u>450</u></b>	<b><u>558</u></b>	<b><u>939</u></b>	<b><u>48,802</u></b>

The items of property as at 31 December 2007 were revalued in December 2007. The net surplus of K23.31 million arising from the valuation has been directly recognized in equity. This amount is not available for distribution.

**Note 14: OTHER ASSETS – DOMESTIC ASSETS**

	<b>2007</b> K'000	<b>2006</b> K'000
Accrued Interest Receivable	6,801	5,853
Deferred note production costs	10,203	3,111
Inventories	3,965	6,926
Other Receivables	183	2,157
<b>Total Loans &amp; Advances</b>	<b><u>21,152</u></b>	<b><u>18,047</u></b>





**Note 15: LOCAL CURRENCY DEPOSITS FROM BANKS & THIRD PARTIES**

Banks		
Exchange Settlement Accounts	754,249	246,225
Other Deposits	262,150	196,275
Amounts outstanding under Repurchase Agreements	-	-
Other Deposits	9,756	8,945
	<u>1,026,155</u>	<u>451,445</u>

**Note 16: SECURITIES ISSUED**

Central Bank bills issued	<b>2,193,700</b>	<b>2,483,671</b>
---------------------------	------------------	------------------

Securities issued are debt securities issued by the Bank of Papua new Guinea for terms of 28 days, three, six or twelve months. These bills are used to manage liquidity in the money market through open market operations in the domestic financial markets.

Interest on Securities issued varied between 3.24% and 4.01% during the year.

**Note 17: CURRENCY IN CIRCULATION – DOMESTIC LIABILITY**

	<b>2007</b>	<b>2006</b>
	K'000	K'000
Currency in Circulation	<b>818,923</b>	<b>693,220</b>

Currency in circulation represent currency issued having a claim on the Bank of Papua New Guinea. The liability for Currency in Circulation is recorded at its face valuation in the balance sheet.

Notes and coin held by the Bank as cash on hand at the end of the financial year have been netted of against the liability for notes and coin in circulation because it does not represent currency in circulation.

**Note 18: PROFIT AVAILABLE FOR DISTRIBUTION**

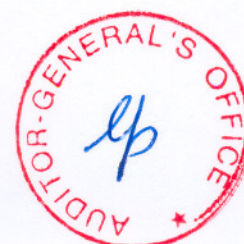
	<b>2007</b>	<b>2006</b>
	K'000	K'000
Opening Balance	116,064	42,630
Payments in the Year	(33,000)	(32,630)
Current Years Earnings Available for Distribution	142,626	116,064
Transfer to Capital and Reserves	(68,520)	(10,000)
	<u>157,170</u>	<u>116,064</u>

**Note 19: OTHER LIABILITIES**

Provisions for employee entitlements	6,102	5,092
Accrued interest on deposits and securities issued	4,233	3,331
Other	16,203	17,137
	<u>26,538</u>	<u>25,560</u>

**Note 20: SHARE CAPITAL**

At 31 December 2007 the authorized and subscribed capital of the Bank was Kina 131.0 million. The capital is fully subscribed by the Government of Papua New Guinea.





**Note 21: RECONCILIATION OF NET PROFIT TO OPERATING CASH FLOW**

	<b>2007</b> K'000	<b>2006</b> K'000
Reported Operating Net Profit/(Loss)	129,940	179,654
<b>Add (Subtract) Non-Cash Items</b>		
Depreciation	1,536	1,280
Provisions for Staff Entitlements	1,010	610
Net Unrealised Gold (Gain)/Loss	(19,194)	17,822
<b>Add (Subtract) Movements in Other Working Capital Items</b>		
(Increase)/Decrease in Interest Receivable	(8,708)	(13,182)
Increase/(Decrease) in Interest Payable	912	2,430
<b>Add (Subtract) Investment and Financing Activities</b>		
Property Revaluation	(23,132)	0
Net Unrealised Market Value Changes	(7,161)	8,220
	<u><b>75,202</b></u>	<u><b>196,834</b></u>
<b>Net Cash Flow from Operating Activities</b>		

**Note 22: CLOSING CASH BALANCES**

Foreign Currency	<u>672,558</u>	<u>208,315</u>
Cash and Cash Equivalents	<u><b>373</b></u>	<u><b>2,070</b></u>
<b>Closing Cash Balance</b>	<u><b>672,931</b></u>	<u><b>210,385</b></u>

**Note 23: FINANCIAL INSTRUMENTS**

International accounting Standard IAS 32 – Financial Instruments: Disclosure Presentation – requires disclosure of information relating to: both recognized and unrecognized 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 Bank of Papua New Guinea are its domestic government securities, its foreign government securities, loans and advances, 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. Bank of Papua New Guinea's recognised instruments are carried at cost or 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 Bank of Papua New Guinea's settled portfolio as reported in Bank of Papua New Guinea's balance sheet.

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.





**Note 24: CONCENTRATIONS OF FUNDING**

The Bank's significant year end concentrations of funding were as follows;

	2007	Papua New Guinea Government	Papua New Guinea Public	Papua New Guinea Commercial Banks	Other
	Total				
As at 31 December 2007	K'000	K'000	K'000	K'000	K'000
<b>Foreign Curr. Fin. Liabilities</b>					
<b>IMF Related Liabilities</b>	<b>43,066</b>				<b>43,066</b>
<b>Local Currency Financial Liabilities</b>					
Banks and third parties	1,026,155	-	-	1,026,155	-
Government and Gov't Entities	1,343,867	1,343,867	-	-	-
Securities Issued	2,193,700	-	2,193,700	-	-
<b>Total Local Currency Financial Liabilities</b>	<b>4,563,722</b>	<b>1,343,867</b>	<b>2,193,700</b>	<b>1,026,155</b>	<b>-</b>
<b>Total Financial Liabilities</b>	<b>4,606,788</b>	<b>1,343,867</b>	<b>2,193,700</b>	<b>1,026,155</b>	<b>43,066</b>
<b>Other Liabilities</b>					
Currency in Circulation	818,923	-	818,923	-	-
Profit available for distribution	157,170	157,170	-	-	-
Miscellaneous Liabilities	26,538	-	26,538	-	-
<b>Total Other Liabilities</b>	<b>1,002,631</b>	<b>157,170</b>	<b>845,461</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>5,609,419</b>	<b>1,501,037</b>	<b>3,039,161</b>	<b>1,026,155</b>	<b>43,066</b>
	2006	Papua New Guinea Government	Papua New Guinea Public	Papua New Guinea Commercial Banks	Other
	Total				
As at 31 December 2006	K'000	K'000	K'000	K'000	K'000
<b>Foreign Currency Financial Liabilities</b>					
<b>IMF Related Liabilities</b>	<b>43,779</b>				<b>43,779</b>
<b>Local Currency Financial Liabilities</b>					
Banks and third parties	451,445	-	-	451,445	-
Government and Gov't Entities	805,620	805,620	-	-	-
Securities Issued	2,483,671	-	2,483,671	-	-
<b>Total Local Currency Financial Liabilities</b>	<b>3,740,736</b>	<b>805,620</b>	<b>2,483,671</b>	<b>451,445</b>	<b>-</b>
<b>Total Financial Liabilities</b>	<b>3,784,515</b>	<b>805,620</b>	<b>2,483,671</b>	<b>451,445</b>	<b>43,779</b>
<b>Other Liabilities</b>					
Currency in Circulation	693,220	-	693,220	-	-
Profit available for distribution	116,064	116,064	-	-	-
Miscellaneous Liabilities	25,560	-	25,560	-	-
<b>Total Other Liabilities</b>	<b>834,844</b>	<b>116,064</b>	<b>718,780</b>	<b>-</b>	<b>-</b>
<b>Total Liabilities</b>	<b>4,619,359</b>	<b>921,684</b>	<b>3,202,451</b>	<b>451,445</b>	<b>43,779</b>





## Note 25: CREDIT RISK

Credit risk is the risk of loss arising from a counter party to a financial contract failing to discharge its obligations.

### (a) Credit Risk Management

The Bank manages credit risk by employing the following strategies;

Selection of counterparty based on their respective credit rating Investment asset based on credit rating of particular issuer and the issue size; and Country limits and counterparty limits placed to control exposures.

Foreign currency placements are made in approved currencies in government or government guaranteed or supra-national securities or with approved counterparties. Geographical exposures are controlled by country limits. Limits are updated periodically based on new market information. Credit risk in the Bank's portfolio is monitored, reviewed and analysed regularly.

### (b) Concentrate of Credit Exposure

The Banks significant end-of-year concentrations of credit exposure by industry type were are follows

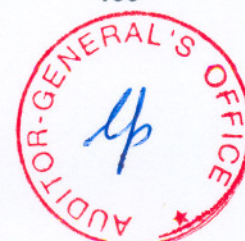
	2007 K'000	2006 K'000
Papua New Guinea Development	205,827	788,833
Foreign Banks and Financial Institutions	5,932,090	4,327,675
Other	57,090	58,806
<b>Total Financial Assets</b>	<b><u>6,195,007</u></b>	<b><u>5,175,314</u></b>

Credit exposures arising form securities purchased under agreements to re-sell (reverse repurchase agreements) are classified according to the issuer of the credit exposure of the security for credit exposure concentration purposes.

### (c) Credit Exposure by Credit Rating

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

	2007 K'000	% 2007 Financial Assets	2006 K'000	% 2006 Financial Asset
<b>Foreign Currency Assets</b>				
Cash Balances	672,558	11	208,315	5
Marketable Securities	5,123,571	86	4,010,430	92
Gold	100,348	2	81,154	2
IMF Related Assets	262	0	185	0
Other Foreign Receivables	35,351	1	27,591	1
<b>Total Foreign Currency Assets</b>	<b>5,932,090</b>	<b>100</b>	<b>4,327,675</b>	<b>100</b>
<b>Local Currency Assets</b>				
Cash & Cash Equivalent	373	0	2,070	0
Papua New Guinea Government Securities	205,827	78	788,622	93
Loans to Government	175	0	211	0
Loans to other Institutions	56,542	22	56,736	7
<b>Total Local Currency Assets</b>	<b>262,917</b>	<b>100</b>	<b>847,639</b>	<b>100</b>
<b>Total Financial Assets</b>	<b>6,195,007</b>		<b>5,175,314</b>	





### Summary of Financial Asset Composition

	2007 K'000	% Financial Asset	2006 K'000	% Financial Asset
Total Foreign Currency Assets	5,932,090	96	4,327,675	83
Total Local Currency Assets	262,917	4	847,639	17
<b>Total Financial Assets</b>	<b>6,195,007</b>	<b>100</b>	<b>5,175,314</b>	<b>100</b>

### Note 26: MATURITY ANALYSIS

	Balance Total K'000	Maturity Period			
		0 to 3 months	3 to 12 months	1 to 5 years	Over 5 Years
<b>Foreign Currency Financial Assets</b>					
Gold	100,348	-	-	-	100,348
Foreign Currency	672,558	672,558	-	-	-
Investments	5,123,571	2,923,087	441,404	1,426,553	332,527
Assets held with IMF	262	-	-	-	262
Others	35,351	35,351	-	-	-
Sub-total	<u>5,932,090</u>	<u>3,630,996</u>	<u>441,404</u>	<u>1,426,553</u>	<u>433,137</u>
<b>Local Currency Financial Assets</b>					
Cash	373	373	-	-	-
Papua New Guinea Gov't Securities	205,827	-	-	54,339	151,488
Land and advances to Government	175	175	-	-	-
Loans and advances	56,542	-	-	56,542	-
Sub-total	<u>262,917</u>	<u>548</u>	<u>-</u>	<u>110,881</u>	<u>151,488</u>
<b>Other Assets</b>					
Property, Plant and Equipment	48,802	-	-	-	48,802
Other assets	21,152	-	-	21,152	-
Sub-total	<u>69,954</u>	<u>-</u>	<u>-</u>	<u>21,152</u>	<u>48,802</u>
<b>Total Assets</b>	<u>6,264,961</u>				
<b>Liabilities</b>					
<b>Foreign Currency Fin. Liabilities</b>					
Liabilities with IMF	43,066	-	-	43,066	-
<b>Local Currency Fin. Liabilities</b>					
Deposits from Banks and 3 <sup>rd</sup> parties	1,026,155	1,026,155	-	-	-
Deposits from Government	1,343,867	1,343,867	-	-	-
Securities Issued	2,193,700	2,193,700	-	-	-
Sub-total	<u>4,563,722</u>	<u>4,563,722</u>	<u>-</u>	<u>43,066</u>	<u>-</u>
<b>Other Liabilities</b>					
Currency in Circulation	818,923	818,923	-	-	-
Profit available for distribution	157,170	-	157,170	-	-
Other liabilities	26,538	-	26,538	-	-
Sub-total	<u>1,002,631</u>	<u>818,923</u>	<u>183,708</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<u>5,609,419</u>				





## Note 27: FOREIGN CURRENCY RISK

Foreign currency risk is the risk of loss arising from changes in exchange rates.

Foreign currency activities results mainly from the Bank's holding of foreign currency assets under its foreign reserves management function. Volatility of the foreign exchange markets may expose the Bank to exchange risk.

As at 31 December 2007 Bank of Papua New Guinea's net exposure to major currencies was as follows.

As at 31 December 2007	Currency of Denomination							
	US Dollar K'000	Gold K'000	Euro K'000	AUD K'000	GBP K'000	JPY K'000	Other K'000	Total K'000
<b>Foreign Currency Financial Assets</b>								
Gold		100,348						100,348
Foreign Currency Investments	299,879		180,004	110,212	72,103	8,919	1,441	672,558
Assets held with IMF	2,230,559		991,308	1,408,121	232,732	254,067	6,784	5,123,571
Other assets							262	262
	<u>2,530,438</u>	<u>100,348</u>	<u>1,171,312</u>	<u>1,518,333</u>	<u>304,835</u>	<u>262,986</u>	<u>43,838</u>	<u>5,932,090</u>
<b>Foreign Currency Financial Liabilities</b>								
Liabilities with IMF							43,066	43,066
<b>Net Foreign Currency Exposure</b>	<b>2,530,438</b>	<b>100,348</b>	<b>1,171,312</b>	<b>1,518,333</b>	<b>304,835</b>	<b>262,985</b>	<b>772</b>	<b>5,889,024</b>
As at 31 December 2006	US Dollar K'000	Gold K'000	Euro K'000	AUD K'000	GBP K'000	JPY K'000	Other K'000	Total K'000
<b>Foreign Currency Financial Assets</b>								
Gold		81,154						81,154
Foreign Currency Investments	68,943		45,128	30,375	24,872	37,985	1,012	208,315
Assets held with IMF	1,836,215		809,816	1,055,801	199,150	129,093	(19,645)	4,010,430
Other assets	-		-	-	-	-	185	185
	<u>1,905,158</u>	<u>81,154</u>	<u>854,944</u>	<u>1,086,176</u>	<u>224,022</u>	<u>167,078</u>	<u>9,143</u>	<u>4,327,675</u>
<b>Foreign Currency Financial Liabilities</b>								
Liabilities with IMF							43,779	43,779
<b>Net Foreign Currency Exposure</b>	<b>1,905,158</b>	<b>81,154</b>	<b>854,944</b>	<b>1,086,176</b>	<b>24,022</b>	<b>167,078</b>	<b>(34,636)</b>	<b>4,283,896</b>

The functional currency of all operations is kina.

## Note 28: EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the balance sheet event, no events have occurred which require adjustments to/or disclosures in the financial statements.

## Note 29: CONTINGENT LIABILITIES

The Bank had no material contingent liabilities at 31 December 2007 (2006 Nil) and there is no transactions or events that will have material impact on the financial report during the preparation of this report.

## Note 30: CAPITAL COMMITMENTS

The Bank has no material capital commitments.





**Note 31: REMUNERATION OF THE BOARD OF DIRECTORS AND KEY MANAGERIAL PERSONNEL**

The Members of the Board of Directors received remuneration totaling Kina 455,000, (2006 Kina 320,000).

Key Managerial personnel received salary and expenses totaling Kina 2,030,000, (2006 Kina 2,270,000).

**Note 32: LOANS AND ADVANCES TO KEY MANAGERIAL PERSONNEL**

As at 31 December 2007 an amount of Kina 1,191,000, (2006 Kina 580,000) was receivable from key managerial personnel as approved advances made by the Bank.

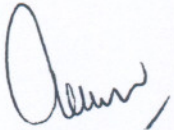




**DECLARATION BY MANAGEMENT**

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 2007.

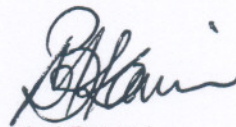
For and on behalf of the Bank of Papua New Guinea.



L. Wilson Kamit CBE  
Governor



Benny Popoitai MBE  
Deputy Governor  
Management & Operations



Loi Bakani  
Deputy Governor  
Policy & Regulation

30 June 2008