BANK OF PAPUA NEW GUINEA

50 YEARS

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2023

TOWARDS THE NEXT 50 YEARS OF SOCIAL AND ECONOMIC DEVELOPMENT IN PNG

BANK OF PAPUA NEW GUINEA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

For the advantage of the people of Papua New Guinea, the objectives of the Central Bank are

(a) to formulate and implement monetary policy with a view to achieving and maintaining price stability and promoting employment and economic growth, especially of the non-mineral and non-petroleum sector; and

(b) to formulate financial regulation and prudential standards to ensure stability and development of the financial system in Papua New Guinea; and

(c) to promote an efficient national and international payments system; and

(d) to provide efficient and responsive banking services to the Government.

Central Banking (Amendment) Act 2021

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FOREWORD

Mr David Toua OBE, *Board Chair*

2023 will be remembered as a year in which the Bank of Papua New Guinea addressed long-standing challenges, strengthened its governance structure, welcomed its first female Governor, celebrated 50 years of operation, and shared the clear vision of what Papua New Guinea would need from its central bank into an increasingly fast-paced future.

Long-standing challenges facing the Bank during the year included the persistent foreign currency shortage in the foreign exchange market, the ineffectiveness of the transmission of monetary policy, the need to achieve greater exchange rate flexibility and restore kina convertibility. You will read in this Report about the Bank's collaborative work with the IMF to engineer a PNG-focused solution to these issues that have plagued the nation for a decade.

Governance issues received considerable attention throughout 2023, particularly those brought about by the *Central Banking (Amendment) Act 2021* (CBAA), which required a different relationship between the Board and the management team. The six-monthly Monetary Policy Statement (MPS) is a case in point. With the 2021 changes to the Act, the Bank's Board became responsible for delivering the MPS, a responsibility the Governor of the Bank had previously held.

Such new responsibilities require a closer and stronger working relationship between the Board and management and subject specialists within the Bank. The National Executive Council's appointment of Elizabeth Genia at the beginning of the year as acting Governor of the Bank and a Board member was a catalyst for fostering collaborative working relationships needed to produce positive outcomes. The Board apologises for the late issuance of this report. Our focus on strengthening governance will address this issue and ensure the Bank's future annual reports meet the statutory deadline.

As a sidenote, the independent review of the Bank that resulted in the CBAA at the end of 2021 continued through 2023. We expect to see more changes to the Act in due course.

Turning now to the accounts. The Board notes that a 'Qualified Opinion' has again been issued in respect of the Financial Statements for the year ended 31 December 2023, as was the case in 2021 and 2022. This is in relation to BPNG's approach to the valuation of Inscribed Stock held on the Bank's balance sheet. The Board is committed to addressing this matter to the satisfaction of all parties for the financial year 2024.

At the end of 2023 the Board was strengthened with the permanent appointment of Ms Genia for a four year term, the first woman in the 50 year history of the Bank to hold the position of Governor of the Bank of Papua New Guinea. Also appointed to the Board at the time were Mr Michael Reddell and Professor David Kavanamur. Both bring decades of invaluable knowledge and experience to the Bank, as you will read in the Board section of this Report.

On 1 November we celebrated the 50th Anniversary of the official establishment of the Bank of Papua New Guinea as the country's central bank, as you will see in the Highlights pages in this Report. The various Anniversary activities reminded us of the pivotal role the Bank played in the lead-up to our nation's independence, the outstanding leaders the Bank has produced and the achievements of the Bank's staff over five decades.

Earlier in the year the Board and Management of the Bank had been doing the opposite of looking into the past. Instead, we were casting our minds forward to the year 2050, to consider what the people of PNG need from their central bank in a changing, fast-paced world. Our goal was to encapsulate the central bank's contribution to our developing nation and its citizens in a vision for the future, and then frame that vision into a clear strategy.

Vision 2050, the Bank of Papua New Guinea's vision for the future, is "*Economic opportunities for all Papua New Guineans*". Vision 2050 outlines the critical role the Bank plays in enabling the social and economic transformation of Papua New Guinea. It focuses on how the Bank is going to make life better for all Papua New Guineans.

It is an ambitious vision. The Bank alone cannot transform, or be responsible for, the economy. Accordingly, the vision will require close working relationships with our government partners and other stakeholders.

Working closely with partners and other stakeholders is by no means new to the Bank. In fact, the Bank's activities in financial inclusion involved partners from the start, nearly 20 years ago. BPNG has a long tradition of working collaboratively with peer organisations.

The Bank's governance structure supports effective leaders whose leadership style features cooperation, collaboration and communication in all their working relationships. The Bank's long held commitment to capacity building also encourages emerging leaders to seek opportunities to develop their knowledge and skills.

We look forward into the future, ready to embark on our Vision 2050 journey, to enable economic opportunities for all Papua New Guineans.

I see 2023 as a turning point in the history of the Bank. We looked proudly back at fifty years of being our country's central bank, a foundation of the PNG economy and financial system, as well as enabling our nation to gain independence. We look forward into the future, ready to embark on our Vision 2050 journey, to enable economic opportunities for all Papua New Guineans.

In the meantime, the Bank will continue to perform its core functions, also for the benefit of the people of Papua New Guinea.

My sincere congratulations to Governor Genia on her historic appointment, and on her exemplary leadership, not only when in favourable circumstances, but in particular when faced with difficult challenges.

In closing, I extend my thanks to my fellow Board members, staff members and management for your commitment and support in 2023, particularly in respect of your willing and valuable participation in the discussions and development of Vision 2050.

David Toua OBE
Board Chair

THE YEAR IN REVIEW

Ms Elizabeth Genia AAICD, *Governor*

In 1973 the establishment of the Bank of Papua New Guinea paved the way for our nation's independence two years later. In the 50 years since then, the Bank's role has evolved and expanded to meet Papua New Guinea's developing monetary, foreign exchange and financial system demands and expectations. In 2023 the Bank started designing the foundations of the central bank our nation will need as we approach the year 2050.

As I review the Bank's past, present and future through the lens of our 50th anniversary year, several key themes emerge.

Business-as-usual sound performance

The first theme is the Bank's performance of business-as-usual activities and ongoing capacity to deliver on core responsibilities. In spite of starting the year without executive management cohesion, and vacancies in several critical positions, the Bank was able to meet its core responsibilities over the course of the year.

In fact, the Bank recorded some outstanding performances relating to business-as-usual activities. For example, payment system achievements included the development of online arrangements to streamline investment transactions, expanded opportunities for investors on the secondary market, the introduction of instant payments, and significant enhancements to the KATS system.

Significant changes got underway during 2023 in the core areas of monetary policy and the exchange rate. With help from the IMF, we began to adjust the exchange rate lower to help restore convertibility of the kina, and also began moves towards a more effective market-oriented system of monetary policy management.

Guardian of the system

The Bank as guardian of the integrity and effectiveness of the PNG financial system was a strong theme in 2023. In the official role of regulator of the financial system, the Bank took steps to strengthen consumer rights and provide effective dispute resolution with the introduction to parliament of the *Financial Consumer Protection Bill*.

The Bank is actively involved in combatting financial crime, via Papua New Guinea's financial intelligence unit, the Financial Analysis and Supervision Unit (FASU). FASU is administratively a part of the Bank. The Governor of the Bank co-chairs the National Coordinating Committee on Anti-Money Laundering, Terrorist Financing and Proliferation Financing (AML/CTF). During 2023 PNG underwent a mutual evaluation (ME), a rigorous process to judge whether a country's approach to fighting financial crime is adequate to keep them off the global Financial Action Task Force "Grey List". The result of the ME will be announced in 2024.

Economic growth through building the system

Developing the PNG financial system has been a key theme for the Bank for many years. With the advent of the *Central Banking (Amendment) Act 2021*, the Bank now has a clear mandate to promote economic growth in PNG. One of the important ways we can achieve this goal is to facilitate the growth of the banking sector in PNG, which is quite small and limited, to expand the choice of financial services providers.

The pace picked up during 2023. The Bank granted two approvals in principle to licensed financial institutions, TISA Community Finance Limited and Credit Corporation Finance Limited, to update their operations to include a banking licence.

The Bank approved the opening of a representative office of the Bank of China in Port Moresby. While a representative office does not conduct banking and financial transactions, it is likely to make a positive contribution towards our mutual trade, investments and cross-border banking transactions.

Bougainville Savings & Loan Society became PNG's 17th licensed savings and loan society and the first licensed and regulated financial institution in the Autonomous Region of Bougainville.

During the year the Bank commissioned a project to assess PNG's non-bank institutions, and produce guidelines. These guidelines will assist their transition to successful commercial banks, and enable them to meet the regulatory requirements.

Sharing our experience

The Bank of Papua New Guinea is developing a reputation as a thought-leader, particularly in the Pacific region. The Bank's participation is increasingly sought for conferences, to share our expertise and experience with the world, particularly on financial inclusion, inclusive green finance, gender equity, financial technology, using fintech to solve access to banking challenges, and increasingly on maintaining financial stability in the face of climate change.

Representatives of the Bank delivered keynote speeches or participated as panel members at several important regional and international conferences during 2023.

> I look forward to your continuing commitment, as we work to achieve our Vision 2050 of *"economic opportunities for all Papua New Guineans"*.

These included the European Union/Papua New Guinea business conference in Port Moresby, the Singapore Fintech Festival, the World Bank and IMF annual meetings in Morocco, the regional central bank governors meeting in the Solomon Islands, the COP28 meeting in Dubai, and the 17th Papua New Guinea Resources & Energy Investment Conference in Sydney.

A year of achievement and celebration

2023 has been a year of breaking new ground as we honour and celebrate our past, focus on performing to our best ability in the present, and planning to become the central bank all Papua New Guineans need into the future.

In closing, I acknowledge the wisdom, support and guidance I have received from members of the Board of the Bank, which has been very much appreciated.

My sincere thanks to the Bank's management and staff. The long list of achievements recorded by the Bank through the year are testament to your commitment and dedication, under circumstances and conditions that were sometimes stressful. Particular congratulations go to the events team who put together such a wonderful series of activities for the 50th Anniversary celebrations.

Thank you all for your strong support of my governorship. I look forward to your continuing commitment, as we work to achieve our Vision 2050 of "*economic opportunities for all Papua New Guineans*".

Ms Elizabeth Genia AAICD
Governor

50th ANNIVERSARY

A special anniversary gift

Sir Yano Belo presented the Bank with a unique 50th Anniversary gift, a very significant kina shell necklace. A minister in PNG's early parliaments, and a contemporary of Sir Julius Chan at the time of the Bank's establishment, Sir Yano's lasting legacy is his suggestion for PNG's currency to be named 'kina' after the kina shell, traditionally used as money in the Highlands and Momase regions.

Governor Elizabeth Genia accepted Sir Yano's special presentation on behalf of the Bank. L-R Governor Genia, MC Ms Sharon Onsa, Sir Yano Belo, Ms Alice Japhlom.

1 November 2023 marked the 50th Anniversary of the official establishment of the Bank of Papua New Guinea as the country's central bank, which paved the way towards PNG independence.

The Reserve Bank of Australia (RBA) had operated a branch in Port Moresby during the 1960s. Over the years the RBA helped build the necessary capacity of that branch, so it could develop and operate the financial system in PNG.

On 1 November 1973 the RBA branch became the Bank of Papua New Guinea, the central bank of PNG. The Bank's establishment represented a major step towards Papua New Guinea achieving independence two years later, by providing the means of economic independence, and the capacity, capability and resources for the country to make its own monetary decisions, including issuing its own currency.

The street outside ToRobert Haus, the Bank's head office, (named for Sir Henry ToRobert, the Bank's first Governor), was transformed for the official celebration launch with 50th Anniversary logo decorations, choirs and a brass band, colourful traditionally attired dancers and staff proudly wearing the new anniversary uniform.

Anniversary activities included a keynote speech by the Prime Minister the Right Honourable James Marape MP, the sealing of a time capsule to be opened on the Bank's 100th anniversary, the official launch of the K50 banknote, a gallery display of historic photos and artifacts, and several cultural displays at the gala ball. One of the most significant announcements was the official launch of the Bank's Vision 2050 with the Bank's strategic aspiration for the future, *"Economic opportunities for all Papua New Guineans"*.

New look celebrates a proud past

The Bank launched a special uniform to mark the 50th Anniversary. The traditional designs represent the diversity of PNG cultural groups.
L-R Yana Kae, Kipa Pokana, Abdul Ulopo, Celestine Vele, Wilson Jonathan, Ellice Raula, Jamie Sali, Diana Tuam, Leonie Sape.

Dressed with the times

Members of staff modelled a variety of attire from the last five decades as part of the Bank's 50th Anniversary celebrations.

A colourful start

The singsing group from Central Province welcomed all attendees to the official opening with dramatic colour, sound and movement.

On the street the excitement builds

Hundreds of guests, including all local Bank staff, attended the official opening of the 50th Anniversary staged on Douglas Street outside ToRobert Haus, the Bank's head office in Port Moresby.

The official celebrations begin

Ms Elizabeth Genia (Acting) Governor welcomed guests to the official opening of the Bank's 50th Anniversary celebration activities in November.

Education as well as celebration

As the nation's central bank, BPNG forms the foundation of the PNG financial system. The displays that formed part of the 50th Anniversary activities presented a valuable opportunity for school students to learn about the nation's monetary history on the spot.

History on display

The Bank curated a fascinating exhibition of artifacts used as currency in the past and other information and material to tell the stories of how the different cultural groups conducted trade.

Staff member Ms Nawa Kai with students from Kilakila Secondary School at the exhibition at APEC Haus.

HIGHLIGHTS

BPNG grants licence for Bougainville Savings and Loan Society

The Bougainville Savings and Loan Society celebrated its official launch in November, and became the first licensed and regulated financial institution in the Autonomous Region of Bougainville (AROB). The Autonomous Bougainville Government (ABG) and the Bougainville Public Investment Corporation Limited provided seed capital for the establishment of the Society.

L-R President of AROB, the Hon. Ishmael Toroama received the official licence certificate from (Acting) Governor Elizabeth Genia, with Mr Paulus Laveil, Director of the PNG Federation of Savings & Loan Societies.

Tradition brings new opportunities

To present President Toroama with Bougainville Savings and Loan Society's licence certificate, Governor Genia chose to wear a Buka grass skirt ("tumolo" in the local Halia language) and traditional accessories. She carried the customary basket of taro ("tel koburo sono") containing the framed certificate, which symbolised the official presentation and handover of the licence. In her official speech Governor Genia said that, with the ongoing support of the ABG, "the Society will make a strong contribution to the economic development of Bougainville and the country."

RBA and BPNG leaders meet

(Acting) Governor Elizabeth Genia and RBA Governor Michele Bullock met in Sydney, Australia in December. Both are the first women to be appointed Governor of their respective countries' central banks. One of the topics discussed in the meeting was the skills development program agreed between the RBA and BPNG, in which BPNG staff will take up a six month transfer to the RBA.

L-R Patrick Kwiwa (acting Corporate Secretary), Thomas Jiki (Manager, Economics Department), Governor Michele Bullock (RBA), (Acting) Governor Elizabeth Genia, Jeffrey Yabom (Assistant Governor, Monetary and Economic Policy Group).

Historic presentation

Note Printing Australia (NPA) has supplied PNG's eye-catching polymer banknotes for many years, introducing several innovative security features to prevent counterfeiting. During a visit to NPA's facility near Melbourne Australia, NPA presented (Acting) Governor Genia with a framed display of K10 banknotes, and acknowledged her appointment as the first female Governor of the Bank of Papua New Guinea. L-R Patrick Kwiwa (acting Corporate Secretary, (Acting) Governor Elizabeth Genia, David Lakatani (Manager Currency Department).

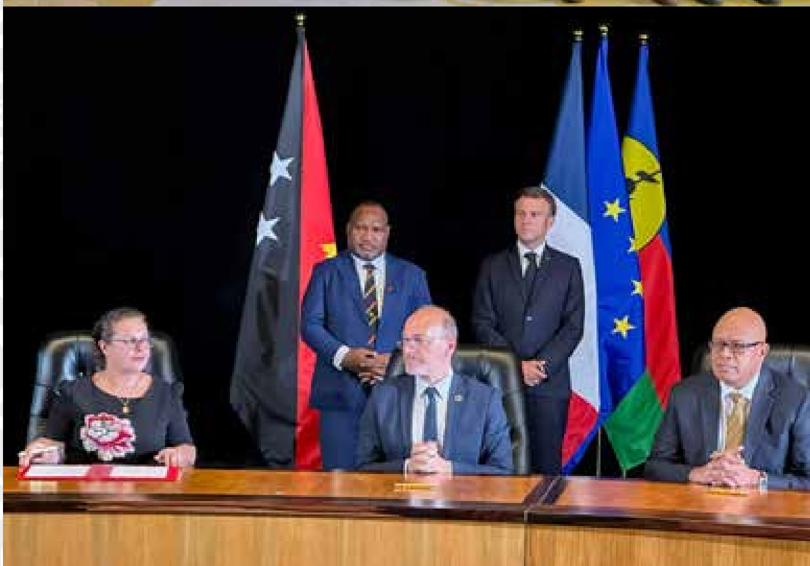
Out of the sandbox. Into the market.

The first graduate of the Bank's Regulatory Sandbox was Digizen Digital Bank ID, a digital identification tool, which establishes a unique biometric identity, meeting the customer due diligence requirements for financial institutions and enabling convenient bank account opening.

The product was trialled with a three month pilot project around East Sepik towns Maprik and Wewak. Pictured: Pilot project staff use Digital Bank ID to register citizens in Amahuk Village, in the Maprik District of East Sepik Province in March (pictured). (see page 29)

Specialised training builds staff capacity

The Bank has a strong tradition of encouraging staff development and capacity building from a range of training sources. For example, every year each of the five external fund managers contracted by the Bank conducts specialist training. Pictured: Staff from several functional areas within the Bank attended the Introduction to Financial Markets training seminar provided by fund manager DWS in April.



International cooperation for PNG Green Finance action

The signing of the Inclusive Green Finance Letter of Intent (LOI) in July signalled the strengthening of a partnership committed to a more sustainable and more inclusive financial sector in PNG. The France Development Agency (AFD), the Global Green Growth Institute (GGGI) and the Bank co-signed the LoI, witnessed by the President of France and the Prime Minister of PNG.

Back row L-R The Right Honourable James Marape MP, Prime Minister of Papua New Guinea, His Excellency Emmanuel Macron, President of France. Front row L-R Elizabeth Genia, Acting Governor, Remy Rioux, Chief Executive Officer, AFD, Sakiusa Tuisolia, Country Representative GGGI PNG.

Vision 2050 launches the Bank of the future

A highlight of the 50th Anniversary Ball in November was the official launch of the Bank's Vision 2050.

L-R James Gore (BPNG Board member), Ivan Pomaleu OBE (Chief Secretary, Department of Prime Minister and National Executive Council), Elizabeth Genia (Acting Governor), Ron Sikar (Acting Assistant-Governor), Nathan Maire (Manager, Strategy & Risk Management Office).

BPNG presents to UN Conference

The Bank's reputation as a leader in inclusive green finance was recognised in December, with Acting Governor Elizabeth Genia invited to give a keynote speech to the 28th Conference of the Parties (COP28). COP28 was held as part of the United Nations Framework Convention on Climate Change in Dubai, United Arab Emirates. Governor Genia's presentation discussed how promoting inclusive green finance contributes to financial stability and market efficiency.

MISSION VISION VALUES

Mission

The Bank of Papua New Guinea's MISSION is to serve the people of Papua New Guinea by conducting effective monetary policy and maintaining a sound financial system. We will act at all times to promote macro-economic stability, provide a first-class payments system, issue the national currency and help foster economic growth of our country

Vision

A contemporary central bank and regulator excelling in performing our core functions and making a distinct and valuable contribution to the economic well-being of Papua New Guinea.

Values

With INTEGRITY we build good governance and credibility.

With EFFICIENCY we produce quality results, on time and on budget.

With TRANSPARENCY our decisions stand scrutiny.

Through ACCOUNTABILITY we take responsibility for our decisions and actions.

Through TEAMWORK we benefit from sharing skills, knowledge and experience.

Through PROFESSIONALISM we strive for best practice.

GOVERNANCE

During the year the Board and management of the Bank conducted governance practices that arose from the *Central Banking (Amendment) Act 2021*.

The Board holds policy and regulatory responsibilities. The Governor is the administrative head of the Bank.

THE BOARD

Composition

Under the Act, the Board comprises nine members

- Governor
- one Deputy Governor, selected by the Governor if there is more than one Deputy Governor
- five non-executive members appointed under Section 27(2)(c) of the Act by the Head of State acting on advice, in consultation with the Board
- two non-executive members appointed under Section 27(2)(d) of the Act by the Head of State acting on advice, on the recommendation of the Board.

Board members are typically appointed for a term of four years. All members are eligible for re-appointment for a total maximum of two terms and may not serve for a total of more than eight years.

The non-executive members select the Board Chair and Deputy Chair from amongst their number.

During 2023 Mr Andrew Oaeke, the Secretary of the Department of Treasury was the Department's Representative and Observer. The Representative sits on the Bank's Board and participates in discussions and deliberations. However, they do not have voting rights and nor are they counted towards the quorum.

Board Sub-Committees

The Act provides for three Board Sub-Committees:

- Audit & Risk Committee
- Governance Committee
- Budget & Investment Committee

The Board exercised its general discretion under the Act to create the Monetary Policy Committee.

Board meetings

The Board meets at least once every three months or often as the business of the Bank requires.

In 2023 all Board meetings were held in Port Moresby.

Board Member	Meetings eligible to attend	Meetings attended
Mr David Toua OBE	8	8
Ms Elizabeth Genia	8	8
Mr Richard Kuna	8	7
Mr James Gore	8	7
Ms Ulato Avei	8	8
Mr Michael Reddell*	0	0
Dr David Kavanamur*	0	0

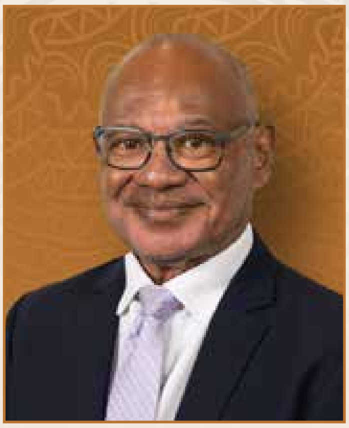
Mr James Gore
Mr Gore was appointed a member of the Board on 22 December 2021 for a term of 2 years. His term lapsed on 21 December 2023.

Ms Ulato Avei
Ms Avei was appointed a member of the Board on 22 December 2021 for a term of 2 years. Her term lapsed on 21 December 2023.

*The first meeting Mr Reddell and Dr Kavanamur were eligible to attend after their appointments was held on 14 February 2024.

MEMBERS OF THE BOARD

Composition of the Board
From 31 December 2023



Board Chair

Mr David Toua OBE

Mr Toua was originally appointed to the Board in February 2019 for a term of 3 years as a *non-ex officio* member. After the CBA amendments he was reappointed for a term of 4 years from 22 December 2021.

Mr Toua is a very experienced business executive with comprehensive management and operational skills. He has served in various senior management executive positions in several corporate organisations.

He is Chairman of ABAC (APEC Business Advisory Council) and the NCD Health Authority. He is a Board Member of the Business Council of PNG, the Employers Federation of PNG and the Mineral Resources Authority, an Independent Member of the PNG Incentive Fund Strategic Management Group, a Director with Post (PNG) Ltd and New Britain Palm Oil Ltd, and an Advisory Board Member of the Royal Port Moresby Golf Club.

Mr Toua holds a Bachelor of Arts (English Literature, Economics and Government) from the University of Queensland, Australia.

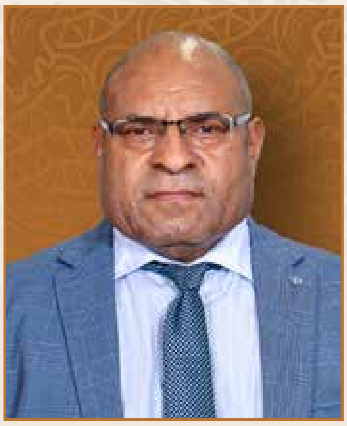
Governor

Ms Elizabeth Genia

Ms Elizabeth Genia was appointed Governor of the Bank on 20 December 2023 for a four-year term, and, by virtue of that position, a member of the Board. Ms Genia held the position of Acting Governor from January 2023.

A career central banker, Ms Genia has held several senior positions across the range of the Bank's functions, including Department Manager and Assistant Governor roles.

She holds a Bachelor of Commerce from the University of PNG, a Masters of Business Administration from the University of Queensland, Australia, a Graduate Certificate in Management and Organisational Change from the Australian National University, and a Graduate Certificate in Financial Technology from the Said Business School at Oxford University, UK sponsored by the Commonwealth Secretariat.



Deputy Chair

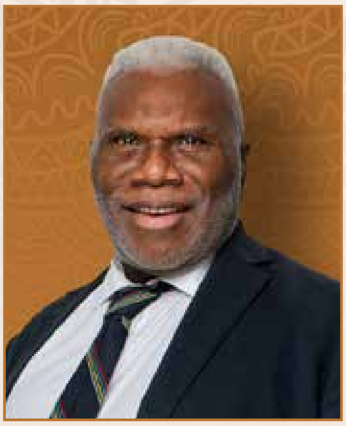
Mr Richard Kuna

Mr Richard Kuna was originally appointed an *ex officio* member of the Board in November 2001 in his capacity as the President of Certified Practising Accountants PNG (CPA PNG). Following the CBA amendments he was reappointed for a term of 4 years from 22 December 2021.

Mr Kuna is a Partner with Kuna Taberia Kiruwi Accountants & Advisors. He is the President of CPA (PNG), a Member of the Accountants Registration Board of Papua New Guinea and a Director of Wereck Insurance Brokers Ltd.

Mr Kuna holds a Bachelor of Business in Accounting from the University of Technology, Sydney, Australia, and is a qualified Certified Practising Accountant.

Mr Michael Reddell



Professor David Kavanamur

Mr Michael Reddell was appointed to the Board on 20 December 2023 for a three-year term as a *non-ex officio* member.

He is a semi-retired economic adviser and a trustee of two New Zealand regulated superannuation schemes. As a highly respected commentator on central banking and related issues, he is a regular contributor to international publications and also produces the blog www.croakingcassandra.com.

He spent most of his career at the Reserve Bank of New Zealand in a range of senior management and advisory roles, covering macroeconomics, monetary policy, financial markets, and financial stability and regulation. He also spent time as a Special Adviser on macroeconomic policy matters at the New Zealand Treasury.

Mr Reddell spent two years in the 1980s working for the Bank of Papua New Guinea as a resident economic adviser, and held a similar role at the Bank of Zambia in the 1990s. He later served as Alternate Executive Director on the board of the International Monetary Fund, representing a constituency of 14 Asia-Pacific countries, including Papua New Guinea, and has been a short-term adviser to the central banks of a number of developing and emerging countries.

He holds a Bachelor of Commerce and Administration (Honours) in Economics from Victoria University, Wellington, New Zealand.

Professor David Kavanamur was appointed to the Board on 20 December 2023 for a three-year term as a *non-ex officio* member.

He has over 30 years of professional experience as a senior public servant and as a highly sought-after strategy consultant. Dr Kavanamur specialises in the development and implementation of national and program level strategy, public sector reform, human capital development, corporate governance, and program design and implementation. He has also undertaken major international strategic assignments.

A highly respected advisor to government, he wrote Papua New Guinea's Vision 2050, the 40-year strategic vision and framework for the development of PNG's current Medium-Term Development Plan III.

Dr Kavanamur is Managing Director of Kumul Consolidated Holdings, the holding company for nine state-owned entities. His academic positions include Adjunct Professor at James Cook University's Cairns Institute, Australia, and Fellow of the Centre for Island Pacific Research and Development, Australian National University.

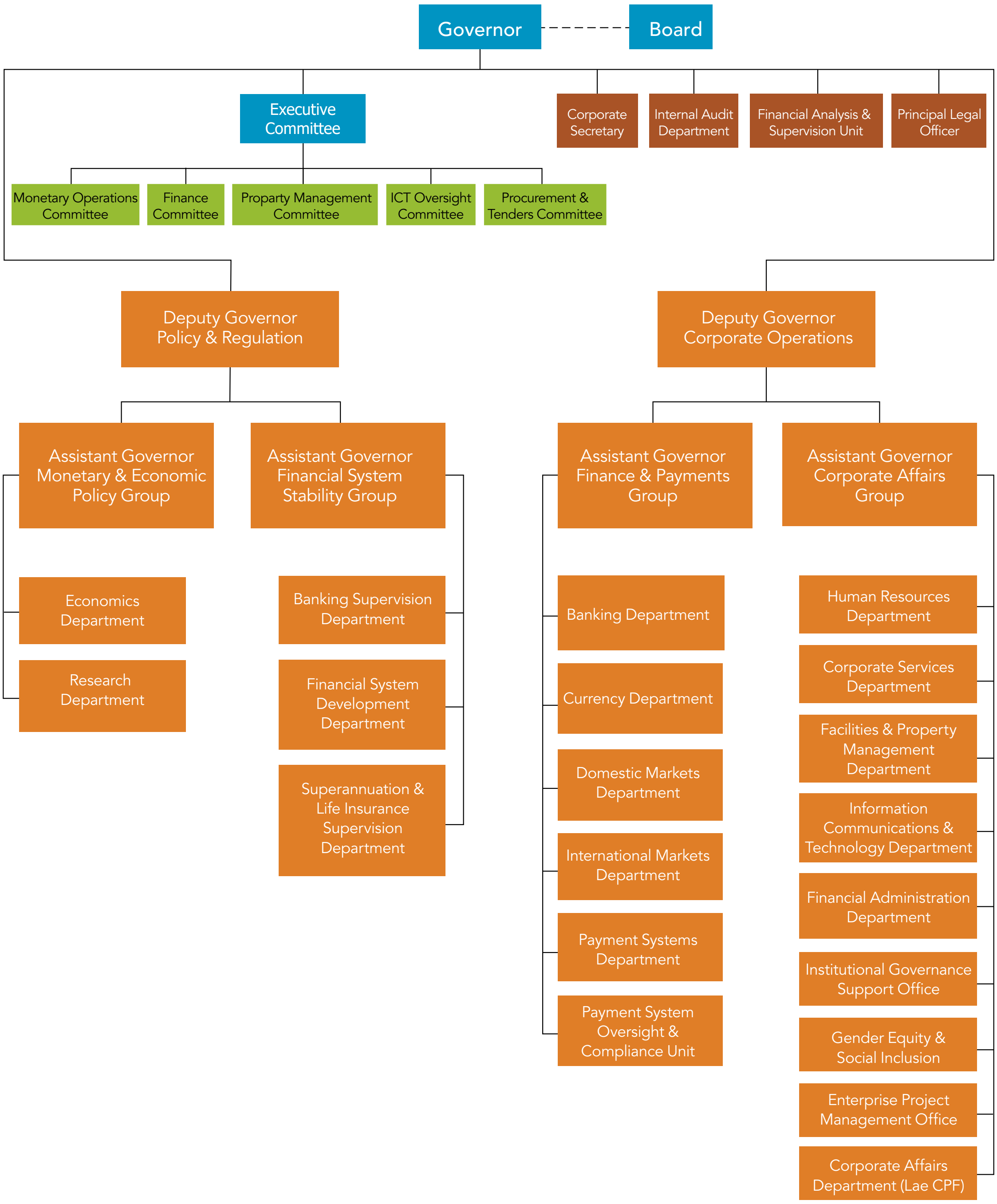
He holds a Bachelor of Arts with Honours (Economics & Public Administration) from the University of Papua New Guinea, a Diploma in Economic Policy Analysis from the PNG National Research Institute, a Master of Philosophy (Development Studies) from the Institute of Development Studies from the University of Sussex, UK, and a Doctor of Philosophy (Strategic Management) from the University of Western Sydney, Australia.

MANAGEMENT

By the end of 2023 the Bank had implemented significant changes to its organisational structure, to reflect the impact of the amendments to the Act on the Bank's management roles and responsibilities. This organisation chart indicates the role of the Governor as administrative head of the Bank.

Management Structure

At 31 December 2023



OTHER GOVERNANCE MEASURES

Internal Management Committees

The Executive Committee, which reports to the Governor, has general oversight of the Bank's internal operations, through the activities of the internal management committees – Monetary Operations, Finance, Property Management, Information Communications & Technology Oversight, and Procurement and Tenders.

Internal Audit

A strong, independent and impartial internal audit function is key to the Bank's overall commitment to good corporate governance practice. During 2023 the focus of internal audit reviews included providing assurance on various business processes and systems of the Bank, conducting investigations, reviewing the whistle-blower policy, and implementing IMF Safeguards Assessment Recommendations including an External Quality Review of the Internal Audit Department.

Risk Management

Over the course of 2023 the Bank progressed the review of the Enterprise Risk Management Framework (ERMF) and the Business Impact Analysis (BIA), and completed the risk register for Lae Currency Processing Facility.

External Checks and Balances

The Bank has in place several external verification measures in its operation. These include the annual external auditing of the Bank's financial statements, and the scrutiny of staff employment conditions by the Department of Personnel Management.

A more far-reaching scrutiny of the Bank's governance practices was the review of the CBA conducted by an external review panel. The review led to the significant changes enacted through the *Central Banking Act (Amendment) Act 2021*. This external review continued in 2023.

Peer Review

The Bank continues to maintain the practice of peer reviews with a range of organisations, including the International Monetary Fund (IMF), the Alliance for Financial Inclusion (AFI), the Global Green Growth Institute (GGGI) and other regulatory organisations such as the Australian Prudential Regulatory Authority (APRA).

The Bank maintains close working relationships with the central banks of Australia, New Zealand and other Pacific Island nations, such as through participation in supervisory colleges (see page 28), and through active participation in South East Asian Central Banks (SEACEN) group's conferences and capacity building programs, and the skills benchmarking and development opportunities provided through the Pacific Financial Technical Assistance Centre (PFTAC).

Cooperation with Government Agencies

The Bank continues its collaborative and knowledge-sharing relationships with other Government agencies, to mitigate the risk of fraud and other threats to the integrity of the PNG financial system.

Setting the Right Example

The Bank sets its expectations through the Values Statement, which provides clear guidance to Bank employees to conduct themselves with the highest standard of ethical behaviour. The Bank's Code of Conduct details the way in which the Values Statement will be applied. The Code applies to all staff, management and Board members.

FINANCIAL MANAGEMENT

OPERATING INCOME

Total operating income for the year ended 31 December 2023 was K561.4 million, an increase of K152.3 million from the 2022 level of K409.1 million. The difference was derived from a net increase of K194.4 million in interest revenues from foreign currency investments and a net decrease of K42.1 million in interest income from domestic investments.

OPERATING EXPENDITURE

Total operating expenditure, comprising interest expenses and general administration costs, was K517.2 million, an increase of K56.3 million from the 2022 level of K460.9 million. General and administration expenses increased by K14.8 million, while interest expenses increased by K41.5 million, mainly driven by Other Financial Charges and SDR Interest Charges.

NET OPERATING PROFIT

The Bank recorded a net operating profit of K44.2 million for the financial year to 31 December 2023, compared to an operating loss of K51.7 million recorded for 2022.

UNREALISED GAIN/(LOSS)

The Bank recorded a net foreign and domestic financial assets revaluation gain of K939.9 million for the 2023 financial year, which was transferred to the Unrealised Gain/(Loss) Reserve. The gain is attributed to the depreciation of the kina against major currencies and foreign currency price valuation gains from declining global yield rates during the financial year. The gold valuation gain of K52.9 million was transferred to the Gold Reserve.

APPROPRIATION

Under the terms of the amended Act, the Board of the Bank of Papua New Guinea in consultation with the Minister for Treasury determines the allocation of the Bank's operating profit, including the amount to be allocated to the Bank's retained earnings, and any balance of net profit to be paid into the Government's Consolidated Revenue Fund (CRF).

The Board resolved that no dividends be paid to the CRF from the net operating profit in respect of 2023.

DISTRIBUTION OF PROFIT

	2023 K'm	2022 K'm	2021 K'm	2020 K'm	2019 K'm
Total Comprehensive Income/(Loss)	1,037.1	(404.6)	(125.9)	495.4	441.5
Unrealised Profit/(Loss)	992.9	352.8	(157.5)	364.5	285.0
DISTRIBUTABLE PROFIT/(LOSS)	**44.2**	**(51.7)**	**31.7**	**130.9**	**156.5**
ALLOCATIONS MADE:					
Property Revaluation Reserve	0.0	30.4	14.6	0.0	11.8
Unrealised Profits Reserve	939.9	(383.5)	(147.9)	302.9	236.9
Gold Reserve	52.9	0.3	(9.6)	61.6	36.3
General Reserve	0.0	0.0	0.0	0.0	30.0
Building Reserve	0.0	50.0	50.0	50.0	0.0
Retained Profit/(Loss)	44.2	(51.7)	31.7	(19.1)	6.5
Consolidated Revenue Fund (Government)	0.0	0.0	150.0	150.0	150.0

BUDGET FORECAST

	Budget 2024 K'm	Actual 2023 K'm
Operating Income		
Interest received – overseas	405.7	269.7
Interest received – domestic	189.7	202.8
International trading/foreign exchange fees	62.5	74.9
Other income	12.0	14.0
TOTAL INCOME	**669.9**	**561.4**
Operating Expense		
Interest expenses – domestic operations	298.1	208.2
Financial markets & EFM expenses	14.7	9.7
Staff costs	145.7	125.7
Staff training and development	12.3	7.6
Premises and equipment	20.7	10.9
Depreciation of property and equipment	26.1	33.3
Amortisation of notes and coins production expenses	20.0	23.6
Currency distribution expenses	4.2	2.4
Audit fee	1.5	0.9
Staff official travel	16.0	16.3
Legal & consultancy fees	14.8	14.9
Board & meeting expenses	4.0	1.4
Information & communication technology	28.1	22.1
Insurance	3.0	2.0
Security	7.7	6.7
Special projects	11.3	6.0
Economics, research & publication expenses	4.6	2.6
Financial system & supervision expenses	9.7	5.8
General administrative expenses	6.4	2.2
Other expenses	10.8	14.9
TOTAL EXPENSES	**659.7**	**517.2**
NET OPERATING PROFIT/(LOSS)	**10.2**	**44.2**

CORE FUNCTIONS

MONETARY POLICY

Under the amended Act the Bank is responsible for formulating and implementing monetary policy. It announces its stance through Monetary Policy Statements (MPS). In 2023 the MPS were released on 31 March and 30 September.

The MPS can be viewed on the Bank's website www.bankpng.gov.pg

Monetary Policy Formulation

The Bank takes several factors into account to formulate monetary policy, including global as well as domestic inflation trends and expectations, economic growth, and balance of payments developments and forecasts. In 2023 the potential impact of the new monetary framework, developed as part of the reforms that the Bank and the IMF agreed to, was also factored into the monetary policy formulation process.

Global inflation continued to slow through 2023, in response to the unprecedented continued tightening of global monetary conditions through multiple interest rate hikes by central banks. The lower inflation outcomes were supported by a fall in energy and food prices, the normalisation of global supply chains and withdrawal of COVID-19 economic stimulus packages.

In PNG annual headline inflation, as measured by the Consumer Price Index, slowed from its peak of 6.3 percent in the September quarter of 2022 to 1.4 percent in the June quarter of 2023. It increased to 2.2 percent in the September quarter, and finished the year with a further increase of 3.9 percent in December.

The overall decline in the inflation rate experienced in 2023 mainly reflected the strengthening of the PGK/AUD crossrate, which kept import inflation contained in spite of the depreciation of the kina against the US dollar. Other factors that influenced lower than expected inflation outcomes included the impact of the Government's program to fully subsidise school fees and stable weather conditions, countering the inflationary effect of the removal of the fuel subsidy in June 2023 and domestic seasonal factors towards the end of the year.

The Bank estimated Papua New Guinea's GDP to have grown by only 1.4 percent in 2023, significantly lower than the 3.2 percent projected in the March 2023 MPS, and well below the historical trend of around 3.8 percent. The low growth figure is attributed to the delayed resumption of Porgera gold mine and lower production for LNG, and lower employment growth in the formal non-mineral economic sectors of retail, manufacturing and construction.

Monetary Policy Implementation

In 2023 the Bank maintained a neutral policy stance, with some operational tightening bias. The neutral stance meant that the Bank maintained adequate kina liquidity in the banking system to encourage the commercial banks to use this liquidity as loan funding to spur economic activity and growth.

The tightening bias aimed to sterilise excess liquidity in slowing private sector credit, and thereby demand in foreign exchange market and its pass-through impact to inflation. To assist with monetary policy transmission, the Bank implemented benchmarks recommended by the IMF under the program.

The Bank continued to use the Open Market Operations (OMO) as its primary monetary policy tool, and started to implement the roadmap agreed with the IMF on a new monetary framework. As part of the changes, in May the Bank introduced the 7-day Central Bank Bill (CBB) term. In August the Fixed Rate Full Allotment (FRFA) auction for 7-day CBB commenced, aimed at diffusing liquidity and aligning market interest rates to the policy rate. The Bank also invited superannuation funds to participate in the FRFA 7-day CBB auctions.

The Kina Facility Rate (KFR) was reduced to 3.0 percent in September and reduced further, down to 2.5 percent in November. This reduction also completed the alignment of the policy rate to the 7-day CBB rate under the FRFA arrangement.

Collateralised Repurchase Agreements (REPO) continued to be offered to commercial banks mainly for Exchange Settlement Account (ESA) funding and payment needs.

During the year the Tap Facility was offered to investors who were unable to participate in the primary auctions. The Bank weighed up its effectiveness as a debt management and liquidity management tool. Finding its use distorted the yield curve, the Bank commenced work on a strategy to close the Facility.

Reforming the Monetary Policy and Exchange Rate Frameworks

In March 2023 the PNG Government entered into a three-year IMF program to undertake structural reforms. Monetary and exchange rate policies were identified as requiring reform.

For the exchange rate policy reform, one of the program's priority objectives was to address the persistent foreign currency shortage in the foreign exchange (forex) market to achieve greater exchange rate flexibility and restore kina convertibility.

In the context of monetary policy reform, the key issue was to make monetary policy transmission work.

In July the Bank conducted a series of technical analyses, including calculating the exchange rate misalignment, considering the potential effectiveness of an exchange rate 'crawl-like arrangement' as the nominal anchor for monetary policy, and assessing the sectoral impact of an exchange rate devaluation on the economy. The analyses also included a theoretical presentation of the PNG economy, monetary disequilibrium, and demand for international reserves.

With the results of the analyses supporting its preferred approach, the Bank presented the results of the analyses to the IMF and Department of Treasury, with several key recommendations, such as allowing for gradual 'crawl-rate' adjustments to the kina to achieve flexibility, instead of a sharp devaluation.

The Bank's crawl-rate arrangement is measured and gradual, and adjusted every six months to confirm the nominal exchange rate is moving towards its long-term trend. To ensure a gradual and stable adjustment of the nominal exchange rate over time, the Bank will continue to intervene to support the crawl-rate and reduce outstanding orders in the forex market. The adjustment is also to ensure the impact on inflation is managed.

In December 2023, the IMF agreed to the Bank's strategy. The implementation plan is to be put in place in January 2024.

Balance of Payments Data Collection Improvement

The Bank compiles cross-border transactions data between PNG and the rest of the world relating to trade in goods and services, income, transfers and financial flows, to produce Balance of Payments (BOP) data.

This information is essential for producing the MPS, the Quarterly Economic Bulletin, and in determining the monthly KFR. BOP developments and forecasts are discussed with the Department of Treasury for preparation of the National Budget.

During the year the Bank commenced a project to enhance the quality of the data sought, expand the coverage, and improve the timeliness of the information by transitioning to online reporting.

FOREIGN EXCHANGE

By the end of 2023 the kina had depreciated by 5.5 percent against the US dollar to 0.2683, down from USD0.2840. Foreign currency inflows increased by 6.3 percent. Outflows increased by 19.9 percent.

As shown in this table, the largest supplier of foreign currency was the mining sector, with the petroleum, manufacturing, retail and finance & business sectors leading the demand.

The increase in outflows was also supported by the Bank's record intervention of K5.7 billion (USD1.6 billion) in the domestic forex market.

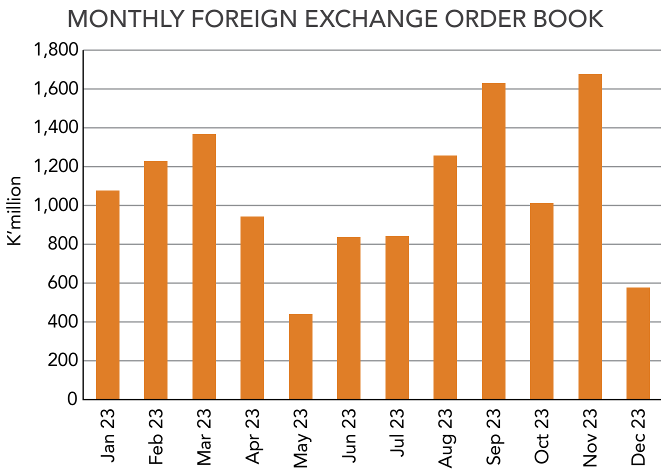
MAJOR SECTOR CONTRIBUTIONS TO FOREIGN EXCHANGE FLOWS

	2023	2022	Change
Total FX Inflows	**19,812.21**	**18,635.82**	**6.3%**
Top 5 Sectors			
Mining	7,111.1	6,636.3	2.5%
Agriculture	2,921.4	3,766.7	-4.5%
Finance & Business	2,198.4	2,193.1	0.0%
Petroleum	2,136.9	632.1	8.1%
Gas	1,259.7	888.0	2.0%
Total FX Outflows	**26,085.75**	**21,760.34**	**19.9%**
Top 5 Sectors			
Petroleum	4,434.3	3,222.6	6.5%
Manufacturing	4,419.5	3,411.6	5.4%
Retail	4,151.9	3,861.4	1.6%
Finance & Business	4,058.4	2,862.3	6.4%
Transport	2,457.1	1,837.6	3.3%

Foreign Exchange Orders

At the end of December 2023 total market forex orders placed by Authorised Foreign Exchange Dealers (AFEDs) in the interbank market had declined to K575.4 million, down from K882.6 million at the end of 2022.

The Bank's interventions and good mining inflows in December were major contributors to the reduction in the forex orders.



Intervention

In 2023 the Bank sold a total of K5.7 billion (USD1.6 billion), compared to K3 billion (USD877.3 million) in 2022.

The record level of the Bank's intervention during the year was largely to preserve national fuel security by supporting the petroleum sector, especially in response to Puma Energy's forex demands and the state of emergency declared in July due to fuel shortages.

Exchange Rates

The kina depreciated against all major currencies except the Japanese yen (JPY) over the course of the year. On a trade-weighted basis the kina fell by 4.18 percent against its major trading partners. The main reasons for the depreciation were the continuous demand for foreign currency in the domestic market, and a softening of the USD as expectations of the Federal Reserve easing its monetary policy stance gained momentum.

	End of Dec 2023	End of Dec 2022	Change (%)
PGK/USD	0.2683	0.2840	-5.53%
PGK/AUD	0.3920	0.4190	-6.44%
PGK/EUR	0.2424	0.2667	-9.11%
PGK/GBP	0.2102	0.2357	-10.84%
PGK/JPY	37.91	37.65	0.69%
PGK TWI	28.36	29.60	-4.18%

FOREIGN RESERVES MANAGEMENT

The Bank of Papua New Guinea is responsible for the management of PNG's international reserves, including foreign exchange and gold.

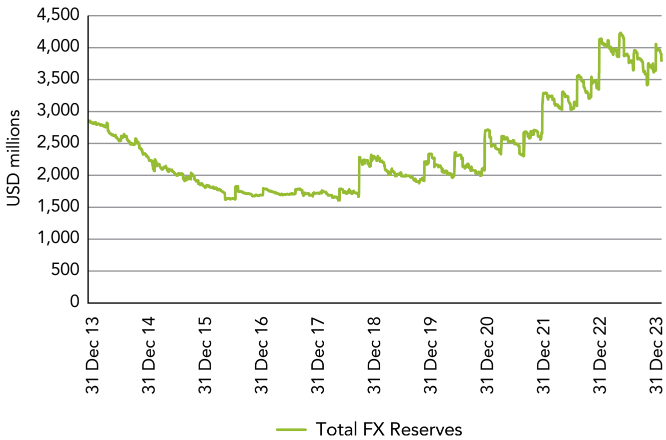
The main reasons for the Bank to hold foreign exchange reserves are to:

- support price stability (one of the core objectives of the Bank's monetary policy)
- service the State's foreign debt
- minimise the impact of external shocks on the domestic economy.

In terms of investing foreign exchange reserves, the Bank's primary objectives are to:

- preserve the capital value of the foreign exchange reserves
- maintain adequate foreign currency liquidity
- manage credit risk conservatively
- earn an acceptable rate of return on the investment of reserves
- accumulate savings for future generations.

Foreign Exchange Reserves Trend 2013–2023



The total foreign exchange reserve level at 31 December 2023 was USD3,956.7 million (K14,477.4 million), a 4.25 percent decline from the corresponding period in 2022. The decline was attributed to the outflow due to foreign exchange intervention, other government department loans and SDR charges.

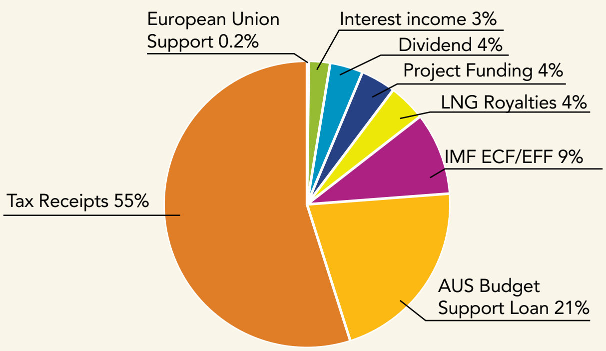
COMPOSITION OF FOREIGN EXCHANGE RESERVES

FX Reserve Components	2023	2022	Change in USD	Change in %
	USD ('m)	USD ('m)	USD ('m)	
Total Invested Reserves	3,864.56	4,040.77	-176.21	-4.36%
Gold	88.76	77.9	10.86	13.90%
SDR & Others	3.1	13.27	-10.17	-76.60%
IBRD	0.25	0.25	0	0.00%
Total	3,956.67	4,132.19	-175.52	-4.20%

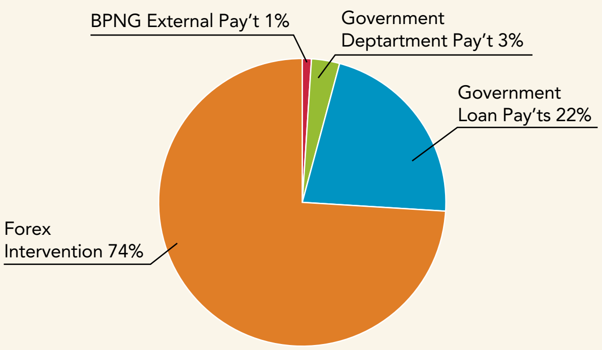
Foreign Exchange Reserves Inflows and Outflows

In 2023 the total of major inflows to the reserves was USD1,890.97 million. The total of major outflows from the reserves was USD2,158.23 million, which resulted in a net outflow of USD267.22 million.

2023 MAJOR FOREX INFLOWS



2023 MAJOR FOREX OUTFLOWS



Major inflows

- USD 1,038.07m in tax receipts
- USD402.90m in Australian Government budget support loan
- USD175.90m in IMF ECF/EFF
- USD79.72m in PNG LNG royalty payments
- USD74.67m in project funding
- USD70.50m in dividends
- USD45.43m in interest income
- USD3.78m in European Union support

Major outflows

- USD1,557.85m in forex Intervention
- USD458.46 in government loan repayments
- USD66.61m other government departments payments
- USD21.62 for BPNG external payments

FUND PERFORMANCE

In-house Managed Funds

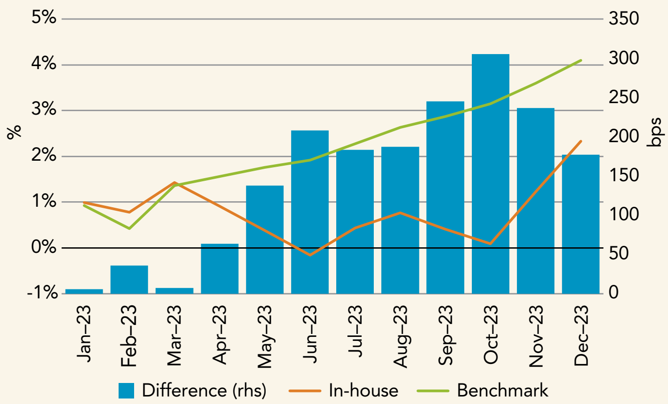
The Bank's in-house funds returned on average 2.33 percent for the 12 months to end December 2023, which underperformed the average benchmark return of 4.10 percent by 1.76 percent.

Throughout most of the year yields rose, due to interest rate hikes by global central banks aiming to address high inflation, leading to new bond issuances with higher coupon rates. As a result, the Bank's in-house portfolios generally underperformed in 2023 compared to individual benchmarks. The underperformance of the in-house funds stemmed from a portfolio restructuring initiative in which the Bank sold low coupon bonds and reinvested the funds into higher coupon bonds. Although this approach led to short-term losses from the bond sales, it has ultimately improved the long-term returns of the in-house managed funds.

IN-HOUSE FUNDS PERFORMANCE

Performance for in-house reserves was calculated monthly against a customised benchmark in 2023.

MONTHLY IN-HOUSE RETURNS VS BENCHMARK



SUMMARY – IN-HOUSE FUNDS PERFORMANCE

	Return	Benchmark	Difference
2019	3.04%	3.26%	-0.22%
2020	3.52%	2.34%	1.18%
2021	0.87%	-0.37%	1.24%
2022	0.04%	-2.81%	2.85%
2023	2.33%	4.10%	-1.76%

Externally Managed Funds (EFM)

The Bank's EFM returned on average 4.91 percent for the 12 months to the end of December 2023, which outperformed the benchmark return of 4.87 percent by 0.04 percent.

SUMMARY – EXTERNALLY MANAGED FUNDS PERFORMANCE

	EFM	Benchmark	Difference
2019	3.76%	3.26%	0.50%
2020	2.92%	2.34%	0.58%
2021	-0.23%	-0.37%	0.14%
2022	0.04%	-2.81%	2.85%
2023	4.91%	4.87%	0.04%

Total Annual Returns

FOREIGN EXCHANGE RESERVES MANAGEMENT – ANNUAL RETURN (%)

Source	2023	2022	2021
In-house managed funds	2.33	0.04	0.87
EFM	4.91	-2.54	-0.23
Benchmark	In-house funds – 4.10 EFM – 4.87	-2.81	-0.37

* As in previous years, the benchmark FTSE Russell Government Bond Index 1-3 USD Hedged was used for EFM reserves during 2023. However, the benchmark used for the In-house Funds was customised for 2023, to align better with the composition of the portfolio.

INTERNATIONAL TRANSACTIONS MONITORING

Foreign Currency Accounts

Opening and operating a domestic and offshore Foreign Currency Account (FCA) requires the Bank's approval.

FCA applications received in 2023	**22**
New applications	21
Renewal for existing approved FCA	1
New applications	**21**
Approved	14
Declined	6
The remaining application did not require approval since the applicant is non-resident.	1

The Bank monitors FCAs for compliance with monthly actual and forecast reporting requirements, to ensure that FCA holders are not keeping surplus funds in their accounts. During 2023 the compliance review process uncovered three unauthorised FCAs and two non-compliant accounts. All were closed by the Bank.

Gold Export Licences

Residents and non-residents are allowed to buy and sell gold freely within PNG. However, companies must obtain a licence from the Bank to export gold. Subject to complying with the conditions of the gold export licence (GEL) each year, a new licence is granted to the licence-holder for the following year.

Applications Received in 2021	14
Existing licensed exporters – GEL issued	8
Enga Gold Exporters (PNG) Limited	
Aviga Impex Limited	
Golden Valley Enterprise Limited	
Issacc Lete Lumbu Gold Buyers Limited	
Italpreziosi South Pacific Limited	
Mi-Do Gold Buyers & Exporters Limited	
GoldBox PNG Limited	
Huon Gold Limited	
New applications – GEL issued in 2023	3
PNG Brothers Gold Exchange Limited	
GoldCorp Limited	
Yu Nong Investment Corporation	
New GEL applications, requiring more information	1
New applications declined	2

Domestic Lending in Foreign Currency

The Bank did not receive any applications for approval for lending to resident entities in foreign currency during 2023.

Contingent Guarantees Issued in Favour of Non-Residents

The Bank's prior approval is required to issue guarantees (or indemnities) for the benefit of non-residents.

Applications received in 2023	7
Applications approved	7

Removal of Physical Cash Currency from PNG

The Bank's prior approval is required to remove or take cash and numismatic banknotes in excess of K20,000.00 in value out of the country.

Prior approval of the Bank is also required to take or remove cash and numismatic banknotes of both domestic and foreign currency in excess of K20,000.00 out of the country.

Applications received and assessed in 2023	39
Applications approved	38
Applications cancelled	1
Value of approved transactions	K1,599,784.52
Value of physical cash removed or taken out of PNG	K1,378,424.52
Value of approved numismatic notes exported	K221,360.00

FINANCIAL SYSTEM

The financial system of PNG includes institutions authorised, regulated and supervised by the Bank of Papua New Guinea ('regulated institutions') and financial institutions regulated by other authorities ('licensed institutions').

The Bank conducts prudential supervision of the regulated institutions to ensure stability of the financial system.

This is achieved through:

- setting licensing requirements
- promoting proper standards of conduct
- developing and issuing prudential standards and guidelines for sound and prudent business practices
- ensuring the institutions comply with the relevant legislation and prudential standards through effective supervisory activities.

The Financial System

Type of institution	31 Dec 2023	31 Dec 2022
Commercial banks	4	4
Licensed financial institutions, including microbanks (LFIs)	14	13
Savings & loan societies (SLSs)	17	16
Authorised superannuation funds (ASFs)	4	4
Licensed trustees	4	4
Licensed investment managers (LIMs)	5	5
Licensed fund administrators (LFAs)	3	3
Life insurance companies (LICs)	4	5
Life insurance brokers (LIBs)	6	6
Authorised money changers	9	8
Money remitters	3	2
Foreign exchange dealers (AFEDs)	2	2
Authorised mobile network operator	1	1
TOTAL ASSETS (K billion)	76.6	67.6
Banking industry (%)	75.6	75.4
ASFs (%)	24.0	24.2
LICs (%)	0.4	0.4
TOTAL DEPOSITS (K billion)	43.9	38.1
Commercial banks (%)	94.4	93.8
LFIs (%)	2.9	3.2
SLSs (%)	2.0	2.2
Microbanks (%)	0.7	0.8
TOTAL LOANS OUTSTANDING (K billion)	24.6	21.3

Regulation and Supervision

Licences and Approvals

During 2023 the Bank assessed 13 licence applications. Three applications were approved. Two approvals in principle were granted and 8 applications were pending as at the end of the year.

Supervisory Enforcement Actions

Reviews

As part of its supervisory role in strengthening risk management systems and compliance capacity, the Bank conducts prudential reviews or examinations of regulated institutions.

During 2023 the Bank conducted ten onsite prudential reviews or examinations of two banks, two licensed financial institutions, two microfinance institutions, five savings and loan societies, two authorised superannuation funds, one investment manager, one licensed fund administrator and one life insurance company.

The Bank also held 12 prudential consultations with one bank and four financial institutions, including one microbank, five savings and loan societies and one life insurance company.

Supervisory Colleges

In 2023 BPNG participated in a virtual supervisory college on ANZ's operations in the Pacific. The exercise was coordinated by the Australian regulator APRA and 'attended' by representatives of the central banks of Cook Islands, Fiji, Philippines, Samoa, Solomon Islands, Tonga and Indonesia as well as Papua New Guinea.

Employer Superannuation Contribution Enforcement

By the end of 2023 the Bank had received 101 complaints from employees against employers who had not met their superannuation contributions and benefit payment responsibilities. The Bank referred 91 percent of these complaints to the relevant ASFs, for their action against the non-complying employers. The balance of the complaints related to non-contributing employers, and were looked into by the Bank.

BPNG conducted 11 onsite visits to provincial centres during the year, meeting with 215 employers.

In September the Bank successfully prosecuted a non-complying employer in the National Court in Kavieng, New Ireland province, resulting in a conviction and sentence. The matter is under appeal to the Supreme Court.

Statutory Administration, Management and Liquidation Activities

The six month term of the interim board of trustees appointed to Comrade Trustee Services concluded during 2023. A permanent board of trustees was appointed effective from 2 August 2023.

The liquidation process for Workers Mutual Insurance (PNG) Limited and Eastern Highlands Savings and Loan Society continued through 2023.

Regulation and Supervision Development

Macro-prudential Supervision

During the year the Bank produced reports on the Financial Soundness Indicators (FSIs) of licensed deposit-taking institutions, including three reports in the Bank's Quarterly Economic Bulletin in 2023. The FSI data and commentaries continued to be provided to the IMF in line with IMF requirements.

Pacific e-KYC Facility

The aims of the regional 'Know Your Customer' facility ('Pacific KYC'), a SEACEN initiative, include improving customer due diligence, lowering legal compliance risks and protecting against money laundering and terrorism financing, and increasing the cost-effectiveness of financial transactions.

In April BPNG and the Reserve Bank of Australia (RBA) co-hosted a two-day workshop in Port Moresby to develop and implement the PNG National e-KYC Facility. Agencies from both governments and regulated financial institutions from PNG attended the workshop.

Financial Services Sector Development

Superannuation and Life Insurance Review

The Superannuation and Life Insurance Review committee had concluded their review at the end of 2022. At the start of 2023 the Bank submitted the committee's report and recommendations to the Minister for Treasury for approval.

Financial Consumer Protection (FCP) Framework

In July the Bank submitted the draft FCP Bill to the Office of the State Solicitor (OSS) to obtain the Certificate of Necessity.

BPNG and a technical team from the IMF worked during the year to develop external dispute resolution structures and systems as part of the administration framework for the new legislation.

Comprehensive Credit Reporting Regulation

With support from International Finance Corporation (IFC), the Bank completed the draft regulation during the year. It forms part of the Bank's drive to strengthen the credit reporting system, support credit expansion, deepen the credit market in PNG, and protect consumer data.

The draft regulation was presented for public consultation in Lae, Mt Hagen and Kokopo to gauge the reaction from stakeholders.

Regulatory Sandbox

The Bank's Regulatory Sandbox provides a controlled environment to enable comprehensive testing of new technologies before they are released to the market. It ensures they satisfy all requirements, meet agreed key performance indicators, and any risks associated with them are managed.

Digizen Digital Bank ID, the first 'graduate' from the Sandbox, is an efficient identity verification process, based on biometrics, which produces an instantly issued bank ID card that can be used offline. Between January and March 2023 a pilot project was run by Digizen and the financial institutions Mibank and Mama Bank, supported by BPNG and the Asian Development Bank. The Digital Bank ID pilot, conducted in the East Sepik Province in the areas around Wewak and Maprik, successfully enrolled well over 2,000 users. The success of the pilot confirmed that the device addressed the challenges that citizens in rural areas, particularly women, faced when trying to access banking services.

PAYMENT SYSTEM

Payment Services

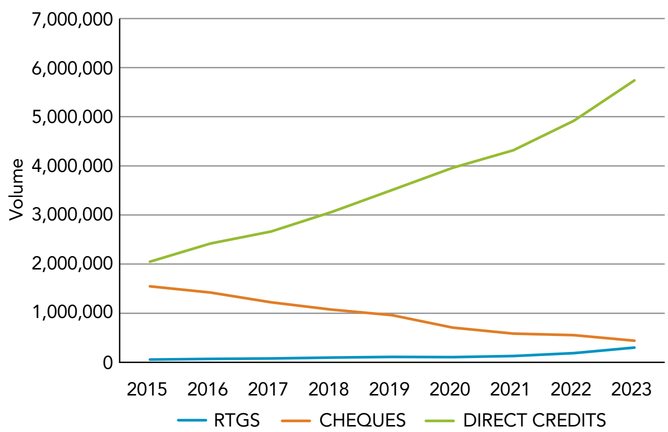
The Bank operates two critical systems with the aim of providing consistent uninterrupted payment services in Papua New Guinea – the Kina Automated Transfer System (KATS) and the Retail Electronic Payment System (REPS).

Kina Automated System

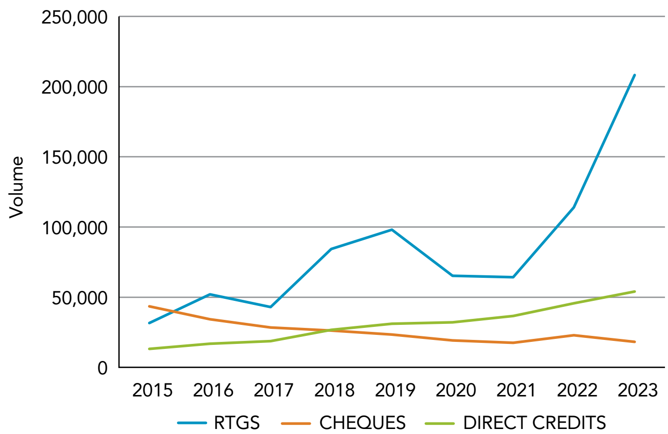
In 2023 KATS operated smoothly. Direct credit transfers and truncated cheques were processed successfully alongside the processing of Real-Time Gross Settlement (RTGS) payments.

As expected, the volume of cheques continued to decline and direct credits increased to meet the growing demand for speedier digital alternatives to replace the slower payments processes such as cheque payments.

KATS TRANSACTIONS BY VOLUME



KATS TRANSACTIONS BY PAYMENT TYPE

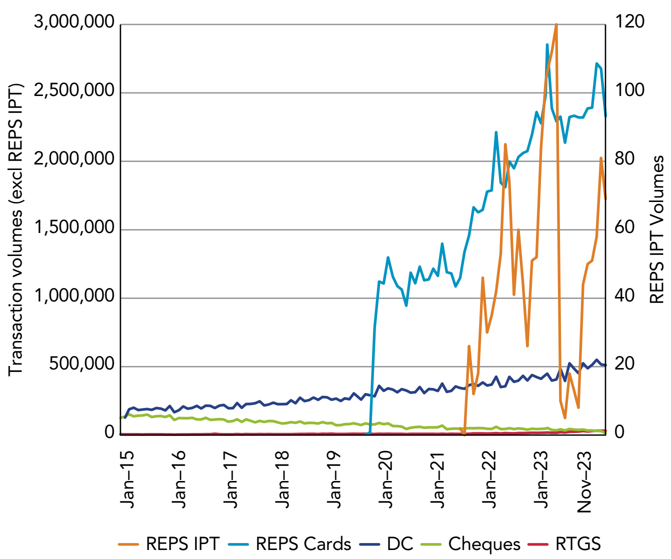


Retail Electronic Payments System (REPS)

The Bank continued to manage the National Switch, thereby providing a relatively stable 24 hour/7 day/365 day a year service for switching card payments.

The system achieved significant growth in card and instant payment volumes through REPS, with record daily volumes progressively reached. The Bank commissioned a post-implementation review by an external auditor. The review confirmed the project's successful implementation and highlighted several recommendations for consideration for subsequent expansion phases.

PAYMENT TRENDS



National Payment System Update

In February 2023 Credit Corporation (PNG) Limited received an "Approval in Principle License" and was linked to KATS, enabling them to start trading exclusively with Kina Bank and BSP in December 2023.

Following the complete launch of KATS in 2014, commercial banks were eligible for a 10 percent annual discount on transaction fees for a period of up to 10 years. As 2023 marks the tenth year of KATS operations, this discount was discontinued by BPNG. Starting in 2024, commercial banks will be required to pay the full transaction fees.

Enhancements and Improvements to the Payment System

The Bank commenced plans for upgrading KATS, designed to improve payment processing, boost security, help manage liquidity and strengthen anti-money laundering (AML) compliance.

Activities of the National Payments Council

The National Payments Council (NPC) is an advisory body comprising PNG's licensed financial institutions, and chaired by the Bank of Papua New Guinea. It meets each quarter to discuss current and future payment system issues.

At its first quarterly meeting of the year the NPC took the decision to end the use of private sector cheques by the end of 2023. As part of the cheques cessation strategy the NPC agreed for BPNG and the commercial banks to conduct jointly an extensive nationwide awareness campaign to alert the public to the end of private sector cheques and to educate them about the alternatives.

As the proposed cessation date neared, concerns were voiced by, among others, a few members of parliament about the preparedness of the market to cope without cheques as a means of payment. Responding to the public concerns, the NPC agreed to grant a six month extension to the cessation date.

Currency Management

One of the Bank's key responsibilities is to issue currency notes and coins. This role involves ensuring an adequate supply of quality currency in circulation, withdrawing damaged and soiled notes from circulation and monitoring the overall supply of currency.

The Bank distributes currency around the country from four regional currency distribution centres. BPNG's head office in Port Moresby, NCD services the Southern region. The Bank's Cash Processing Facility in Lae, Morobe province services the Momase region. The Bank has an agency agreement with BSP to provide cash distribution services in Mt Hagen, Western Highlands province to service the Highlands region and Kokopo, East New Britain province to service the Islands region.

Currency in Circulation

Currency banknotes in circulation at the end of December 2023 amounted to K3,139.5 million (2022: K2,859.8 million), an increase of K279.7 million.

Coins in circulation at the end of the year amounted to K116.0 million (2022: K109.6 million).

The total value of currency in circulation at the end of December 2023 was K3,255.5 million (2022: K2,969.4 million), an increase of K286.1 million, attributed to a higher demand for K50 and K20 banknotes by the commercial banks.

NOTES AND COINS IN CIRCULATION

Notes Denomination	Values (K'm) 2023	Values (K'm) 2022
K2	76.6	75.9
K5	80.1	75.4
K10	100.5	101.9
K20	234.8	220.1
K50	948.6	690.4
K100	1,698.9	1,696.1
Sub Total	**3,139.5**	**2,859.8**
Coins Denomination		
K1	42.1	38.7
50t	11.4	10.8
20t	28.2	26.2
10t	26.9	26.5
5t	7.4	7.4
Sub Total	**116.0**	**109.6**
Total	**3,255.5**	**2,969.4**

New Notes and Coins

The total value of new banknotes and coins issued in 2023 amounted to K733.6 million (2022: K1,209.2 million), a decline of K475.6 million.

Notes Denomination	Values (K'm) 2023	Values (K'm) 2022
K2	23.1	33.1
K5	27.0	31.9
K10	30.8	52.6
K20	115.4	132.2
K50	350.0	317.0
K100	180.0	636.0
Sub Total	**726.3**	**1,202.8**
Coins Denomination		
K1	4.0	2.0
50t	0.5	1.6
20t	2.2	1.2
10t	0.5	1.5
5t	0.1	0.1
Sub Total	**7.3**	**6.4**
Total	**733.6**	**1,209.2**

Release of 50th Anniversary Commemorative K50 Banknotes

In December 2023 the Bank released into circulation special K50 banknotes to commemorate its 50th Anniversary. The commemorative K50 banknote features the addition of the 50th anniversary logo to its original design elements. The signature on the commemorative K50 banknote was also changed to acknowledge the appointment of Ms Elizabeth Genia as the new Governor of the Bank of Papua New Guinea, as were other banknotes printed in 2023.

Destruction of Soiled Banknotes

Soiled (unfit) banknotes to the value of K549.0 million were withdrawn from circulation and destroyed in 2023 (2022: K522.2 million).

DESTRUCTION OF SOILED NOTES

Notes Denomination	Value of Soiled Notes destroyed 2023 (K'm)	Value of Soiled Notes destroyed 2022 (K'm)
K2	22.5	44.9
K5	25.4	24.5
K10	37.0	40.5
K20	114.2	115.7
K50	144.1	119.7
K100	205.8	177.6
Total	**549.0**	**522.2**

Clean Note Policy

Soiled and damaged banknotes remaining in circulation pose a threat to the payment system by undermining confidence in the currency, as well as causing practical problems, such as compromising the smooth operation of ATMs.

During the year the Bank continued its awareness program, with Bank staff providing information about proper banknote handling, security features on the notes and how to identify genuine notes from counterfeits.

By the end of the year, the Clean Note Policy had been expanded to the Banknote Quality Improvement Program (BQIP) with the assistance of Note Printing Australia (NPA), the organisation that produces PNG's banknotes. The BQIP team conducted preparatory information-gathering with a view to develop a pilot project to conduct 'exchange' arrangements where unfit banknotes could be exchanged for fit notes.

The Bank recorded information videos for members of the public to learn how to treat their banknotes properly, as well as training videos for the staff of the commercial banks showing correct note handling skills.

Numismatic Items

The Bank sells commemorative items to the public and currency collectors worldwide. The total value of sales in 2023 was K500,952.12 (2022: K196,200.29).

The most popular items that attracted buyers during the year included the 2015 UPNG K2 coin set, the 35th Anniversary K2 note and coin pack, the 2012 K5 uncirculated coin set and the 2021 K100 Gold Coin commemorating 100 years of existence of the Royal Papua Yacht Club.

Government Banking and Agency Services

Government Bank Accounts and Facilities

The Bank of Papua New Guinea has a statutory mandate to provide banking services to the National Government and other authorities.

The financial activities of the National Government are conducted by the Department of Finance through the Waigani Public Account, from which transfers of funds are initiated and executed to the various national government departmental drawing, trust, provincial and local level government, and statutory authority accounts that are maintained at the Bank.

Improvements introduced in previous years to streamline Government payments and receipts, such as cheque truncation, electronic files transfer (EFT), electronic payment of tax or customs direct from commercial bank business account to IRC or PNG Customs Service continued through 2023.

Temporary Advance Facility

The National Government operates a Temporary Advance Facility (TAF) with BPNG to meet temporary cash flow mismatches. With the implementation of the CBA amendments, the Facility's limit is set at K1.5 billion.

Central Bank Bills Strategy

The Bank issued its Central Bank Bills (CBBs) mainly in shorter terms (7 days, 14 days, 28 days, 63 days, and 91 days). The 7 day and 14 day CBBs were first introduced in May 2023. Prior to that, the shortest CBB maturity was 28 days.

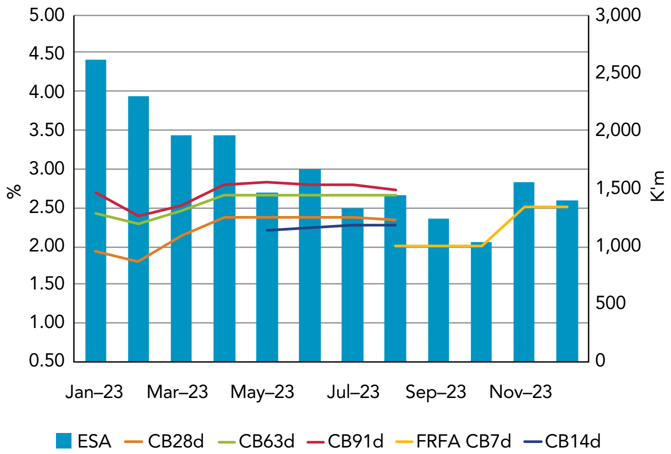
In 2023 CBB interest rates increased slightly in the first quarter, reflecting the tightening of the monetary policy stance, and remained stable through to third quarter of the year.

The IMF recommended implementing the 7 day Fixed Rate Full Allotment (FRFA) CBB auction in August. The objectives were to diffuse excess system liquidity in the banking system and improve the transmission of monetary policy. The interest rate for the FRFA auction was fixed at 2.00 percent, and subsequently increased to 2.50 percent in November to align with the monthly KFR rate.

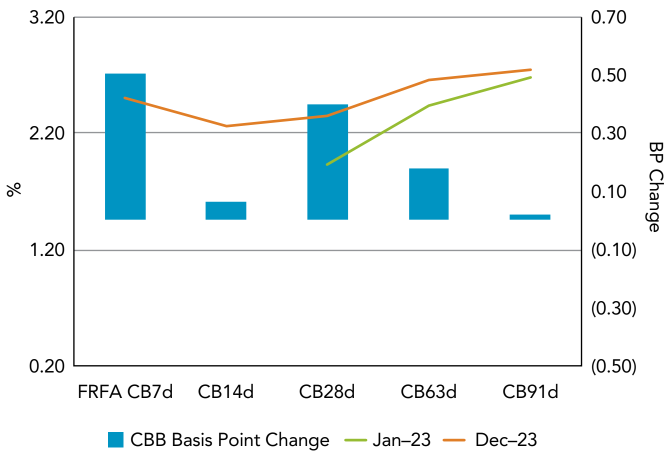
Only the 7 day CBBs were issued under the FRFA auction from August through to the end of the year, reflecting the Bank's observation of a shift from other maturity terms to the shorter term.

Banking system liquidity, as measured by the Exchange Settlement Account (ESA) balances, averaged K1,661.0 million, K467.0 million below the 2022 level. The decrease was attributed to BPNG's interventions in the foreign exchange market and the FRFA CBB auctions.

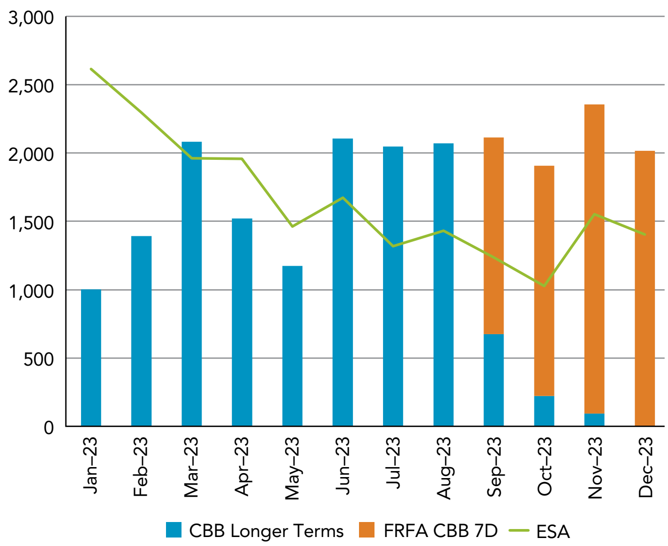
CBB AVERAGE INTEREST RATES & ESA



CBB YIELD CURVE 7 BASIS POINT CHANGE



TOTAL CBB MATURITY BY TERM & ESA



Tap Facility

The Tap facility aims to encourage investment by individuals, to help develop a savings culture within PNG. It provides an opportunity for individuals and small businesses, ineligible to participate at the primary auctions, to invest in central bank securities.

Trading through the Tap Facility continued throughout 2023, with active demand for securities. Both BPNG Bills and BPNG Bonds were offered at a minimum of K5,000 to eligible investors. Bills were offered in shorter terms of 63, 91, 182, 273, and 364 days. Bonds were offered in longer-dated terms of 2, 4, 8, and 10 years. The 10 year Bond was the most popular term among investors.

Secondary Market Development

Four secondary market trades were conducted in 2023, with BPNG buying Treasury bonds to the value of K2.74 million, and K1.0 million worth of Treasury bills from investors. The Bank added these stocks to its holding of Government securities.

Government Agent Operations

The Bank of Papua New Guinea is the Agent for the National Government as an authorised issuer, registrar and paying agent for Government securities.

The Bank is also a member of the Government's Public Debt Committee (PDC). Representatives from the Bank attend the weekly PDC meetings convened by the Department of Treasury.

Treasury bills and Treasury bonds (Inscribed stock) Strategy

The Bank continued to consult closely with the Government on matters concerning the coordination of budget financing. In 2023 the Government issued its Treasury bills mainly in the 182, 273 and 364 day terms. No 182 day term bills were issued in November or December. Treasury bonds were issued in the 2, 3, 5, 6, 8, 9, and 10 year terms.

The Government's main issuance strategy during the year for Treasury bills was to roll over its maturities and to issue Treasury bonds to manage the 2023 budget appropriation. During the year the Government also accepted oversubscriptions at the auction to meet weekly cash flow mismatches. Most auctions during 2023 were oversubscribed, reflecting positive market appetite and high ESA levels.

All Treasury bill interest rates declined in the first quarter. In the second quarter the rates increased slightly, and remained stable through the third quarter, increasing again towards the end of the year.

The interest rates for the 3 year and 6 year term bonds declined as new lines with reduced coupon rates were more attractive to investors. The rates for longer term bonds increased due to aggressive bidding at the auction.

Collateralised Repurchase Agreements (REPO)

The Collateralised Repurchase Agreement facility (REPO) is designed to provide lending to commercial banks by purchasing a specified security asset (such as CBBs, Treasury bills or Treasury bonds) and then selling it back at an agreed-upon maturity date. In the initial phase, ownership of the security transfers to BPNG and is returned to the commercial bank after it repays the amount at maturity of the security. These REPO transactions generate interest income for the Bank.

A total of 52 Repo contracts were completed during 2023, with a total value of K6,222.5 million (2022: K1,196.2 million).

Government Debt

At the end of 2023 total borrowing by the Government from issuing domestic debt securities totalled K28.5 billion, comprised of K14.5 billion Inscribed stock and K14.0 billion in Treasury bills.

This represented an increase of K2.1 billion from the end of 2022 (2022: Inscribed stock: K12.6 billion. Treasury bills: K13.8 billion).

TREASURY BILLS

	K'm
Outstanding as at 31 Dec 2022	13,789
Issued in 2023	15,342
Slack Issued 2023	0
Maturities in 2023	15,156
Slack Maturities in 2023	0
Net Issuance	186
Outstanding as at 31 Dec 2023	13,975

TREASURY BONDS (INSCRIBED STOCK)

	K'm
Issued in 2023	3,078
Maturities in 2023	1,133
Net Issuance	1,945
Outstanding as at 31 Dec 2023	14,528
Outstanding as at 31 Dec 2022	12,583
Increase in Balance	1,945
BPNG Holdings 31 Dec 2023	1,892
BPNG Holdings 31 Dec 2022	2,012
Net Maturity in BPNG Holdings	-119

CENTRAL BANK BILLS

	K'm
Outstanding as at 31 Dec 2022	1,467
Issued in 2023	47,264
Slack Issued in 2023	0
Maturities in 2023	46,684
Slack Maturities in 2023	0
Net Issuance	579
Outstanding as at 31 Dec 2023	2,047

BPNG BILLS TAP FACILITY

	K'm
Outstanding as at 31 Dec 2022	32,395
BPNG Bill Tap Issued in 2023	69,539
BPNG Bill Tap Maturity 2023	84,192
BPNG Bill Early Redemption	20
Net Maturity	-14,673
Outstanding as at 31 Dec 2023	17,506

BPNG BOND TAP FACILITY

	K'm
Outstanding as at Dec 2022	1,158
Maturity in 2023	64
BPNG Bond Early Redemption in 2023	29
Issued In 2023	75
Net Issuance	-19
Outstanding as at Dec 2023	1,139

Domestic Investment Portfolio

The Bank purchased a total of K113.74 million new Government securities against a total maturity of K232.5 million. K3.74 million of the purchase was through the secondary market.

The Bank's holding of Government securities as at December 2023 was K1,892.2 million in Treasury bonds and nil in Treasury bills.

SECONDARY FUNCTIONS

In addition to its mandated core responsibilities, the Bank of Papua New Guinea performs several secondary functions, in accordance with the Amended Act and other relevant legislation.

These include:

- Providing economic advice to Government
- Increasing economic knowledge
- Facilitating financial services development and inclusion
- Financial intelligence operations.

ECONOMIC ADVICE TO GOVERNMENT

The Bank of Papua New Guinea provides the National Government with economic advice to help optimise fiscal and economic policy. The Governor is required to advise the Treasurer of the effect government policy may have on monetary policy.

The Governor, or her representatives, provides economic advice through presentations at various official forums and the Bank's six monthly Monetary Policy Statements. Bank staff also present economic information at technical meetings attended by officers from the Department of Treasury and other Government departments.

In accordance with the amended Act, special reports must also be provided to the Minister on adverse conditions that threaten Papua New Guinea's monetary stability, affect monetary policy or the economic and financial policies of the Government.

INCREASING ECONOMIC KNOWLEDGE

Research activities within BPNG are key to increasing economic knowledge, as well as aiding policy analysis, decision making and forecasting, which are essential in preparing the Bank's Monetary Policy Statements.

Key statistics captured on the Bank's quarterly Business Liaison Survey (BLS) on a sample of private sector companies across various regions and industries in Papua New Guinea help the Bank assess private sector business activities and formulate appropriate monetary policy.

The Bank participates in research projects, such as undertaken with partners such as Griffith University in Australia, professional presentations as attendees as well as subject experts, collaborative engagements with organisations such as the National Statistical Office, the Department of Treasury and other central banks, such as through SEACEN, and peer knowledge sharing, such as with the Reserve Bank of Australia, as well as interaction with technical experts, such as from the IMF and other specialist organisations, to build knowledge and skills across the increasingly broad spectrum of economic knowledge.

FINANCIAL SERVICES DEVELOPMENT AND INCLUSION

The Bank of Papua New Guinea has long been committed to drive financial inclusion and financial services development, and for several years had direct involvement in specific hands-on inclusion activities.

With the establishment of the Centre for Excellence in Financial Inclusion (CEFI), and CEFI's role as the apex organisation responsible for coordinating all financial inclusion activities in PNG, the Bank's involvement has evolved.

The Bank provides strong strategic support; the role of Chair of CEFI is held by the Governor of the Bank.

Specialist facilitation is the other main contribution the Bank makes to PNG's financial inclusion, for example, by actively developing the financial system and encouraging new entrants into the market and new products through the regulatory sandbox, that will address the specific inclusion challenges in PNG.

For more information about CEFI and financial inclusion in PNG: www.thecefi.org

FINANCIAL INTELLIGENCE OPERATIONS

The Financial Analysis and Supervision Unit (FASU) is Papua New Guinea's Financial Intelligence Unit (FIU) and regulator/supervisor for anti-money laundering and counter-terrorist financing (AML/CTF) in PNG.

FASU is established within the Bank of Papua New Guinea, subject to the Bank's administrative processes and procedures. It is independent in performing its core charges under the *Anti-Money Laundering and Counter-Terrorist Financing Act 2015* (AML/CTF Act).

FASU's role is to coordinate efforts to protect the integrity of PNG's financial system against money laundering, terrorist financing, proliferation financing and other serious financial crimes.

The objective is to ensure that PNG's financial and non-financial sectors are not being used or abused by individuals or groups to profit from crime. FASU is responsible for ensuring the integrity of PNG's economy and financial system, and in doing so, promotes confidence for genuine investors and consumers.

INSTITUTIONAL SUPPORT

STRATEGY & RISK MANAGEMENT

The Strategy and Risk Management function in the Bank

- facilitates strategic planning
- monitors and reports on the implementation of the Bank's Strategic Plan
- oversees and co-ordinates the Bank's Operational Risk Management function, including co-ordinating Business Continuity Management (BCM).

The Bank's 2016–2020 Strategic Plan (SP) was extended to cover the years 2021 to 2023 to accommodate business disruptions due to Covid 19 and the CBA 2000 amendments. At the same time, work towards developing the next SP continued.

The Bank completed consultations with external and internal stakeholders towards framing a strategic plan to address expectations and emerging concerns while its mandated objectives are effectively and efficiently performed.

With the Board's active involvement, the Bank produced a long-term visionary statement that captured expectations that demand transformation, and accommodated both expanding and existing mandated objectives. The SP development exercise resulted in the delivery of the BPNG Vision 2050 in October and its official launch in November.

HUMAN RESOURCE MANAGEMENT

STAFF NUMBERS

Staff category	2023	2022
Non-management level staff	474	457
Management	60	59
Executive	6	6
Total	540	522

Projects

One of the main priorities for the Bank during the year was to ensure that the CBA amendments were able to be resourced properly. The completion and launch of the Bank's Vision 2050, along with the Strategic Plan were the catalysts for a bank-wide organisation design review. A remuneration review was initiated to ensure appropriate alignment between role and reward.

Employee Capacity Development

The Bank continued its commitment to staff capacity development. During the year 125 staff members attended local training, 116 participated in overseas training activities and 14 pursued long term studies. Three staff members graduated from their studies.

In the second half of the year the Bank conducted a survey of all staff to identify organisational capacity building needs and training gaps.

Gender Equity and Social Inclusion

During 2023 the Bank produced the draft Anti Harassment Policy, with the aim of ensuring that all staff work free from fear, free from intimidation and without experiencing offensive behaviour in the workplace.

INSTITUTIONAL SUPPORT

INFORMATION AND COMMUNICATION TECHNOLOGY

The Information & Communication Technology (ICT) function within the Bank provides oversight, management and delivery of enterprise-wide ICT services.

COMMUNICATION SERVICES

Over the course of 2023 the Bank's communications and events staff were involved in a wide range of activities to support the Bank's performance of its key functions and promote public awareness of the role of the central bank.

The 50th anniversary of the Bank's establishment involved not only creativity and teamwork, but also a wide range of planning, budgeting, resourcing, organisational and project management skills to create and execute several first class major events across a number of venues in Port Moresby and Lae.

Other activities during the year included coordinating other significant events, including the board meetings, staff functions and announcements, and presentations to various non-government organisations and community groups.

As well as major events, the Bank produced and conducted the public release of two Monetary Policy Statements, issued a range of public information, including the Quarterly Economic Bulletin and Monthly Economic Review and conducted ongoing public information campaigns.

COMMUNITY SUPPORT

The Bank supports several professional, cultural, sporting and health related causes.

SENIOR OFFICERS AT 31 DECEMBER 2023

Senior officers	
Governor	**Elizabeth Genia**
Deputy Governor, Policy & Regulations	Vacant
Deputy Governor, Corporate & Operations	Vacant
Advisor	Joseph Teria
Secretariat	
Corporate Secretary	Patrick Kwiwa (Acting)
Internal Audit	
Department Manager	Benek Beriso
Manager, Operations Audit	Frieda Kamakom
Manager, IT Audit	Justin Wohuinangu
Financial Analysis and Supervision Unit	
Director	Benny Popoitai MBE
Deputy Director	Wilson Onea
Manager, Supervision & Compliance Division	Rosa Banik
Manager, Intelligence Management Division	Edric Ogomeni
Manager, Policy Development & Coordination Division	Emete Enare
Monetary & Economic Policy Group	
Assistant Governor	Jeffrey Yabom (Acting)
Economics	
Department Manager	Thomas Jiki
Manager, Monetary Policy and Analysis	Wilson Jonathan
Manager, Balance of Payments	Vacant
Manager, Library	Stephanie Mule (Acting)
Manager, International Transactions Monitoring	Elim Kiang
Research	
Department Manager	Boniface Aipi (Acting)
Manager, Economic Analysis	Williamina Hubert
Manager, Projects	Ludwig Aba (Acting)
Financial System Stability Group	
Assistant Governor	George Awap
Manager, Small Medium Enterprise Accelerator Program	Dominic Sikakau
Principal Senior Analyst	Peter Samuel
Banking Supervision	
Department Manager	Sabina Deklin
Manager, Banks & Finance Companies	Samson Wai (Acting)
Manager, Savings & Loan Societies	Nickson Kunjil

INSTITUTIONAL SUPPORT

Senior officers	
Superannuation & Life Insurance Supervision	
Department Manager	Tom Milamala
Manager, Superannuation	Luke Mongolap (Acting)
Manager, Life Insurance	Joseph Nukints
Manager, Employer Contributions Enforcement	Nonza Makip
Financial System Development	
Department Manager	Walio Gamini (Acting)
Manager, Macro-Prudential Supervision	Mark Ofoi
Manager, Financial System Policy	Tanu Irau
Manager, Licensing and Compliance	Florence Pupua (Acting)
Finance & Payments Group	
Assistant Governor	Simon Gaius
Payments Oversight & Compliance Office	
Manager	Alfred Napun
Manager, Monitoring & Analytics	Francis Poko
Manager, Assessment & Compliance	Raylene Semi
Domestic Markets	
Department Manager	Rowan Rupa
Manager, Money Markets	Winnie Linken
Manager, Registry	Marie Martin
International Markets	
Department Manager	Maria Kanari
Manager, Foreign Reserves	Charles Paluwa
Manager, Foreign Exchange	Grant Daula
Manager, Middle Office	Ambrose Papis
Financial Administration	
Department Manager	Boas Irima (Acting)
Manager, Management Reporting	Noine Noine
Manager, Accounting & Payments	Policarp Nanako (Acting)
Manager, Settlements	Dillon Gadebo (Acting)
Banking	
Department Manager	Jason Tirime
Manager, Customer Services	So'on Drewei
Manager, Clearing Accounts	Aiva Aku
Manager, Government Accounts	Priscilla Ipu
Currency	
Department Manager	Edward Kisaku (Acting)
Manager, Control	John Yenas
Manager, Processing	Edward Kisaku

Senior officers	
Manager, Lae Cash Processing Facility	Agnes Mark (Acting)
Manager, Control, Lae Cash Processing Facility	Louis Oaeke (Acting)
Manager, Processing, Lae Cash Processing Facility	Frank Ababa
Payment Systems	
Department Manager	Gaona Gwaibo
Manager, Switch Operations & Support	Velai Velai
Manager, KATS Operations & Support	Kelly Pukai
Corporate Affairs Group	
Assistant Governor	Ron Sikar (Acting)
Strategy & Risk Management Office	
Manager	Nathan Maire
Manager, Support Services Office, Lae Cash Processing Facility	William Tiki
Human Resources	
Department Manager	Mairi Mathew
Manager, Strategy Planning and Development	George Badapipi
Manager, Administrative Support	Joycelyn Giru (Acting)
Manager, Client Support	Keith Fofinu
Information Communications & Technology	
Chief Information Officer	Naime Kilamanu
Manager, Corporate Systems	John Ilius (Acting)
Manager, Operations	Manea Joseph
Manager, Security Unit	Bernadette Caleb
Manager, Service Delivery	Elvis Haoda (Acting)
Corporate Services	
Department Manager	Jerome Peniasi
Manager, Media and E-Communications	Vacant
Manager, General Services	Monica Toisenegila
Manager, Events, Marketing and Publications	Alice Japhlom (Acting)
Facilities & Property	
Department Manager	Gibson Param (Acting)
Manager, Building	Jayson Wana (Acting)
Manager, Building, Lae Cash Processing Facility	Trevor Gankarch
Manager, Security , Lae Cash Processing	Bravo Vaieke
Manager, Security	David Rutana

BANK OF PAPUA NEW GUINEA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2023

CONTENTS

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Note	2023 K'000	2022 K'000
Revenue from foreign currency investments			
Interest revenue	2	409,344	147,094
Realised (loss)/gain on financial assets		(139,585)	(49,179)
Foreign exchange gains and commissions		74,944	53,386
Total revenue from foreign currency investments		**344,703**	**151,301**
Expenses on foreign currency investments			
Interest expense on liabilities with IMF		(24,282)	(11,801)
Custodian and investment management fees		(7,260)	(7,154)
Total expenses from foreign currency investments		**(31,542)**	**(18,955)**
Net foreign currency income		**313,161**	**132,346**
Revenue from domestic operations			
Interest revenue	3	202,768	236,738
Other income	4	13,980	21,107
Total revenue from domestic operations		**216,748**	**257,845**
Expense on domestic liabilities			
Interest expense	5	(183,905)	(154,889)
Total expenses on domestic liabilities		**(183,905)**	**(154,889)**
Net domestic income		**32,843**	**102,956**
Total net operating income		**346,004**	**235,302**
Operating expenses			
General and administration expenses	6	(301,807)	(287,030)
Profit/(Loss) excluding unrealised income		**44,197**	**(51,728)**
Other unrealised income/ (loss)			
Fair value and foreign exchange revaluation gains/(losses) on foreign currency investments		984,939	(646,943)
Fair value revaluation (loss)/gain on domestic investments		(45,005)	263,449
Total other unrealised income/ (loss)		**939,934**	**(383,494)**
Profit/(Loss) for the year		**984,131**	**(435,222)**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Gain on gold asset revaluation		52,979	287
Items that will not be subsequently reclassified to profit or loss			
Gain on property valuation		-	30,365
Other comprehensive income for the year		**52,979**	**30,652**
Total comprehensive income/(loss) for the year		**1,037,110**	**(404,570)**

The financial statements are to be read in conjunction with the notes on pages 47 to 79.

STATEMENT OF FINANCIAL POSITION

as at
31 December 2023

	Note	2023 K'000	2022 K'000
Assets			
Cash and cash equivalents	8	2,870,099	2,217,079
Foreign Investments	9	11,244,413	11,599,478
Assets held with IMF and other financial organisations at fair value through profit or loss	7	6,280	20,123
Accrued interest		101,726	51,267
Total foreign currency financial assets		**14,222,518**	**13,887,947**
Government of Papua New Guinea securities	10	2,210,288	2,376,820
Other Government Receivable	7	1,307,274	1,259,438
Loans and advances	11	3,444	2,231
Accrued interest and other receivables		54,180	58,242
Total local currency financial assets		**3,575,186**	**3,696,731**
Total Financial Assets		**17,797,704**	**17,584,678**
Non-financial assets			
Gold		323,311	270,332
Property and equipment	13	514,914	488,545
Investment properties	14	-	28,073
Other assets	12	110,510	85,661
Total non-financial assets		**948,735**	**872,611**
Total Assets		**18,746,439**	**18,457,289**
Liabilities			
Foreign currency financial liabilities			
Liabilities to IMF at fair value through profit or loss	7	1,894,383	1,776,083
Other financial liabilities	19	17,724	3,230
Derivative liabilities	9	39,933	71,211
Total foreign currency financial liabilities		**1,952,040**	**1,850,524**
Local currency financial liabilities			
Deposits from banks and third parties	15	5,246,703	6,333,689
Deposits from Government and Government entities	16	2,940,989	3,519,782
Debt securities issued	17	3,202,379	2,652,667
Accrued interest payable on debt securities		38,168	2,088
Currency in circulation	18	3,254,586	2,967,982
Other financial liabilities	19	100,965	160,428
Total local currency financial liabilities		**14,783,790**	**15,636,636**
Total financial liabilities		**16,735,830**	**17,487,160**
Non-financial liabilities			
Provisions for employee entitlements	20	48,234	44,864
Total non-financial liabilities		**48,234**	**44,864**
Total Liabilities		**16,784,064**	**17,532,024**

	Note	2023 K'000	2022 K'000
Equity			
Capital	22	145,540	145,540
Gold revaluation reserve	22	302,703	249,724
Property revaluation reserve	22	110,774	110,774
Unrealised gain/(loss) reserve	22	974,468	34,534
Building reserve	22	223,800	223,800
General reserve	22	30,000	30,000
Retained earnings	22	175,090	130,893
Total Equity		**1,962,375**	**925,265**
Total Liabilities and Equity		**18,746,439**	**18,457,289**

The financial statements are to be read in conjunction with the notes on pages **44 to 76**.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Capital K'000	Gold Revaluation Reserve K'000	Property Revaluation Reserve K'000	Unrealised gain/(loss) Reserve K'000	Building Reserve K'000	General Reserve K'000	Retained Earnings K'000	Total K'000
Balance at 1 January 2022	**145,540**	**249,437**	**80,409**	**418,028**	**173,800**	**30,000**	**232,621**	**1,329,835**
Loss for the year	-	-	-	(383,494)	-	-	(51,728)	**(435,222)**
Other comprehensive income	-	287	-	-	-	-	-	**287**
Net transfers from retained earnings to building reserve	-	-	-	-	50,000	-	(50,000)	-
Revaluation of PPE	-	-	30,365	-	-	-	-	**30,365**
Balance at 31 December 2022	**145,540**	**249,724**	**110,774**	**34,534**	**223,800**	**30,000**	**130,893**	**925,265**
Profit/(Loss) for the year	-	-	-	939,934	-	-	44,197	**984,131**
Other comprehensive income	-	52,979	-	-	-	-	-	**52,979**
Balance at 31 December 2023	**145,540**	**302,703**	**110,774**	**974,468**	**223,800**	**30,000**	**175,090**	**1,962,375**

The financial statements are to be read in conjunction with the notes on pages **47 to 79**.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	2023 K'000	2022 K'000
Cash Flows from Operating Activities			
Interest received on foreign investments		358,886	111,423
Interest received on domestic investments		206,830	246,361
Fees, commissions and other income received		87,711	74,493
Interest paid on IMF liabilities		(24,283)	(11,801)
Interest paid on domestic liabilities		(147,824)	(154,005)
Payments to employees		(112,352)	(109,117)
Payments to suppliers		(226,342)	(66,717)
Fees and commissions paid		(7,260)	(7,154)
Net proceeds from/ (purchase of) foreign investments		1,301,284	(4,719,319)
Net proceeds from/ (purchase of) domestic investments		73,690	263,605
Net loans repaid/(issued)		-	39
Net Cash Flow provided by/(used in) Operating Activities		**1,510,341**	**(4,372,192)**
Cash Flows from Investing Activities			
Purchase of property and equipment		(8,701)	9,591
Payments for construction costs on capital projects		(14,186)	(48,058)
Proceeds from sale of property and equipment		-	138
Net Cash Flow used in Investing Activities		**(22,887)**	**(38,329)**
Cash Flows from Financing Activities			
Payment of lease liabilities		(4,970)	
Net movement of currency in circulation		286,603	313,076
Net movement in debt securities issued		549,713	(388,822)
Net movement in deposits from government		(578,793)	956,595
Net movement in deposits from banks		(1,086,987)	2,289,026
Net Cash Flow (used in)/provided by Financing Activities		**(834,434)**	**3,169,875**
Net Increase/(Decrease) in Cash and Cash Equivalents		**653,020**	**(1,240,646)**
Cash and Cash Equivalents at 1 January		2,217,079	3,457,725
Cash and Cash Equivalents at 31 December	8	**2,870,099**	**2,217,079**

The financial statements are to be read in conjunction with the notes on pages **47 to 79**.

Note 1: MATERIAL ACCOUNTING POLICY INFORMATION

The Bank of Papua New Guinea (the 'Bank') is domiciled in Papua New Guinea and is the country's central bank and regulator of monetary policy, the financial sector and payments system.

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of preparation

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and in accordance with the Central Banking (Amendment) Act 2021 (the "Act"). In relation to matters for which no provision is made in applicable financial reporting standards and that are not subject to any applicable rule of law, accounting policies that are appropriate to the circumstances of the Central Bank and have full authoritative support within the accounting profession in Papua New Guinea shall apply.

All amounts are expressed in Kina rounded to the nearest thousand unless otherwise stated. Fair value accounting is used for all the Bank's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for land and buildings. In all other cases, a historical cost basis of accounting is used. Revenues and expenses are brought to account on an accrual basis.

Going concern

The financial statements continue to be prepared on a going concern basis. The Bank recorded a net asset position of K1.9 billion as at 31 December 2023 (2022: a net asset position of K0.9 billion). The increase in net assets was mainly a result of the depreciation of Kina against other major currencies and foreign currency price valuation gains from declining global yield rates.

Accordingly, the Directors have determined that it is appropriate for the Bank to continue to adopt the going concern basis in preparing these financial statements.

(b) Functional and presentation currency

Transactions in foreign currency are translated to Kina being the functional currency of the Bank and the presentation currency of these financial statements at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Kina at the foreign exchange rate prevailing at reporting date. Foreign exchange differences arising on translation are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

(c) Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment in the year ended 31 December 2023 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

a) Note 24 (iv) – determination of the fair value of financial instruments with significant unobservable inputs;
b) Note 14 – fair value of investment properties; and
c) Note 13 – fair value of land and buildings.

(ii) Accounting estimates

Fair value of financial instruments that are not traded in an active market (for example over the counter derivatives or PNG Government inscribed stock) is determined using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Derivative transactions are entered into on behalf of the Bank by the external fund managers and similar valuation techniques are used in valuing these derivatives.

(d) Amendments to IFRS that are mandatorily effective for the current reporting period

In the current year, the Bank has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2023. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 17 Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17)

The Bank has adopted IFRS 17 and the related amendments for the first time in the current year. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Bank does not have any contracts that meet the definition of an insurance contract under IFRS 17.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements— Disclosure of Accounting Policies

The Bank has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Bank has amended the current year term from significant accounting policies to material accounting policy and determined that all disclosures included in Note 1 are material.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates

The Bank has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The definition of a change in accounting estimates was deleted.

(e) New and revised IFRS Standard in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following revised IFRS standards that have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1 Classification of Liabilities as Current or Non-current
Amendments to IAS 1 Non-current Liabilities with Covenants
Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements
Amendments to IFRS 16 Lease Liability in a Sale and Leaseback

The directors do not expect that the adoption of the Standards listed above will have material impact on the financial statements of the Bank in the future period.

(f) Leases

The Bank as lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less or residential leases) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its Kina Facility Rate.

The lease liability is included under 'Other financial liabilities' in the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using the current Kina Facility Rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included in the 'Property and equipment' line in the Statements of Financial Position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "General and administrative expenses" in profit or loss.

(g) Financial Instruments

Classification and measurement of financial instruments

Definition of financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank's financial instruments are its domestic government securities, foreign government securities, central bank bills issued, bank deposits, cash and cash equivalents, deposit liabilities and currency in circulation. The Bank accounts for its financial instruments in accordance with IFRS 9 and reports these instruments under IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurement.

(i) Recognition and initial measurement

Financial instruments are initially recognised when an entity becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument.

(ii) Classification and subsequent measurement of financial assets

The Bank classifies financial assets into one of the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income (FVTOCI); or
- Fair value through profit or loss (FVTPL).

The classification of debt instruments is determined based on:

a) the business model under which the asset is held; and

b) the contractual cash flow characteristics of the instrument.

Business model assessment

Business model assessment involves determining how financial assets are managed in order to generate cash flows. The business model for debt instruments is to hold assets and collect contractual cash flows. Any sales of the asset are incidental to the objective of the model. The contractual cash flow characteristics assessment involves assessing the contractual features of an instrument to determine if they give rise to cash flows that are consistent with a basic lending arrangement. Contractual cash flows are consistent with a basic lending arrangement if they represent cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Principal is defined as the fair value of the instrument at initial recognition. Principal may change over the life of the instrument due to repayments or amortisation of premium/discount. Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding and for other basic lending risks and costs, and a profit margin. If the Bank identifies any contractual features that could significantly modify the cash flows of the instrument such that they are no longer consistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Solely payments of principal and interest (SPPI) criteria

The SPPI test requires that the contractual terms of the financial asset (as a whole) give rise to cash flows that are solely payments of principal and interest on the principal amounts outstanding i.e. cash flows that are consistent with a basic lending arrangement.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Financial assets measured at amortised cost – financial assets are measured at amortised cost if they are held within a business model whose objective is to hold for collection of contractual cash, flows where those cash flows represent solely payments of principal and interest. After initial measurement, financial assets in this category are carried at amortised cost. Interest income on these instruments is recognised as interest income using the effective interest rate method.

Financial assets measured at FVTPL – financial assets are measured at FVTPL if assets:

- are held for trading purposes;
- are held as part of a portfolio managed on a fair value basis; or
- whose cash flows do not represent payments that are solely payments of principal and interest.

Financial assets measured at FVTOCI – financial assets are measured at FVTOCI if the financial assets are held within a business model that is achieved by both collecting contractual cash flows and selling, which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest. These comprise primarily marketable securities. They are recognised at the trade date when the Bank enters into contractual arrangements to purchase and are derecognised when they are sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains or losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains and losses in the comprehensive income are recognised in the income statement as 'gains and losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations and the impairment is recognised in profit or loss.

(iii) Classification of financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortised cost except for liabilities with IMF. Interest on financial liabilities is calculated using the effective interest rate method, is recognised as interest expense. Financial liabilities measured at fair value through profit or loss – the Bank designates financial liabilities to eliminate, or significantly reduce, inconsistencies that would otherwise arise from measuring assets and liabilities on different bases. The relevant assets and liabilities (including derivatives) are managed together and internal reporting is evaluated on a fair value basis.

(iv) Reclassifications of financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing the financial assets.

(v) Impairment of financial assets carried at amortised cost

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9.

Expected credit loss impairment model

The Bank's allowance for credit losses calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either (a) over the following twelve months or (b) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination:

• Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month probability of default that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.

• Stage 2 – When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime probability of default that represents the probability of default occurring over the remaining estimated life of the financial asset. Credit loss allowances are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1. When determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

• Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses. Under IFRS 9, the Bank will consider a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held).

Measurement of expected credit loss

The probability of default (PD), exposure at default (EAD), and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are most closely related with credit losses in the relevant portfolio. Details of key statistical parameters/inputs are as follows:

• PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.

• EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

• LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Forward-looking information

The Bank formulates a base case view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios and consideration of a variety of external actual and forecast information. This process involves developing four different economic scenarios, which represent a range of scenarios linked to housing and interest rate variables. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments, choosing scenarios that specifically test the resilience of the Bank to financial stress.

ECL calculation

Expected credit losses are calculated by identifying scenarios in which a loan or receivable defaults, estimating the cash shortfall that would be incurred and then multiplying that loss by the probability of the default happening. When an ECL is identified, the carrying amount of the asset would be reduced and the amount of ECL is recognised in the income statement.

(vi) Derecognition of financial instruments

Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the asset has expired; or the Bank transfers the contractual rights to receive the cash flows from the financial asset; or has assumed an obligation to pay those cash flows to an independent third-party; or the Bank has transferred substantially all the risks and rewards of ownership of that asset to an independent third-party. Management determines whether substantially all the risk and rewards of ownership have been transferred by quantitatively comparing the variability in cash flows before and after the transfer. If the variability in cash flows remains significantly similar subsequent to the transfer, the Bank has retained substantially all of the risks and rewards of ownership.

Where substantially all the risks and rewards of ownership of the financial asset are neither retained nor transferred, the Bank derecognises the transferred asset only if it has lost control over that asset. Control over the asset is represented by the practical ability to sell the transferred asset. If the Bank retains control over the asset, it will continue to recognise the asset to the extent of its continuing involvement. At times such continuing involvement may be in the form of investment in senior or subordinated tranches of notes issued by non-consolidated structured entities.

On derecognition of a financial asset, the difference between the carrying amount and the sum of (a) the consideration received (including any new asset obtained less any new liability assumed) and (b) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. If an existing financial liability is replaced by another from the same counterparty on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability at fair value.

The difference in the respective carrying amount of the existing liability and the new liability is recognised as a gain/loss in the profit or loss.

(vii) Modification of financial instruments

Modification of financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original assets are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs.

If the modification of a financial asset measured at amortised cost or FVTOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

Modification of financial liabilities

The Bank derecognises a financial liability when its terms are modified and cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(viii) Domestic Government securities

The Bank holds inscribed stocks with fixed coupon rates issued by the Government. Interest is received biannually at the coupon rate and the principal is received at maturity. The inscribed stock securities are managed by the Bank on a fair value basis, and are held to implement monetary policy and may be sold or lent, typically for short terms, under repurchase agreements, thus they are designated as FVTPL under IFRS 9. In accordance with this standard, the securities are accounted for on a fair value basis using the discounted present value model, with realised and unrealised gains and losses taken to profit. The Bank also holds treasury bills purchased at a discount. The securities are held to collect contractual cash flows hence are measured at amortised cost.

Interest earned on the securities is accrued over the term of the security and included as revenue in the Statement of Profit or Loss and Other Comprehensive Income.

(ix) Foreign exchange holdings

Foreign exchange holdings are invested mainly in securities (issued by the Governments of Australia, the United Kingdom, United States of America, Germany, France and Japan) and bank deposits (with highly-rated international banks, Central banks and international agencies). They are available to be traded in managing the portfolio of foreign exchange reserves. In accordance with IFRS 9, these assets are measured as 'fair value through profit or loss'. External fund managers engaged by the Bank also enter into forward exchange contracts to hedge the returns of portfolios under their management to the US Dollar. No PNG Kina forward contracts are entered into.

(x) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Kina equivalents at the prevailing exchange rate on balance date in accordance with IAS 21 – The Effects of Changes in Foreign Exchange Rates. Realised and unrealised gains or losses on foreign currency are taken to profit or loss, but only realised gains are available for distribution.

(xi) Foreign government securities and Treasury bills

Foreign government securities include coupon and discounted securities. Coupon securities have biannual or annual interest payments depending on the currency and type of security; the principal is received at maturity. Interest earned on discount securities is the difference between the purchase cost and the face value of the security; this is accrued over the term the securities are held. They are available to be traded in managing the portfolio of foreign exchange reserves and are managed by the Bank on a fair value basis, thus they are measured as FVTPL under IFRS 9. In accordance with this standard, these securities are valued at market bid prices on balance date. Realised and unrealised gains or losses are taken to profit; only realised gains and losses are available for distribution in accordance with the *Central Banking (Amendment) Act 2021*. Interest earned on securities is accrued as revenue in the Statement of Profit or Loss and Other Comprehensive Income. Foreign Treasury Bills are held mainly for liquidity purposes and recorded at Amortised Cost.

(xii) Foreign deposits

The Bank holds its foreign currency reserves in deposits with highly-rated international banks. Deposits are classified as 'cash and cash equivalents' under IAS 7 and recorded at their face value. Foreign deposits are revalued at period end using the applicable foreign exchange bid rate. Any gains or losses due to changes in the foreign exchange rates between periods are taken to profit.

(xiii) Foreign currency forward contracts

External fund managers engaged to manage part of the Bank's investment portfolio enter into over the counter forward foreign exchange contracts to hedge the return of portfolios under their management to the US Dollar. Gains/(losses) on this portfolio are treated as unrealised by the Bank and recorded in a separate equity reserve as such gains and losses are not available for distribution. These forward contracts are accounted for on a fair value basis, with all changes in fair value being reflected in the Statement of Profit or Loss and Other Comprehensive Income in accordance with IFRS 9. The fair values are determined with reference to prevailing exchange rates at balance date.

(xiv) Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. In a reverse repurchase agreement, securities are initially bought and this transaction is reversed at an agreed price on an agreed future date. Reverse repurchase agreements provide the Bank's counterparties with cash for the term of the agreement and the Bank treats it as a cash receivable. Securities purchased and contracted for sale under reverse repurchase agreements are classified under IFRS 9 as 'held to collect' and measured at amortised cost. The difference between the purchase and sale price is accrued over the term of the agreement and recognised as interest revenue. Repurchase agreements result in cash being paid to the Bank and are treated as a liability, reflecting the obligation to repay cash.

(xv) Deposit liabilities

Deposits include deposits at call. Deposits are financial liabilities classified and measured at amortised cost under IFRS 9 and are included in Note 15 and Note 16.

(xvi) Central Bank Bills on issue

The Bank has issued central bank bills as part of its money market operations. These are classified as financial liabilities. The bills issued have maturities ranging from 28 days to 181 days and are recorded at their amortised cost using the effective interest method. Interest is paid at maturity.

The Bank is also issuing central bank bond with maturities ranging from 2 to 10 years and are also recorded at amortised cost using the effective interest method. Interest is paid semi-annually.

(xvii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable repayment terms that are not quoted in an active market. Loans are receivables and initially recognised at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method under IFRS 9. Loans and advances owing from previous staff are treated as financial assets measured at amortised cost and will be assessed for impairment based on an expected credit loss model in accordance with IFRS 9; however, loans and advances to current staff represent a prepaid employee benefit.

(xviii) Assets and liabilities with the International Monetary Fund (IMF)

As Papua New Guinea is an IMF member nation, special drawing rights (SDR) are periodically allocated. The Bank recognises the holdings as an asset and allocation as a liability. The IMF assets and liabilities are denominated in SDR which are based on the weighted average of five main trading currencies. These are translated to PGK using the SDR market rate at balance date. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs upon request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies. These assets and liabilities are managed by the Bank on a fair value basis and are measured as FVTPL in accordance with IFRS 9.

(xix) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. It is recorded at face value in the Statement of Financial Position.

(xx) Revenue

Interest income

Interest income is recognised as it accrues in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate ("EIR") method in line with requirements of IFRS 9.

Foreign exchange gains and commissions

Foreign exchange gains and commissions include gains and losses on trading in foreign currency and profit or loss impact of conversion to functional currency of foreign currency denominated assets and liabilities.

Realised gains/(loss) on financial assets

Gains and losses realised from the sale of foreign financial instruments are reflected in the Statement of Profit or Loss and Other Comprehensive Income at the time of transaction.

Other income

Rental income is brought to account as the performance obligations are satisfied over time. All rents are payable on a monthly basis. All other income sources are generally brought to account as the performance obligations are satisfied at a point in time, with the exception of license and application fees which are brought to account over time.

(h) Determination of fair value

For financial instruments trading in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices. This includes quoted debt instruments on major trading exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from the exchange, dealer, broker, pricing service or regulatory agencies, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, foreign exchange rates, volatilities and counterparty spreads) existing at the dates of the Statement of Financial Position.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value unlisted debt securities and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

(i) Property and equipment

Formal valuations of all the Bank's properties are conducted on a triennial basis. The properties are valued by local independent valuers. The most recent independent valuation of the properties was conducted in the financial statements at 31 December 2022. In accordance with IAS 16 – Property Plant and Equipment, properties are valued at fair value, which reflects observable prices and are based on the assumption that assets would be exchanged between knowledgeable, willing parties at arm's length. Reflecting their specialised nature, the Bank's head office at ToRobert Haus and the Lae Currency Processing Facility are valued at depreciated replacement cost. Valuation gains and losses are transferred to the property revaluation reserve. Management has assessed the fair value of all property and equipment as at year end and consider them to be appropriate. Property revaluations are done and accounted for at the end of the year applying the elimination method to any accumulated depreciation.

Annual depreciation is based on fair values less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in the profit or loss. The range of useful lives used for each class of assets is:

	Years
Residential Properties	20–30
Office Buildings	50
Computer Equipment	5
Vehicles	4
Equipment	5
Intangible - Computer Software License	13

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(j) Computer software

Computer software that is internally developed or purchased is accounted for in accordance with IAS 38 – Intangible Assets. Intangibles are recognised at cost less accumulated amortisation and impairment adjustments (if any), details of which are included in Note 13.

Amortisation of computer software is calculated on a straight-line basis using the estimate useful life of the relevant asset which is usually a period of between three to five years. The useful life of core banking software may be up to 13 years, reflecting the period over which the future economic benefits are expected to be realised from this asset.

(k) Gold

Gold reserves placed on deposit with a financial institution are valued at the Kina equivalent of the prevailing exchange rate at balance date. On this basis, the underlying transaction means that the Bank holds a gold asset which is separately disclosed as gold. Unrealised gains and losses on gold are transferred to other comprehensive income.

(l) Derecognition

A financial asset is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition under IFRS 9. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

(m) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(n) Inventory – notes & coins

The cost of the printing of notes and minting of coins are initially capitalised until such time as they are issued into circulation at which point the related cost is expensed. The weighted average cost method is used to calculate the number of pieces issued into circulation. All other expenditures of a non-capital nature are expensed when incurred.

(o) Cash and cash equivalents

Cash and cash equivalents comprise balances with a maturity of less than three months from the date of acquisition, including cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

(p) Other receivables

Other receivables are stated at amortised cost.

(q) Employee benefits

(i) Statutory Appointee Superannuation Fund

The Governor and Deputy Governor contribute to the Bank's defined statutory appointee super fund and all other employees contribute to an approved external superannuation fund. Interest is paid on the Bank's statutory appointee super fund balance half yearly based on the average interest rate of Nasfund and Nambawan Superannuation Fund.

Contributions to the Bank's statutory appointee super fund and external superannuation fund are recognised as an expense in the Bank's Statement of Profit or Loss and Other Comprehensive Income.

(ii) Provision For Leave Entitlement

The Bank maintains provisions for accrued annual leave in accordance with IAS 19 – Employees Benefits, calculated on salaries expected to prevail when leave is anticipated to be taken. The Bank also maintains provisions for long service leave. The provision of employee benefits for long service leave represent the present value of the estimated future cash outflows to be made resulting from employees' service provided to balance date. The provision is calculated using expected future increases in wages and salary rates including related on-costs and expected settlement dates based on staff turnover history and is discounted using the rates attaching to PNG Government bonds at balance date which most closely match the terms of maturity of the related liabilities.

(r) Other liabilities

Other liabilities are initially recognised at their fair value and subsequently recognised at amortised cost.

(s) Reserves

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

(i) Bank of Papua New Guinea Reserve Fund

The *Central Banking (Amendment) Act 2021* Section 42 allows the Bank to create reserve funds for meeting contingencies which arise in the course of operations in carrying out its functions. The Bank currently has a General Reserve and a Building Reserve fund.

(ii) Property Revaluation Reserve

The Property Revaluation Reserve reflects the impact of changes in the fair value of property.

(iii) Unrealised Profits Reserve

Unrealised gains and losses on foreign exchange balances and domestic securities are recognised in the unrealised gain and loss reserve until such gains and losses are realised whereby they are recognised in profit and loss from ordinary activities. Such gains and losses are not available for distribution.

(iv) Distributable Profit Reserve

The distributable profit reserve reflects closing distributable profit which may be distributed to the Government of Papua New Guinea after ensuring that the current financial position of the Bank meets the requirements under the *Central Banking (Amendment) Act 2021* Section 49(3).

(v) Gold Revaluation Reserve

Unrealised gains and losses arising from revaluation are recognised in the Gold Revaluation Reserve at end of the accounting period. Realised gains and losses are recognised in profit and loss from ordinary activities.

(t) Determination of distributable profit

Profits of the Bank are determined and dealt with in accordance with Sections 49 and 50 of the *Central Banking (Amendment) Act 2021* as follows:

(i) Section 50 (1) states that net profit arising from revaluation and foreign currency movements shall not be available to be distributed to the Government or paid into the Consolidated Revenue Fund. Accordingly such unrealised profits are transferred to the Unrealised Profits Reserve.

(ii) The Board of the Bank is required to determine the net profit of the Bank and then consult with the Minister for Treasury to determine the amount of profit that is to be placed to the credit of the Bank's reserves.

(iii) The balance of net profit after any transfer in (a) and (b) in accordance with Sections 49(2)(a) and 50(1) of the Act is paid to the Consolidated Revenue Fund.

(iv) The amount shall not be paid into the Consolidated Revenue Fund under the above sections where, in the opinion of the Central Bank, the assets of the Central Bank are, or after the payment would be, less than the sum of its liabilities and paid-up capital.

(v) The unrealised profit reserve of the Bank represents gains or loss arising from the revaluation of gold, properties and other financial assets of the Bank. These gains and losses are separately classified under the respective reserves in the Statement of Changes in Equity.

(u) Tax Exemption

The Bank of Papua New Guinea is exempt from income tax under section 87 of the *Central Banking (Amendment) Act 2021*.

	2023 K'000	2022 K'000

Note 2: INTEREST REVENUE – FOREIGN CURRENCY INVESTMENTS

	2023 K'000	2022 K'000
Foreign securities and bank deposits	409,344	147,094
	409,344	**147,094**

Interest income on foreign investments includes interest earned on foreign bonds, treasury bills, nostro accounts and other foreign investments. Interest income of K77.7 million (2022: K46.8 million) is in relation to investments managed by external fund managers and the remainder of K331.6 million (2022: K100.2 million) relates to investments managed by the Bank. Coupon rates during the year varied between 1.0% and 8.3% (2022: 0.125% and 8.4%) and yields varied between -5.51% and 8.5% (2022: -7.85% and 10.8%). Interest income is recognised on an effective interest rate basis.

Note 3: INTEREST REVENUE – DOMESTIC OPERATIONS

	2023 K'000	2022 K'000
Inscribed stock and other Government securities	195,351	230,020
Temporary advances to Government	6,057	6,113
Overnight lending to Commercial Banks	1,360	605
	202,768	**236,738**

Interest income earned on Government inscribed stock amounted to K197.7 million (2022: K212.7 million) while nil income earned from Government Treasury bills (2022: K7.6 million). During the year coupon rates on inscribed stock varied between 4.4% and 6.3% (2022: 4.8% and 8.9%) while yields on Treasury bills varied between 1.5% and 4.2% (2022: 1.1% and 6.9%). Interest is recognised on an effective interest rate basis.

Note 4: OTHER INCOME – DOMESTIC OPERATIONS

	2023 K'000	2022 K'000
Licensing and other fees	13,059	15,707
Numismatic currency	173	196
Property rent	160	4,493
Other	588	711
	13,980	**21,107**

Note 5: INTEREST EXPENSE – DOMESTIC OPERATIONS

	2023 K'000	2022 K'000
Central Bank Bills issued	164,042	150,127
Other deposits held	19,676	4,368
Lease interest expense	187	394
	183,905	**154,889**

Interest expense on securities issued varied between 1.80% and 5.41% during the year (2022: 1.01% and 9.40%) Interest expense is recognised on an effective interest rate basis.

	2023 K'000	2022 K'000

Note 6: GENERAL AND ADMINISTRATION EXPENSES

	2023 K'000	2022 K'000
Staff costs	115,721	112,723
Premises and equipment	47,011	42,547
Revaluation decrease from property valuation	-	19,835
Depreciation of property and equipment	33,278	29,140
Travel	16,286	9,829
Amortisation of notes and coins production expenses	23,572	23,934
Legal & consultancy fees	14,953	10,533
Staff training and development	7,663	3,491
Board & meeting expenses	1,398	1,217
Currency distribution expenses	2,297	1,804
Audit & other professional fees	944	1,648
Other expenses	38,684	30,329
	301,807	**287,030**

Note 7: IMF AND OTHER FINANCIAL ORGANISATION RELATED ASSETS & LIABILITIES

	2023 K'000	2022 K'000
Assets – mandatorily measured at FVTPL		
IMF SDR holdings and deposits and other organisations	6,280	20,123
	6,280	**20,123**
Liabilities – designated as FVTPL		
IMF number 1 and 2 loan accounts	5,585	5,888
SDR allocation	1,888,798	1,770,195
	1,894,383	**1,776,083**
Other Government Receivable – measured at amortised cost		
SDR Kina equivalent paid to the State	1,259,438	1,259,438
SDR Kina equivalent Interest Receivable	47,836	-
	1,307,274	**1,259,438**

Papua New Guinea has been a member of the IMF since 1975. The Bank of Papua New Guinea acts as the fiscal agent on behalf of the Government. As fiscal agent, the Bank of Papua New Guinea is authorised 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.

In August 2021 newly created SDR was credited to IMF members participating in the SDR Department in proportion to their existing paid quotas in the Fund. Papua New Guinea being a participating member was credited an amount of SDR 252 million (K1.2 billion). BPNG as the fiscal agent of the PNG Government has taken up this allocation as an increase in asset (SDR holdings) and a matching increase in long term liabilities (SDR Allocation).

The Other Government Receivable is measured at amortised cost and at its face value. It reflects the ultimate responsibility to fund the repayment of the SDR by the Independent State of Papua New Guinea in accordance with the *International Financial Organisations Act 1975.*

	2023 K'000	2022 K'000

Note 8: CASH & CASH EQUIVALENTS

	2023 K'000	2022 K'000
Foreign currency holdings - Nostro accounts	2,870,099	2,217,079
	2,870,099	**2,217,079**

The nostro accounts represent the Bank's foreign currency holdings with corresponding foreign banks.

Note 9: FOREIGN INVESTMENTS

	2023 K'000	2022 K'000
Foreign investments – measured at FVTPL	10,876,667	8,740,192
Foreign investments – measured at amortised cost	367,746	2,859,286
Derivative assets – mandatorily measured at FVTPL	-	-
	11,244,413	**11,599,478**
Derivative liabilities – mandatorily measured at FVTPL	(39,933)	(71,211)

Foreign investments include K4.7 billion (2022: K4.3 billion) of investments managed by external fund managers. The remainder of K6.5 billion (2021: K7.3 billion) is managed directly by the Bank. The investments comprise of foreign bank debt securities, sovereign debt securities and over the counter derivative currency contracts. Foreign Treasury bills are held mainly for liquidity purposes and recorded at amortised cost.

Note 10: GOVERNMENT OF PAPUA NEW GUINEA SECURITIES

	2023 K'000	2022 K'000
Inscribed stock – measured at FVTPL	2,210,288	2,376,820
Treasury bills – measured at amortised cost	-	-
	2,210,288	**2,376,820**

Note 11: LOANS AND ADVANCES

	2023 K'000	2022 K'000
Agricultural export commodity support loans	1,386	1,386
Loans and advances to staff	6,772	5,559
Allowance for doubtful loans	(4,714)	(4,714)
	3,444	2,231

The Temporary Advance Facility ("TAF") is governed by the provisions of the *Central Banking (Amendment) Act 2021*. The interest rate charged is 364 days weighted average treasury bills rate, varied between 2.74% and 3.56% during the year. The facility limit is K1.5 billion as at 2023 (2022: K1.5 billion). As at 31 December 2023 and 2022 there was no TAF overdraft balance.

The loans and advances are measured at amortised cost. The related expected credit loss allowances are immaterial. Accordingly, detailed disclosure regarding expected credit loss impairment has not been made.

	2023 K'000	2022 K'000

Note 12: OTHER ASSETS

	2023 K'000	2022 K'000
Inventory notes and coins	43,818	26,456
Prepaid employee benefits	50,017	44,423
Other non-financial assets	16,675	14,782
	110,510	**85,661**

Note 13: PROPERTY AND EQUIPMENT

	Land and Buildings at fair value K'000	Equipment K'000	Motor Vehicles K'000	Computer Equipment K'000	Computer Software K'000	ROU Asset K'000	Capital Work-In-progress K'000	Total K'000
Year ended 31 December 2022								
Opening net book amount	354,058	29,728	1,419	5,528	18,421	12,952	49,124	471,230
Additions	4,072	2,178	409	433	607	-	28,223	35,922
Reclass/transfers	21,346	1,384	-	-	7,195	-	(29,925)	-
Revaluation	10,531	-	-	-	-	-	-	10,531
Disposals	(2,712)	-	(635)	-	-	-	-	(3,347)
Depreciation charges	(10,818)	(3,007)	(221)	(1,784)	(3,985)	(5,976)	-	(25,791)
Closing Net Book Amount	**376,477**	**30,283**	**972**	**4,177**	**22,238**	**6,976**	**47,422**	**488,545**
At 31 December 2022								
Cost or fair value	380,536	45,968	4,942	19,647	50,560	26,994	47,422	576,069
Accumulated Depreciation	(4,059)	(15,685)	(3,970)	(15,470)	(28,322)	(20,018)	-	(87,524)
Net Book Amount	**376,477**	**30,283**	**972**	**4,177**	**22,238**	**6,976**	**47,422**	**488,545**
Year ended 31 December 2023								
Opening net book amount	376,477	30,283	972	4,177	22,238	6,976	47,422	488,545
Additions	3,197	1,587	2,706	1,211	-	10,238	14,186	33,125
Reclass/transfers	28,073	(1,551)	-	-	455	-	(455)	26,522
Revaluation	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Depreciation charges	(20,828)	(2,334)	(735)	(2,041)	(2,343)	(4,997)	-	(33,278)
Closing Net Book Amount	**386,919**	**27,985**	**2,943**	**3,347**	**20,350**	**12,217**	**61,153**	**514,914**
At 31 December 2023								
Cost or fair value	411,806	46,004	7,648	20,858	51,015	12,217	61,153	610,701
Accumulated Depreciation	(24,887)	(18,019)	(4,705)	(17,511)	(30,665)	-	-	(95,787)
Net Book Amount	**386,919**	**27,985**	**2,943**	**3,347**	**20,350**	**12,217**	**61,153**	**514,914**

The increase in property and equipment during the year pertains primarily to capital work in-progress additions.

	2023 K'000	2022 K'000

Land and buildings carried at fair value

The fair values of land and building carried at fair value were determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in location and category being valued. The independent valuers provide the fair value of the Bank's properties on a triennial basis. The most recent valuation was done in 2022.

The carrying amount of land and buildings had they been recognised under the cost model is K64.1 million for land (2022: K64.0 million) and K314 million for buildings (2022: K332 million).

Note 14: INVESTMENT PROPERTIES

	2023 K'000	2022 K'000
Balance at 1 January	28,073	39,170
Acquisitions	-	-
Reclassification to property and equipment	(28,073)	(13,500)
Change in fair value	-	2,403
Balance at 31 December	**-**	**28,073**

In 2023, Investment property was reclassified to Property & Equipment due to the change is use from commercial property previously leased for rental income to owner occupied.

Note 15: DEPOSITS FROM BANKS & THIRD PARTIES

	2023 K'000	2022 K'000
Exchange settlement accounts	1,399,579	2,880,606
Cash reserve requirement	3,262,523	2,905,601
Other deposits	584,601	547,482
	5,246,703	**6,333,689**

Note 16: DEPOSITS FROM GOVERNMENT AND GOVERNMENT ENTITIES

	2023 K'000	2022 K'000
Deposits from Government and Government entities	2,940,989	3,519,782
	2,940,989	**3,519,782**

Note 17: DEBT SECURITIES ISSUED

	2023 K'000	2022 K'000
Central Bank Bills	2,045,917	1,462,499
Central Bank Bonds	1,156,462	1,190,168
	3,202,379	**2,652,667**

Central Bank Bills issued by the Bank of Papua New Guinea have terms of twenty-eight days, two months, or three months while Central Bank Bonds have are issued with tenure ranging from one year up to ten years. These debt securities are used to manage liquidity in the money supply and open market operations in the domestic financial markets.

	2023 K'000	2022 K'000

Note 18: CURRENCY IN CIRCULATION

Currency in circulation	3,254,586	2,967,982
	3,254,586	**2,967,982**

Currency in circulation represents currency issued having a claim on the Bank of Papua New Guinea. The liability for currency in circulation is recorded at face value in the Statement of Financial Position.

Note 19: OTHER FINANCIAL LIABILITIES

Foreign Currency		
Foreign currency deposits	17,724	3,230
	17,724	**3,230**
Local Currency		
Expense creditors	88,435	153,166
Lease liability	12,530	7,262
	100,965	**160,428**

Expense creditors include cheques or warrant issued by the Bank but not yet presented for clearance and subsequent encashment by Government departments, investors and suppliers.

Note 20: PROVISIONS FOR EMPLOYEE ENTITLEMENTS

Provision for gratuity	5,994	5,366
Provision for long service leave	29,796	28,160
Provision for annual leave	12,444	11,338
	48,234	**44,864**

Reconciliation of leave provisions		
Balance at 1 January	44,864	41,259
Net charged to Statement of Profit or Loss	3,370	3,605
Balance at 31 December	**48,234**	**44,864**

	2023 K'000	2022 K'000

Note 21: LEASES

The following table sets out a maturity analysis of lease payments, included under Other Financial Liabilities on Note 24(iii)(c).

	2023 K'000	2022 K'000
One to three months	1,693	893
Less than a year	5,166	1,695
One to five years	5,671	4,674
	12,530	**7,262**
Amounts recognised in Profit or Loss		
Interest expense on lease liabilities	345	394
Expenses relating to short-term leases	4,970	6,239
Amounts recognised in Statement of Cash Flows		
Total cash outflow for leases	5,316	12,609

Note 22: SHARE CAPITAL

At 31 December 2023 the authorised and subscribed capital of the Bank was K145.5 million (2022: K145.5 million). The capital is fully subscribed by the Government of Papua New Guinea.

	2023 K'000	2022 K'000
Capital		
At the beginning of the year	145,540	145,540
At the end of the year	**145,540**	**145,540**
Other Reserves		
Gold Revaluation Reserve	302,703	249,724
Property Revaluation Reserve	110,774	110,774
Unrealised Gain/(Loss) Reserve	974,468	34,534
Building Reserve	223,800	223,800
General Reserve	30,000	30,000
Retained earnings	175,090	130,893
Total other reserves	**1,816,835**	**779,725**
Total owner's equity	**1,962,375**	**925,265**

Note 23: SEGMENT REPORTING

The Bank's primary function as a Central Bank is the implementation of monetary policy in one geographical area - Papua New Guinea.

Note 24: RISK MANAGEMENT

Note 24(i): Financial Risk Management

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 entity. The identifiable financial instruments for Bank of Papua New Guinea are its domestic government securities, its foreign government securities, loans and advances, bank deposits, central bank bills, currency in circulation and deposit liabilities.

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 amortised cost or current market value.

The Bank is involved in policy-oriented activities. Therefore, the Bank's risk management framework differs from the risk management framework for most other financial institutions. The main financial risks to which the Bank is exposed include commodity price risk, credit risk, foreign exchange risk, liquidity risk and interest rate risk. In the management of foreign reserves, minimising liquidity risk is the prime consideration in order to ensure the availability of currency as required. Like most central banks, the nature of the Bank's operations creates exposure to a range of operational and reputational risks.

Bank management seeks to ensure that strong and effective risk management and control systems are in place for assessing, monitoring and managing risk exposure. Experienced staff conduct the Bank's local currency, foreign currency reserves management, and foreign exchange dealing operations in accordance with a clearly defined risk management framework, including delegated authority limits as set by the Governor.

The Bank is subject to an annual audit by an external auditor. Auditing arrangements are overseen by an Audit & Governance Committee of the Board to monitor the financial reporting and audit functions within the Bank and the committee reviews the internal audit functions as well. The committee reports to the Board of Directors on its activities.

The overall risk management framework is designed to strongly encourage the sound and prudent management of the Bank's risk. The Bank seeks to ensure the risk management framework is consistent with financial market best practice. The risks tables in this note are based on the Bank's portfolio as reported in its Statement of Financial Position.

Note 24(ii): Credit Risk

a) Credit risk management

Credit risk is the potential for financial loss arising from a counterparty defaulting on its obligation to: repay principal, make interest payments due on an asset; or settle a transaction.

The Bank manages credit risk by employing the following strategies;

Selection of a counterparty is made based on their respective credit rating. Investment decisions are based on the credit rating of the particular issuer, the issue size, country limits and counterparty limits in place to control exposures.

Foreign currency placements are made in approved currencies with Government, Government guarantees or other approved counterparties. Geographical exposures are controlled by country limits. Limits are updated periodically where necessary based on the latest market information. Credit risk in the Bank's portfolio is monitored, reviewed and analysed regularly.

b) Concentration of credit exposure

The Bank's end-of-year concentrations of credit exposure by industry type were as follows:

	2023 K'000	2022 K'000
Foreign Governments, Banks & Financial Organisations		
Nostro accounts (Note 9)	2,870,099	2,217,079
Foreign investments (Note 9)	11,204,480	11,528,267
Assets held with IMF and other financial organisations	6,280	20,123
Accrued interest receivable	101,726	51,267
Papua New Guinea Government		
Government of Papua New Guinea securities (Note 10)	2,210,288	2,376,821
Other Government receivable (Note 7)	1,307,274	1,259,438
Accrued interest & other receivable	54,180	58,165
Bank staff and employees (Note 11)	6,772	5,559
Other Government institutions (Note 11)	1,386	1,386
	17,762,485	**17,518,105**

The Bank's maximum exposure to credit risk is limited to the amount of financial assets carried in the Statement of Financial Position. 3% (2022: 17%) of the total assets have a credit rating of A-1+ or above in short term investments and 72% (2022: 54%) of long term investments have a credit of A+ or above.

c) Credit exposure by credit rating

The following table represents the Bank's financial assets based on Standard and Poor's and Moody's credit ratings 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. Non-rated ('NR') indicates the entity has not been rated by Standard and Poor's and Moody's.

Investment in Financial Assets:	2023 K'000	% of 2023 Financial Assets	2022 K'000	% of 2022 Financial Assets
Short term foreign investments				
A-1+	420,938	3	2,394,889	17
A-1	-	-	905,163	7
A-2	-	-	-	-
A-3	-	-	-	-
NR	(36,575)	-	(26,489)	-
	384,363	**3**	**3,273,563**	**24**
Long term foreign investments				
AAA	3,387,025	25	2,307,730	17
AA+	-	-	-	-
AA	6,259,723	46	5,150,925	37
AA-	-	-	-	-
A+	-	-	-	-
A	377,517	3	246,143	2
A-	-	-	-	-
BBB+	-	-	-	-
BBB	488,066	4	361,292	2
B	347,719	3	188,614	1
	10,860,050	**81**	**8,254,704**	**59**
Total foreign investments	**11,244,413**	**84**	**11,528,267**	**83**
Short term domestic investments				
B-	-	-	-	-
	-	-	-	-
Long term domestic investments				
B-	2,210,288	16	2,376,820	17
	2,210,288	**16**	**2,376,820**	**17**
Total domestic investments	**2,210,288**	**16**	**2,376,820**	**17**
Total investments	**13,454,701**	**100**	**13,905,087**	**100**

The majority of financial assets are measured at FVTPL. The ECL allowances related to the Treasury bills, loans and advances measured at amortised cost and Government Receivable, are immaterial, hence no quantitative disclosure of ECL has been made. No financial assets designated at FVTPL have been reclassified to amortised cost.

Note 24(iii): Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

a) Foreign exchange risk

Currency risk (foreign exchange rate risk) is a form of risk that arises from the change in price of one currency against another, which directly affects the value of foreign exchange reserves as well as investments. At the Bank, foreign exchange reserve management and investment functions are guided by an Investment Committee. The decision of the Investment Committee and dealing practices approved by the Investment Committee serve as operational guidelines for the Bank's reserve management and investments. The guidelines are directed towards managing different types of risks, while earning a reasonable return. There is an approved benchmark for investment in terms of currency composition, portfolio duration and proportion of different assets within the Bank. Dealers/portfolio managers endeavour to comply with this benchmark through rebalancing the investment portfolio following benchmarking daily/weekly as approved by the Investment Committee. The currency of denomination of Gold assets is USD.

As at 31 December 2023 Bank of Papua New Guinea's net exposure to major currencies in kina terms was as follows:

	Currency of Denomination							
As at 31 December 2023	**US Dollar K'000**	**Euro K'000**	**AUD K'000**	**GBP K'000**	**JPY K'000**	**SDR K'000**	**Other K'000**	**Total K'000**
Foreign currency assets:								
Foreign currency	1,526,226	178,174	1,059,522	42,504	63,673	-	-	2,870,099
Investments	9,009,699	202,599	1,818,627	213,488	-	-	-	11,244,413
Assets held with IMF	-	-	-	-	-	6,280	-	6,280
Accrued interest	79,059	2,470	17,657	2,540	-	-	-	101,726
	10,614,984	**383,243**	**2,895,806**	**258,532**	**63,673**	**6,280**	**-**	**14,222,518**
Foreign currency liabilities:								
Liabilities with IMF	-	-	-	-	-	1,894,383	-	1,894,383
Foreign currency liabilities	17,724	-	-	-	-	-	-	17,724
Derivative liabilities	39,933	-	-	-	-	-	-	39,933
	57,657	**-**	**-**	**-**	**-**	**1,894,383**	**-**	**1,952,040**
Net Foreign Currency Exposure	**10,557,327**	**383,243**	**2,895,806**	**258,532**	**63,673**	**(1,888,103)**	**-**	**12,270,478**

As at 31 December 2022	US Dollar K'000	Euro K'000	AUD K'000	GBP K'000	JPY K'000	SDR K'000	Other K'000	Total K'000
	Currency of Denomination							
Foreign currency assets:								
Foreign currency	1,374,518	99,300	582,949	81,015	21,296	-	58,001	2,217,079
Investments	9,043,539	233,742	2,143,167	179,030	-	-	-	11,599,478
Assets held with IMF	-	-	-	-	-	20,123	-	20,123
Accrued interest	39,335	944	10,299	689	-	-	-	51,267
	10,457,392	**333,986**	**2,736,415**	**260,734**	**21,296**	**20,123**	**58,001**	**13,887,947**
Foreign currency liabilities:								
Liabilities with IMF	-	-	-	-	-	1,776,083	-	1,776,083
Foreign currency liabilities	3,230	-	-	-	-	-	-	3,230
Derivative liabilities	71,211	-	-	-	-	-	-	71,211
	74,441	-	-	-	-	1,776,083	-	1,850,524
Net Foreign currency exposure	**10,382,951**	**333,986**	**2,736,415**	**260,734**	**21,296**	**(1,755,960)**	**58,001**	**12,037,423**

The functional currency of all operations is kina.

b) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The Bank is exposed to considerable interest rate risk because most of its assets are financial assets, such as domestic and foreign securities, which have a fixed income stream. The price of such securities increases when market interest rates decline, while the price of a security due to the associated income stream is fixed for a longer period.

The Bank manages interest rate risk by investing in securities with different maturity dates to mitigate against any adverse fluctuation in interest rates.

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities in its operations. The ultimate source of liquidity is kina and the Bank has the authority to create liquidity by issuing unlimited amounts of kina.

Liquidity risk is also associated with financial assets to the extent that the Bank may have to sell a financial asset at less than its fair value. The Bank manages this risk by holding a diversified portfolio of highly liquid domestic and foreign assets. The Bank's assets held for managing liquidity risk comprise cash and bank balances with other Central Banks and Government bonds and other securities that are readily acceptable in repurchase agreements with other Central Banks.

The table below summarises the maturity profile of the Bank's financial liabilities based on the contractual repayment date determined on the basis of the remaining period at the reporting date to the contractual maturity date.

As at 31 December 2023	Balance Total K'000	On demand K'000	0 to 3 months K'000	3 to 12 Months K'000	1 to 5 years K'000	Over 5 years K'000	No specified maturity K'000
		Maturity Period					
Assets							
Foreign Currency Financial Assets:							
Cash and cash equivalents	2,870,099	1,505,969	1,364,130	-	-	-	-
Foreign investments	11,244,413	66,975	769,422	1,672,932	6,657,883	2,077,201	-
Assets held with IMF	6,280	-	-	-	-	-	6,280
Accrued interest	101,726	-	600	4,442	95,358	1,326	-
	14,222,518	**1,572,944**	**2,134,152**	**1,677,374**	**6,753,241**	**2,078,527**	**6,280**
Local Currency Financial Assets:							
Government of Papua New Guinea securities	2,210,288	-	679,254	-	745,863	785,171	-
Other Government Receivable	1,307,274	-	-	-	-	-	1,307,274
Loans and advances	3,444	-	-	3,444	-	-	-
Accrued interest and receivables	54,180	-	1,102	53,078	-	-	-
	3,575,186	**-**	**680,356**	**56,522**	**745,863**	**785,171**	**1,307,274**
Non-financial Assets:							
Gold	323,311	-	-	-	-	-	323,311
Property and equipment	514,914	-	-	-	-	-	514,914
Investment properties	-	-	-	-	-	-	-
Other financial assets	110,510	-	-	-	-	-	110,510
	948,735	**-**	**-**	**-**	**-**	**-**	**948,735**
Total Assets	**18,746,439**	**1,572,944**	**2,814,508**	**1,733,896**	**7,499,104**	**2,863,698**	**2,262,289**
Liabilities							
Foreign Currency Financial Liabilities:							
Liabilities with IMF	1,894,383	-	-	-	-	-	1,894,383
Other financial liabilities	17,724	-	17,724	-	-	-	-
Derivative liabilities	39,933	-	39,933	-	-	-	-
	1,952,040	**-**	**57,657**	**-**	**-**	**-**	**1,894,383**
Local Currency Financial Liabilities:							
Deposits from bank and third parties	5,246,703	5,246,703	-	-	-	-	-
Deposits from Government	2,940,989	2,940,989	-	-	-	-	-
Securities issued	3,202,379	-	2,057,327	36,524	146,018	962,510	-
Accrued interest payable	38,168	-	38,168	-	-	-	-
Currency in circulation	3,254,586	3,254,586	-	-	-	-	-
Lease liability	12,530	-	1,693	5,166	5,671	-	-
Other financial liabilities	88,435	-	88,435	-	-	-	-
	14,783,790	**11,442,278**	**2,185,623**	**41,690**	**151,689**	**962,510**	**-**
Non-Financial Liabilities:							
Employee provision	**48,234**	**-**	**48,234**	**-**	**-**	**-**	**-**
Total Liabilities	**16,784,064**	**11,442,278**	**2,291,514**	**41,690**	**151,689**	**962,510**	**1,894,383**

As at 31 December 2022	Balance Total K'000	Maturity Period On demand K'000	0 to 3 months K'000	3 to 12 months K'000	1 to 5 years K'000	Over 5 years K'000	No specified maturity K'000
Assets							
Foreign Currency Financial Assets:							
Cash and cash equivalents	2,217,079	1,764,845	452,234	-	-	-	-
Foreign investments	11,599,478	59,405	3,267,344	1,325,047	5,912,862	1,034,820	-
Assets held with IMF	20,123	-	-	-	-	-	20,123
Accrued interest	51,267	-	1,548	3,705	44,849	1,165	-
	13,887,947	**1,824,250**	**3,721,126**	**1,328,752**	**5,957,711**	**1,035,985**	**20,123**
Local Currency Financial Assets:							
Government of Papua New Guinea securities	2,376,820	-	616,115	990,278	770,427	-	-
Other Government Receivable	1,259,438	-	-	-	-	-	1,259,438
Loans and advances	2,231	-	-	2,231	-	-	-
Accrued interest and receivables	58,242	-	1,977	56,265	-	-	-
	3,696,731	**-**	**618,092**	**1,048,774**	**770,427**	**-**	**1,259,438**
Non-Financial Assets:							
Gold	270,332	-	-	-	-	-	270,332
Property and equipment	488,545	-	-	-	-	-	488,545
Investment properties	28,073	-	-	-	-	-	28,073
Other financial assets	85,661	-	-	-	-	-	85,661
	872,611	**-**	**-**	**-**	**-**	**-**	**872,611**
Total Assets	**18,457,289**	**1,824,250**	**4,339,218**	**2,377,526**	**6,728,138**	**1,035,985**	**2,152,172**
Liabilities							
Foreign Currency Financial Liabilities:							
Liabilities with IMF	1,776,083	-	-	-	-	-	1,776,083
Other financial liabilities	3,230	-	3,230	-	-	-	-
Derivative liabilities	71,211	-	71,211	-	-	-	-
	1,850,524	**-**	**74,441**	**-**	**-**	**-**	**1,776,083**
Local Currency Financial Liabilities:							
Deposits from bank and third parties	6,333,689	6,333,689	-	-	-	-	-
Deposits from Government	3,519,782	3,519,782	-	-	-	-	-
Securities issued	2,652,667	-	1,509,345	52,021	116,065	975,236	-
Accrued interest payable	2,088	-	2,088	-	-	-	-
Currency in circulation	2,967,982	2,967,982	-	-	-	-	-
Lease liability	7,262	-	893	1,695	4,674	-	-
Other financial liabilities	153,166	-	153,166	-	-	-	-
	15,636,636	**12,821,453**	**1,665,492**	**53,716**	**120,739**	**975,236**	**-**
Non-Financial Liabilities:							
Employee provision	44,864	-	44,864	-	-	-	-
Total Liabilities	**17,532,024**	**12,821,453**	**1,784,797**	**53,716**	**120,739**	**975,236**	**1,776,083**

Note 24(iv): Fair Value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the bank has access at that date. The fair value of a liability reflects its non-performance risk. IFRS requires that the fair value of the financial assets and liabilities be disclosed according to their classification under IFRS 9. The following table summarises the financial assets and liabilities in accordance with IFRS 9 classifications.

	2023 K'000	2022 K'000
Financial Assets		
Cash and cash equivalents	2,870,099	2,217,079
Investments – measured at FVTPL	13,093,235	11,137,134
Other Government receivable at amortised cost	1,307,274	1,259,438
Loans & advances, Accrued interest and Other receivable	159,351	111,741
Treasury bills measured at amortised cost	367,745	2,859,286
	17,797,704	**17,584,678**
Financial Liabilities		
At fair value through profit/(loss)	1,952,040	1,850,524
At amortised cost	14,783,790	15,636,636
	16,735,830	**17,487,160**

Fair values are estimated to be the same as their carrying values in the Statement of Financial Position.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes over the counter derivative contracts. The sources of input parameters are Bloomberg or Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

The table below shows the Bank's assets and liabilities in their applicable fair value level. Investments managed by external fund managers include foreign Government bonds and other debt instruments for which quoted prices are available as well as derivatives which are valued with reference to observable market data. Accordingly, these are classified under level 1 and 2 respectively.

	Level 1 K'000	Level 2 K'000	Level 3 K'000	Total K'000
31 December 2023				
Financial assets held at fair value through profit or loss				
Domestic Government securities - inscribed stock	-	-	2,210,288	2,210,288
Foreign Government and semi-Government bonds	6,181,319	-	-	6,181,319
Derivatives managed by external fund managers	-	-	-	-
Investments in bonds and other instruments managed by external fund managers	4,695,348	-	-	4,695,348
Assets held with IMF	-	6,280	-	6,280
Total assets at fair value through profit or loss	**10,876,667**	**6,280**	**2,210,288**	**13,093,235**
Non-Financial Assets at fair value				
Gold	323,311	-	-	323,311
Property and equipment	-	-	386,919	386,919
Investment property	-	-	-	-
Total assets at fair value	**323,311**	**-**	**386,919**	**710,230**
Financial liabilities held at fair value through profit & loss				
Derivatives and Other financial liabilities	-	57,657	-	57,657
Liabilities with IMF	-	1,894,383	-	1,894,383
Total liabilities at fair value through profit or loss	**-**	**1,952,040**	**-**	**1,952,040**
31 December 2022				
Financial assets held at fair value through profit or loss				
Domestic Government securities - inscribed stock	-	-	2,376,821	2,376,821
Foreign Government and semi-Government bonds	4,464,501	-	-	4,464,501
Derivatives managed by external fund managers	-	-	-	-
Investments in bonds and other instruments managed by external fund managers	4,275,691	-	-	4,275,691
Assets held with IMF	-	20,123	-	20,123
Total assets at fair value through profit or loss	**8,740,192**	**20,123**	**2,376,821**	**11,137,136**
Non-Financial Assets at fair value				
Gold	270,332	-	-	270,332
Property and equipment	-	-	376,477	376,477
Investment property	-	-	25,670	25,670
Total assets at fair value	**270,332**	**-**	**402,147**	**672,479**
Financial liabilities held at fair value through profit & loss				
Derivatives and Other financial liabilities	-	74,441	-	74,441
Liabilities with IMF	-	1,776,083	-	1,776,083
Total liabilities at fair value through profit or loss	**-**	**1,850,524**	**-**	**1,850,524**

As at 31 December 2023, there were no movements between stages for any transfers to level 3.

The following table presents the changes in Level 3 financial instruments (excluding the accrued interest) for year ended 31 December 2023:

	Level 3 K'000
Opening balance	**2,376,821**
Maturities/disposals, net of additional investment	(121,528)
Fair value revaluation gains/(losses) on level 3 instruments	(45,005)
Closing balance	**2,210,288**
Total gains and (losses) for the period included in the profit or loss for level 3 assets held at the end of the reporting period.	**(45,005)**

The following table presents the changes in Level 3 financial instruments (excluding the accrued interest) for year ended 31 December 2022:

	Level 3 K'000
Opening balance	**2,226,170**
Maturities/disposals, net of additional investment	(110,395)
Fair value revaluation gains/(losses) on level 3 instruments	261,046
Closing balance	**2,376,821**
Total gains and (losses) for the period included in the profit or loss for level 3 assets held at the end of the reporting period.	**261,046**

	Valuation Technique	Unobservable Input	Range of Inputs		Fair value movement due to change in unobservable Input	
			2023	2022	Increase	Decrease
Domestic Government securities - inscribed stock	Discounted cash flows present value method	Current market yield	4.4% to 6.3%	4.8% to 8.9%	Decrease	Increase
Investment property	Income capitalisation	Capitalisation rate	10% to 14%	10% to 14%	Stable	Increase

Note 24(v): Sensitivity Analysis

The sensitivity of the Bank's profit and equity to a movement of +/- 10 per cent in the value of the kina as at 31 December 2023 is shown below. These figures are generally reflective of the Bank's exposure over the fiscal year.

	2023 K'000	2022 K'000
Changes in profit/equity due to a 10 per cent appreciation in the value of the kina	(1,454,583)	(1,408,707)
Changes in profit/equity due to a 10 per cent depreciation in the value of the kina	1,454,583	1,408,707

The figures below show the effect on the Bank's profit and equity of a movement of +/- 1 percentage point in interest rates, given the level, composition and modified duration of the Bank's interest bearing assets and liabilities.

	2023 K'000	2022 K'000
Changes in profit/equity due to an increase of 1 percentage point	147,838	156,366
Changes in profit/equity due to a decrease of 1 percentage point	(147,838)	(156,366)

Note 25: EVENTS AFTER THE BALANCE DATE

At the date of finalisation of the annual financial statements, there were no material events that occurred subsequent to the statement of financial position date that require adjustment to the financial statements.

Note 26: CONTINGENT LIABILITIES

The Bank had no contingent liabilities at 31 December 2023 (2022: nil) and there are no transactions or events that will have material impact on the financial report during the preparation of this report.

The Bank is a party to a number of litigations, the outcome of which are currently uncertain. The directors, Governor and the Deputy Governor in consultation with the Bank's legal advisors consider that these litigations are not expected to result in material loss to the Bank.

Note 27: CAPITAL COMMITMENTS

As at 31 December 2023 the Bank had a total of K23,307,449 (2022: K25,594,454) as capital commitments.

Note 28: REMUNERATION OF MEMBERS OF THE BOARD AND KEY MANAGEMENT PERSONNEL

The key management personnel of the Bank are members of the Board and senior staff who have responsibility for planning, directing and controlling the activities of the Bank: this group comprises 27 in total (2022: 29), including the Governor, Deputy Governors, 4 Assistant Governors, 4 non-executive Board members and 18 senior staff. The Salaries and Remuneration Committee (SRC) and Salaries, Conditions & Monitoring Committee (SCMC) determine the terms and conditions on which the Governor and Deputy Governor hold office in accordance with the *Central Banking (Amendment) Act 2021*. The Governor, in consultation with the Salaries, Conditions & Monitoring Committee (SCMC), determines the remuneration of other key executives.

Key Management Personnel Remuneration

	2023 K'000	2022 K'000
Short term benefits	13,623	16,327
Post-employment benefits	1,017	1,138
Other long term benefits	8,765	8,715
Board stipend & allowance	482	-
	23,887	**26,180**

Short term benefits include cash salary and In the case of staff, annual leave and motor vehicle, housing benefits and superannuation, which can be accessed prior to retirement. Post-employment benefits include superannuation benefit payments which can be accessed on retirement. Other long-term benefits include cumulative long service leave entitlements accrued to 31 December 2023. The components of benefits are reported on an accruals basis. As at 31 December 2023, the loans owed by the key management personnel to the Bank were K4,952,991 (2022: K4,030,817).

From 2023, for 'Other long-term benefits' component of key management personnel remuneration, the Bank has also introduced a disclosure to report only the annual component of long service leave entitlements for the key management personnel accrued in the respective year, rather than the cumulative accrued entitlements, as follows:

	2023 K'000	2022 K'000
Short term benefits	13,623	16,327
Post-employment benefits	1,017	1,138
Other long term benefits	290	382
Board stipend & allowance	482	-
	15,412	**17,847**

The table below sets out the distribution of remuneration paid to the Board and the top 10 management personnel of the Bank in 2023.

Name	Position Title	Short Term Benefits		Post-Employment Benefits	Other Long Term Benefits	
		Base Salary[1] K'000	Other Benefits & Allowances[2] K'000	Superannuation Contributions[3] K'000	Long Service Leave[4] K'000	Total Remuneration K'000
Bank Executives and Senior Management						
Governor		555	457	54	19	1,085
Assistant Governor, Monetary Policy		384	234	42	13	677
Assistant Governor, Finance & Payments		448	321	78	16	863
Assistant Governor, Corporate Affairs		386	181	40	13	620
Assistant Governor, Financial System Stability		436	235	52	15	738
Director, Financial Analysis & Supervision Unit		564	157	52	20	793
Manager, Internal Audit Department		379	212	46	13	650
Manager, Economics Department		377	193	42	13	625
Manager, Payments Oversight & Compliance		375	207	39	13	634
Manager, Currency		492	150	38	15	631
Non Executives Members of the Bank Board						
David Toua	Chairman, Bank Board	-	151	-	-	151
Richard Kuna	Member, Bank Board	-	98	-	-	98
James Gore	Member, Bank Board	-	109	-	-	109
Ulato Avei	Member, Bank Board	-	124	-	-	124

Notes

1. 'Base Salaries' column is prepared on an accrual basis and relates to salaries earned while working plus annual leave accrued.
2. The 'Other Benefits and Allowances' column includes benefits that form part of an individual's remuneration package. This includes motor vehicle benefits, health benefits plus other related fringe benefits that are subject to tax. Board members are paid stipend, sitting allowances and travelling allowances when on official Bank business.
3. The 'Superannuation Contribution' column are contribution amounts for individuals who are eligible for a defined contribution arrangement in a defined contribution scheme.
4. The 'Long Service Leave' column is calculated and accrued as long service leave entitlements.

Note 29: AUDITOR'S REMUNERATION

The total audit fee for the year was K1,168,750 (2022: K1,364,550). This represents the total statutory audit fee paid to the Auditor General's Office. These transactions are performed at arm's length.

During the period, a total of K2,140,171 in fees were paid or payable to Deloitte Papua New Guinea and Network Firms for non-audit services rendered to the Bank.

Note 30: TRANSACTIONS WITH GOVERNMENT AND GOVERNMENT CONTROLLED ENTERPRISES

The Bank of Papua New Guinea acts as the banker to the Government and its various government departments and controlled enterprises. All related party transactions are carried out with reference to market rates. Transactions entered into include:

a) Acting as the fiscal agent, banker and financial advisor to the Government; the Bank is the depository of the Government and or its agents or institutions providing banking services to Government and Government departments and corporations.

b) Acting as the agent of the Government or its agencies and institutions, providing guarantees, participating in loans to Government departments and corporations.

c) As the agent of the Government managing public debt and foreign reserves.

Balances with the Government of Papua New Guinea are disclosed in Note 16 Deposits from Government and Government Entities and Note 11 for TAF reflecting Government loan balances with BPNG. As at December 2023 there was no TAF recorded.

Transactions with the Government of Papua New Guinea are disclosed in Note 3 Interest revenue – domestic operations.

No dividend was paid to the State in 2023 from the Bank's 2022 Retained earnings. (2022: Nil)

DECLARATION BY MANAGEMENT

DECLARATION BY MANAGEMENT

In our opinion the foregoing Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and Statement of Cash Flows including the Notes to and forming part thereof, have been drawn up:

- in compliance with section 45 of the Central Banking Act 2000; and
- so as to give a true and fair view of the matters to which they relate for the year ended 31 December 2023.

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

Elizabeth Genia, AAICD
Governor

Jeffrey Yabom
Deputy Governor

Date: 6th September 2024

AUDITOR-GENERAL'S OFFICE
PAPUA NEW GUINEA

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Our Reference: *30-13-4*

**INDEPENDENT AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF
BANK OF PAPUA NEW GUINEA
FOR THE YEAR ENDED 31 DECEMBER 2023**

QUALIFIED OPINION

I have audited the financial statements of **Bank of Papua New Guinea,** which comprise the Statement of Financial Position as at **31 December 2023**, Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Summary of Significant Accounting Policies and Other Explanatory Notes.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraphs below:

(a) the financial statements of Bank of Papua New Guinea for the year ended 31 December 2023:

  (i) give a true and fair view of the financial position and of its financial performance and cash flows for the year then ended; and

  (ii) comply with the *International Financial Reporting Standards*, *Papua New Guinea Central Banking Act 2000 (as amended)* and other generally accepted accounting practice in Papua New Guinea; and

(b) proper accounting records have been kept by the Bank as far as it appears from my examination of those records; and

(c) I have obtained all the information and explanation that were required.

BASIS FOR QUALIFIED OPINION

Opening Balances

A qualified opinion was issued in relation to the financial statements of the Bank for the year ended 31 December 2022 pertaining to classification of financial instruments (inscribed stock). I was unable to perform alternative procedures over the opening balances. Since the opening balances enter into the determination of the results of the operations, equity movements and cash flows of the Bank for the year ended 31 December 2023, any adjustments necessary on such opening balances would have a consequential effect on the financial performance, equity movements and cash flows for the year ended 31 December 2023. I was unable to determine whether any such adjustments might be necessary for the year ended 31 December 2023 and associated corresponding figures.

Inscribed Stock

As disclosed in *Note 10* to the financial statements, the Bank has Inscribed Stock amounting to K2.210 billion at 31 December 2023 and K2.377 billion at 31 December 2022. The Bank has an accounting policy of carrying the Inscribed Stock at fair value through profit or loss. In my opinion, the Inscribed Stock meets the classification criteria of amortized cost, and accordingly the classification of Inscribed Stock does not comply with *IFRS 9 Financial Instruments*.

Had the Bank classified inscribed stock as measured at amortized cost, the carrying value of K1.888 billion would have been recorded at 31 December 2023 (2022: K2.007 billion). Accordingly, the fair value revaluation loss/(gain) on domestic investments and credit loss expense for the year ended 31 December 2023 would have been lower by K45.0 million and K1.8 million, respectively (2022: Lower by K263.4 million and K1.6 million, respectively), and the interest income and profit for the year ended 31 December 2023 would have been higher by K1.0 million and K47.8 million (2022: Higher by K1.0 million and K260.8 million, respectively) and total equity at 31 December 2023 would have been lower by K349.7 million (31 December 2022: Lower by K390.6 million).

Independence

I conducted my audit in accordance with *International Standards on Auditing* and the *Audit Act, 1989 (as amended)*. My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements section of my report. I am independent of the Bank of Papua New Guina in accordance with the ethical requirements that are relevant to my audit of the financial statements in Papua New Guinea, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board, the Governor and the Deputy Governor of the Bank for the Financial Statements

The Bank's Management is responsible for the preparation and fair presentation of the financial statements in accordance with the *International Financial Reporting Standards* and *Papua New Guinea Central Banking Act 2000* and for such internal control as the Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is also responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Independent State of Papua New Guinea either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *International Standards on Auditing* will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statements.

As part of an audit in accordance with the *International Standards on Auditing*, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management;

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause the Bank to cease to continue as a going concern; and

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

GORDON KEGA MBA, CPA
Auditor-General

14 October, 2024

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