
BANK OF PAPUA NEW GUINEA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2001

TABLE OF CONTENTS

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

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 <u>K'000</u>	2000 <u>K'000</u>
REVENUES			
Interest Revenue		144,917	193,414
Net Gains/(Losses) on Securities		112,641	130,866
Fees and commissions		(141)	309
Other revenue		<u>2,495</u>	<u>1,408</u>
Total Revenue	2	<u>259,912</u>	<u>325,997</u>
EXPENSES			
Interest Expense		85,193	155,907
General Administrative Expenses		<u>28,012</u>	<u>20,630</u>
Total Expenses	2	<u>113,205</u>	<u>176,537</u>
Net Profit		146,707	149,460
Net revaluation adjustment in asset revaluation reserve	4	<u>15,226</u>	<u>24,228</u>
Net Profit plus net revaluation adjustment in asset revaluation reserve		<u>161,933</u>	<u>173,688</u>

STATEMENT OF DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2001

Net Profit	2	146,707	149,460
Transfer to Unrealised Profits Reserve	4	<u>(111,112)</u>	<u>(104,959)</u>
Earnings Available for Distribution to Government		<u>35,595</u>	<u>44,501</u>

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2001

	Note	2001 <u>K'000</u>	2000 <u>K'000</u>
ASSETS			
Cash and Liquid Assets	5	195	1,834
Domestic Government Securities	1(c),6	752,314	700,670
Foreign Exchange	1(b),7	1,594,177	907,988
Gold	1(a)	66,156	52,543
Loans and Advances	1(d),8	57,117	58,736
Property Plant and Equipment	1(e),10	16,867	15,276
Other Assets	1(f),9	<u>61,136</u>	<u>39,735</u>
Total Assets		<u>2,547,962</u>	<u>1,776,782</u>
LIABILITIES			
Domestic Currency Deposits	11	446,863	212,478
Foreign Currency Deposits	12	456,765	127,427
Securities Issued	1(h)	598,870	499,406
Distribution Payable to Government	2,4	35,595	49,795
Other Liabilities	13	35,552	56,142
Currency in Circulation	14	<u>385,329</u>	<u>368,884</u>
Total Liabilities		<u>1,958,974</u>	<u>1,314,132</u>
Net Assets		<u>588,988</u>	<u>462,650</u>
CAPITAL and RESERVES			
Reserves:	1(g),4		
Asset Revaluation Reserve		39,454	24,228
Unrealised Profits Reserve		428,534	317,422
General Reserve		59,000	59,000
Capital		<u>62,000</u>	<u>62,000</u>
Total Capital and Reserve		<u>588,988</u>	<u>462,650</u>

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

Note 1. SUMMARY OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Central Banking Act 2000 (the "Act") and requirements of International Accounting Standards. In the event of any conflict between the requirements of the Act and the Accounting Standards the Bank (BPNG) is required to comply with the Act.

Unless otherwise stated, the accounting policies and practices followed in these statements are consistent with those followed in the previous year.

In accordance with the change in the reporting format of the financial statements amounts for the previous year has been restated for comparative purposes.

All amounts are expressed in Kina unless another currency is indicated. Current market values are used for all BPNG's major assets, including domestic and foreign marketable securities, gold and foreign currency, as well as for premises. In all other cases, an historical cost basis of accounting is used. Revenue and expenses are brought to account on an accrual basis. All revenues, expenses and profits are from ordinary activities of BPNG.

a) Gold Gold holdings are valued at the Kina equivalent of the 3pm fix in the London gold market on the last business day of December.

b) Foreign Exchange Foreign Exchange holdings are invested mainly in securities (issued by the governments of the United States and Australia, and by the EEC) and bank deposits (with major OECD foreign commercial banks, central banks and international agencies).

Assets and liabilities denominated in foreign currency are converted to Kina equivalents at exchange rates ruling on the last business day of December. Realised and unrealised gains on foreign currency are immediately taken to profit, but only realised gains are available for distribution.

Foreign Government Securities

Foreign Government Securities comprise coupon and discount securities. Coupon securities have bi-annual interest payments depending on the currency and type of security. Interest earned on discount securities is the difference between the actual purchase cost and the face value of the security. The face value is received at maturity. Interest earned on securities is accrued over the term of the security.

Marketable securities are reported at market values on the last business day of December; realised and unrealised gains and losses arising in changes in market valuations during the year are taken to profit. Earnings on foreign currency investments are converted to Kina using the exchange rate of the day they are received.

c) Domestic Government Securities Domestic Government Securities comprise Treasury Bills and other government Securities with a coupon.

Treasury Bills are recorded at their discounted purchase price. Interest earned on Treasury Bills is the difference between the actual purchase cost and face value of the Bill. The face value is received at maturity. Interest earned on Treasury Bills is accrued over the term of the Bill.

ACCOUNTING POLICIES (Cont'd)

Other Government securities are coupon securities with interest at a coupon rate. Interest earned on these securities is accrued over the term of the security. These securities are valued at cost as it is the Bank's policy to hold these securities to maturity.

d) Loans and Advances. Loans and Advances are principally to staff or advances under an Export Agriculture Support Scheme covered by matching deposits from the Government. The Bank believes that given the nature of the lending and commitments it bears no risk in these exposures and has therefore raised no provisions against these loans and advances.

e) Property, plant and equipment A formal valuation of all BPNG properties is to be conducted on a triennial basis with the first such valuation being at 31 December 2001. The valuations are incorporated in the accounts.

Annual depreciation is based on market values and assessments of useful remaining life.

Plant and equipment has been capitalised in the accounts for the first time in 2001. Plant and equipment is recorded at cost less depreciation, which is calculated at rates appropriate to the estimated useful life of the relevant assets. Depreciation rates will be reviewed annually, and adjusted where necessary to reflect the most recent assessments of useful remaining life.

Details of annual net expenditure, revaluation adjustments and depreciation of the assets is included in Note 10.

f) Other Assets

Inventories are carried at the lower of cost and net realisable value.

Beginning from 2000, unissued currency stocks are carried at cost of acquisition and are amortised over a three-year period commencing in the year following acquisition.

Stocks of numismatic currency are carried at face value plus incidental costs directly attributable to the acquisition.

Other consumable inventories are taken to expense in the year of purchase.

g) Reserves The General Reserve fund was established in 1976 as a reserve to protect the Bank against contingencies and losses arising from its operations in the financial sector and its involvement in foreign currency.

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

Unrealised gains on foreign exchange and securities are recognised in profit from ordinary activities. Until such gains are realised, they are not available for distribution to the Government; in the interim the amounts are retained in the Unrealised Profits Reserve.

h) Securities Issued. Securities issued are recorded at their discounted sale price. Interest paid on these securities is the difference between the actual sale price and the face value of the security. The face value is repaid on maturity. Interest expensed on bank securities is accrued over the term of the security.

In 2000 the securities were offset against domestic government securities in the statement of financial position. Comparatives have therefore been restated to show these securities gross.

i) Provisions BPNG maintains provisions for accrued annual leave and long service leave calculated on salaries prevailing at balance date.

j) Profits Profits of the bank are dealt with in terms of Section 49 (2) of the Central Banking Act as follows

a) The Board of the Bank is required to determine the net profit of the Bank and then consult with the Minister to determine the amount of profit that is to be placed to the credit of the Bank's Reserve Funds.

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

	Note	2001 <u>K'000</u>	2000 <u>K'000</u>
Note 2. NET PROFITS			
Interest revenue			
Domestic Government Securities	1(c)	93,913	163,217
Overseas Investments		42,979	29,280
Other		8,025	917
		<u>144,917</u>	<u>193,414</u>
Net gains/(losses) on securities			
Domestic Government securities		0	0
Overseas Investments		(6,982)	(319)
Foreign Currency	1 (b)	119,623	131,185
		<u>112,641</u>	<u>130,866</u>
Fees and commissions			
Management Fees		(183)	185
Numismatic Currency		42	124
		<u>(141)</u>	<u>309</u>
Other revenue			
Property rents		335	732
Other		2,160	676
		<u>2,495</u>	<u>1,408</u>
Total		<u>259,912</u>	<u>325,997</u>
Less:			
Interest expense			
Deposit liabilities		85,193	155,907
General administrative expenses			
Staff costs		9,791	6,863
Depreciation of property	10	357	473
Depreciation of plant and equipment		216	0
Premises and equipment		5,054	4,541
Consultant's fees	18	2,245	2,412
Travel		849	723
Board fees and meeting expenses	16	219	75
IMF fees and charges		573	785
Other		8,708	4,758
		<u>28,012</u>	<u>20,630</u>
Total		<u>113,205</u>	<u>176,537</u>
Net Profit		<u>146,707</u>	<u>149,460</u>

Note 3. INTEREST REVENUE AND INTEREST EXPENSE

Analysis for the year ended 31 December 2001

	Average Balance <u>K'000</u>	Interest <u>K'000</u>	Average Interest Rate <u>%</u>
Interest Revenue			
Domestic Government Securities	788,957	93,913	11.90
Overseas Investments	751,690	42,979	5.72
Other	40,351	8,025	19.89
	<u>1,580,998</u>	<u>144,917</u>	9.17
Interest Expense			
Exchange Settlement accounts	0	0	0
Deposits from government	21,582	3,642	16.88
Securities issued	598,870	81,209	13.56
Other deposits	4,204	342	8.11
	<u>624,656</u>	<u>85,193</u>	13.64
Analysis for the year ended 31 December 2001			
Interest revenue total	1,580,998	144,917	9.17
Interest expense total	<u>624,656</u>	<u>85,193</u>	13.64
	<u>956,342</u>	<u>59,724</u>	6.24

	<u>2001</u> <u>K'000</u>	<u>2000</u> <u>K'000</u>
Note 4. RESERVES		
Changes in BPNG's various reserves are shown below		
Asset revaluation reserves		
Gold (note 1(a))		
Opening balance	24,228	0
Net revaluation adjustments	13,613	24,228
As at 31 December 2001	<u>37,841</u>	<u>24,228</u>
Bank Properties (note 1(e))		
Opening balance		
Net revaluation adjustments	1,613	
As at 31 December 2001	<u>1,613</u>	<u>0</u>
Total asset revaluation reserves		
Opening balance	24,228	0
Net revaluation adjustments	15,226	24,228
As at 31 December 2001	<u>39,454</u>	<u>24,228</u>
Unrealised profits reserve (note 1(b))		
Opening balance	317,422	212,463
Net revaluation adjustments	111,112	104,959
As at 31 December 2001	<u>428,534</u>	<u>317,422</u>
General Reserve		
Opening balance	59,000	59,000
Transfer to Profit & Loss	0	0
As at 31 December 2001	<u>59,000</u>	<u>59,000</u>
Capital		
Opening and closing balance	<u>62,000</u>	<u>62,000</u>
Total capital and reserves		
Opening balance	462,650	333,463
Net profit plus revaluation adj. in asset revaluation res.	161,933	173,688
Distribution to Government of Papua New Guinea	<u>(35,595)</u>	<u>(44,501)</u>
Closing balance	<u>588,988</u>	<u>462,650</u>

	2001	2000
	<u>K'000</u>	<u>K'000</u>
Note 5. CASH AND LIQUID ASSETS		
Other Bank Cheques Held	10	1,436
Tellers Holdings	185	398
Total Cash and Liquid Assets	<u>195</u>	<u>1,834</u>

Note 6. DOMESTIC GOVERNMENT SECURITIES

Holdings of Agriculture Bank Bond	0	2,680
Inscribed Stock	112,894	138,466
Treasury Bills	639,420	559,524
Total Domestic Government Securities	<u>752,314</u>	<u>700,670</u>

Note 7. FOREIGN EXCHANGE

Bonds	1,061,154	271,667
Short Term Deposits	139,105	127,270
Nostro Balances	393,918	509,051
Total Foreign Exchange	<u>1,594,177</u>	<u>907,988</u>

Note 8. LOANS & ADVANCES

Domestic Banks – Agricultural Export Commodity Support	52,646	53,662
Loans and Advances to Staff (including housing loans)	3,963	4,262
Other	508	812
Total Loans and Advances	<u>57,117</u>	<u>58,736</u>

Note 9. OTHER ASSETS

Accrued Interest Receivable	16,302	11,012
Government of Papua New Guinea	40,541	0
Sundry Debtors	1,250	4,252
Inventories	2,896	2,586
Other	147	21,885
Total Other Assets	<u>61,136</u>	<u>39,735</u>

The Bank has shares in the Port Moresby Stock Exchange valued at K390,000.00 as at 31 December 2001.

	2001	2000
	<u>K'000</u>	<u>K'000</u>
Note 10. PROPERTY, PLANT & EQUIP. (note 1(e))		
Properties		
Opening balance	15,276	15,179
Additions	460	571
Disposals	(74)	0
	<u>15,662</u>	<u>15,750</u>
Depreciation prior to revaluation	(810)	(474)
Book value prior to revaluations	<u>14,852</u>	<u>15,276</u>
Net revaluation adjustments (note 4)	1,613	
As at 31 December	<u>16,465</u>	<u>15,276</u>
Plant and equipment		
Opening balance	619	0
Additions	0	0
Disposals	0	0
	<u>619</u>	<u>0</u>
Accumulated depreciation		
As at 31 December	(217)	0
Total property, plant and equipment	<u>16,867</u>	<u>15,276</u>

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

	2001	2000
	<u>K'000</u>	<u>K'000</u>
Note 11. DOMESTIC CURRENCY DEPOSITS		
Banks		
Exchange Settlement accounts	33,774	21,096
Other Deposits	169,359	172,713
Government and Government Instrumentalities	242,785	15,352
Other Deposits	945	3,317
Total Domestic Currency Deposits	<u>446,863</u>	<u>212,478</u>

	2001	2000
	<u>K'000</u>	<u>K'000</u>
Note 12. FOREIGN CURRENCY DEPOSITS		
Loans received from International Monetary Fund (IMF)	409,108	89,496
Allocation of SDR from IMF	44,776	37,215
Other	2,881	716
Total Foreign Currency Deposits	<u>456,765</u>	<u>127,427</u>

Loans received from the International Monetary Fund are repayable over the next four years. All loans received from the IMF are denominated in SDRs. As from 2001 the IMF liabilities are revalued using the market exchange rate in accordance with IAS 32.

The loans from IMF are secured by Promissory Notes issued by the Government of Papua New Guinea.

	2001	2000
	<u>K'000</u>	<u>K'000</u>
Note 13. OTHER LIABILITIES		
Provision for employee entitlements (note 1(i))	1,853	1,717
Accrued interest on deposits and securities issued	12,127	7,015
Sundry Creditors	3,791	7,209
Other	17,781	40,201
Total Other Liabilities	<u>35,552</u>	<u>56,142</u>

Other liabilities includes an amount of K13,503,332 (2000 K37,601,768) in unrepresented cheques issued to public holders for maturities or interest on rollover of securities issued by the bank.

	2001	2000
	<u>K'000</u>	<u>K'000</u>
Note 14. CURRENCY IN CIRCULATION		
Notes	348,666	332,447
Coins	36,663	36,496
Numismatic Currency	0	(59)
	<u>385,329</u>	<u>368,884</u>

Note 15. CONTINGENT LIABILITIES AND OTHER ITEMS NOT INCLUDED IN STATEMENT OF FINANCIAL POSITION

BPNG had no contingent liabilities at 31 December 2001.

At 31 December 2001 BPNG had contract commitments with external counterparties for the provision of certain premises and support services, including security, cleaning and computer system maintenance and support.

Note 16. REMUNERATION OF BOARD MEMBERS

Total fees, allowances, remuneration and other expenses paid to members of the Board, including the Governor and Deputy Governors of BPNG, was **K 784,943** (2000 = K617, 976).

Note 17. REMUNERATION OF EXECUTIVES

Total employment packages and remuneration for the 10 most highly paid officers of the Bank, including the Governor and Deputy Governors, was **K 1,337,491** (2000 = K1,419,804).

Remuneration Bands			2001	2000
			<u>Number</u>	<u>Number</u>
80,000	-	89,999	0	2
90,000	-	99,999	3	4
100,000	-	199,999	5	2
200,000	-	299,999	2	1
300,000	-	399,999	0	1

	2001	2000
	<u>K'000</u>	<u>K'000</u>
Note 18. PROFIT PAYABLE TO GOVERNMENT		
Opening Balance	0	5,294
Current Year's Profit	<u>35,595</u>	<u>44,501</u>
Closing Balance	<u>35,595</u>	<u>49,795</u>

Note 19. REMUNERATION OF AUDITOR AND CONSULTANTS

Fees paid or payable to the statutory auditor (the Auditor General) for audit services totaled **K 140,000** in 2001(2000 - K110, 000). They are included in "Consultants' fees" in Note 2. Consultants fees also include legal fees **K370, 397** (2000 K1, 540,258) and payments to specialists for "review and advice" services.

A number of consultants are engaged to technically assist the Bank to develop and implement policies and procedures. Major consultancies were in relation to:

- ❖ Economic Policy Assistance
- ❖ Valuation of Properties
- ❖ Accounting Policy and Procedure Development
- ❖ Reviews of the Banks and Financial Institutions Act, Life Insurance Act and Superannuation (General Provisions) Act

Total charges paid in 2001 for major consultancies was K1,754,321 (2000 - K1,540,258).

Note 20. SEGMENT REPORTING

BPNG operates as a central bank, predominantly in one geographical area.

Note 21. FINANCIAL INSTRUMENTS

International Accounting Standard IAS 32 – Financial Instruments: Disclosure and Presentation - requires disclosure of information relating to: both recognised and unrecognised financial instruments, their significance and performance, accounting policy terms and conditions; net fair values and risk information.

A financial instrument is defined as any contract that gives rise to both a financial asset of one enterprise and financial liability or equity instrument of another enterprise. The identifiable financial instruments for BPNG are its domestic government securities, its foreign government securities, securities issued, bank deposits, currency in circulation and deposit liabilities.

Net fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Except for domestic government securities BPNG's recognised financial instruments are carried at current market value, which approximates net fair value.

Financial risk of financial instruments embodies price risk (currency risk and interest rate risk); credit risk; liquidity risk; and cash flow risk. IAS 32 requires disclosure of interest rate risk and credit risk.

The interest rate and credit risk tables are based on BPNG's settled portfolio as reported in BPNG's balance sheet.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The following table shows BPNG's balance sheet restated in compliance with IAS 32.

Interest rate risk

As at 31 December 2001

	Balance sheet Total K'000	Floating interest rate %	0 to 3 months	Repricing K'000 3 to 12 months	Period 1 to 5 years	over 5 years	Not bearing interest K'000	Weighted average rate %
Assets								
Gold holdings	66,156						66,156	
Foreign Exchange								
Deposits & Other Securities	1,594,177		1,157,616	125,111	207,587	103,863		2.59
Kina Securities and Advances								
Government Securities	752,314		243,121	396,299	112,894			10.46
Loans & Advances	57,117		214	644	3,107	53,152		3.65
Sub-total	809,431		243,335	396,943	116,001	53,152		
Property Plant and equipment	16,867						16,867	
Cash and Liquid Assets	195						195	
Other Assets	61,136						61,136	
Sub-total	78,198						78,198	
Total Assets	2,547,962		1,400,951	522,054	323,588	157,015	144,354	
Liabilities								
Foreign Liabilities								
Foreign Currency Deposit	456,765				409,087		47,678	2.68
Domestic Liabilities								
Currency in Circulation	385,329						385,329	
Securities issued	598,870		500,563	98,307				9.86
Deposits	446,864			930			445,934	0.02
Other	71,146						71,146	
Sub-total	1,502,209		500,563	99,237			902,409	
Total Liabilities	1,958,974		500,563	99,237	409,087		950,087	
Capital and reserves	588,988							
Total Liabilities and capital	2,547,962							

As this is the first year BPNG has made interest rate risk disclosures comparative information is not available.

All recognised financial instruments are shown at net fair value.

All financial instruments are shown at their repricing period, which is equivalent to the remaining term to maturity

Credit risk

Credit risk in relation to a financial instrument is the risk that a customer, bank or other counter-party will not meet its obligation (or to be permitted to meet them) in accordance with agreed terms.

BPNG's maximum exposure to credit risk in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the balance sheet. BPNG's exposures are to highly rated counter-parties and its credit risk is very low.

Concentration of credit risk

The following table indicates the concentration of credit risk in BPNG's investment portfolio

Security type	Risk rating of security issuer	Risk rating of counter-parties	% of total assets portfolio at 31/12/01	% of total asset portfolio at 31/12/00
Kina Securities				
Papua New Guinea Government Securities	B	-	29.68	39.65
Foreign Investments				
Holdings of Securities	AAA	AA+	42.19	15.33
Short Term Deposits	P-1	AA+	31.41	35.52

Note 22. CASH FLOW STATEMENT

This statement of cash flow is included as a statutory requirement and does not add any significant meaning to the financial statements.

Statement of Cash Flows for the year ended 31 December 2001

	<u>2001</u> <u>K'000</u>	<u>2000</u> <u>K'000</u>
Cash flows from operating activities		
Interest received	144,917	193,414
Other Income	3,883	27,624
Interest Expense	(85,193)	(155,907)
Administrative Expense	<u>(28,012)</u>	<u>(20,630)</u>
	35,595	44,501
Cash flows from investment activities		
Net expenditure on property, plant & equipment	<u>22</u>	<u>(96)</u>
	22	(96)
Cash flows from financing activities		
Profit Payment to Government	(49,795)	(13,185)
Net Movement in Domestic Government Securities	(51,644)	(86,101)
Net Movement in Foreign Exchange	(575,077)	(254,864)
Net Movement in Loans & Advances	1,619	673
Net Movement in Domestic Deposits	234,385	(243,453)
Net Movement in Securities Issued	99,464	126,903
Net Movement in Currency Deposits	329,338	499,406
Net Movement in Currency in Circulation	16,445	(52,381)
Other	<u>(41,991)</u>	<u>(19,892)</u>
	(37,256)	(42,894)
Net increase/(decrease)	(1,639)	1,511
Opening Cash	<u>1,834</u>	<u>323</u>
Closing Cash	<u>195</u>	<u>1,834</u>

DECLARATION BY MANAGEMENT

In our opinion the foregoing Operating Statement and Statement of Financial Position, including the Notes to and forming part thereof, have been drawn up so as to give a true and fair view of the matters to which they relate for the year ended 31 December 2001.

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

L. Wilson Kamit CBE
Governor

Flora Carruthers (Mrs) MBE
Deputy Governor
Policy and Regulation

Benny Popoitai MBE
Deputy Governor
Management and Operations

27 September 2002

REPORT OF THE AUDITOR-GENERAL

The Honourable Sir Mekere Morauta
Prime Minister & Minister for Finance and Treasury
Central Government Office
WAIGANI
National Capital District

Dear Sir,

BANK OF PAPUA NEW GUINEA

In accordance with Section 8(4) of the Audit Act 1989 (as amended), I have inspected and audited the accompanying financial statements of the Bank of Papua New Guinea for the year ended 31 December 2001, as set out on pages 2 to 17, submitted by the Bank of Papua New Guinea under Section 63(4) of the Public Finances (Management) Act 1995. The Bank's Board is responsible for the preparation and presentation of these financial statements and the information contained therein. I have conducted an independent audit of these financial statements in order to express an opinion on them to the Bank's Board.

My audit was conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free from material misstatement. My audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly and in accordance with International Standards and statutory requirements so as to present a view which is consistent with my understanding of the Bank's financial position and the results of its operations and its cash flows.

The opinion expressed in this report has been formed on the above basis.

AUDIT OPINION

I now report that in my opinion:-

- (a) the financial statements are based on proper accounts and records; and
- (b) the statements are in agreement with those accounts and records and show fairly the state of the affairs of the Bank as at 31 December 2001, and the results of its financial operations and its cashflows for the year then ended.

Yours faithfully,

MARK M. WANI MBE
Auditor-General