BANK OF PAPUA NEW GUINEA

ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2022

BANK OF PAPUA NEW GUINEA

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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BANK OF PAPUA NEW GUINEA

FINANCIAL STATEMENTS
FOR THE YEAR ENDING
31 DECEMBER 2022

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Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2022

	Notes	2022 K'000	2021 K'000
Revenue from foreign currency investments			
Interest revenue	**2**	147,094	63,211
Realised (loss)/gain on financial assets		(49,179)	9,131
Foreign exchange gains and commissions		53,386	67,005
Total revenue from foreign currency investments		**151,301**	**139,347**
Expenses on foreign currency investments			
Interest expense on liabilities with IMF		(11,801)	(194)
Custodian and investment management fees		(7,154)	(7,165)
Total expenses from foreign currency investments		**(18,955)**	**(7,359)**
Net foreign currency income		**132,346**	**131,988**
Revenue from domestic operations			
Interest revenue	**3**	236,738	234,265
Other income	**4**	21,107	23,359
Total revenue from domestic operations		**257,845**	**257,624**
Expense on domestic liabilities			
Interest expense	**5**	(154,889)	(121,532)
Total expenses on domestic liabilities		**(154,889)**	**(121,532)**
Net domestic income		**102,956**	**136,092**
Total net operating income		**235,302**	**268,080**
Operating expenses			
General and administration expenses	**6**	(287,030)	(236,420)
(Loss)/Profit excluding unrealised income		**(51,728)**	**31,660**
Other unrealised income			
Fair value and foreign exchange revaluation loss on foreign currency investments		(646,943)	(203,249)
Fair value revaluation gain on domestic investments		263,449	55,272
Loss for the year		**(435,222)**	**(116,317)**
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Gain/(Loss) on gold asset revaluation		287	(9,558)
Items that will not be subsequently reclassified to profit or loss			
Gain on property valuation		30,365	-
Other comprehensive income/(loss) for the year		**30,652**	**(9,558)**
Total comprehensive loss for the year		**(404,570)**	**(125,875)**

The financial statements are to be read in conjunction with the notes on pages 7 to 42.

Statement of Financial Position

For the year ended 31 December 2022

	Notes	2022 K'000	2021 K'000
Assets			
Cash and cash equivalents	8	2,217,079	3,457,725
Foreign Investments	9	11,599,478	6,338,154
Assets held with IMF and other financial organisations at fair value through profit or loss	7	20,123	1,272,750
Accrued interest		51,267	15,596
Total foreign currency financial assets		**13,887,947**	**11,084,225**
Government of Papua New Guinea securities	10	2,376,820	2,376,976
Other Government receivable	7	1,259,438	1,259,438
Loans and advances	11	2,231	2,270
Accrued interest and other receivables		58,242	67,864
Total local currency financial assets		**3,696,731**	**3,706,548**
Total Financial Assets		**17,584,678**	**14,790,773**
Non-financial assets			
Gold		270,332	270,045
Property and equipment	13	488,545	457,730
Investment properties	14	28,073	39,170
Other assets	12	85,661	80,924
Total non-financial assets		**872,611**	**847,869**
Total Assets		**18,457,289**	**15,638,642**
Liabilities			
Foreign currency financial liabilities			
Liabilities to IMF at fair value through profit or loss	7	1,776,083	1,861,793
Other financial liabilities	19	3,230	2,988
Derivative liabilities	9	71,211	-
Total foreign currency financial liabilities		**1,850,524**	**1,864,781**
Local currency financial liabilities			
Deposits from banks and third parties	15	6,333,689	4,044,663
Deposits from Government and Government entities	16	3,519,782	2,563,187
Debt securities issued	17	2,652,667	3,041,490
Accrued interest payable on debt securities		2,088	1,204
Currency in circulation	18	2,967,982	2,654,906
Other financial liabilities	19	160,428	97,317
Total local currency financial liabilities		**15,636,636**	**12,402,767**
Total financial liabilities		**17,487,160**	**14,267,548**
Non-financial liabilities			
Provisions for employee entitlements	20	44,864	41,259
Total non-financial liabilities		**44,864**	**41,259**
Total Liabilities		**17,532,024**	**14,308,807**

	Notes	2022 K'000	2021 K'000
Equity			
Capital	**22**	145,540	145,540
Gold revaluation reserve	**22**	249,724	249,437
Property revaluation reserve	**22**	110,774	80,409
Unrealised gain/(loss) reserve	**22**	34,534	418,028
Building reserve	**22**	223,800	173,800
General reserve	**22**	30,000	30,000
Retained earnings	**22**	130,893	232,621
Total Equity		**925,265**	**1,329,835**
Total Liabilities and Equity		**18,457,289**	**15,638,642**

The financial statements are to be read in conjunction with the notes on pages 7 to 42.

Statement of Changes in Equity

For the year ended 31 December 2022

	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 2021	**145,540**	**258,995**	**95,028**	**573,890**	**123,800**	**30,000**	**378,457**	**1,605,710**
Loss for the year	-	-	-	(147,977)	-	-	31,660	(116,317)
Net transfers from unrealised profit/(loss) reserve to retained earnings	-	-	-	(7,885)	-	-	7,885	-
Other comprehensive income	-	(9,558)	-	-	-	-	-	(9,558)
Net transfers from property reserve to retain earnings	-	-	(14,619)	-	-	-	14,619	-
Net transfers from retain earnings to building reserve	-	-	-	-	50,000	-	(50,000)	-
Revaluation of PPE	-	-	-	-	-	-	-	-
Dividend declared and paid	-	-	-	-	-	-	(150,000)	(150,000)
Balance at 31 December 2021	**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 property reserve to retain earnings	-	-	-	-	-	-	-	-
Net transfers from retain earnings to building reserve	-	-	-	-	50,000	-	(50,000)	-
Revaluation of PPE	-	-	30,365	-	-	-	-	30,365
Dividend declared and paid	-	-	-	-	-	-	-	-
Balance at 31 December 2022	**145,540**	**249,724**	**110,774**	**34,534**	**223,800**	**30,000**	**130,893**	**925,265**

The realised loss for the year is K51.7 million. The unrealised gain/(loss) reserve and net asset balance at 31 December 2022 are K34.5 million and K0.9 billion, respectively. The *Central Banking (Amendment) Act 2021* (Section 49.3) states that no distribution will be made where, in the opinion of the Central Bank, the assets of the Bank are, or after the payment would be, less than the sum of its liabilities and paid-up capital.

The financial statements are to be read in conjunction with the notes on pages 7 to 42.

Statement of Cash Flows

For the year ended 31 December 2022

	Notes	2022 K'000	2021 K'000
Cash Flows from Operating Activities			
Interest received on foreign investments		111,423	66,639
Interest received on domestic investments		246,361	205,065
Fees, commissions and other income received		74,493	90,364
Interest paid on IMF liabilities		(11,801)	(194)
Interest paid on domestic liabilities		(154,005)	(120,964)
Payments to employees		(109,117)	(100,817)
Payments to suppliers		(66,717)	(85,709)
Fees and commissions paid		(7,154)	(7,165)
Net proceeds from (purchases)/sale of foreign investments		(4,719,319)	(580,216)
Net receipts/(payments) to Government securities		263,605	(1,922,001)
Net loans repaid/(issued)		39	(478)
Net Cash Flow used in Operating Activities		**(4,372,192)**	**(2,455,476)**
Cash Flows from Investing Activities			
Purchase of property and equipment		9,591	(12,367)
Payments for construction costs on capital projects		(40,058)	(16,067)
Proceeds from sale of property and equipment		138	139
Net Cash Flow used in Investing Activities		**(38,329)**	**(28,295)**
Cash Flows from Financing Activities			
Net movement of currency in circulation		313,076	223,813
Net movement in debt securities issued		(388,822)	1,428,565
Distributions to the Government		-	(150,000)
Net movement in deposits from Government		956,595	939,216
Net movement in deposits from banks		2,289,026	425,525
Net Cash Flow provided by Financing Activities		**3,169,875**	**2,867,119**
Net Increase in Cash and Cash Equivalents		**(1,240,646)**	**383,348**
Cash and cash equivalents at 1 January		3,457,725	3,074,377
Cash and Cash Equivalents at 31 December	**8**	**2,217,079**	**3,457,725**

The financial statements are to be read in conjunction with the notes on pages 7 to 42.

Notes to the Financial Statements

For the year ended
31 December 2022

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. The application of these policies is consistent with the review and approval from the Bank's Board as at 30th June 2023.

(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 K0.9 billion as at 31 December 2022 (2021: net asset of K1.33 billion). The reduction in net assets was a result of the appreciation of Kina against other major currencies and foreign currency price valuation losses from higher global yield rates.

Section 50(2) of the Act provides that where the Bank incurs a loss due to a change in the value of assets or liabilities, which in the opinion of the Board may lead to a significant reduction in the reserve funds of the Bank, the Minister shall cause to be paid to the Bank such amount out of the Consolidated Revenue Fund as is necessary to avoid the loss. Subsection 50(4) of that Act further provides that the Minister may create and issue to the Central Bank non-interest bearing non-negotiable notes for an amount not exceeding any payment made by the Minister to the Central Bank out of the Consolidated Revenue Fund in accordance with Subsections (1) and (2) of the Act. The above provisions of the Act effectively require the Government to provide financial support to the Bank.

(b) Functional and presentation currency

Transactions in foreign currency are translated to Kina being the functional and presentation currency of the Bank 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 2021 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) Standards issued but not adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted them in preparing financial statements. The following amended standards are not expected to have a significant impact on the Bank's financial statements.

- IFRS 17 Insurance Contracts – For annual periods beginning on 1 January 2022
- Property, Plant and Equipment: Proceeds before intended Use (Amendments to IAS 16) – For annual periods beginning on 1 January 2022
- Reference to the Conceptual Framework (Amendments to IFRS 3) – For annual periods beginning on 1 January 2022
- Disclosures of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2 – For annual periods beginning on 1 January 2023
- Definition of Accounting Estimate (Amendments to IAS 8) – For annual periods beginning on 1 January 2023
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) – For annual periods beginning on 1 January 2023.

(e) IFRS 16 Leases

This standard was effective for the Bank's annual reporting period beginning on 1 January 2019. IFRS 16 requires a lessee to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Under the standard, the Bank will reflect in the Statement of Financial Position the right-of-use assets and lease liabilities in respect of the lease agreements.

(i) 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.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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 note 21.

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 "Other expenses" in Profit or Loss.

(ii) The Bank as lessor

The Bank enters into lease agreements as a lessor with respect to its investment properties.

Leases for which the Bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Bank is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Bank's net investment in the leases.

(f) 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:

i) are held for trading purposes;

ii) are held as part of a portfolio managed on a fair value basis; or

iii) 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 (i) over the following twelve months or (ii) 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 (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) 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 Bonds 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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.

(k) Investment properties

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within other unrealised income: Fair value revaluation gain on domestic investment.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(l) Investment property rental income

Rental income from investment property is recognised in other income from domestic investments on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(m) 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.

(n) 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.

(o) Inventory – Notes and 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.

(p) 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.

(q) Other receivables

Other receivables are stated at amortised cost.

(r) Employee benefits

(i) Pension fund

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

Contributions to the Bank's pension fund and external superannuation fund are recognised as an expense in the Bank's Statement of Profit or Loss and Other Comprehensive Income. The value of the Bank's pension fund defined benefit obligations and the fair value of the Bank's pension fund assets are determined with sufficient regularity to ensure that the amounts recognised in the Bank's financial statements do not differ materially from the amounts that would be determined at the balance date.

(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.

(s) Other liabilities

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

(t) Reserves

The Bank maintains the following reserves. Their purpose and method of operation are 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 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 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.

(u) 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 losses 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.

(v) Tax exemption

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

(w) Comparatives

Comparative financial information has been reclassified to conform to current year presentation where necessary.

(x) Rounding

Financial information has been rounded to the nearest thousand Kina.

	2022 K'000	2021 K'000
Note 2: INTEREST REVENUE – FOREIGN CURRENCY INVESTMENTS		
Foreign securities and bank deposits	147,094	63,211
	147,094	**63,211**

Interest income on foreign investments includes interest earned on foreign bonds, Treasury bills, nostro accounts and other foreign investments. Income of K46.8 million (2021: K44.7 million) is in relation to investments managed by external fund managers and the remainder of K100.2 million (2021: K18.5 million) relates to investments managed by the Bank. Coupon rates during the year varied between 0.125% and 8.4% (2021: 0.005% and 8.3%) and yields varied between -7.85% and 10.8% (2021: 0.02% and 8.2%). Interest is recognised on an effective interest rate basis.

	2022 K'000	2021 K'000
Note 3: INTEREST REVENUE – DOMESTIC OPERATIONS		
Inscribed stock and other Government securities	230,020	205,027
Temporary advances to Government	6,113	29,167
Overnight lending to Commercial Banks	605	71
	236,738	**234,265**

Interest income earned on Government inscribed stock amounted to K212.7 million (2021: K193.2 million) while K7.6 million was earned from Government Treasury bills (2021: K11.3 million). During the year coupon rates on inscribed stock varied between 4.8% and 8.9% (2021: 8.5% and 12.5%) while yields on Treasury bills varied between 1.1% and 6.9% (2021: 4.7% and 7.2%). Interest is recognised on an effective interest rate basis.

	2022 K'000	2021 K'000
Note 4: OTHER INCOME – DOMESTIC OPERATIONS		
Licensing and other fees	15,707	16,474
Numismatic currency	196	18
Property rent	4,493	5,373
Other	711	1,494
	21,107	**23,359**

	2022 K'000	2021 K'000
Note 5: INTEREST EXPENSE – DOMESTIC OPERATIONS		
Central Bank Bills issued	150,127	120,143
Other deposit held	4,368	773
Lease interest expense	394	616
	154,889	**121,532**

Interest on securities issued varied between 1.01% and 9.40% during the year (2021: 1.24% and 11.92%) Interest is recognised on an effective interest rate basis.

	2022 K'000	2021 K'000
Note 6: GENERAL AND ADMINISTRATION EXPENSES		
Staff costs	112,723	106,112
Premises and equipment	42,547	43,812
Revaluation decrease from property valuation	19,835	-
Other expenses	30,329	31,639
Depreciation of property and equipment	29,140	21,063
Travel	9,829	4,803
Amortisation of notes and coins production expenses	23,934	16,766
Legal & consultancy fees	10,533	7,058
Staff training and development	3,491	1,138
Board & meeting expenses	1,217	386
Currency distribution expenses	1,804	1,779
Audit & other professional fees	1,648	1,864
	287,030	**236,420**
Note 7: IMF AND OTHER FINANCIAL ORGANISATION RELATED ASSETS & LIABILITIES		
Assets – mandatorily measured at FVTPL		
IMF SDR holdings and deposits and other organisations	20,123	1,272,750
	20,123	**1,272,750**
Liabilities – designated as FVTPL		
IMF number 1 and 2 loan accounts	5,888	6,392
SDR allocation	1,770,195	1,855,401
	1,776,083	**1,861,793**
Other Government Receivable – measured at AC		
SDR Kina equivalent paid to the State	1,259,438	1,259,438
	1,259,438	**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*.

	2022 K'000	2021 K'000
Note 8: CASH & CASH EQUIVALENTS		
Foreign currency holdings – Nostro accounts	2,217,079	3,457,725
	2,217,079	**3,457,725**

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

Note 9: FOREIGN INVESTMENTS

	2022 K'000	2021 K'000
Foreign investments – measured at FVTPL	8,740,192	6,331,307
Foreign investments – measured at Amortised Cost	2,859,286	-
Derivative assets – mandatorily measured at FVTPL	-	6,847
	11,599,478	6,338,154
Derivative liabilities – mandatorily measured at FVTPL	**(71,211)**	**-**

Foreign investments include K4.3 billion (2021: K4.3 billion) of investments managed by external fund managers. The remainder of K7.3 billion (2021: K2.0 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

	2022 K'000	2021 K'000
Inscribed stock – measured at FVTPL	2,376,820	2,226,170
Treasury bills – measured at Amortised Cost	-	150,806
	2,376,820	**2,376,976**

Note 11: LOANS AND ADVANCES

	2022 K'000	2021 K'000
Agricultural export commodity support loans	1,386	1,386
Loans and advances to staff (including housing loans)	5,559	5,598
Allowance for doubtful loans	(4,714)	(4,714)
	2,231	**2,270**

The Temporary Advance Facility is governed by the provisions of the *Central Banking (Amendment) Act 2021*. The interest rate charged is the 6 monthly Treasury bills rate, approximately 7.2% p.a. The facility limit has increased from K200 million to K1.5 billion in 2020. As at 31 December 2022 there was no TAF overdraft balance.

The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained based on the Bank's credit evaluation of the counterparty. Collateral may include:

- A floating charge over all assets and undertaking of an entity;
- Specific or inter-locking guarantees;
- Specific charge over defined assets of the counterpart; and
- Loan agreements including affirmative and negative covenants.

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.

	2022 K'000	2021 K'000
Note 12: OTHER ASSETS		
Inventory notes and coins	26,456	32,531
Prepaid employee benefits	44,423	36,260
Other non-financial assets	14,782	12,133
	85,661	**80,924**

	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
Note 13: PROPERTY AND EQUIPMENT								
At 31 December 2021								
Cost or fair value	375,602	42,406	5,168	19,214	42,758	26,994	49,124	561,266
Accumulated depreciation	(21,544)	(12,678)	(3,749)	(13,686)	(24,337)	(14,042)	-	(90,036)
Net Book Amount	**354,058**	**29,728**	**1,419**	**5,528**	**18,421**	**12,952**	**49,124**	**471,230**
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 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**

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

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.

Based on the most recent valuation, there was a fair value reduction (impairment) of K20 million recorded in the statement of profit and loss relating to two pieces of vacant land purchased in 2018 at Dogura and 6 Mile for special purpose properties. Dogura value was reduced by K12 million from total cost K20 million and 6 Mile by K8 miilion from total cost of K20 million respectively (Refer to Note 6). In addition, there is an on-going title legal case on the 6 Mile land to which the Bank has title.

The carrying amount of land and buildings had they been recognised under the cost model are land K64.0 million (2021: K50.6 million) and buildings K332 million (2021: K263 million).

	2022 K'000	2021 K'000
Note 14: INVESTMENT PROPERTIES		
Balance at 1 January	39,170	39,170
Acquisitions	–	–
Reclassification to property and equipment	(13,500)	–
Change in fair value	2,403	-
Balance at 31 December	**28,073**	**39,170**

Investment property comprises one commercial property that is leased to third parties. The fair value of the investment property was 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 investment property every 3 years. The most recent valuation was done in 2022. The fair value measurements for the investment property have been categorised as level 3 fair value measurements. Rental income from investment property is K4.3 million (2021: K5.4 million).

	2022 K'000	2021 K'000
Note 15: DEPOSITS FROM BANKS & THIRD PARTIES		
Exchange settlement accounts	2,880,606	2,241,600
Cash reserve requirement	2,905,601	1,789,848
Other deposits	547,482	13,215
	6,333,689	**4,044,663**
Note 16: DEPOSITS FROM GOVERNMENT AND GOVERNMENT ENTITIES		
Deposits from Government and Government entities	3,519,782	2,563,187
	3,519,782	**2,563,187**
Note 17: DEBT SECURITIES ISSUED		
Central Bank Bills issued	2,652,667	3,041,490
	2,652,667	**3,041,490**

Securities issued are debt securities issued by the Bank of Papua New Guinea for terms of twenty-eight days, three or four months. CBB Bond has tenures 1 – 10 years. These bills are used to manage liquidity in the money supply and open market operations in the domestic financial markets.

	2022 K'000	2021 K'000
Note 18: CURRENCY IN CIRCULATION		
Currency in circulation	2,967,982	2,654,906
	2,967,982	**2,654,906**

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, which is equivalent to its fair value in the Statement of Financial Position.

	2022 K'000	2021 K'000
Note 19: OTHER FINANCIAL LIABILITIES		
Foreign currency		
Foreign currency deposits	3,230	2,988
	3,230	**2,988**
Local currency		
Expense creditors	153,166	83,816
Lease liability	7,262	13,501
	160,428	**97,317**

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

	2022 K'000	2021 K'000
Note 20: PROVISIONS FOR EMPLOYEE ENTITLEMENTS		
Provision for gratuity	5,366	5,172
Provision for long service leave	28,160	26,438
Provision for annual leave	11,338	9,649
	44,864	**41,259**
Reconciliation of leave provisions		
Balance at 1 January	41,259	35,964
Net charged to Statement of Profit or Loss	3,605	5,295
Balance at 31 December	**44,864**	**41,259**

Note 21: LEASES

A. Leases as lessee

Right-of-use assets

Right-of-use assets relate to leased offices and warehouses that are presented within Property and equipment.

	2022 K'000	2021 K'000
Balance at 1 January	12,952	9,638
Depreciation charge for the year	(5,976)	(5,395)
Additions	-	8,709
Balance at 31 December	**6,976**	**12,952**

Lease liabilities

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

	2022 K'000	2021 K'000
One to three months	893	1,530
Three to twelve months	1,695	4,731
One to five years	4,674	7,240
	7,262	**13,501**

	2022 K'000	2021 K'000
Amounts recognised in Profit or Loss		
Leases under IFRS 16		
Interest expense on lease liabilities	394	616
Expenses relating to short-term leases	6,239	5,385
Amounts recognised in Statement of Cash Flows		
Total cash outflow for leases	12,609	1,396

B. Leases as lessor

Operating lease

The Bank leases out its investment property. The Bank has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

2022 – Operating leases under IFRS 16		
Less than one year	-	1,546
One to two years	-	225
Two to five years	-	-
More than five years	-	-
Total	**-**	**1,771**

Note 22: SHARE CAPITAL

At 31 December 2022, the authorised and subscribed capital of the Bank was K145.5 million (2021: K145.5 million). The capital is fully subscribed by the Government of Papua New Guinea.

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	249,724	249,437
Property Revaluation Reserve	110,774	80,409
Unrealised Gain/(Loss) Reserve	34,534	418,028
Building Reserve	223,800	173,800
General Reserve	30,000	30,000
Retained earnings	130,893	232,621
Total other reserves	**779,725**	**1,184,295**
Total owner's equity	**925,265**	**1,329,835**

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

International Financial Reporting Standard (IFRS) 7 – Financial Instruments: Disclosures – requires disclosure of information relating to financial instruments, their significance, performance, accounting policy, terms and conditions, fair values and the Bank's policies for controlling risks and exposures relating to the financial instruments.

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:

	2022 K'000	2021 K'000
Foreign governments, banks & financial organisations		
Nostro accounts	2,217,079	3,457,725
Foreign investments (note 9)	11,528,267	6,338,154
Assets held with IMF and other financial organisations	20,123	1,272,750
Accrued interest receivable	51,267	15,596
Papua New Guinea Government		
Government of Papua New Guinea securities (note 10)	102,376,821	2,376,976
Other Government Receivable (note 7)	1,259,438	1,259,438
Accrued interest & Other Receivable	58,165	2,591
Bank staff and employees (note 11)	5,559	5,598
Other Government Institutions (note 11)	1,386	1,386
	17,518,105	**14,730,214**

The Bank's maximum exposure to credit risk is limited to the amount of financial assets carried in the Statement of Financial Position. 17% (2021: 10%) of the total assets have a credit rating of A-1+ or above in short term investments and 54% (2021: 46%) 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, indicating 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	2022 K'000	% of 2022 Financial Assets	2021 K'000	% of 2021 Financial Assets
Short term foreign investments				
A-1+	2,394,889	17	814,194	10
A-1	905,163	7	125,121	1
A-2	-	-	125,121	1
A-3	-	-	-	-
NR	(26,489)	-	24,853	-
	3,273,563	**24**	**1,089,289**	**12**
Long term foreign investments				
AAA	2,307,730	17	1,394,304	16
AA+	-	-	-	-
AA	5,150,925	37	2,603,420	30
AA-	-	-	-	-
A+	-	-	-	-
A	246,143	2	794,398	9
A-	-	-	-	-
BBB+	-	-	-	-
BBB	361,292	2	433,767	5
B	188,614	1	22,976	-
	8,254,704	**59**	**5,248,865**	**60**
Total foreign investments	**11,528,267**	**83**	**6,338,154**	**72**
Short term domestic investments				
B-	-	-	150,806	2
	-	**-**	**150,806**	**2**
Long term domestic investments				
B–	2,376,820	17	2,226,170	26
	2,376,820	**17**	**2,226,170**	**26**
Total domestic investments	**2,376,820**	**17**	**2,376,976**	**28**
Total investments	**13,905,087**	**100**	**8,715,130**	**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 2022 Bank of Papua New Guinea's net exposure to major currencies in Kina terms was as follows:

	CURRENCY OF DENOMINATION							
As at 31 December 2022	USD 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	1,374,518	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**

	CURRENCY OF DENOMINATION							
As at 31 December 2021	USD 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	2,149,899	195,270	957,853	98,019	53,538	-	3,146	3,457,725
Investments	5,190,542	74,570	998,063	68,132	-	-	-	6,331,307
Derivative assets	6,847	-	-	-	-	-	-	6,847
Assets held with IMF	-	-	-	-	-	1,272,750	-	1,272,750
Accrued interest	14,020	249	1,258	69	-	-	-	15,596
	7,361,308	**270,089**	**1,957,174**	**166,220**	**53,538**	**1,272,750**	**3,146**	**11,084,225**
Foreign currency liabilities:								
Liabilities with IMF	-	-	-	-	-	1,869,793	-	1,869,793
Foreign currency liabilities	2,988	-	-	-	-	-	-	2,988
	2,988	**-**	**-**	**-**	**-**	**1,869,793**	**-**	**1,872,781**
Net foreign currency exposure	**7,358,320**	**270,089**	**1,957,174**	**166,220**	**53,538**	**(597,043)**	**3,146**	**9,211,444**

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.

		MATURITY PROFILE					
As at 31 December 2022	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
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**

As at 31 December 2021	Balance Total K'000	MATURITY PROFILE 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	3,457,725	2,509,139	948,586	-	-	-	-
Financial assets	6,338,154	-	669,382	1,307,240	3,521,377	840,155	-
Assets held with IMF	1,272,750	-	-	-	-	-	1,272,750
Accrued interest	15,596	-	892	1,940	12,153	611	-
	11,084,225	**2,509,139**	**1,618,860**	**1,309,180**	**3,533,530**	**840,766**	**1,272,750**
Local Currency Financial Assets:							
Government of Papua New Guinea securities	2,376,976	-	130,865	541,125	1,704,986	-	-
Other Government Receivable	1,259,438	-	-	-	-	-	1,259,438
Loans and advances	2,270	-	-	2,270	-	-	-
Accrued interest and receivables	67,864	-	2,713	65,151	-	-	-
	3,706,548	**-**	**133,578**	**608,546**	**1,704,986**	**-**	**1,259,438**
Non-Financial Assets:							
Gold	270,045	-	-	-	-	-	270,045
Property and equipment	457,730	-	-	-	-	-	457,730
Investment properties	39,170	-	-	-	-	-	39,170
Other financial assets	80,924	-	-	-	-	-	80,924
	847,869	**-**	**-**	**-**	**-**	**-**	**847,869**
Total Assets	**15,638,642**	**2,509,139**	**1,752,438**	**1,917,726**	**5,238,516**	**840,766**	**3,380,057**
Liabilities							
Foreign Currency Financial Liabilities:							
Liabilities with IMF	1,861,793	-	-	-	-	-	1,861,793
Other financial liabilities	2,988	-	2,988	-	-	-	-
	1,864,781	**-**	**2,988**	**-**	**-**	**-**	**1,861,793**
Local Currency Financial Liabilities:							
Deposits from bank and third parties	4,044,663	4,044,663	-	-	-	-	-
Deposits from Government	2,563,187	2,563,187	-	-	-	-	-
Securities issued	3,041,490	-	2,001,556	25,345	98,774	915,815	-
Accrued interest payable	1,204	-	1,204	-	-	-	-
Currency in circulation	2,654,906	2,654,906	-	-	-	-	-
Lease liability	13,501	-	1,530	4,731	7,240	-	-
Other financial liabilities	83,816	-	83,816	-	-	-	-
	12,402,767	**9,262,756**	**2,088,106**	**30,076**	**106,014**	**915,815**	**-**
Non-Financial Liabilities:							
Employee provision	41,259	-	41,259	-	-	-	-
Total Liabilities	**14,308,807**	**9,262,756**	**2,132,353**	**30,076**	**106,014**	**915,815**	**1,861,793**

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.

	2022 K'000	2021 K'000
Financial Assets		
Cash and cash equivalents	2,217,079	3,457,725
Investments – measured at FVTPL	11,137,134	9,837,074
Other Government receivable at amortised cost	1,259,438	1,259,438
Loans & advances, Accrued interest and Other receivable	111,741	85,730
Treasury bills measured at amortised cost	2,859,286	150,806
	17,584,678	**14,790,773**
Financial Liabilities		
At fair value through profit/(loss)	1,850,524	1,864,781
At amortised cost	15,636,636	12,402,767
	17,487,160	**14,267,548**

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 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	478,015
Investment property	-	-	25,670	25,670
Total assets at fair value	**270,332**	**-**	**503,685**	**774,017**
Financial liabilities held at fair value through profit & loss				
Derivatives	-	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**
31 December 2021				
Financial assets held at fair value through profit or loss				
Domestic Government securities – Inscribed stock	-	-	2,226,170	2,226,170
Foreign government and semi-government bonds	2,034,296	-	-	2,034,296
Derivatives managed by external fund managers	-	6,847	-	6,847
Investments in bonds and other instruments managed by external fund managers	4,297,010	-	-	4,297,010
Assets held with IMF	-	1,272,750	-	1,272,750
Total assets at fair value through profit or loss	**6,331,306**	**1,279,597**	**2,226,170**	**9,837,073**
Non financial assets at fair value				
Gold	270,045	-	-	270,045
Property and equipment	-	-	457,730	457,730
Investment property	-	-	39,170	39,170
Total assets at fair value	**270,045**	**-**	**496,900**	**766,945**
Financial liabilities held at fair value through profit & loss				
Derivatives	-	2,988	-	2,988
Liabilities with IMF	-	1,861,793	-	1,861,793
Total liabilities at fair value through profit or loss	**-**	**1,864,781**	**-**	**1,864,781**

As at 31 December 2022, 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 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**

The following table presents the changes in Level 3 financial instruments (excluding the accrued interest) for year ended 31 December 2021:

	Level 3 K'000
Opening balance	**1,478,939**
Maturities/disposals, net of additional investment	691,959
Fair value revaluation gains/(losses) on level 3 instruments	55,272
Closing balance	**2,226,170**
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.	**55,272**

	Valuation Technique	Unobservable Input	Range of Inputs		Fair value movement due to change in unobservable Input	
			2022	2021	Increase	Decrease
Domestic Government securities – Inscribed stock	Discounted cash flows present value method	Current market yield	4.8% to 8.9%	8.5% to 12.5%	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 2022 is shown below. These figures are generally reflective of the Bank's exposure over the fiscal year.

	2022 K'000	2021 K'000
Changes in profit/equity due to a 10 per cent appreciation in the value of the Kina	(1,408,707)	(1,135,427)
Changes in profit/equity due to a 10 per cent depreciation in the value of the Kina	1,408,707	1,135,427

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.

	2021 K'000	2021 K'000
Changes in profit/equity due to an increase of 1 percentage point	156,366	111,433
Changes in profit/equity due to a decrease of 1 percentage point	(156,366)	(111,433)

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 2022 (2021: 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 2022, the Bank had a total of K25,594,454 (2021: K49,124,407) as capital commitments.

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

IAS 24 – Related party disclosures requires disclosure of information relating to aggregate compensation of 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 29 in total (2020: 29), including the Governor, 1 Deputy Governor, 4 Assistant Governors, 5 non-executive Board members and 19 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

	2022 K'000	2021 K'000
Short term benefits	16,327	15,787
Post-employment benefits	1,138	1,070
Other long term benefits	8,715	8,397
	26,180	**25,254**

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 long service leave and benefits related to loans and advances to staff. The components of benefits are reported on an accruals basis.

As at 31 December 2022, the loans owed by the key management personnel to the Bank were K4,030,817 (2021: K4,198,235).

Note 29: AUDITOR'S REMUNERATION

The total audit fee for the year was K1,364,550 (2021: K1,364,550). This represents the total statutory audit fee paid to the Auditor General's Office and other auditors in relation to external fund manager operations. These transactions are performed at arm's length.

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. The Government of Papua New Guinea is restricted under the *Central Banking (Amendment) Act 2021* in actively participating in Bank's decision and policy formulations. 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 2022, 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 2022 from the Bank's 2021 Retained earnings.

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 so as to give a true and fair view of the matters to which they relate for the year ended 31 December 2022.

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

David Toua
Board Chairman

Elizabeth Genia, AAICD
Acting Governor

Date: 30th June 2023

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 2022

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 2022**, 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 2022:

(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 2021 pertaining to classification of Financial Instruments. 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 the cash flows of the Bank for the year ended 31 December 2022, 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 2022. I was unable to determine whether any such adjustments might be necessary for the year ended 31 December 2022 and associated corresponding figures.

Inscribed Stock

As disclosed in *Note 10* to the Financial Statements, the Bank has Inscribed Stock amounting to K2.377 billion at 31 December 2022 and K2.226 billion at 31 December 2021. 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, a carrying value of K1.989 billion would have been recorded at 31 December 2022 and K2.042 billion at 31 December 2021, after recognizing expected credit losses. Total equity would have been reduced by K390.6 million at 31 December 2022 and K140.9 million at 31 December 2021. In addition, the fair value revaluation gain on domestic investments recorded in the statement of profit or loss and other comprehensive income would have decreased by K263.4 million for the year ended 31 December 2022 and K55.3 million for the year ended 31 December 2021, interest income would have been increased by K1.0 million for the year ended 31 December 2022 and K7.7 million for the year ended 31 December 2021, credit loss expense would have decreased by K1.6 million for the year ended 31 December 2022 and K4.1 million for the year ended 31 December 2021 and the loss for the year would have been increased by K260.8 million for the year ended 31 December 2022 and K43.4 million for the year ended 31 December 2021.

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.

Independent Audit Report on the Financial Statements of Bank of Papua New Guinea for the year ended 31 December 2022

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 March, 2024


BANK OF PAPUA NEW GUINEA