



NATIONAL RESERVE BANK OF TONGA
FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023

National Reserve Bank of Tonga
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Nuku'alofa
Kingdom of Tonga, SOUTH PACIFIC

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NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****DIRECTORS' REPORT**

In accordance with a resolution of the Board of Directors, the directors herewith submit the Balance Sheet of the National Reserve Bank of Tonga (the "Bank") as at 30 June 2023¹, and the related Statement of Comprehensive Income, Distribution, Changes in Equity and Cash Flows for the year ended on that date and report as follows:

1 DIRECTORS

The following were directors of the Bank at any time during the financial year and up to the date of this report:

- Lord Sevele 'o Vailahi – Chairman
- Mr. Richard Prema
- Mrs. Joyce Mafi
- Mrs. Kilisitina Tuaime'i'api (appointed in July 2022)
- Mr. Tatafu Moeaki – Governor (appointed in December 2022)
- Mr. John Paul Chapman (appointed in September 2022)
- Mrs. Vika Fusimalohi (appointed in September 2022)
- Mr. Sione Ngongo Kioa – Governor (resigned in September 2022)
- Mrs. Sinaitakala Tu'itahi (resigned in August 2022)
- Mr. Alfred Cowley (resigned in July 2022)

2 STATE OF AFFAIRS

In the opinion of the Directors:

- there were no significant changes in the state of affairs of the Bank during the financial year under review not otherwise disclosed in this report or the financial statements;
- the accompanying statement of financial position gives a true and fair view of the state of affairs of the Bank as at 30 June 2023 and the accompanying statement of comprehensive income, statement of changes in equity and statement of cash flows give a true and fair view of the results, changes in equity and cash flows of the Bank for the year then ended.

3 PRINCIPAL ACTIVITIES

The National Reserve Bank of Tonga's (the Bank) principal objectives as a central bank, as defined in Section 4 & 4A of the National Reserve Bank of Tonga (NRBT) (Amendment) Act 2014, shall be, to:

- 1) maintain internal and external monetary stability;
- 2) without prejudice to its principal objective, the Bank shall –
 - a) promote financial stability; and
 - b) promote a sound and efficient financial system.
- 3) Subject to subsections (10 and (2), the Bank shall conduct its activities in a manner that supports macroeconomic stability and economic growth.

The principal functions of the Bank shall be, to:

- a) issue currency;
- b) formulate and implement monetary policy;

¹ Reported in Tonga Pa'anga and financial values are rounded to the nearest Pa'anga.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****PRINCIPAL ACTIVITIES – continued**

The principal functions of the Bank shall be, to:

- c) prescribe the regime for the determination of the external value of the Tongan currency in consultation with the Minister.
- d) determine the foreign exchange rate and implement foreign exchange policy;
- e) determine and implement financial stability policy, and oversee the maintenance of the stability of the financial system as a whole;
- f) regulate as required the supply, availability and international exchange of money;
- g) exclusively hold and manage the external reserves of the Kingdom;
- h) provide advisory services to the Minister on banking and monetary matters;
- i) be the principal banker, fiscal agent and depository of the Government;
- j) undertake banking business in Tonga or elsewhere, subject to the provisions of this Act;
- k) regulate and supervise financial institutions, including non-bank financial institutions;
- l) oversee and promote the efficient, sound and safe functioning of the payment system;
- m) collect and produce statistics;
- n) cooperate with and participate in international councils and organisations, including public international financial institutions, and cooperate with domestic and foreign public entities, concerning matters related to its objectives and functions;
- o) regulate and supervise capital markets in Tonga;
- p) to manage and promote financial inclusion initiatives and related activities; and
- q) carry out any other function or any ancillary activities incidental to the exercise of its functions under this Act or any other Act.

4 OPERATING RESULTS

The net profit of the Bank for the year ended 30 June 2023 was \$20,387,379 (2022: \$529,534).

5 GENERAL RESERVES

In accordance with Section 8(1)(b) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$6,116,214 (2022: \$158,860) being 30% of the net profit for the year ended 30 June 2023, is transferred to the General Reserve at year end.

6 PAYABLE TO GOVERNMENT

In accordance with Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$14,271,165 (2022: \$370,674) is payable to the Government of the Kingdom of Tonga.

7 BAD AND DOUBTFUL DEBTS

The directors took reasonable steps before the Bank's financial statements were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

8 PROVISIONS

In relation to allowance for impairment of losses, and additional provision of \$0.02m was recorded during the financial year.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****9 ASSETS**

The directors took reasonable steps before the Bank's financial statements were made out to ascertain that the assets of the Bank were shown in the accounting records at a value equal to or below the value that would be expected to be realised in the ordinary course of business.

At the date of this report, the directors are not aware of any circumstances which would render the values attributable to the assets in the financial statements misleading.

10 DIRECTORS BENEFIT

Other than the director's remuneration and benefits as disclosed in the financial statements, no director of the Bank has, since the end of the previous financial year, received or become entitled to receive a benefit by reason of contract made by the Bank with the director or with a firm of which the director is a member, or with a company in which the director has substantial financial interest.

11 BASIS OF ACCOUNTING

The directors believe the basis of the preparation of financial statements is appropriate and the Bank will be able to continue in operation for at least 12 months from the date of this statement. Accordingly, the directors believe the classification and carrying amounts of assets and liabilities as stated in these financial statements to be appropriate.

12 OTHER CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements which render any amounts stated in the financial statements misleading.

13 UNUSUAL TRANSACTIONS

The results of the Bank's operations during the financial year have not in the opinion of the directors been substantially affected by any item, transaction or event of a material and unusual nature other than those disclosed in the financial statements.

14 EVENT SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any transactions or events of a material and unusual nature likely, in the opinion of the Board members, to affect significantly the operations of the Bank, the results of those operations or the state of affairs of the Bank.


For and on behalf of the Board of Directors in accordance with a resolution of the Directors:



Lord Sevele 'o Vailahi
Chairman

15/09/23

Date



Mr. Tatafu Moeaki
Governor

15/9/2022

Date

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****STATEMENT BY DIRECTORS**

In the opinion of the Directors:


- a) the accompanying balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 30 June 2023;
- b) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 30 June 2023;
- c) the accompanying statement of distribution is drawn up so as to give a true and fair view of the distribution of operating profit of the Bank for the year ended 30 June 2023;
- d) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in equity for the year ended 30 June 2023; and
- e) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 30 June 2023.
- f) at the date of this statement, there are reasonable grounds to believe the Bank will be able to pay its debts as and when they fall due;
- g) all related party transactions have been adequately recorded in the books of the Bank; and
- h) the financial statements of the Bank have been prepared in accordance with the National Reserve Bank of Tonga Acts and legislated amendments to date.

For and on behalf of the Board of Directors by authority of a resolution of the Directors:



Lord Sevele 'o Vailahi
Chairman

15/09/23
Date



Mr. Tatafu Moeaki
Governor

15/9/2023
Date

The above balance sheet should be read in conjunction with the accompanying notes.

Independent Auditor's Report

To the Board of Directors of National Reserve Bank of Tonga

Opinion

We have audited the accompanying financial statements of the National Reserve Bank of Tonga ("the Bank"), which comprise the statement of financial position as at 30 June 2023, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information set out in notes 1 to 24.

In our opinion, the accompanying financial statements of the Bank as at and for the year ended 30 June 2023, are prepared, in all material respects, in accordance with the basis of preparation described in Note 2 to the financial statements and the requirements of the National Reserve Bank of Tonga Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Bank in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the National Reserve Bank of Tonga Act, and the ethical requirements that are relevant to our audit of the financial statements in Tonga and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis Of Matter – Basis of Preparation and Restriction on Use

We draw attention to Note 2(a) and 2(b) to the financial statements which describes the basis of preparation.

The financial statements have been prepared to assist the Directors of the Bank in complying with the financial reporting requirements of National Reserve Bank of Tonga Act.

As a result, the financial statements and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the Directors of the Bank and should not be used by parties other than the Directors of the Bank. We disclaim any assumption of responsibility for any reliance on this report, or on the financial statements to which it relates, to any person other than the Directors of the Bank or for any other purpose than that for which it was prepared.

Other Matter

The financial statements of the Bank for the year ended 30 June 2023, were audited by another auditor who expressed an unqualified opinion on those financial statements on 31 October 2022.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report and directors' report, but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. When we read the annual report, if we conclude that there is a material misstatement therein of this other information, we are required to communicate that fact. We have nothing to report in relation to the Directors' report.

Responsibilities of Management for the Financial Statements

Management are responsible for the preparation of the financial statements in accordance with the basis of preparation described in Note 2(a) and 2(b) to the financial statements and the requirements of the National Reserve Bank of Tonga Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


In preparing the financial statements, management are responsible for assessing and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

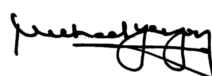
Auditor's Responsibilities for the Audit of the Financial Statements

Our 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 these financial statements.

- As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We are 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 our 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 management.
- Conclude on the appropriateness of 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 that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



KPMG



Michael Yee Joy

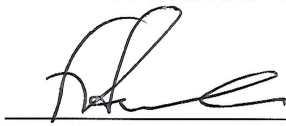
Partner

Suva, Fiji

15 September, 2023

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****BALANCE SHEET**

	Notes	2023 \$	2022 \$
ASSETS			
Foreign Currency Assets			
Short/Long Term Investments and Current Accounts	8	851,157,990	801,947,340
Accrued Interest		19,610,321	7,033,412
International Monetary Fund (IMF)			
- Reserve Tranche Position	9 (b)	10,889,205	10,749,556
- Special Drawing Rights	9 (a) iii	59,340,539	58,435,683
Local Currency Assets			
Cash on Hand	19	10,666	7,456
Accrued Interest		52,586	-
Other Assets	10	11,621,855	9,921,042
Property, Plant and Equipment	11	10,443,414	10,281,822
Total Assets		963,126,576	898,376,311
LIABILITIES			
Foreign Currency Liabilities			
Accrued Interest		57,689	4,142
Demand Deposits	12(a)	77,275,079	41,550,419
IMF Special Drawing Rights Allocation	9 (a) iii	62,761,330	61,956,445
Local Currency Liabilities			
Payable to Government	13	14,271,165	370,674
Demand Deposits	12(b)	504,158,153	541,184,871
Accrued Interest		167,528	15,456
Other Liabilities	17	5,102,780	3,383,208
Currency in Circulation	14	118,026,586	138,018,723
Statutory Reserve Deposits	15	123,395,000	81,819,000
Debt Securities Issued	16	25,000,000	-
Employee Provisions	18	96,789	147,063
Total Liabilities		930,312,099	868,450,001
NET ASSETS		32,814,477	29,926,310
CAPITAL AND RESERVES			
Paid up Capital		5,000,000	5,000,000
General Reserves		22,748,068	16,631,854
Revaluation Reserve Account		5,066,409	8,294,456
TOTAL CAPITAL AND RESERVES		32,814,477	29,926,310



Lord Sevele 'o Vailahi
Chairman

15/09/23
Date



Mr. Tatafu Moeaki
Governor

15/9/2023
Date

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS**
YEAR ENDED 30 JUNE 2023**STATEMENT OF COMPREHENSIVE INCOME**

Income	Notes	2023	2022
		\$	\$
Interest Income	4	26,810,437	5,351,355
Other Income	5	3,581,734	3,060,776
Total Operating Income		30,392,171	8,412,131
Expenses			
Interest expense	6	1,889,625	153,036
Administration and other expenses	7	8,096,542	7,712,145
Allowance for impairment losses		18,625	17,416
Total Operating Expenses		10,004,792	7,882,597
Net profit available for distribution		20,387,379	529,534
Net losses arising from the translation of foreign currency balances to local currency	2 (b)	(3,228,047)	(4,471,704)
Other comprehensive losses for the period		(3,228,047)	(4,471,704)
Total comprehensive income/(loss)		17,159,332	(3,942,170)

The above statement of comprehensive income should be read in conjunction with the accompanying notes

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS**
YEAR ENDED 30 JUNE 2023**STATEMENT OF CHANGES IN EQUITY**

	Paid up Capital \$	General Reserves \$	Revaluation Reserve Account \$	Retained Earnings \$	Total \$
Balance 30 June 2021	5,000,000	16,472,994	12,766,160	-	34,239,154
Net Profit				529,534	529,534
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	(4,471,704)	-	(4,471,704)
Transfer to General Reserves (as provided for under Section 8(1)(c) of the National Reserve Bank of Tonga (Amendment) Act 2014, and approved by the Minister of Finance (note 2m))	-	158,860	-	(158,860)	-
Balance Payable to Government of Tonga as required under Section 8(3) of the National Reserve Bank of Tonga (Amendment) Act 2014.	-	-	-	(370,674)	(370,674)
Balance 30 June 2022	5,000,000	16,631,854	8,294,456	-	29,926,310
Net Profit	-	-	-	20,387,379	20,387,379
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	(3,228,047)	-	(3,228,047)
Transfer to General Reserves (as provided for under Section 8(1)(c) of the National Reserve Bank of Tonga (Amendment) Act 2014, and approved by the Minister of Finance (note 2m))	-	6,116,214	-	(6,116,214)	-
Balance Payable to Government of Tonga as required under Section 8(3) of the National Reserve Bank of Tonga (Amendment) Act 2014.	-	-	-	(14,271,165)	(14,271,165)
Balance 30 June 2023	5,000,000	22,748,068	5,066,409	-	32,814,477

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS**
YEAR ENDED 30 JUNE 2023**STATEMENT OF CASH FLOWS**

	Notes	2023	2022
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		14,180,943	2,866,550
Rental income		1,762,652	593,808
Numismatic sales		37,654	80,565
Other income		2,684,798	2,394,391
Purchase of currency		(3,266,467)	(1,636,511)
Interest paid		(1,684,006)	(149,125)
Payments to suppliers and employees		(5,336,140)	(4,515,158)
Net cash inflow from operating activities		8,379,434	(365,480)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(860,603)	(239,449)
Net movement in IMF accounts		(1,044,504)	(40,636,993)
Net movement in staff loans		263,111	(142,193)
Net movement in investible reserves		(50,044,821)	(133,881,396)
Net cash used in investing activities		(51,686,817)	(174,900,031)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in currency in circulation		(19,992,137)	22,125,450
Net movement in demand deposits		(50,684,062)	79,896,275
Net movement in statutory deposits		41,576,000	13,936,000
Net movement in Government of Tonga account		49,382,004	3,986,823
Net movement in funds held for clearance		-	157,447
Net movement in IMF SDR Allocation		804,885	40,823,506
Profit repatriation to Government		(370,674)	-
Debt securities issued by the Bank		25,000,000	-
Net cash inflow from financing activities		45,716,016	160,925,501
NET INCREASE IN CASH		2,408,633	(14,340,010)
CASH AND CASH EQUIVALENT AT BEGINNING OF FINANCIAL YEAR		13,256,545	32,068,259
NET EFFECT OF CHANGE IN EXCHANGE RATE	2 (b)	(3,228,047)	(4,471,704)
CASH AND CASH EQUIVALENT AT END OF FINANCIAL YEAR	19	12,437,131	13,256,545

The above statement of cash flows is to be read in conjunction with the accompanying notes.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****1 GENERAL INFORMATION**

The National Reserve Bank of Tonga's ("Bank") principal objectives as a central bank, as defined in Section 4 & 4A of the NRBT (Amendment) Act 2014, shall be, to:

- 1) The principal objectives of the Bank shall be to maintain internal and external monetary stability
- 2) Without prejudice to its principal objective, the Bank shall-
 - a) promote financial stability; and
 - b) promote a sound and efficient financial system.
- 3) Subject to subsections (1) and (2), the Bank shall conduct its activities in a manner that supports macroeconomic stability and economic growth.

The principal functions of the Bank shall be, to:

- a) issue currency;
- b) formulate and implement monetary policy;
- c) prescribe the regime for the determination of the external value of the Tongan currency in consultation with the Minister;
- d) determine the foreign exchange rate and implement foreign exchange policy;
- e) determine and implement financial stability policy, and oversee the maintenance of the stability of the financial system as a whole;
- f) regulate as required the supply, availability and international exchange of money;
- g) exclusively hold and manage the external reserves of the Kingdom;
- h) provide advisory services to the Minister on banking and monetary matters;
- i) be the principal banker, fiscal agent and depository of the Government;
- j) undertake banking business, in Tonga or elsewhere, subject to the provisions of this Act;
- k) regulate and supervise financial institutions, including non-bank financial institutions;
- l) oversee and promote the efficient, sound and safe functioning of the payment system;
- m) collect and produce statistics;
- n) cooperate with and participate in international councils and organisations, including public international financial institutions, and cooperate with domestic and foreign public entities, concerning matters related to its objectives and functions;
- o) regulate and supervise capital markets in Tonga; and
- p) to manage and promote financial inclusion initiatives and related activities; and
- q) carry out any other function or any ancillary activities incidental to the exercise of its functions under this Act or any other Act.

These financial statements have been approved for issue by the Board of Directors on 15th day of September 2023.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS**a) Basis of accounting**

The financial statements of the Bank have been prepared in accordance with the National Reserve Bank of Tonga Acts and legislated amendments to date.

The financial statements are prepared on the basis of the historical cost convention, which has no regard to changes in the levels of prices. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

Standards, amendments, and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations have been issued, however not yet effective, hence have not been applied in preparing these financial statements.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued****a) Basis of accounting**

New interpretations, standards, or amendments	Effective date
Amendments to IAS 1: Classification of liabilities as Current or Non-Current	1 January 2024
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
Disclosure of Accounting policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.	1 January 2023
Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction - Amendments to IAS 12 Income Taxes	1 January 2023
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024

b) Foreign currencies

Monetary assets and liabilities have been translated to Tonga currency at rates of exchange ruling at year end. Exchange gains and losses arising during the year from changes in the valuation of foreign currencies are taken to the Revaluation Reserve Account in accordance with the provisions of Section 33 of the Act and are not included in the computation of annual profits or losses of the Bank as required under International Accounting Standard 21, "The Effects of Changes in Foreign Exchange Rates" (IAS 21) which requires that foreign exchange gains or losses be recorded in profit or loss.

In accordance with the Act, net losses arising from exchange rate fluctuations are set off against any credit balance in the Revaluation Reserve Account; if such balance is insufficient to cover such losses, Cabinet shall cause to be transferred to the ownership of the Bank non-negotiable market interest bearing securities issued by the Government to the extent of the deficiency.

Any credit balance in the Revaluation Reserve Account at the end of each year may be used by the Reserve Bank for the costs of implementing the monetary policy subject to the approval by the Board or be paid to the Government upon the request of the Minister in writing to the Reserve Bank subject to the market conditions and approval by the Board provided that the Revaluation Reserve Account maintains a minimum balance of \$10,000,000 and any balance remaining in the Revaluation Reserves Account shall be carried forward to the next financial year.

In the opinion of the Directors, the accounting treatment adopted is appropriate in view of the requirement of Section 33 of the Act. Had the Bank adopted IAS 21, there would have been a decrease in net profit of \$3,228,047 (2022: \$4,471,704) for the year ended 30 June 2023.

c) Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of 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 on-going basis. Revisions to accounting estimates are categorised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty, and critical judgements in applying accounting policies that have the most significant effect on the amounts categorised in the financial statements are included in the following notes:

Note 2 (d) – Expected credit losses

Note 2 (j) – Provisions for employee entitlements

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS- continued****2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued****d) Financial Assets and Liabilities*****Financial instruments*****(i) Recognition and initial measurement**

Debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii) Classification and subsequent measurement***Financial assets***

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Bank changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

On initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

During the year and at year end there were no financial instruments that were classified by the Bank as FVOCI and/or FVTPL. Short and long term debt securities investments, current accounts and IMF assets are classified as amortized costs.

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The Bank makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities, or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Bank's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest

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 a 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 this assessment, the Bank considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

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These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. The Bank does not have any financial asset under this category.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss. The Bank does not have any financial asset under this category.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. The Bank does not have any financial asset under this category.

Financial liabilities: Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition**Financial assets**

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Bank enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Bank also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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If the terms of a financial asset are modified, 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 financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income.

Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment**Financial instruments**

The Bank recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and including forward-looking information.

The Bank assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Bank considers a financial asset to be in default when:

- the counterparty 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); or
- the financial asset is more than 90 days past due.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank considers this to be A grade or higher as per the rating by Standard & Poors.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

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ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a receivable by the Bank on terms that the Bank would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Bank determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

e) Currency and Numismatics Inventory

Currency and numismatics on hand are recognised in the statement of financial position at cost. All costs incurred in respect to production, conversion and logistic costs to bring the item to the Bank's premises is capitalised. Currency issuances are determined on a first-in-first-out basis. When currency is issued the value is reduced and amortisation expense is recognized in profit or loss.

Currency inventory relates to notes and coins purchase for circulation.

f) Currency in Circulation

The exclusive rights of national currency issue are vested with the Bank. Currency in circulation comprises notes and coins issued by the Bank and represent a claim on the Bank in favour of the holder. Currency in circulation relates to the issue of notes and coins and demonetized currency that have yet to be redeemed, less notes and coins redeemed. The liability for currency in circulation is recorded at face value.

Numismatic items are not accounting for as currency in circulation as they are not issued for monetary purpose.

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Revenue is measured based on the consideration specified in a contract with a customer. The Bank recognises revenue when it transfers control over a good or service to a customer. The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers.

Products and services	Nature, timing of satisfaction of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Sale of numismatic coins	Sales include the selling of numismatic to the customer. Performance obligation is satisfied when the customer received the numismatic coins. Hence, revenue is recognised at a point in time basis.	Revenue and associated costs are recognised when the goods are provided - i.e. when the numismatic is issued to the customer and payment is due immediately when the goods are provided to the customers.

Interest Income

Interest income is recognized in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discount estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

The calculation of the effective interest rate includes all transaction costs and fees paid or received that are integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to acquisition or issues of a financial asset or liability.

In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. For financial assets measured at amortised cost, the effective interest rate method is used to measure the interest income recognised in the Statement of comprehensive income.

Rental income

Rental income is recorded over the term of the tenancy agreement on a straight-line basis.

Other income

Other income includes fees income and are recorded when the related services are rendered.

h) Income tax

The Bank is exempted from all Government taxes in accordance with Section 55 of the National Reserve Bank of Tonga Act, 1988.

i) Property Plant and Equipment

Property, plant and equipment (PPE) is stated at cost less accumulated depreciation and impairment losses. Costs includes expenditure that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment. Subsequent expenditure is only capitalized when it is probable that the future economic benefits of the expenditure will flow to the Bank. Repairs and maintenance are expensed as incurred.

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Items of PPE are depreciated on a straight-line basis so as to write off the cost of each asset over its estimated useful life. The principal annual rates in use are:

Leasehold and buildings	1.01% - 2%
Furniture and fittings	20% - 25%
Computer and office equipment	6.67% - 25%
Motor vehicles	25%

j) Employee Entitlements

Defined contribution pension plan

The Bank has its own Staff Provident Fund and all staff contribute to this scheme. The bank and staff contributions are based on the years of service and is recorded as an expense in profit or loss. Unpaid contributions are recorded as a liability.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employee benefits

Liabilities for other employee entitlements which are not expected to be paid or settled within twelve months of the reporting date are accrued in respect of all employees at the present value of future amounts expected to be paid.

k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, and other short term highly liquidity investments with original maturity of three months.

l) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

m) General Reserve and Distribution of Profits

Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act 2014 states that:

The net profits of the Bank for any financial year, after meeting all current expenditure for that year and after making provision for bad and doubtful debts, depreciation in assets and any other purposes deemed necessary by the Board shall be allocated as follows:

- a) where the General Reserve does not exceed 50% of the authorised capital of the Bank, 100% of the net profit be transferred to the General Reserve;
- b) where the General Reserve exceeds 50% of the authorised capital of the Bank, 30% to be transferred to the General Reserve until the sum of the General Reserve and the authorised capital of the Bank equal 10% of the total monetary liabilities of the Bank.

Provided that upon agreement between the Minister and the Bank the General Reserve may be increased.

- Section 8(2) states that subject to Section 8(1), the remainder of the net profits for the financial year shall be applied to the redemption of any securities issued under Section 6 held by the Bank.
- Section 8(3) states that the Board shall, with the approval of the Minister, subject to Section 8(1) and 8(2), allocate to the General Reserve and pay to Government's general revenue the remaining net profit.

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Foreign exchange gains and losses arising from revaluation of foreign currencies are transferred to the Revaluation Reserve (refer Note 2(b)) and are not included in the computation of annual profits and losses of the Bank. Section 33 (4) of the National Reserve Bank of Tonga (Amendment) Act 2017 sets out the conditions of use of the Reserve Revaluation Account provided that a minimum balance of \$10,000,000 is maintained.

o) Leases

As a lessee

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The Bank does not have leases which contain the following:

- amounts expected to be payable by the lessee under residual value guarantees

The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Bank's incremental borrowing rate. Right-of-use assets are measured at cost comprising the following the amount of the initial measurement of lease liability.

Right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset, or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Cash payments for the principal portion of the lease liabilities are presented as cash flows from financing activities. Cash payments for the interest portion are presented as cash flows from operating activities, consistent with presentation of other interest payments. Short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities are presented as cash flows from operating activities

As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

Lease income from operating leases where the Bank is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

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Section 33 (4) of the National Reserve Bank (Amendment) Act 2017 allows the Bank to utilize the Revaluation Reserve Account for its Monetary Policy responsibilities. In anticipation of the impact of the COVID 19 on the Bank and its statutory responsibilities, the Board approved in May 2020, to transfer \$1.595m from the Revaluation Reserve Account to fund the 2020/21 Development Budget. From the financial year 2020/2021 to 2022/2023 a total of \$1.113 million (2022: \$877k) of assets were acquired while \$482k (2022: \$628k) remains unused.

The Bank follows the income approach framework related to Government grant accounting to account for the assets acquired under this initiative. Assets are recorded at cost when acquired while a deferred development fund account (DFA) is set up as a liability in the Balance Sheet. This deferred liability account is reduced on a systematic basis over the useful life of the assets necessary to match with the assets' related depreciation costs.

q) Functional and Presentation Currency

The Bank's financial statements are expressed in Tonga Pa'anga, which is the Bank's functional currency.

r) Rounding

Amounts in the financial statements are rounded to the nearest dollars unless otherwise stated.

s) Changes to Comparatives

Certain amounts in the comparative information have been reclassified to conform with current period financial statement presentations.

The classification of the balance sheet was changed during the period to more consistently reflect the nature of the financial assets and liabilities. Prior to this reclassification, the balance sheet was classified according to nature. The key changes include:

Cash Flow Statement

- All short/long term investments and current accounts previously defined and reported in cash and cash equivalents for purpose for cash flow statements. For the purposes of the cash flow statement, cash and cash equivalents now includes cash on hand, and other short term highly liquidity investments with original maturity of three months.
- Consequently, the statement did not report movement in investible reserves as it was defined as cash and cash equivalents.

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The tables below show the impact of these changes on the statement of cash flow, together with the impact of the change in the definition of cash and cash equivalents explained above.

	2022 Previously reported \$	Change \$	2022 Currently reported \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received	2,866,550	-	2,866,550
Rental income	593,808	-	593,808
Numismatic sales	80,565	-	80,565
Other income	2,394,391	-	2,394,391
Purchase of currency	(1,636,511)	-	(1,636,511)
Interest paid	(149,125)	-	(149,125)
Payments to suppliers and employees	(4,543,405)	28,247	(4,515,158)
Net cash inflow from operating activities	(393,727)	28,247	(365,480)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets	(239,449)	-	(239,449)
Net movement in IMF accounts	(40,636,993)	-	(40,636,993)
Net movement in staff loans	(142,193)	-	(142,193)
Net movement in investible reserves	-	(133,881,396)	(133,881,396)
Net cash used in investing activities	(41,018,635)	(133,881,396)	(174,900,031)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in currency in circulation	22,125,450	-	22,125,450
Net movement in demand deposits	79,896,275	-	79,896,275
Net movement in statutory deposits	13,936,000	-	13,936,000
Net movement in Government of Tonga account	3,986,823	-	3,986,823
Net movement in funds held for clearance	-	-	157,447
Net movement in IMF SDR Allocation	40,823,506	-	40,823,506
Net cash inflow from financing activities	160,925,501	-	160,925,501
NET INCREASE IN CASH	119,513,139	(133,853,149)	(14,340,010)
CASH AND CASH EQUIVALENT AT BEGINNING OF FINANCIAL YEAR	689,913,361	(657,845,102)	32,068,259
Net effect of change in exchange rate	(4,471,704)	-	(4,471,704)
CASH AND CASH EQUIVALENT AT END OF FINANCIAL YEAR	801,954,796	(791,698,251)	13,256,545

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued****3 FINANCIAL RISK MANAGEMENT**

The Bank carries out a wide range of activities, from operating monetary policy to monitoring, regulating and supervising the health of the financial system, managing foreign reserves and banking system liquidity, providing payment systems and settlement services, and issuing currency, supported by a range of corporate services. These activities expose the Bank to a variety of risks. The majority of the Bank's financial risks arise from the foreign reserves management unit of the Bank's Financial Markets Department. The main financial risks to which the Bank is exposed include credit risk, liquidity risk and market risks and policies for managing these risks are outlined below.

a) Credit Risk

Credit risk relates to the risk of loss arising from the failure of counterparty to a transaction to perform according to the terms and conditions of the financial contract.

Credit risk or safety is a key criterion in the determination of the composition of the Bank's foreign currency assets. To manage this credit risk, the Bank prescribes minimum credit ratings acceptable for investment and specifies the maximum permissible credit exposure to individual banks and countries. In addition, the number of commercial banks, with whom the Bank may deal with in foreign exchange must have minimum credit ratings of A.

The NRBT uses Standard & Poor's credit ratings of assessing the credit risk of foreign counterparties. The credit ratings of counterparties are on "watch" all the time and are updated as new market information is available.

The concentration of credit risk in the Bank's investment portfolio is as follows.

	2023	2022
	\$	\$
Foreign currency assets		
Short/Long Term Investments and current accounts	851,217,303	801,995,105
International Monetary Fund	70,229,744	69,185,239
Accrued Interest	19,610,321	7,033,412
Less: Allowance for impairment losses	(59,312)	(47,765)
	940,998,056	878,165,991
Local currency assets		
Staff loans	4,306,063	4,569,174
Accrued Interest	52,586	-
Less: Allowance for impairment losses	(47,762)	(40,683)
	4,310,887	4,528,491
Total financial investments	945,308,943	882,694,482

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
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The Bank's end of year concentration of credit exposure is based on Standard & Poor's credit rating of the foreign counterparties based on the country in which the counterparty is a resident. N/R indicates the entity has not been rated by Standard & Poor's and includes exposure to Supranational.

Currency	Rating	2023	2022
		\$	\$
USD	AAA	163,175,545	211,176,842
	AA+	8,944,725	8,155,788
	AA-	226,999,824	237,434,029
	AA	483,235	459,862
	A+	104,990,816	45,594,630
AUD	AAA	499,622	2,511,424
	AA-	171,529,026	67,243,482
	A+	3,199,207	1,616,140
NZD	AAA	135,700	2,189,718
	AA+	1,368,853	544,988
	AA-	117,411,432	147,039,515
	A+	71,464,969	84,076,452
GBP	AAA	5,160	4,760
	AA	507,334	964,510
EURO	AAA	73	0
FJD	B+	884	8,152
TOP	N/R	4,358,649	4,569,174
SDR	N/R	70,340,962	69,193,464
		945,416,016	882,782,930
Less: Allowance for impairment losses		(107,073)	(88,448)
Total Financial Investment		945,308,943	882,694,482

b) Liquidity Risk

Liquidity risk relates to the difficulty in raising funds at short notice to meet commitments. Liquidity is a key criterion in the determination of composition of the Bank's foreign currency assets.

To minimize liquidity risk, the Bank maintains an adequate level of reserves and taking into consideration the transaction demand on foreign exchange, ensures that an appropriate amount is maintained in current accounts at all times. The minimum balance that should be maintained in current accounts at any point in time, by currency, is as follows:

- USD – \$3,000,000
- NZD – \$300,000
- AUD – \$100,000
- GBP – \$190,000

The balances of the investible reserves are placed on term investments of up to 12 months. The composition of foreign currency assets is monitored daily. The Bank manages liquidity on a contractual maturity basis, which is consistent with the expected maturities of financial instruments.

NATIONAL RESERVE BANK OF TONGA

FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued

3 FINANCIAL RISK MANAGEMENT - continued

b) Liquidity Risk - continued

The maturity analysis noted below includes all financial and non-financial assets and liabilities as at 30 June 2023

Maturity Analysis as at 30 June 2023

	0-3 Months \$	3-12 Months \$	1-5 Years \$	Over 5 Years \$	No Specific Maturity \$	Total \$
Foreign Currency Assets						
Short Term Investments and current accounts ²	210,964,384	514,863,126	174,926,002	-	121,880	900,875,392
IMF - Reserve Tranche position	-	-	-	-	10,889,205	10,889,205
- Special Drawing Rights	-	-	-	-	59,340,539	59,340,539
Local Currency Assets						
Cash on hand	10,666	-	-	-	-	10,666
Other Assets ³	3,376,425	572,643	2,259,387	2,145,165	4,178,502	12,532,122
Property, Plant & Equipment	-	-	-	-	10,443,414	10,443,414
Total Assets	214,351,475	515,435,769	177,185,388	2,145,165	84,973,540	994,091,338
Foreign Currency Liabilities						
Accrued Interest	57,689	-	-	-	-	57,689
Demand Deposits	77,275,079	-	-	-	-	77,275,079
IMF Special Drawing Rights allocation	-	-	-	-	62,761,330	62,761,330
Local Currency Liabilities						
Payable to Government	14,271,165	-	-	-	-	14,271,165
Demand Deposits	504,158,153	-	-	-	-	504,158,153
Other Liabilities	926,060	-	4,176,720	-	-	5,102,780
Currency in Circulation	-	-	-	-	118,026,586	118,026,586
Statutory Reserve Deposits	-	-	-	-	123,395,000	123,395,000
Debt Securities Issued ⁴	-	-	-	-	-	25,500,000
Employee Provisions	-	25,500,000	-	-	-	-
Total Liabilities	596,688,146	25,563,470	4,210,039	-	304,182,916	930,644,571
Net Assets	(382,336,671)	489,872,299	172,975,350	2,145,165	(219,209,376)	63,446,767

² Includes accrued interest on the external reserves

³ Includes accrued interest on staff loans

⁴ Includes accrued interest on the debt security issued by the Bank

NATIONAL RESERVE BANK OF TONGA

**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued

3 FINANCIAL RISK MANAGEMENT – continued

b) Liquidity Risk - continued

The maturity analysis noted below includes all financial and non-financial assets and liabilities as at 30 June 2022.

Maturity Analysis as at 30 June 2022

	0-3 Months \$	3-12 Months \$	1-5 Years \$	Over 5 Years \$	No Specific Maturity \$	Total \$
Foreign Currency Assets						
Short Term Investments and current accounts	16,374,197	705,114,501	87,483,305	-	8,749	808,980,752
IMF - Reserve Tranche position	-	-	-	-	10,749,556	10,749,556
- Special Drawing Rights	-	-	-	-	58,435,683	58,435,683
Local Currency Assets						
Cash on hand	7,456	-	-	-	-	7,456
Accrued Interest	-	-	-	-	-	-
Other Assets	13,734	-	1,322,088	3,206,403	5,378,817	9,921,042
IMF - Currency subscription	32,198,006	-	-	-	-	32,198,006
Property, Plant & Equipment	-	-	-	-	10,281,822	10,281,822
Total Assets	48,593,393	705,114,501	88,805,393	3,206,403	84,854,627	930,574,317
Foreign Currency Liabilities						
Accrued Interest	4,142	-	-	-	-	4,142
Demand Deposits	41,550,419	-	-	-	-	41,550,419
IMF Special Drawing Rights allocation	-	-	-	-	61,956,445	61,956,445
Local Currency Liabilities						
Payable to Government	370,674	-	-	-	-	370,674
Demand Deposits	541,184,871	-	-	-	-	541,184,871
Accrued Interest	15,456	-	-	-	-	15,456
Other Liabilities	-	3,383,208	-	-	-	3,383,208
Currency in Circulation	-	-	-	-	138,018,723	138,018,723
Statutory Reserve Deposits	-	-	-	-	81,819,000	81,819,000
IMF - Currency Subscription	-	-	-	-	32,198,006	32,198,006
Employee Provisions	-	128,000	14,263	4,800	-	147,063
Total Liabilities	583,125,562	3,511,208	14,263	4,800	313,992,174	900,648,007
Net Assets	(537,656,550)	699,826,270	93,693,058	3,201,603	(29,138,071)	29,926,310

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****3 FINANCIAL RISK MANAGEMENT – continued****c) Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. In respect of the Bank, market risk comprises interest rate risk and foreign currency risk.

i) Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in interest rates. The Bank limits interest rate risk by modified duration targets. The benchmark modified duration for the total portfolio is capped at 12 months. The duration of the portfolio is re-balanced regularly to maintain the target duration.

The Bank has invested in investments that yield fixed interest. Given the nature of these investments, exposure to interest rate risk is not considered significant by the Bank.

ii) Foreign exchange risk

Exchange rate risk relates to the risk of loss arising from changes in the exchange rates against the Tonga Pa'anga. The Bank has adopted a currency risk management policy, which maintains the Tonga Pa'anga value of foreign reserves and minimises the fluctuations in the Revaluation Reserve Account.

The value of the Tonga Pa'anga is determined by a basket of currencies. To minimise the exchange rate risk, the weights of the currencies in the exchange rate basket is the benchmark for the composition of the Bank's foreign currency assets.

The following significant exchange rates were used at period end to convert foreign currency balances to the Tonga Pa'anga equivalent.

	<u>Reporting date spot rate</u>	
	2023	2022
USD	0.4212	0.4261
AUD	0.6361	0.6196
GBP	0.3339	0.3515
NZD	0.6944	0.6849
SDR	0.3143	0.3197

The following tables show the currency concentration of the Bank's net exposure to foreign currencies as at 30 June 2023 in Tonga Pa'anga equivalents.

	2023	2022
	\$	\$
United States Dollar	475,171,247	461,835,404
Australian Dollar	127,761,353	71,197,404
Great Britain Pound	512,495	969,270
New Zealand Dollar	189,995,275	233,459,847
Other	7,522,826	7,241,029
Total Net Foreign Exchange Position	800,963,196	774,702,954

iii) Sensitivity to Foreign Currency Risk and Interest Rate Risk

The sensitivity of the Bank's financial assets and liabilities to assume across the board changes in exchange rate and the interest rates with all other variables held constant is shown below:

Impact of:	2023	2022
	\$	\$
Change in equity due to a 5% appreciation / depreciation of the Tonga Pa'anga	40,048,170	38,735,148

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****4 INTEREST INCOME**

	2023	2022
	\$	\$
Overseas investments	26,604,855	5,230,978
Staff loans	205,582	120,377
	26,810,437	5,351,355

5 OTHER INCOME

Numismatic coins	37,654	80,565
Rental income	687,660	585,820
Gain on sale of assets	-	81
Forex sales/ purchases	2,615,075	2,260,227
Bank user fees	69,260	66,279
Miscellaneous	172,085	67,804
	3,581,734	3,060,776

6 INTEREST EXPENSES

Foreign currency accounts	1,451,710	64,674
Domestic currency accounts	437,915	88,362
	1,889,625	153,036

7 ADMINISTRATION EXPENSES

Administration	1,703,151	11,255,195
Retirement fund	571,895	619,401
Staff costs	3,400,642	3,517,397
Director's fee	312,059	231,737
Audit fees	38,333	21,250
Currency issue (refer note 10)	1,371,450	1,488,637
Depreciation	699,012	578,528
	8,096,542	7,712,145

8 SHORT/LONG TERM INVESTMENTS AND CURRENT ACCOUNTS**Current Assets**

Current accounts	12,426,465	13,249,089
Short term investments	683,353,530	701,841,811

Non-Current Assets

Long term investments	155,437,307	86,904,205
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	851,217,302	801,995,105
Less: Impairment allowances for financial instruments	(59,312)	(47,765)
	851,157,990	801,947,340

Allowance for impairment losses have been provided on short/long term investments and current accounts in accordance with the requirements of IFRS 9

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****9 INTERNATIONAL MONETARY FUND****a) Special drawing Rights**

- i) The Bank was designated to serve with effect from 1 July 1989 as the fiscal agent of the Kingdom of Tonga for the purposes of the International Monetary Fund (IMF) by virtue of Section 51(1) of the National Reserve Bank of Tonga Act, 1988, and assumed the financial obligations of the membership of the Kingdom of Tonga as from that date by virtue of section 36(1)(c) of the National Reserve Bank of Tonga Act, 1988.
- ii) As at 30 June 2023, Tonga's membership subscription to the International Monetary Fund was SDR13,800,000 (2022: SDR13,800,000). Of this total amount, SDR3,436,633 (2022: SDR3,436,633) had been paid in foreign currencies, shown in the Balance Sheet as Reserve Tranche Position, and the remaining balance representing the Currency Subscription portion was satisfied by crediting the demand deposit accounts of the International Monetary Fund with the Bank.
- iii) Special Drawing Rights holdings is an interest-bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the Fund. As at 30 June 2023, the Special Drawing Rights holdings had a balance of SDR18,727,874 (2022: SDR18,681,888) which is equivalent to TOP59,340,539 (2022: TOP58,435,683). On the liability side, the Special Drawing Rights allocations had a balance of SDR19,807,506 (2022: SDR19,807,506) which is equivalent to TOP62,761,330 (2022: TOP61,956,445)

b) Reserve Tranche Position

As mentioned in the note 9 (a) ii Tonga's membership subscription to the international monetary fund (IMF) was SDR 13,800,000 of which SDR 3,436,633 has been paid in foreign currencies (shown under balance sheet as Reserve Tranche Position) and the remaining balance representing the currency subscription. The details of the IMF member's quota subscription is disclosed in the table below.

	2023	2022
	\$	\$
<i>Current Assets - NIL</i>		
<i>Non-Current Assets</i>		
Member's Quota Subscriptions	43,860,697	42,947,560
(Less) IMF Holdings in Member's designated depositing agency	(32,971,492)	(32,198,004)
 Reserve Tranche Position	 10,889,205	 10,749,556

10 OTHER ASSETS*Current Asset*

Accounts Receivable	62,737	13,734
Currency and numismatic inventory	4,178,502	5,201,384

Non-Current Assets

Staff loans	4,306,063	4,569,174
Prepayments	3,122,315	177,433
	11,669,617	9,961,725
Less Impairment allowance for staff loans	(47,762)	(40,683)
	11,621,855	9,921,042

The amount charged to the statement of comprehensive income for currency expense is based on the total cost of notes and coins issued for circulation.

Allowance for impairment losses have been provided on the staff loans in accordance with the requirements of IFRS 9.

NATIONAL RESERVE BANK OF TONGA

FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2023

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

11 PROPERTY, PLANT & EQUIPMENT

	Leasehold & Buildings \$	Computer and Office Equipment \$	Furniture and Fittings \$	Motor Vehicles \$	WIP \$	TOTAL \$
At 30 June 2021						
Cost	11,810,928	2,712,670	354,663	364,249	851,091	16,093,601
Accumulated Depreciation	(3,311,061)	(1,540,772)	(256,618)	(364,249)	0	(5,472,700)
Net Book Amount	8,499,867	1,171,898	98,046	0	851,091	10,620,901
Year Ended 30 June 2022						
Opening net book value	8,499,867	1,171,898	98,046	0	851,091	10,620,901
Additions	18,584	75,935	7,747		137,184	239,449
Transfer in/out	13,106	149,561			(162,667)	0
Depreciation	(293,305)	(241,165)	(44,058)	0		(578,528)
Closing net book value	8,238,252	1,156,229	61,735	0	825,608	10,281,822
At 30 June 2022						
Cost	11,842,617	2,938,166	362,410	364,249	825,608	16,333,050
Accumulated Depreciation	(3,604,367)	(1,781,937)	(300,676)	(364,249)	0	(6,051,228)
Net Book Amount	8,238,252	1,156,229	61,735	0	825,608	10,281,822
Year Ended 30 June 2023						
Opening net book value	8,238,252	1,156,229	61,735	0	825,608	10,281,822
Additions	110,653	286,141	31,291		432,519	860,604
Transfer in/out	10,420	319,281	2,327		(332,028)	0
Depreciation	(298,279)	(355,003)	(45,730)	0		(699,012)
Closing net book value	8,061,045	1,406,648	49,623	0	926,099	10,443,414
At 30 June 2023						
Cost	11,963,689	3,543,588	396,029	364,249	926,099	17,193,654
Accumulated Depreciation	(3,902,645)	(2,136,940)	(346,406)	(364,249)	0	(6,750,240)
Net Book Amount	8,061,045	1,406,648	49,623	0	926,099	10,443,414

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****12 (a) FOREIGN CURRENCY DEMAND DEPOSITS**

	2023	2022
	\$	\$
Government of Tonga	77,224,161	41,429,050
Other institutions	50,918	121,369
	77,275,079	41,550,419

(b) LOCAL CURRENCY DEMAND DEPOSITS

International banks	63,757	216,292
Domestic banks	359,163,191	409,624,267
Government of Tonga	144,931,205	131,344,312
	504,158,153	541,184,871

13 PAYABLE TO GOVERNMENT

Amount payable to government in accordance with Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act 2014	14,271,165	370,674
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14 CURRENCY IN CIRCULATION

Notes	112,361,354	132,702,944
Coins	5,665,232	5,315,779
	118,026,586	138,018,723

The exclusive rights of national currency issue are vested with the Bank. Currency in circulation comprises bank notes and coins issued by the Bank, and repayable on demand.

15 STATUTORY RESERVE DEPOSITS

The deposits represent the reserves required to be maintained by each financial institution under Section 39 of the NRBT Act 1988. The SRD has increased from 10 to 15 percent in accordance with the February 2023 monetary policy statement. As at 30 June 2023, the statutory reserve deposits had a balance of \$123,395,000.

16 DEBTS SECURITIES ISSUED

Non-bank financial institutions	25,000,000	-
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Term deposits with a fixed interest rate of 2% per 1-year payable on maturity date. This represents one of the monetary policy initiative of mopping up excess liquidity in accordance with the February 2023 monetary policy statement.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****17 OTHER LIABILITIES**

	2023	2022
	\$	\$
Current Liabilities		
Creditors	700,843	833,040
Accrued expenses	225,217	19,598
Non-Current Liabilities	-	-
Other creditors and accruals	1,377,922	274,402
Development budget fund (a)	481,754	628,316
Deferred development fund (b)	852,172	877,232
Payable to the National Reserve Bank of Tonga		
• Staff Provident Scheme (c)	1,464,872	750,620
	5,102,780	3,383,208

- a) This relates to the remaining balance of the amounts transferred from the Revaluation Account which was approved by the Board specifically to support the Bank's 2020/21 Development budget. The movement for the year is as follows:

Opening Balance	628,316	788,817
Transfer from Asset Revaluation Reserve	-	-
Amount utilised – transfer to Deferred Development Fund. Refer (b) below.	(146,562)	(160,501)
Closing Balance	481,754	628,316

The amounts utilised represents capital expenditure incurred during the year and the treatment of these transactions is in accordance with note 2 (q) of the banks accounting policy.

- b) The balance relates to the Deferred Development Fund transferred from the Bank's 2020/21 Development budget account in (a) above.

Opening Balance	877,232	783,032
Transfer from Development budget fund	146,562	160,501
Amount amortised	(171,622)	(66,301)
Closing Balance	852,172	877,232

The amounts amortised are offset against the depreciation expense on related assets and the treatment of these transactions is in accordance with note 2 (q) of the banks accounting policy.

- c) Funds belonging to the National Reserve Bank of Tonga Staff Provident Scheme are held with the Bank in this account.

18 PROVISION FOR EMPLOYEE ENTITLEMENT

Opening balance	147,063	122,590
Entitlements during the year	151,720	180,546
Utilised/reversals	(201,994)	(156,073)
	96,789	147,063

19 CASH AND CASH EQUIVALENT

Cash and cash equivalents included in the cash flow statement comprise the following items in the balance sheet:

Cash on hand	10,666	7,456
Current accounts	12,426,465	13,249,089
	12,437,131	13,256,545

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****20 RELATED PARTIES****Identity of related parties**

The Bank's ultimate parent entity is the Government of the Kingdom of Tonga.

The Board of Directors during the financial year ended 30 June 2023 were Lord Sevele 'o Vailahi (Chairperson), Richard Prema, Joyce Mafi, Kilisitina Tuaimel'api (appointed July 2022), Tatafu Moeaki - Governor (appointed December 2022), John Paul Chapman (appointed September 2022), Vika Fusimalohi (appointed September 2022), Sione Ngongo Kioa (Former Governor resigned in September 2022), Sinaitakala Tu'itahi (resigned in August 2022), and Alfred Cowley (resigned in July 2022)..

During the year, the following executives were identified as key management personnel of the Bank: Tatafu Moeaki (Governor), Jessie Cocker (Deputy Governor), Lata Tangimana (Assistant Governor Operation), 'Ungatea Latu (Assistant Governor Policy), and Sione Ngongo Kioa (Former Governor resigned in September 2022).

Transactions with related parties

In the normal course of operations, the Bank enters into transactions with related parties identified above.

The transactions with the Government of the Kingdom of Tonga include banking services, foreign exchange transactions and registry transactions. The total interest paid to Government on Deposits held amounted to \$258,246 (2022: \$61,757). Deposits by the Government and dividend payables are in disclosed in note 12 and note 13.

The Bank contributes to the National Reserve Bank of Tonga Staff Provident Fund in accordance with the Provident Scheme Rules. The contributions in the current financial year were as follows:

	2023	2022
	\$	\$
Provident Fund payments made by the Bank	571,895	619,401
	571,895	619,401

The funds of the National Reserve bank of Tonga Staff Provident Fund are invested within the Bank at an average rate of 3.04% (2022: 3.00%) per annum. The total interest paid by the Bank for the financial year amounted to \$10,848 (2022: \$8,718). The Trustees of the Staff Provident Fund are indemnified by the Bank against all losses, damages or other costs which may be sustained or suffered by or made against a trustee as a result of any act or omission committed by the Trustee or Trustees which is not a breach of trust on the part of the Trustee.

The Directors are paid fees and sitting allowances for services rendered. The Directors entitlements to the retirement fund at year end amounted to \$193,456 (2022: \$228,799). These entitlements are disclosed as Other Liabilities in note 17. The Bank also provides non-cash benefits to the Executive officers in addition to their salaries.

Total remuneration below is included in 'administrative costs.

Executive staff	493,104	460,690
Director's fees and allowances	149,990	126,599
	643,094	587,289

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2023****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****21 COMMITMENTS**

Commitment not provided for in the financial statements are as follows

Capital commitment: approved and contracted	933,319	940,865
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Lease Receivable

The Bank leases out certain floors of the Reserve Bank building. The operating lease rentals receivable are as follow:

	2023	2022
	\$	\$
Receivable not later than one year	687,660	585,820
Receivable later than one year but not later than five years	4,141,240	1,918,288
	<u>4,828,900</u>	<u>2,504,108</u>

22 CONTINGENT LIABILITIES

Contingencies not otherwise provided for in the accounts and which existed at 30 June 2023 comprise:

Contracts for foreign exchange transactions was nil (2022: \$nil)

In accordance with the accounting policy in Note 2(e), numismatic coins are not brought to account in the determination of the Bank's liabilities, but a liability may arise if such coins are en-cashed for their face value. The Bank is of the opinion that in the unlikely event of encashment as legal tender, no significant loss is expected to arise.

23 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm length transaction.

Quoted market values represent fair value when a financial instrument is traded in an organised and liquid market that is able to absorb a significant transaction without moving the price against the trader.

Financial Assets and Liabilities

The valuation of the Bank's financial assets and liabilities are discussed below:

Short/Long term investments and current accounts

The reported value of short/long term investments and current accounts is considered to be its fair value due to the short/long term nature of the financial assets.

Statutory Reserve Deposits

The carrying value of statutory reserve deposits are considered to approximate their fair value as they are denominated in cash.

Demand Deposits

The carrying value of deposits are considered to approximate their fair value as they are payable on demand.

Currency in Circulation

The carrying value of Currency in Circulation is considered to be its fair value as reported in the accounts.

Other Financial Assets and Liabilities

The reported values of other financial assets and liabilities are considered to be its fair value.

24 EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any transactions or events of a material and unusual nature likely, in the opinion of the Board members, to affect significantly the operations of the Bank, the results of those operations or the state of affairs of the Bank.