



NATIONAL RESERVE BANK OF TONGA
FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026

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

TABLE OF CONTENTS

	Page
Directors' Report	1
Statement by Directors	4
Independent Auditor's Report	5
Balance Sheet	8
Statement of Comprehensive Income	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to and Forming Part of the Financial Statements	12 - 39

NATIONAL RESERVE BANK OF TONGA

FINANCIAL STATEMENTS **YEAR ENDED 30 JUNE 2026**

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 2026¹, and the related Statements of Comprehensive Income, 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
- Dr. Guilio Masasso T. Paunga – Deputy Chairman
- Mrs. Siosi Mafi
- Mrs. Kilisitina Tuaimel'api – Ex-Officio Director²
- Mrs. Vika Fusimalohi (resigned on 9 October 2025)
- Mr. John Paul Chapman
- Mr. Paulo Kautoke (appointed on 29 April 2026)
- Mr. Tatafu Moeaki – Ex-Officio Director

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; and
- the accompanying balance sheet gives a true and fair view of the state of affairs of the Bank as at 30 June 2026 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 Sections 4 and 4A of the National Reserve Bank of Tonga (NRBT) (Amendment) Act, 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 (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;

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

² Refers to a Director who serves on the Board as holder of a specified position, such as the CEO for Finance and the Governor, who both have voting rights.

DIRECTORS' REPORT – continued

3. PRINCIPAL ACTIVITIES – continued

The principal functions of the Bank shall be, to:

- 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 2026 was \$26,600,758 (2025: \$32,527,488).

5. GENERAL RESERVES

In accordance with Section 8(1)(b) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$7,980,227 (2025: \$9,758,246) being 30% of the net profit for the year ended 30 June 2026, is transferred to the General Reserve at year end.

6. PAYABLE TO GOVERNMENT

In accordance with Section 8(3) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$18,620,531 (2025: \$22,769,242) being 70% of the net profit for the year ended 30 June 2026, 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, an additional provision of \$11,704 (2025: \$53,664) was recorded during the financial year.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****DIRECTORS' REPORT – continued****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 directors' 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.

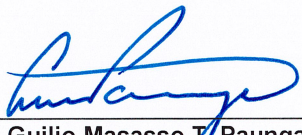
13. UNUSUAL TRANSACTIONS

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 Directors, 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:


 Dr. Guilio Masasso T. Paunga
 Deputy Chairman
 28th September, 2026
 Date

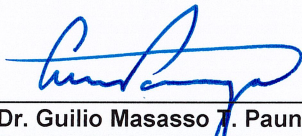

 Mr. Tatafu Moeaki
 Governor
 28/9/2026
 Date

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****STATEMENT BY DIRECTORS**

In the opinion of the Directors:

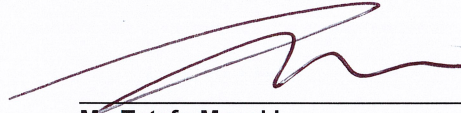
- a) the accompanying balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 30 June 2026;
- b) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 30 June 2026;
- c) 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 2026;
- d) 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 2026.
- e) 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;
- f) all related party transactions have been adequately recorded in the books of the Bank; and
- g) 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:



Dr. Guilio Masasso T. Paunga
Deputy Chairman
28th September, 2026

Date



Mr. Tatafu Moeaki
Governor
28/9/2026

Date



Independent Auditor's Report

To the Board of Directors of National Reserve Bank of Tonga

Report on the audit of the Financial Statements

Opinion

We have audited the financial statements of National Reserve Bank of Tonga ("the Bank"), which comprise the balance sheet as at 30 June 2026, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information set out in notes 1 to 25.

In our opinion, the accompanying financial statements of the Bank as at and for the year ended 30 June 2026, are prepared, in all material respects, in accordance with the basis of preparation describe in Note 2 to the financial statements and the requirements of National Reserve Bank of Tonga Act and legislated amendments.

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 *Auditors' 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (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 Notes 2(a) and 2(b) to the financial statements which describe 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 the 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 report is intended solely for the Directors of the Bank and the Minister of Finance in connection with the Bank's compliance with the requirements of the National Reserve Bank of Tonga Act and should not be used by or distributed to any other parties other than the Directors of the Bank and the Minister of Finance. 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 and the Minister of Finance.

Our opinion is not modified in respect of this matter.

Other information

Other information is financial and non-financial information in National Reserve Bank of Tonga's Annual Report which is provided in addition to the Financial Reports and the Auditor's Report. The Directors are responsible for Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and the Statement by Directors. Governor's Foreword, Highlights of the Year and Financial Performance included in the Bank's Annual Report are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information and, based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report. Based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report in relation to the Directors' Report and Statement by Directors.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements in accordance with the basis of preparation described in Notes 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 is 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.

Auditors' 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 also:

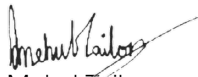
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of

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.
- 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.

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
KPMG



Mehul Tailor
Partner

Suva, Fiji
29 September 2026

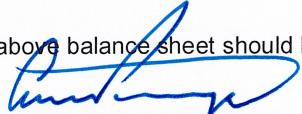
NATIONAL RESERVE BANK OF TONGA

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FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026

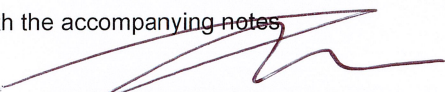
BALANCE SHEET

	Notes	<u>2026</u> \$	<u>2025</u> \$
ASSETS			
Foreign Currency Assets			
Short/Long Term Investments and Current Accounts	8	918,564,120	851,831,726
Accrued Interest		26,600,947	32,526,272
International Monetary Fund (IMF)			
- Reserve Tranche Position	9 (b)	11,212,506	11,252,891
- Special Drawing Rights	9 (a) (iii)	61,936,127	61,947,502
Local Currency Assets			
Cash on Hand	20	1,532	4,808
Accrued Interest		51,967	54,744
Currency inventory	10	7,287,871	5,316,935
Other Assets	11	6,119,343	9,398,106
Property, Plant and Equipment	12	11,531,057	11,672,352
Total Assets		1,043,305,470	984,005,336
LIABILITIES			
Foreign Currency Liabilities			
Demand Deposits	13 (a)	35,997,610	58,038,203
Accrued Interest		197,106	223,617
IMF Special Drawing Rights Allocation	9 (a) (iii)	64,624,720	64,857,488
Local Currency Liabilities			
Demand Deposits	13 (b)	280,995,171	510,052,183
Payable to Government	14	18,620,531	22,769,242
NRBT Notes	17	270,956,072	-
Accrued Interest		134,919	32,006
Currency in Circulation	15	156,384,095	132,355,271
Statutory Reserve Deposits	16	150,392,000	139,610,000
Other Liabilities	18	3,795,903	4,177,753
Employee Provisions	19	130,111	221,330
Total Liabilities		982,228,238	932,337,093
NET ASSETS		61,077,232	51,668,243
CAPITAL AND RESERVES			
Paid up Capital		5,000,000	5,000,000
General Reserves		51,220,231	43,240,004
Revaluation Reserve Account		4,857,001	3,428,239
TOTAL CAPITAL AND RESERVES		61,077,232	51,668,243

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


Dr. Guilio Masasso T. Paunga
Deputy Chairman

Date


Mr. Tatafu Moeaki
Governor

Date

28th September, 2026

28/9/2026

FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026

NATIONAL RESERVE BANK OF TONGA

STATEMENT OF COMPREHENSIVE INCOME

Income	Notes	<u>2026</u> \$	<u>2025</u> \$
Interest Income	4	37,842,954	42,321,966
Other Income	5	5,051,783	5,120,983
Total Operating Income		42,894,737	47,442,949
Expenses			
Interest expense	6	4,426,696	2,568,860
Administration and other expenses	7	11,855,579	12,292,937
Impairment expenses on financial instruments		11,704	53,664
Total Operating Expenses		16,293,979	14,915,461
Net profit available for distribution		26,600,758	32,527,488
Net gains/ (losses) arising from the translation of foreign currency balances to local currency	2 (b)	1,428,762	(1,371,636)
Other comprehensive income/(loss) for the period		1,428,762	(1,371,636)
Total comprehensive income		28,029,520	31,155,852

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 2026**STATEMENT OF CHANGES IN EQUITY**

	Paid up Capital \$	General Reserves \$	Revaluation Reserve Account \$	Retained Earnings \$	Total \$
Balance 30 June 2024	\$5,000,000	\$33,481,758	\$4,318,121	-	\$42,799,879
Net Profit	-	-	-	32,527,488	32,527,488
Transfer back of unused balance from the fund transferred as NRBT Development Budget Fund for Financial Year 2020/21	-	-	481,754	-	481,754
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	(1,371,636)	-	(1,371,636)
Transfer to General Reserves (as provided for under Section 8(1)(b) of the National Reserve Bank of Tonga Act 2020 Revised Edition, and approved by the Minister of Finance	-	9,758,246	-	(9,758,246)	-
Balance Payable to Government of Tonga as required under Section 8(3) of the National Reserve of Tonga (Amendment) Act, 2014	-	-	-	(22,769,242)	(22,769,242)
Balance 30 June 2025	\$5,000,000	\$43,240,004	\$3,428,239	-	\$51,668,243
Net Profit	-	-	-	26,600,758	26,600,758
Net gains arising from the translation of foreign currency balances to Tongan currency	-	-	1,428,762	-	1,428,762
Transfer to General Reserves (as provided for under Section 8(1)(b) of the National Reserve Bank of Tonga Act 2020 Revised Edition, and approved by the Minister of Finance	-	7,980,227	-	(7,980,227)	-
Balance Payable to Government of Tonga as required under Section 8(3) of the National Reserve of Tonga (Amendment) Act, 2014	-	-	-	(18,620,531)	(18,620,531)
Balance 30 June 2026	\$5,000,000	\$51,220,231	\$4,857,001	-	\$61,077,232

The above statement of changes in equity should be read in conjunction with the accompanying notes.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS**
YEAR ENDED 30 JUNE 2026**STATEMENT OF CASH FLOWS**

	Notes	2026 \$	2025 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		43,771,054	38,199,650
Rental income		1,281,794	1,263,364
Numismatic sales		320,876	413,317
Other income		3,301,580	3,271,721
Purchase of currency		(8,077)	(291,885)
Interest paid		(4,350,294)	(2,418,772)
Payments to suppliers and employees		(9,798,171)	(9,567,828)
Net movement in IMF accounts		51,760	(3,802,408)
Net movement in investible reserves		(69,487,304)	15,726,439
Net cash (used in)/from operating activities		(34,916,782)	42,793,598
CASH FLOWS FROM INVESTING ACTIVITIES			
Dispose of fixed assets		137,619	-
Purchase of fixed assets		(1,254,301)	(1,745,292)
Net movement in staff loans		193,633	306,650
Net cash used in investing activities		(923,049)	(1,438,642)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in currency in circulation		24,028,824	4,312,537
Net movement in demand deposits		(251,097,605)	(14,438,475)
Net movement in statutory deposits		10,782,000	4,698,000
Net movement in IMF SDR Allocation		(232,768)	3,151,958
Profit repatriation to Government		(22,769,242)	(25,045,276)
Net movement in NRBT Notes		270,956,072	-
Net cash from/(used in) financing activities		31,667,281	(27,321,256)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENT		(4,172,550)	14,033,700
CASH AND CASH EQUIVALENT AT BEGINNING OF FINANCIAL YEAR		33,107,331	20,445,267
NET EFFECT OF CHANGE IN EXCHANGE RATE	2 (b)	1,428,762	(1,371,636)
CASH AND CASH EQUIVALENT AT END OF FINANCIAL YEAR	20	30,363,543	33,107,331

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 2026**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 Sections 4 and 4A of the NRBT (Amendment) Act 2014, shall be, to maintain internal and external monetary stability:

- 1) Without prejudice to its principal objective, the Bank shall-
 - a) promote financial stability; and
 - b) promote a sound and efficient financial system.
- 2) 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;
- 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 28th day of September 2026.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS**a) Basis of preparation**

The financial statements of the Bank have been prepared in accordance with the National Reserve Bank of Tonga Acts and legislated amendments to date, and material accounting policies disclosed in note 2. The Bank's accounting policies are based on IFRS except where the Act requires a different treatment, in which case the Act takes precedence. The principal legislated departure from IFRS relates to IAS 21, *The Effects of Changes in Foreign Exchange Rates*, the impact of which is disclosed in Note 2(b).

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.

The Bank presents its Balance Sheet in broad order of liquidity. This presentation is considered more relevant to the Bank's operations, given the nature of its financial assets and liabilities. The liquidity-based presentation provides users with more useful information for assessing the Bank's financial position and liquidity risk. The Bank discloses in the notes to the financial statements the amount expected to be recovered or settled after more than 12 months.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

a) Basis of preparation – continued

The Bank has adopted the following amendments to standards, with date of initial application of 1 July 2025:

- Amendments to IAS 21: Lack of Exchangeability.

The amendments provide guidance for assessing whether a currency is exchangeable in another currency and specify how an exchange rate should be determined when exchangeability is lacking. The amendments also introduce additional disclosure requirements relating to currencies that are not exchangeable.

The above amendment did not have a material effect on the Bank's financial statements at 30 June 2026.

Standards, amendments and interpretations issued but not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 July 2026 or later periods, but the Bank has not early adopted them. The Bank is in the process of assessing the effect on the financial statements but does not expect to have a material effect:

- **Amendment to IFRS 9 and IFRS 7 – Classification and Measurement of Financial Instruments (effective 1 January 2026 – early adoption is available).** These amendments:
 - clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;
 - clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;
 - add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and
 - make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).
- **Annual improvements to IFRS – Volume 11 (effective 1 January 2026 – with earlier application permitted).** Annual improvements are limited to changes that either clarify the wording in an Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements in the Accounting Standards. The 2025 amendments are to the following standards:
 - IFRS 1 First-time Adoption of International Financial Reporting Standards;
 - IFRS 7 Financial Instruments: Disclosures and its accompanying Guidance on implementing IFRS 7;
 - IFRS 9 Financial Instruments;
 - IFRS 10 Consolidated Financial Statements; and
 - IAS 7 Statement of Cash Flows.
- **IFRS 18 Presentation and Disclosure in Financial Statements (effective 1 January 2027).** This is the new standard on presentation and disclosure in financial statements, with a focus on updates to the statement of profit or loss. The key new concepts introduced in IFRS 18 relate to:
 - the structure of the statement of profit or loss;
 - required disclosures in the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and,
 - enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS**
YEAR ENDED 30 JUNE 2026**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued****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 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 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 Reserve 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, net profit for the year ended 30 June 2026 would have increased by \$1,428,762 (2025: decreased by \$1,371,636).

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 recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about 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) (vi) – Impairment
- Note 2 (i) – Depreciation rates
- Note 2 (j) – Provisions for employee entitlements

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued**2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued****d) Financial Assets and Liabilities - continued****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, other receivables, and IMF assets are classified as measured at amortised cost.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

d) Financial Assets and Liabilities – continuedii) **Classification and subsequent measurement – continued****Financial assets: Business model assessment**

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; and
- 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

(d) Financial Assets and Liabilities – continued

ii) Classification and subsequent measurement – continued

Financial assets: Subsequent measurement and gains and losses*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.

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 is recognized in profit or loss while the foreign exchange gains are recognized in the revaluation reserves as other comprehensive income.

The non-derivative financial liabilities of the Bank include demand deposits, other liabilities, and NRBT notes. Financial liabilities are recognized on the trade date when the Bank becomes a party to the contractual provisions of the instrument.

(iii) **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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

(d) Financial Assets and Liabilities – continued**(iv) Modifications of financial assets**

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.

(v) 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.

(vi) 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 counter-party 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

(d) Financial Assets and Liabilities – continued(vi) Impairment – continued

The Bank considers 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.

Measurement of ECLs

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 balance sheet

Loss allowances for ECL are presented in the balance sheet 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

e) Currency and Numismatics Inventory

Currency inventory consists of unissued currency notes and coins held by the Bank for future circulation. Currency inventory is measured at the lower of cost and net realisable value. Cost comprises purchase cost, freight, insurance and other costs directly attributable to bringing the currency inventory to its present location and condition and is assigned using the first-in, first-out (FIFO) method.

The cost of currency inventory is recognised as an expense when the currency is issued into 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 accounted for as currency in circulation as they are not issued for monetary purposes.

g) Revenue Recognition**Revenue from contracts with customers**

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 notes and 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 profit or loss.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS**
YEAR ENDED 30 JUNE 2026**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued****g) Revenue Recognition – continued***Forex Sales/Purchases*

The income involves the spreads earned by the Bank in buy and sell arrangements (sold deals) and sell and buy back arrangements (bought deals) for foreign currencies. Performance obligation is satisfied when the customer is issued with a deal voucher of the deals. At this point, the revenue is recognized. Revenue and associated costs are recognized when the deals are provided - i.e. when the deal is issued to the customer.

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 exempt from all Government taxes and duties on its profits, purchases, operations, capital, property transactions and documents in accordance with Section 55 of the National Reserve Bank of Tonga Act.

i) Property Plant and Equipment

Item of 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.

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 in current and prior period are as follows:

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

j) Employee Entitlements*Defined contribution pension plan*

The Bank operates an internally administered staff provident fund scheme. Employees and the Bank contribute to the scheme in accordance with the scheme rules. Members are entitled to their accumulated contributions together with allocated investment earnings. The scheme is not established as a separate legal entity, and the related funds are invested by the Bank. Accumulated member balances are recognised as a liability of the Bank. Employer contributions are recognised as an employee benefit expense in the period in which employees render service. Outstanding contributions at reporting date are recognised 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 benefits

A liability for long-term benefit is recognised and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary increments, employee departures and periods of service. Expected future payments are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand, cash at bank, current accounts, and other short term highly liquid investments with original maturity of three months or less.

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 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

m) General Reserve and Distribution of Profits – continued

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.

n) Revaluation Reserve

Foreign exchange gains and losses arising from revaluation of foreign currencies on monetary assets and liabilities 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 and/or distribution of the Reserve Revaluation Account provided that a minimum balance of \$10,000,000 is maintained.

o) Capital

Under Section 6(1) of the National Reserve Bank of Tonga Act, the authorised capital of the Bank is \$5,000,000. The full authorised capital of \$5,000,000 is recognized as paid up capital in the financial statements.

p) 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 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

2 SUMMARY OF MATERIAL ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS – continued

p) Leases – continued

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.

q) Transfer from Revaluation Reserves

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 2024/2025, assets totaling \$1.113 million were acquired. The remaining unused balance of \$481,754 was transferred back to the Revaluation Reserve during the 2025 financial year.

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.

r) Functional and Presentation Currency

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

s) Rounding

Amounts in the financial statements are rounded to the nearest Tonga Pa'anga unless otherwise stated.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****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 risk 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 be performed 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, must have minimum credit rating of A. When external credit ratings are not published or available, the Bank monitors changes in credit risk by available press and regulatory information.

The NRBT uses Standard & Poor's credit ratings for 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 Bank's maximum credit risk, excluding the value of collateral is generally reflected in the carrying value of financial assets. The Bank does not require collateral in respect of financial assets except in respect to loans to staff. The concentration of credit risk in the Bank's investment portfolio is as follows.

	2026	2025
Foreign currency assets		
Short/Long Term Investments and current accounts	918,625,490	851,878,700
International Monetary Fund	73,148,633	73,200,393
Accrued Interest	26,600,947	32,526,272
Total Gross	1,018,375,070	957,605,365
Less: Allowance for impairment losses	(61,370)	(46,974)
	1,018,313,700	957,558,391
Local currency assets		
Staff loans	4,193,975	4,387,608
Accrued Interest	51,967	54,744
Total Gross	4,245,942	4,442,352
Less: Allowance for impairment losses	(43,542)	(46,234)
	4,202,400	4,396,118
Total financial investments	\$ 1,022,516,100	\$ 961,954,509

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.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****3. FINANCIAL RISK MANAGEMENT – continued****(a) Credit Risk – continued**

Currency	Rating ³	2026 \$	2025 \$
USD	AAA	-	-
	AA+	27,727,053	12,120,004
	AA-	307,947,617	17,643,319
	AA	-	817,096
	A	153,885,555	136,677,067
	NR	87,991,803	371,233,557
AUD	AAA	672,899	3,338,483
	AA-	152,604,208	140,189,941
	A+	-	-
	A	19,978,316	13,474,993
	NR	14,936,138	19,091
	AAA	672,333	-
NZD	AA+	-	915,001
	AA-	158,764,466	155,300,828
	A+	-	-
	A	16,631,085	29,951,701
	NR	2,885,771	2,267,843
	AA	285,954	164,032
GBP	NR	6,292	6,207
	AAA	-	-
EURO	NR	1,702	593
	B+	704	19,181
FJD	N/R	4,245,942	4,442,352
TOP	N/R	73,383,174	73,466,428
SDR	N/R	1,022,621,012	962,047,717
Less: Allowance for impairment losses		(104,912)	(93,208)
Total Financial Investment		1,022,516,100	961,954,509

(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
- AUD – \$100,000
- NZD – \$300,000
- GBP – \$10,000

The balances of the investible reserves are placed on term investments with maturities extending up to 5 years. 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.

³ All unrated exposures relate to balances held with the Bank for International Settlements (BIS). Although BIS is not externally rated by major credit rating agencies, management assesses the related exposures as low credit risk for the purposes of IFRS 9.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****3. FINANCIAL RISK MANAGEMENT – continued****(b) Liquidity Risk – continued**

The following table analyses the Bank's assets and liabilities into relevant maturity groupings based on their remaining contractual maturities at reporting date. The amounts disclosed are the contractual undiscounted cash flows and may differ from the carrying amounts reported in the balance sheet. Liabilities payable on demand are included in the earliest maturity category.

Maturity Analysis as at 30 June 2026

	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 ⁴	166,184,109	644,354,984	161,724,383	-	-	972,263,476
IMF - Reserve Tranche position	-	-	-	-	11,212,506	11,212,506
- Special Drawing Rights	234,541	-	-	-	61,936,127	62,170,668
Local Currency Assets						
Cash on hand	-	-	-	-	1,532	1,532
Currency Inventory	-	-	-	-	7,287,871	7,287,871
Other Assets ⁵	218,501	640,811	2,383,523	1,913,443	1,966,030	7,122,308
Property, Plant & Equipment	-	-	-	-	11,531,057	11,531,057
Total Assets	166,637,151	644,995,795	164,107,906	1,913,443	93,935,123	1,071,589,418
Foreign Currency Liabilities						
Accrued Interest	197,106	-	-	-	-	197,106
Demand Deposits	35,997,610	-	-	-	-	35,997,610
IMF Special Drawing Rights allocation	-	-	-	-	64,624,720	64,624,720
Local Currency Liabilities						
Payable to Government	18,620,531	-	-	-	-	18,620,531
Demand Deposits	281,047,641	-	-	-	-	281,047,641
Other Liabilities	177,219	1,442,479	967,222	-	1,217,189	3,804,109
Currency in Circulation	-	-	-	-	156,384,095	156,384,095
Statutory Reserve Deposits	-	-	-	-	150,392,000	150,392,000
NRBT Notes	271,030,314 ⁶	-	-	-	-	271,030,314
Employee Provisions	-	78,761	-	51,350	51,350	130,111
Total Liabilities	607,070,421	1,521,240	967,222	51,350	372,618,004	982,228,237
Net liquidity surplus/(gap)	(440,433,270)	643,474,555	163,140,684	1,862,093	(278,682,881)	89,361,181

⁴ Includes accrued interest on external reserves.

⁵ Includes accrued interest on staff loans.

⁶ Includes accrued interest on NRBT Notes.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****3. FINANCIAL RISK MANAGEMENT – continued****(b) Liquidity Risk – continued**

The following table sets out the remaining undiscounted contractual maturities of the Bank's gross assets and liabilities.

Maturity Analysis as at 30 June 2025

	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 ⁷	165,029,998	606,098,508	137,425,539	-	-	908,554,045
IMF - Reserve Tranche position	-	-	-	-	11,252,891	11,252,891
- Special Drawing Rights	266,058	-	-	-	61,947,502	62,213,560
Local Currency Assets						
Cash on hand	-	-	-	-	4,808	4,808
Currency Inventory	-	-	-	-	5,316,935	5,316,935
Other Assets ⁸	237,685	654,759	2,304,753	2,312,514	5,042,974	10,552,685
Property, Plant & Equipment	-	-	-	-	11,672,352	11,672,352
Total Assets	165,533,741	606,753,267	139,730,292	2,312,514	95,237,462	1,009,567,276
Foreign Currency Liabilities						
Accrued Interest	223,617	-	-	-	-	223,617
Demand Deposits	58,038,204	-	-	-	-	58,038,204
IMF Special Drawing Rights allocation	-	-	-	-	64,857,488	64,857,488
Local Currency Liabilities						
Payable to Government	22,769,242	-	-	-	-	22,769,242
Demand Deposits	510,052,183	-	-	-	-	510,052,183
Other Liabilities	1,277,637	-	682,063	-	2,250,058	4,209,758
Currency in Circulation	-	-	-	-	132,355,271	132,355,271
Statutory Reserve Deposits	-	-	-	-	139,610,000	139,610,000
Employee Provisions	-	183,800	37,530	-	-	221,330
Total Liabilities	592,360,883	183,800	719,593	-	339,072,817	932,337,093
Net liquidity surplus/(gap)	(426,827,142)	606,569,467	139,010,699	2,312,514	(243,835,355)	77,230,183

⁷ Includes accrued interest on the external reserves.

⁸ Includes accrued interest on staff loans.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****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 mid-rate</u>	
	2026	2025
USD	0.4157	0.4195
AUD	0.6033	0.6421
GBP	0.3135	0.3059
NZD	0.7351	0.6941
SDR	0.3065	0.3054

The following tables show the currency concentration of the Bank's net exposure to foreign currencies as at 30 June 2026 in Tonga Pa'anga equivalents.

	2026	2025
	\$	\$
United States Dollar	544,075,868	499,806,610
Australian Dollar	187,870,922	139,999,550
Great Britain Pound	292,246	170,239
New Zealand Dollar	176,752,845	186,104,560
Other	8,563,753	8,405,097
Total Net Foreign Exchange Position	917,555,634	834,486,056

(iii) Sensitivity to Foreign Currency Risk

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

Impact of:	2026	2025
Change in equity due to a 5% appreciation / depreciation of the Tonga Pa'anga	45,877,782	41,724,303

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued**

		Notes	
4.	INTEREST INCOME		
		<u>2026</u>	<u>2025</u>
		\$	\$
	Overseas investments	37,632,223	42,099,385
	Staff loans	<u>210,731</u>	<u>222,581</u>
		\$ 37,842,954	\$ 42,321,966
		=====	=====
5.	OTHER INCOME		
	Numismatic coins	320,876	413,317
	Rental income	1,270,916	1,245,004
	Forex sales/ purchases	3,162,572	2,919,762
	Bank user fees	139,065	229,311
	Miscellaneous	<u>158,354</u>	<u>313,589</u>
		\$ 5,051,783	\$ 5,120,983
		=====	=====
6.	INTEREST EXPENSE		
	Foreign currency accounts	1,791,336	2,385,970
	Domestic currency accounts	464,173	182,890
	NRBT Notes	<u>2,171,187</u>	<u>-</u>
		\$ 4,426,696	\$ 2,568,860
		=====	=====
7.	ADMINISTRATION AND OTHER EXPENSES		
	Administration	4,315,836	4,684,929
	Retirement fund (superannuation expense)	905,425	657,953
	Staff costs	3,679,374	3,988,056
	Director's fee	204,851	310,721
	Audit fees	132,000	111,670
	Currency issue	1,360,116	1,421,110
	Depreciation 12	<u>1,257,977</u>	<u>1,118,498</u>
		\$ 11,855,579	\$ 12,292,937
		=====	=====
8.	SHORT/LONG TERM INVESTMENTS AND CURRENT ACCOUNTS		
	Current Assets		
	Current accounts 20	30,362,011	18,084,645
	Short term investments	745,301,256	632,940,055
	Non-Current Assets		
	Long term investments	<u>142,962,223</u>	<u>200,854,000</u>
		918,625,490	851,878,700
	Less: Impairment allowances for financial instruments	<u>(61,370)</u>	<u>(46,974)</u>
		\$ 918,564,120	\$ 851,831,726
		=====	=====

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****9. INTERNATIONAL MONETARY FUND****(a)**

- (i) 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 2026, Tonga's membership subscription to the International Monetary Fund was SDR 13,800,000 (2025: SDR 13,800,000). Of this total amount, SDR 3,436,633 (2025: SDR 3,436,633) 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 2026, the Special Drawing Rights holdings had a balance of SDR 18,983,423 (2025: SDR 18,918,767) which is equivalent to TOP 61,936,127 (2025: TOP 61,947,502). On the liability side, the Special Drawing Rights allocations had a balance of SDR 19,807,506 (2025: SDR 19,807,506) which is equivalent to TOP 64,624,720 (2025: TOP 64,857,488).

(b)**Reserve Tranche Position**

As mentioned in 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.

	<u>2026</u>	<u>2025</u>
	\$	\$
Non-Current Assets		
Member's Quota Subscriptions	44,923,474	44,956,735
(Less) IMF Holdings in Member's designated depositing agency	<u>(33,710,968)</u>	<u>(33,703,844)</u>
Reserve Tranche Position	<u>\$11,212,506</u>	<u>\$11,252,891</u>

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS**
YEAR ENDED 30 JUNE 2026**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****10. CURRENCY INVENTORY*****Current Asset***

	<u>2026</u>	<u>2025</u>
	\$	\$
<i>Movement of currency inventory</i>		
Opening balance	5,316,935	6,446,160
Consignments received	3,281,723	238,201
Currency issued	<u>(1,310,787)⁹</u>	<u>(1,367,426)</u>
Closing balance	<u>\$7,287,871</u>	<u>\$5,316,935</u>

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.

11. OTHER ASSETS AND RECEIVABLES

	<u>2026</u>	<u>2025</u>
	\$	\$
<i>Current Asset</i>		
Accounts Receivable	2,880	13,758
<i>Non-Current Assets</i>		
Staff loans	4,193,975	4,387,608
Prepayments	<u>1,966,030</u>	<u>5,042,974</u>
	6,162,885	9,444,340
Less Impairment allowance for staff loans	<u>(43,542)</u>	<u>(46,234)</u>
	<u>\$6,119,343</u>	<u>\$9,398,106</u>

⁹ Currency issuance expense in note 7 also includes other costs such as public awareness of new polymer notes that are not relevant in bringing inventory to its present location and condition hence not included in inventory cost but expensed when incurred.

FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026

NATIONAL RESERVE BANK OF TONGA

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued

12. PROPERTY, PLANT & EQUIPMENT

Non-current assets

	Leasehold & Buildings	Computer and Office Equipment	Furniture and Fittings	Motor Vehicles	WIP	TOTAL
At 30 June 2024						
Cost	11,970,327	4,136,093	412,592	791,921	1,253,168	18,564,101
Accumulated Depreciation	(4,210,162)	(2,556,407)	(365,781)	(386,193)	-	(7,518,543)
Net Book Amount	7,760,165	1,579,686	46,811	405,728	1,253,168	11,045,558
Year Ended 30 June 2025						
Opening net book value	7,760,165	1,579,686	46,811	405,728	1,253,168	11,045,558
Additions	-	643,924	-	-	1,101,368	1,745,292
Transfer in/out	672,448	485,518	-	-	(1,157,966)	-
Depreciation	(336,502)	(659,609)	(15,469)	(106,918)	-	(1,118,498)
Closing net book value	8,096,111	2,049,519	31,342	298,810	1,196,570	11,672,352
At 30 June 2025						
Cost	12,642,775	5,265,535	412,592	791,921	1,196,570	20,309,393
Accumulated Depreciation	(4,546,664)	(3,216,016)	(381,250)	(493,111)	-	(8,637,041)
Net Book Amount	8,096,111	2,049,519	31,342	298,810	1,196,570	11,672,352
Year Ended 30 June 2026						
Opening net book value	8,096,111	2,049,519	31,342	298,810	1,196,570	11,672,352
Additions	142,802	278,546	1,878	-	831,075	1,254,301
Disposal	-	(137,619)	-	-	-	(137,619)
Transfer in/out	435,497	297,945	-	-	(733,442)	-
Depreciation	(362,686)	(773,382)	(14,991)	(106,918)	-	(1,257,977)
Closing net book value	8,311,724	1,715,009	18,229	191,892	1,294,203	11,531,057
At 30 June 2026						
Cost	13,221,074	5,704,407	414,470	791,921	1,294,203	21,426,075
Accumulated Depreciation	(4,909,350)	(3,989,398)	(396,241)	(600,029)	-	(9,895,018)
Net Book Amount	8,311,724	1,715,009	18,229	191,892	1,294,203	11,531,057

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****13. DEMAND DEPOSITS*****Current Liability*****(a) FOREIGN CURRENCY**

	<u>2026</u> \$	<u>2025</u> \$
Government of Tonga	35,943,924	57,987,761
Other institutions	<u>53,686</u>	<u>50,442</u>
	\$ 35,997,610 =====	\$ 58,038,203 =====

(b) LOCAL CURRENCY

International banks	97,193	101,496
Domestic banks	140,722,618	358,879,229
Government of Tonga	<u>140,175,360</u>	<u>151,071,458</u>
	\$ 280,995,171 =====	\$ 510,052,183 =====

14. PAYABLE TO GOVERNMENT***Current Liability***

Amount payable to government in accordance with Section 8(3) of the National Reserve Bank of Tonga (Amendment) Act 2014

\$ 18,620,531 =====	\$ 22,769,242 =====
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15. CURRENCY IN CIRCULATION***Current Liability***

Notes	149,450,386	125,917,477
Coins	<u>6,933,709</u>	<u>6,437,794</u>
	\$ 156,384,095 =====	\$ 132,355,271 =====

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.

16. STATUTORY RESERVE DEPOSITS

The deposits represent the reserves required to be maintained by each financial institution under Section 39 of the NRBT Act 1988. As at 30 June 2026, the statutory reserve deposits had a balance of \$150,392,000. Given, this could be called-upon demand by the financial institutions if experiencing liquidity constraints, hence it is considered to be a current liability.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****17. NRBT NOTES*****Current Liability***

	<u>2026</u>	<u>2025</u>
	\$	\$
NRBT Notes	\$ 270,956,072	-

This represents the issue of Reserve Bank Notes as a negotiable security to each financial institution to absorb the excess liquidity in the banking system and to manage this liquidity thereafter. The NRBT notes issuance is made at a discount for a 7-days term at the NRBT policy rate of 2 percent per annum.

18. OTHER LIABILITIES

	<u>2026</u>	<u>2025</u>
	\$	\$
<i>Current Liabilities</i>		
Creditors	1,442,479	1,245,632
Accrued expenses	169,013	-
<i>Non-Current Liabilities</i>		
Other creditors and accruals	658,297	682,063
Deferred development fund (a)	308,925	467,337
Payable to the National Reserve Bank of Tonga		
Staff Provident Scheme (b)	1,217,189	1,782,721
	<u>\$3,795,903</u>	<u>\$4,177,753</u>

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

Opening Balance	467,337	658,278
Transfer from Development budget fund		
Amount amortised	(158,412)	(190,941)
Closing Balance	\$308,925	\$467,337

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 Bank's accounting policy.

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

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****19. PROVISION FOR EMPLOYEE
ENTITLEMENTS*****Current Liability***

	<u>2026</u>	<u>2025</u>
	\$	\$
Opening balance	221,330	171,232
Entitlements during the year	187,350	168,730
Utilised/reversals	<u>(278,569)</u>	<u>(118,632)</u>
	\$ 130,111	\$ 221,330
	=====	=====

20. CASH AND CASH EQUIVALENTS

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

	<u>2026</u>	<u>2025</u>
	\$	\$
Cash on hand	1,532	4,808
Current accounts	30,362,011	18,084,645
Short term investments	<u>-</u>	<u>15,017,878</u>
	\$ 30,363,543	\$ 33,107,331
	=====	=====

21. 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 2026 were:

- Lord Sevele 'o Vailahi (Chairperson)
- Guilio Masasso T. Paunga (Deputy Chairman)
- Siosi Mafi
- Kilisitina Tuaime'i'api (Ex-Officio Director)
- Vika Fusimalohi (resigned on 9 October 2025)
- John Paul Chapman
- Paulo Kautoke (appointed on 29 April 2026)
- Tatafu Moeaki (Ex-Officio Director).

During the year, the following executives were identified as key management personnel of the Bank:

- Tatafu Moeaki (Governor)
- 'Ungatea Latu (Deputy Governor)
- Kasaline Lolohea (Assistant Governor Operations)
- Daniel Taumoepeau (Assistant Governor Policy)

Transactions with related parties

In the normal course of operations, the Bank enters 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 \$390,758 (2025: \$154,196). Deposits by the Government and dividend payables are disclosed in note 13 and note 14.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****21. RELATED PARTIES – continued*****Transactions with related parties – continued***

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:

	<u>2026</u> \$	<u>2025</u> \$
Provident Fund payments made by the Bank	905,425	657,953
	\$ 905,425 =====	\$ 657,953 =====

The funds of the National Reserve bank of Tonga Staff Provident Fund are invested within the Bank at an average rate of 2.92% (2025: 2.85%) per annum. The total interest paid by the Bank for the financial year amounted to \$44,745 (2025: \$32,098). The Trustees of the Staff Provident Fund are indemnified 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.

Transactions with director related entities include purchases of goods and services as follows:

	<u>2026</u> \$	<u>2025</u> \$
Purchase of goods and services	45,578	87,707
	\$ 45,578 =====	\$ 87,707 =====

The Directors are paid fees and sitting allowances for services rendered. The Directors entitlements to the retirement fund at year end amounted to \$146,297 (2025: \$177,063). These entitlements are disclosed as Other Liabilities in note 18.

The Bank also provides Executive officers, in addition to their salaries, with non-monetary benefits¹⁰ and staff loans¹¹ on terms consistent with those available to other employees. As at 30 June 2026, the total loans outstanding to Executive officers was \$701,392 (2025: \$721,898). These loans are included in Note 11 – Other Assets and Receivables.

Total remuneration below is included in 'administrative costs'.

	<u>2026</u> \$	<u>2025</u> \$
Executive staff	596,505	655,205
Director's fees and allowances	146,297 ¹²	151,867
	\$ 742,802 =====	\$ 807,072 =====

¹⁰ Vehicle and Home internet connection.

¹¹ Staff loan is waived to the Governor under the authority of the Board.

¹² The amount of \$146,297 only relates to the Directors' annual fee and meeting fees. Note 7 includes other expenditures incurred in relation to the Directors, such as travel expenses, additional provision for their retirement benefits, and the annual fee for the Provident Fund Trustees.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****22. COMMITMENTS****Capital and other commitments**

	<u>2026</u>	<u>2025</u>
	\$	\$
Commitment not provided for in the financial statements are as follows:		
Capital commitment: approved and contracted	\$ 1,200,183	\$ 1,196,570

Lease Receivable

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

	<u>2026</u>	<u>2025</u>
	\$	\$
Receivable not later than one year	1,182,638	1,245,004
Receivable later than one year but not later than five years	3,412,875	4,546,500
	<u><u>\$ 4,595,513</u></u>	<u><u>\$5,791,504</u></u>

23. CONTINGENT LIABILITIES

Contingencies not otherwise provided for in the accounts and which existed at 30 June 2026 comprise:

- (i) Contracts for foreign exchange transactions was nil (2025: \$nil)
- (ii) 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.
- (iii) All legal proceedings disclosed in the prior year's financial statements were concluded. Following the conclusion of these matters, no liability has been determined against the Bank, and accordingly no provision has been recognised in the financial statements. As at reporting date, the Bank is not a party to any material legal proceedings that are expected to have a significant financial impact on its financial position or performance.
- (iv) The Bank is aware of a matter that may give rise to legal proceedings. As at the reporting date, no formal legal proceedings had been commenced, and no claim had been served on the Bank.

Based on legal advice received and the information currently available, management has concluded that the recognition criteria for a provision under IAS 37 have not been met and accordingly no provision has been recognised in these financial statements.

Subsequent to the reporting date, steps have been taken towards commencing legal proceedings in relation to this matter. The matter remains at an early stage, and the ultimate outcome cannot presently be determined. It is also not currently practicable at this stage to estimate the possible financial effect

Due to the sensitive nature of the matter and the potential for further disclosure to prejudice the position of the Bank in any related proceedings, no additional details have been disclosed.

NATIONAL RESERVE BANK OF TONGA**FINANCIAL STATEMENTS
YEAR ENDED 30 JUNE 2026****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS – continued****24. 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 carrying value of short-term investments and current accounts is considered to be its fair value due to the short-term nature of the financial assets. The carrying amount of the long-term investments is considered a reasonable approximation of fair value because the deposits are held with high-credit-quality financial institutions and have remaining maturities consistent with market deposit instruments.

Statutory Reserve Deposits

The carrying value of statutory reserve deposits are considered to approximate their fair value as they are denominated in cash and given no specific maturity are considered to be on demand when called upon.

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 approximate its fair value as reported in the accounts because it is measured at face value which reflects the amount payable on demand.

NRBT Notes

The carrying value of NRBT Notes is considered to approximate its fair value due to its short-term maturity of seven days.

Other Financial Assets and Liabilities

The carrying values of other financial assets and liabilities are considered to be their fair value.

25. 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.