

ANNUAL REPORT 202122



NATIONAL RESERVE BANK OF TONGA



Annual Report
For year ended 30 June 2022

National Reserve Bank of Tonga



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Governor's Foreword

Financial year 2022 marked another year of uncertainty for Tonga's economic management stemming from the global pandemic's community transmission for the first time and the unprecedented Hunga Tonga Hunga Ha'apai volcano eruption, resulting in the loss of 3 months of operations during the financial year.

The impact on the financial sector slowed down private financing of economic activities and recovery from prior cyclones, but the combination of a supply bottlenecks and some constraints in the labour market led to higher consumer and broader price pressures reaching over 9 percent headline inflation in January 2022.

During this difficult time, the economy deteriorated further in FY2022 where the overall sectoral performance weakened by the negative impacts of COVID restriction to tourism, implementation of development projects and primary sector productions (agricultural and fisheries) for both local produce and export. The Government promptly supported financial relief to businesses and employees affected and maintained expansionary fiscal policy to support recovery and mitigate the worst risks to the economy and financial system. As such, the monetary policy remained accommodative to the fiscal policy at the time, to support faster economic recovery with a focus to maintain macroeconomic stability.

Headline inflation remained above the 5% reference rate due to supply-side disruptions, and the increase in global oil prices as well as the soaring freight rates, have caused higher imported inflation, which has passed through to domestic energy prices and production costs. The core inflation (excluding imported food and energy prices) trended below the headline, at an annual average of 4.7% in the year to June 2022.

The official foreign reserves increased to \$871.2 Million at the end of June 2022, equivalent to 14.4 months of import cover, from \$715.2 millions (11.8 months equivalent) in FY2021. The significant increase in foreign reserves was attributed mainly to receipts of remittances, Government budget support, volcanic eruption and tsunami recovery assistance, project funds, and other capital receipts.

The impact of these catastrophic hazards tested the resilience of the financial system in terms of activating business contingency planning to ensure continuity of access to financial services. The Reserve Bank continued to provide daily exchange rates to the banks and provided essential services, met the public demand for Tongan pa'anga currency, and settled local payments for Government and the banks. The increase in demand for cash was reflected in the increase in currency in circulation by over 19 percent compared to the previous year.

Although some Reserve Bank staff succumbed to covid-19 and overseas maintenance services were delayed due to the national lock-down, NRBT team continued to ensure a safe and secure working environment for essential staff, the tenants as well as facilitated a hybrid work from home arrangement.

Our financial performance improved in 2022 with a net profit of TOP\$ 0.5 million slightly higher than the T\$0.2 million in 2021 reflecting the uncertainty and challenges to maintain stability during the year.

The Reserve Bank welcomed the new Chairman Lord Sevele 'o Vailahi during the year, and take this opportunity to acknowledge the leadership and commitments of the new Chairman and the Board of Directors. I join all staff to acknowledge the services of the outgoing Governor Dr. Sione Ngongo Kioa who, over the last ten years took on the tasks of making Tonga's financial system better, more simple, more efficient, and more transparent.

Tatafu Moeaki
Governor

Functions & Objectives

The National Reserve Bank of Tonga (Amendment) Act, 2014, Section 4 sets out the principal objectives of the Bank. It states:

Objectives of the Bank

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

Maintaining internal monetary stability is pursued by the Reserve Bank through promoting low and stable inflation over the medium term. The Reserve Bank's inflation reference rate is 5% per annum.

Maintenance of external monetary stability is pursued through maintaining adequate amount of foreign currencies (foreign reserves) to meet the country's foreign currency demands to pay for imports, etc. As such, the Reserve Bank's monetary policies aim to ensure that Tonga always has foreign reserve holdings of at least three to four months of import cover.

The National Reserve Bank Act, Section 4A also sets out the Reserve Bank's functions:

"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;*

Details on how the Reserve Bank applied its functions to meet its objectives are outlined in this report and other publications.

Our Vision

To be an effective and dynamic central bank in promoting Tonga's economic prosperity.

Our Mission

To formulate and implement sound monetary policy that is conducive to economic prosperity; promote stable and efficient financial system, external stability and effective payment systems through professionalism and independence.

Our Values

Integrity

Being professional and exercising sound judgement

Innovation

Continually improving what we do

Team Work

Working together for a more effective Bank

Excellence

Producing high quality work

Strategic Priorities

Strategic Priority #1:

Set a Platform for Tonga Becoming a High-Growth Economy

Strategic Priority #2:

Develop Tonga's Financial Markets

Strategic Priority #3:

Become the Employer of Choice

Strategic Priority #4:

Modernize the Operations of the Bank



Governance

Key Decision Makers

The Board of Directors comprises of the Chairman (non-executive Director), the Governor, the Secretary for Finance, and 5 other non-executive Directors. The Governor, who is the Chief Executive Officer of the Bank, is responsible to the Board for the management and execution of the Bank's policy. Under the NRBT Act and the Amendment Acts, the Directors are appointed for terms of up to five years by the Minister of Finance and may be reappointed. One Director and the Chairman of the Board, Lord Sevele were both appointed during the year.

In accordance with the Act, the Board must meet at least 10 times during the calendar year to discuss and formulate the Bank's policies and monitor its operations. The Board Finance Committee also met regularly to discuss and vet all Board matters well before every Board meeting and fulfil any requirements for further consideration at the Board. While the Board Finance Committee met 7 times during the financial year, the Board also met 19 times to formulate the policy of the Bank, monitor the Bank's operations and provide strategic direction and advice to the Governor.

The Board of Directors are responsible for the Reserve Bank's policy and affairs. This involves constantly reviewing the performance of the Reserve Bank in the conduct of its functions and its use of resources and may give advice to the Governor not only to sustain the efficient and effective management of the Bank's operations but also to ensure that the Reserve Bank delivers its core functions in compliance with the NRBT Act and related Acts.

Section 9A of the NRBT Amendment Act 2014 specifies the powers and functions of the Board which may not

be delegated. During the year, the Board of Directors carried out these powers and functions to the best of their abilities.

The Directors continued to monitor and discuss the economic impact of the COVID-19 pandemic and the Hunga Tonga Hunga Ha'apai volcanic eruption on the Tongan economy and adopted the monetary policy stance with additional policies, which was published monthly. The Directors also considered and supported the Government's request for disbursement under the IMF Rapid Credit Facility. During the year, the NRBT participated in the IMF Safeguards Assessment, one of the requirements for the IMF Rapid Credit Facility. The IMF safeguards assessment report raised a number of board governance issues and recommended changes to strengthen and facilitate independent board oversight. The Board of Directors reviewed the IMF Safeguards Assessment Report and agreed on a timeline for addressing the issues. The recommendations in the IMF Safeguards Assessment Report necessitate a review of the NRBT Act. The Directors considered a guideline on the relationship and interface of the NRBT with the Government and their common objective of promoting and assisting the monetary and economic welfare of the people of Tonga.

The COVID-19, Hunga Tonga Hunga Ha'apai volcanic eruption twin disasters, and their impact on the NRBT operations were also monitored by the Directors. To mitigate operational risks, policies on organizational health and safety, as well as hybrid work arrangements during the lockdown, were approved. During the year, the main monetary policy review undertaken by the board was the review of the exchange rate basket currencies and weights. The foreign reserve management policy was also discussed and amendments to the risk parameters were endorsed.

Throughout the year, the Directors defined and adopted financial stability policies and other policies of the Bank regarding the execution of its supervisory functions.

During the year, to ensure financial stability was maintained and that depositors funds are protected at all times. The Directors discussed the commercial Bank's liquidity, capital, credit growth and profitability as well as their exchange rates, interest rates and fees & charges. The Directors also approved the Bank Note Review Project to provide design options for Tonga's bank notes.

The Directors ensured the annual financial statements were prepared in accordance with internationally accepted accounting standards by adopting the IFRS 9 accounting standards and approved the classification and measurement basis for the expected credit loss.

The Directors endorsed the 2022/23 annual budget and the organization chart of the Bank, the Program Output Budget and Corporate Plan 2022/2023, as well as the Annual Report for 2020/21. Monthly financial statements comparing the actual financial outcomes against the budget were also approved by the Directors and transmitted to the Minister of Finance and the Prime Minister's Office to be published in the Government Gazette.

Board of Directors



Lord Sevele 'o Vailahi
Chairman
(Appointed in February 2022)



Mr. Richard Prema
Deputy Chairman



Mrs. Joyce Mafi
Director



Mrs. Sinai Tu'itahi
Director



Mrs. Balwyn Fa'otusia
Director
(Secretary for Finance)
(Resigned in August 2021)



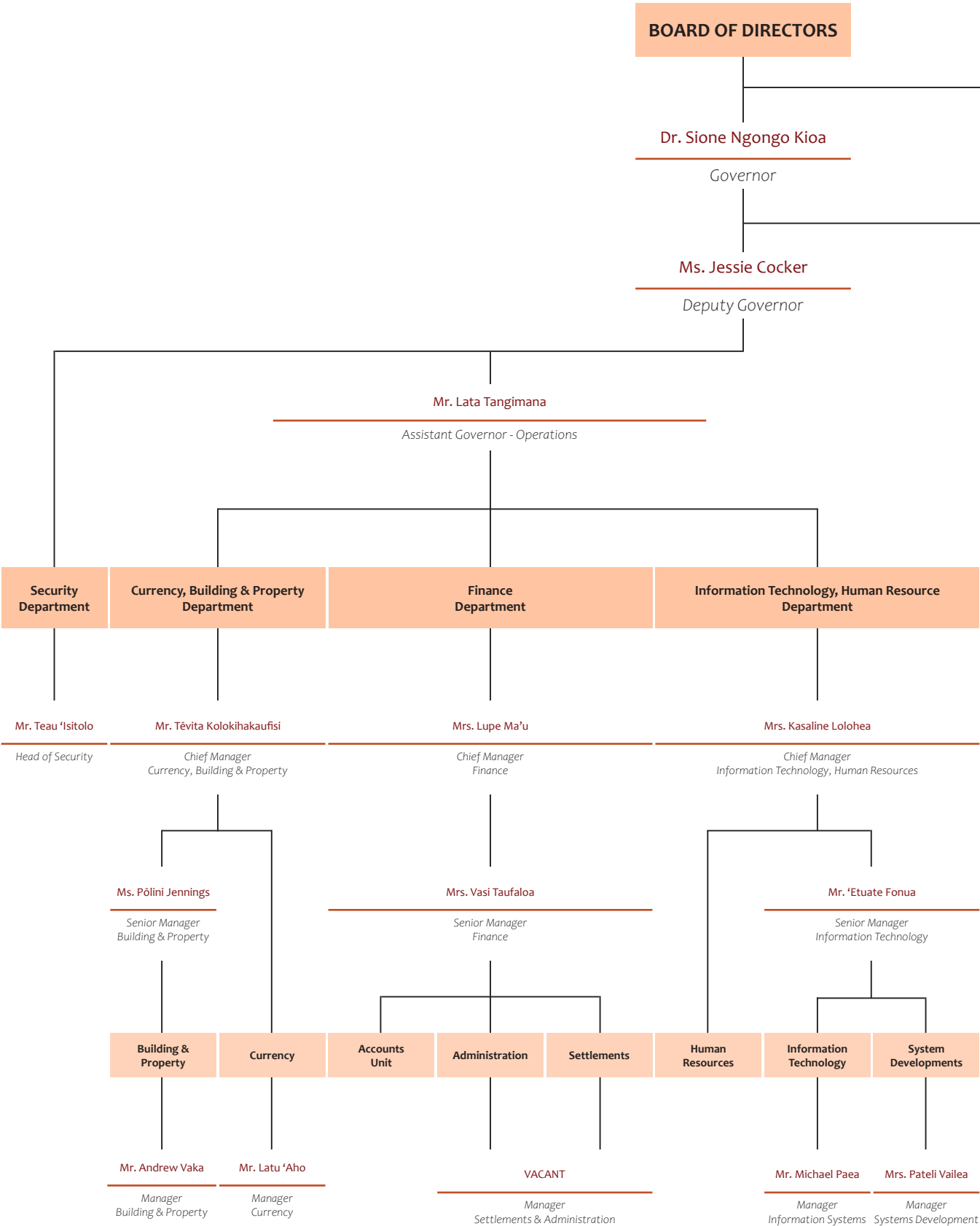
Dr. Sione Ngongo Kioa
Governor

Mrs. Pisila 'Otunuku
Director
(Secretary for Finance)
(Appointed in December 2021)

Mr. Alfred Cowley
Director
(Appointed in February 2022)

Organizational Structure

June 2022





Corporate Plan

657 Measurable
Targets

78% Achievement
Level



In May 2021, the Board of Directors approved the revised Reserve Bank's Corporate Plan for 2021/22 with 657 measurable targets. The corporate plan was reviewed at the end of May 2022 and it showed that overall the Bank had achieved 78% of the 657 Corporate Plan targets for 2021/2022.

The staff continued incorporating the balanced scorecard in the corporate plan review as an assessment methodology. This balanced scorecard measures the achievement of each target in terms of three criteria which are weighted according to their importance.

The challenges of 2021 were felt everywhere, and the mid term review bore the brunt of it with the overall achievement result at 78% of the 657 targets for 2021/2022. These were mainly due to the HTHH volcanic eruptions, the internet outage followed by

the enforcement of the Red lockdown under the Government's COVID-19 Traffic Light Framework in February 2022. Furthermore, positive COVID-19 cases at the NRBT and NRBT continued to operate via hybrid work arrangement to ensure critical function were operational. A total of 7 weeks of operation were disrupted as a result, were the main reasons for the corporate plan achievement level.

Management will continue to align staff behaviours with the Bank's values. This is not only in maintaining a culture of high performance that supports achieving the strategic priorities set out in the Corporate Plan but also in positioning the National Reserve Bank of Tonga as an effective and dynamic central bank in promoting Tonga's economic prosperity.



Quality

Weighted at 75%
Considers **Accuracy, Completion** and **Comprehensive**



Timeliness

Weighted at 45%
Considers **Promptness of response** and **Meeting deadlines**



Compliance

Weighted at 30%
Considers **Legislation, Policies, Procedures** and **Protocols**

Economic Overview

Overseas Economies

The global economy will grow at a slower pace in 2022 and 2023, according to the International Monetary Fund (IMF) World Economic Outlook (WEO) update in July 2022. Following a tentative recovery of 6.1% in 2021, the global economy is now projected to slow down to 3.2% in 2022, underpinned by a sharp slowdown in the growth of major advanced economies such as the United States (US), China, and Europe.

The US recorded weaker-than-expected growth in the first two quarters of 2022, reflecting the eroding purchasing power from the stubborn inflation, and the adverse effects of the aggressive contractionary monetary policy. According to the US Bureau of Economic Analysis, the US real GDP declined at an annual rate of 0.9% in June 2022. Meanwhile, the war-related disruptions on global financial channels continued to hinder growth in the Euro area, especially Russia, which is estimated to contract by 6.0% in 2022. Further COVID-19 outbreaks and lockdowns in China, coupled with its deepening financial crisis have pushed down the estimated 2022 growth to 3.3% (from 8.1% in 2021) and pose major global spillovers. The Australia Bureau of Statistics (ABS) however, reported a 3.3% growth over the year to March 2022, attributed to growth in household consumption, and higher inventories. Similarly, the New Zealand economy also grew by 5.1% in the year to March 2022 stemming from expansions in all sectors of the economy.

Curbing inflation remains the top priority for policymakers in many advanced economies, given the further supply shocks induced by the geopolitical conflicts in food and energy markets. Increasing Western sanctions on Russia and the exit of energy giants such as British Petroleum (BP) and Shell fuelled the surge in oil and energy prices.

Negative spillovers from the war in Ukraine and trade restrictions also worsened the food crises, driving up global food inflation. The IMF projects a massive 50.4% and 10.1% increase in oil and non-oil commodity prices for 2022, pushing up the global inflation outlook to 8.3%. A softer inflation outlook for 2023 of 5.7% reflects confidence in the aggressive monetary policy tightening by central banks, and base effects for energy prices to turn negative. Inflation is anticipated to return to pre-pandemic levels by the end of 2024. The US inflation rose by 9.1% in June 2022, the largest 12-month increase in over 40 years. The Federal Reserve responded by raising its target range for the federal funds rate to 1.5-1.75%, compared to the 0-0.25% in June 2021. Similarly, Australia's inflation rose by 6.1% in the year to June 2022 triggering a 75 basis point increase in the cash rate target by the Reserve Bank Australia to 0.85%. New Zealand follows a similar pattern as annual inflation remained above the Reserve Bank of New Zealand's 1-3% target band at 7.3% in June 2022, resulting in several increases in the official cash rates during the year from 0.25% to 2%.

Developments in the Domestic Economy

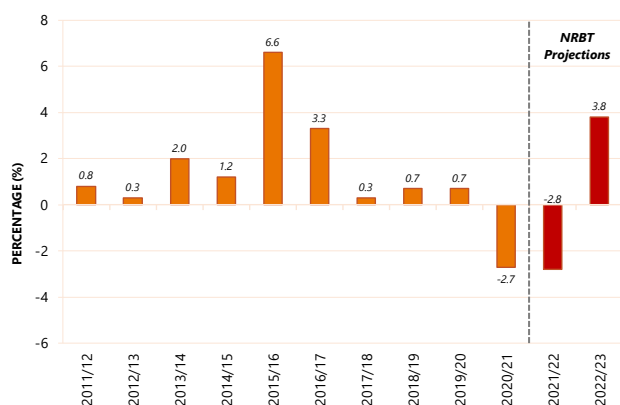
The Tongan economy's growth declined in FY2020-21 by 2.7%, its first contraction recorded in more than a decade. This reflects the adverse impacts of the COVID-19 global pandemic triggering the extended closure of the international borders, severely hurting the tourism industry and significantly slowing down economic activities. Disruptions in global supply chains and shipping logistics affected trading activities and aggregate demand, whereas heightened uncertainties weakened consumer confidence and investment appetite.

Economic conditions deteriorated further in FY2021-22 with the double crises of the Hunga Tonga Hunga Ha'apai volcanic eruption and tsunami, and the local outbreak of COVID-19. The Hunga Tonga Hunga Ha'apai disaster in January 2022 destroyed homes, businesses, infrastructures, crops, and fishing vessels. The undersea optic fibre cables were also severed, cutting off Tonga from all international communications. The World Bank estimated in its GRADE¹ report the total cost of direct damages from the Hunga Tonga Hunga Ha'apai disaster to be around T\$208 million, equivalent to 18.5% of GDP. In February 2022, Tonga also reported community transmission of COVID-19, prompting national lockdowns and curfews for several weeks, with only the essential services operating. Although only few lives were lost to both disasters, the economic costs were severe as economic activities pretty much ceased in the first 4 months of 2022. The successful vaccination rollout allowed for the gradual resumption of business activities, although still observing curfews and social distancing. By the end of June 2022, businesses have returned to normal operations while travel restrictions start to ease. In light of the severity

¹ Global RAPid post-disaster Damage Estimation

of these disasters on an already weakened economy, the Reserve Bank is estimating another economic contraction of 2.8% for FY2021-22.

FIGURE 1:
REAL GDP GROWTH
Annual Percentage Growth



Sources: Statistics Department | National Reserve Bank of Tonga

A moderate recovery of 3.8% is projected for FY2022-23, as both fiscal and monetary policies prioritise economic recovery from Hunga Tonga Hunga Ha'apai and COVID-19. This is in addition to the planned reopening of the international borders allowing for the revival of the tourism industry and stimulating economic activities. Tonga may have passed the worst phase of the global pandemic already and people are now learning to live with COVID. Both business and consumer confidence are likely to improve which will strengthen aggregate demand and consumer spending. Nevertheless, risks to the outlook are tilted to the downside as global inflation remains elevated which can dampen growth. At the same time, pandemic-related uncertainties are not yet omitted, while natural disasters and external shocks continue to pose risks to the outlook.

The overall sectoral performance for FY2021-22 was weakened significantly by the 2022 disasters.

The primary sector was largely affected by the saltwater inundation and ash fall from the Hunga Tonga Hunga Ha'apai volcanic eruption, affecting soil quality for crop production. Marine life was also affected by the tsunami, whereas damages to fishing boats will affect livelihood. Both agricultural and fisheries exports were largely affected as they declined over the year to June 2022 by 13.5% and 29.4%, respectively. Some of the immediate relief responses included the provision of fishing vessels, tractors, and seedlings for replanting to assist those who were affected by the disaster with their livelihoods and maintain food security.

The industry sector growth for FY2021-22 was also negatively affected by the disasters as it further delayed construction and network projects that would have contributed positively to growth. The manufacturing and quarrying sectors were also affected by the restrictions. More than 70% of the total estimated damages from the Hunga Tonga Hunga Ha'apai disaster were from residential and non-residential buildings, and infrastructures.

The service sector growth was also significantly hindered in FY 2021-22 as the majority of the services businesses experienced substantial reductions in operations. Downturns have been notable for the accommodation and food service activities, wholesale and retail trade, transport, communications, real estate activities, and entertainment services. Many of the tourism-related businesses in Tongatapu suffered severe damages from Hunga Tonga Hunga Ha'apai, which will further delay their recovery. Credit growth remains subdued as uncertainties persist and demand softens.

Labour market conditions were unfavourable in FY2021-22, particularly for the private sector. On-going disruptions to business operations resulted in pay cuts for employees, and even layoffs in some cases. In response to these challenges, the Government provided financial relief to some of the businesses and employees that were directly affected by the lockdowns. However, the Reserve Bank's survey reported higher job vacancies



The Reserve Bank's booth at the Ministry of Trade & Economic Development's Trade Fair 2021.

being advertised (an increase of 323 vacancies) over the year to June 2022, of which the majority are for public administration. The Reserve Bank's survey, however, does not capture many of the private sector vacancies that are advertised in social media, radio broadcasts, and phone text messages. Consequently, there is rising demand for labour even though there is available labour supply from jobs that are affected by the pandemic. This could be due to a mismatch in employers' working requirements and the available skillset, in addition to higher competition with the labour mobility schemes. During the border lockdown, the repatriation of Tongan seasonal workers continued in response to higher demand, particularly from Australia. The seasonal working schemes are an important lifeline for many Tongan families as evident during these difficult times. On the other hand, the labour mobility scheme is draining our semi-skilled labour supply as local businesses are struggling to recruit and maintain local employees.

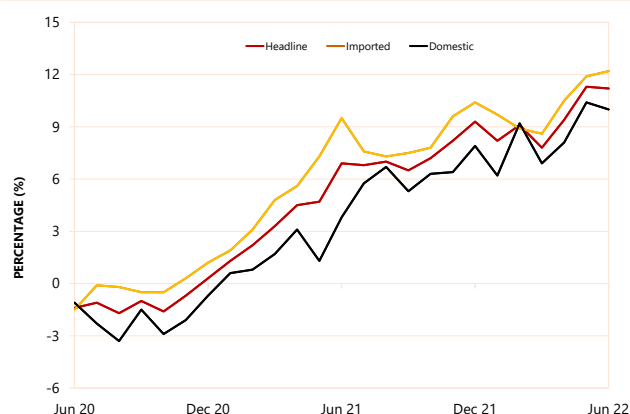
Fiscal policy remained expansionary in FY2021-22 to support economic recovery, with an estimated budget deficit of \$13.5 million, equivalent to around 1.1% of GDP, according to the Government Budget Statement FY2022-23. Tax revenue collections declined in light of the depressed state of the economy. Total public debt declined by 3.6% to \$497 million, equivalent to 39% of GDP. External debt is around 86% of the total public debt of which two-third is to the EXIM Bank. The outstanding external debt by currency consists mostly of the Chinese Yuan (55%), Special Drawing Rights, and other currencies. Domestic debt as at end of June 2022 remained the same as previous year at \$67.3 million of Government Bonds. The largest holders of Government Bonds are the Commercial Banks (59%) and the Retirement Funds (28%).

Headline inflation was notably higher in the year to June 2022, averaging at an annual rate of 8.5% compared to an average 1.4% in the previous year. During the year, headline inflation peaked at 11.3% in May 2022. The strong pick-up in inflation reflects supply-side disruptions both externally and domestically. Surging global oil

and food prices, soaring freight rates, supply-demand mismatches, and geopolitical tensions contribute to elevated imported inflation. This imported inflation also passes through to domestic energy prices and production costs. The Hunga Tonga Hunga Ha'apai disaster shock affected the domestic food supply leading to food shortages, adding pressure on domestic prices. The higher inflation was driven by higher prices of petroleum, food items, kava, tobacco, electricity, gas, construction materials, and catering services.

The core inflation (excluding imported food and energy prices) trended below the headline, at an annual average of 4.7% in the year to June 2022. This implies that a large part of the elevated inflation is driven by energy prices. However, core inflation is higher than the previous year's annual average of 2.1%, coinciding with the rising prices of domestic food items.

FIGURE 2:
INFLATION
Year-ended



Source: Statistics Department; National Reserve Bank of Tonga.

Partial indicators point to a wider current account deficit in FY2021-22, stemming from rising trade deficits more than offsetting the surpluses in net primary and secondary income. According to the Overseas Exchange

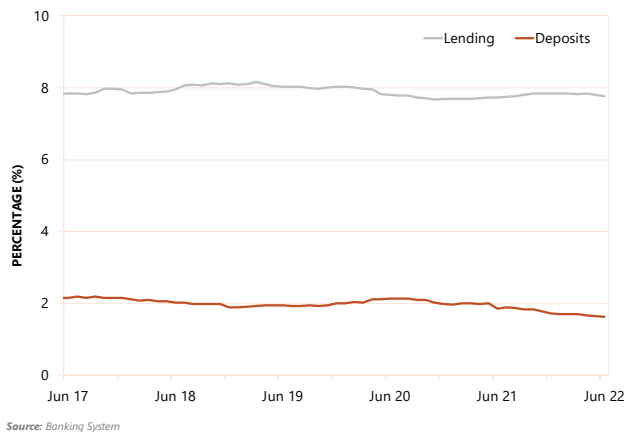


The Minister of Finance, Hon. Tatafu Moeaki chaired a meeting with representatives from the Ministry of Finance, Tonga Statistics Department and the Reserve Bank, outlining updates on the economy and the impacts of the Hunga Tonga-Hunga Ha'apai volcanic eruption and the outbreak of COVID-19 in Tonga.

Transactions (OET) data, payments for imports of goods and services increased over the year by 9.4% and 56.4%, respectively. This is compared to a decline in export receipts by 6.2%, while service receipts rose by 11.5%. The primary and secondary income accounts recorded higher net receipts over the year of 38.8% and 8.0%, respectively. This reflects the inflows of Government budget support, grants, and relief funds in response to the Hunga Tonga-Hunga Ha'apai disaster and COVID-19 outbreak. Additionally, private remittances continue to grow by 2.4% in the same period.

Monetary aggregates during the year also mirror the increase in foreign reserves and the tight lending conditions. Broad money expanded further by 10.7% to \$846.7 million. This was driven by a 13.2% increase in net foreign assets reflecting the strong growth in foreign reserves over the year by 27.7%. This is attributed to the increase in inflows of Government donor funds and remittances exceeding the increase in import payments, and the continued fall in credit growth. Reserve Money also increased by 22.6% to \$629.5 million on the back of rising demand for currency, higher deposit volumes, and the excess liquidity in the banking system.

FIGURE 3:
WEIGHTED AVERAGE INTEREST RATES
Monthly

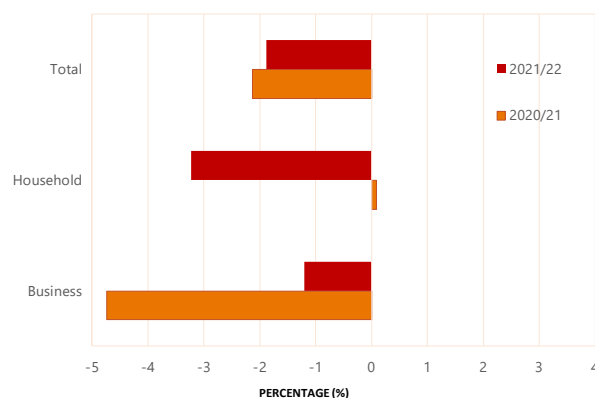


The weighted average interest rate spread widened by 25.0 basis points to 6.14% in the year to June 2022. This was led by a 21.8 basis points decline in the weighted average deposit rates, coupled with a 3.2 basis points rise in the weighted average lending rates. The lower weighted average deposit rates attributed to the declining rates in all deposit types, is reflective of the excess liquidity in the banking system. The rising weighted average lending rates reflect higher lending rates offered to businesses within the utilities, construction, and agricultural sectors, as well as household vehicle loan rates.

The banks' total lending still recorded a negative

credit growth of 1.9% compared to -2.1% a year ago. Despite the excess liquidity available for lending, the challenging economic conditions and uncertainties continue to dampen investment appetite. Although the government development loans is available at low interest rates, there is still more than \$9 million (50%) of the total GDL allocation that remains unutilized. This implies that interest rate is not a deterrent but rather factors such as the lending criteria that are discouraging borrowers from accessing the scheme. Rising indebtedness limit businesses' and households' capacity to borrow further, while banks became more risk averse. Business loans declined by 1.2% (\$2.7 million) owing largely to loan run-offs by public enterprises, as well as businesses within the construction, agricultural, and professional & other business services sectors. Household loans fell by 3.2% (\$8.3 million) underpinned by lower housing and other personal loans.

FIGURE 4:
ANNUAL GROWTH OF BANK'S LENDING



Lending balances in the non-bank financial institutions (NBFIs)², however, rose by 7.8% (\$9.0 million) in the year to June 2022 to \$125.7 million, suggesting a growing credit market outside of the banking system. These are mostly for the informal sector whom banks are not currently lending to. The microfinance institution attracts borrowing from Micro, Small and Medium enterprises (MSME) and women groups at high interest rates. This may suggest that these borrowers have no alternative means of access to credit, or borrowers are insensitive to interest rates. The Retirement Fund Board also offers lending opportunities to its members, which also increased over the year.

² NBFIs lending includes the Retirement Fund Board, South Pacific Business Development (SPBD), and Government on-lent.

Monetary Policy Formulation

Monetary Policy Actions

The Tongan economy is expected to contract again in FY2021-22 by 2.8%, following a 2.7% contraction in the previous year. At the same time, inflationary pressure seems to be more persistent for longer pushing the Tongan economy into stagflation.

Consequently, monetary policy remained complementary to fiscal policy at this time, supporting a faster economic recovery and continued to maintain macroeconomic stability. With regards to inflation, the Reserve Bank notes that the sources of inflation are supply-driven and are outside of its control. Nevertheless, the Reserve Bank stands ready to adjust its monetary policy settings should inflation continue to increase unsustainably.

The Reserve Bank maintained the following monetary policy measures in FY2021-22.

- *Maintain the monetary policy rate at 0% (zero interest rate policy).*
- *Maintain the current weights in the Exchange rate basket*
- *Maintain the minimum loans/deposit ratio of 70% (revised down from 80% in June 2022).*
- *Maintain the Statutory Reserve Deposit ratio at 10%.*
- *Maintain the inflation reference rate at 5%.*

Monetary Policy Outcomes

Inflation

Headline inflation remained above the 5% reference rate throughout FY2021-22, recording 11.2% annual growth in June 2022, compared to 6.9% in June 2021. This rise was mostly on the back of on-going global supply disruptions, the war in Ukraine, and the soaring freight rates. This is in addition to natural disaster shocks driving up domestic prices. However, inflation is expected to ease to around 9% by the end of 2022 in line with the expected decline in global oil and food prices. The Reserve Bank projects inflation to fall below the 5% reference rate by mid-2023 as the domestic market recovers and global inflation further improves.

Foreign Reserves

Foreign reserves grew strongly over the year to June 2022 by \$155.9 million equivalent to 12.6 months of import cover. The annual growth was mainly attributed to higher receipts of budget support, official grants, capital inflows, and remittances. Foreign reserves has remained comfortable above the Reserve Bank's minimum threshold

of 3 months, and the optimal level of 7.3 months estimated by the IMF. Foreign reserves is expected to gradually decline as remittances and government donor support fall to normal growth levels. Meanwhile, import outflows is projected to increase in line with the pace of economic recovery, in addition to higher investment outflows due to the lack of investment opportunities. However, it is still anticipated to remain at adequate levels.

Exchange Rates

The Nominal Effective Exchange Rates (NEER) increased over the year to June 2022, by 5% indicating a general strengthening of the Tonga Pa'anga against its major trading currencies except the United States Dollar (USD). The Real Effective Exchange Rates (REER) also rose over the year by 11% reflecting Tonga's higher inflation rate compared to its major trading partner countries, indicating a loss in trade competitiveness.

Corporate Plan Targets

The Economics Department was allocated with 58 specific measurable targets from the Reserve Bank's approved Corporate Plan for 2021-22, compare to 29 measurable targets in the previous year. Over the year to May 2022, the Department achieved 84% of its targets, while the remaining 16% were still work in progress. The latter mostly reflect timeliness issues in data collection and dissemination of economic reports such as the Monetary Policy Statement, Quarterly Bulletins, and Monthly data flashes. Staffing constraints and disruptions from Hunga Tonga-Hunga Ha'apai and COVID-19 were the main causes of the delays. Nevertheless, the Department is working on addressing these timeliness issues through capacity building to improve staff productivity, and enhance effectiveness of current work processes in achieving deliverables. Some of the current publications such as the Monetary Policy Statements, Quarterly Bulletins, and Monthly data flashes are being restructured to better suit our users' needs, and improve the Department's overall performance.



Financial Stability

Over the year, the financial system has faced many unforeseen challenges, resulting from COVID-19 and the Hunga Tonga-Hunga Ha'apai volcanic eruption and tsunami. The catastrophic impact of these events tested the resilience of the financial system in terms of activating of Business Continuity Plans and ensuring the continuity of access to financial services. This entailed daily close monitoring of the operations of the banks and other financial institutions while also switching to remote work arrangements during the lockdown periods. The Financial System team also undertook various stress tests to ensure the financial system remained sound during this time. Nonetheless, the financial soundness indicators and other prudential requirements have remained broadly satisfactory.

Financial System Supervision and Regulation

Prudential Regulation

During the year, the Reserve Bank, in collaboration with the Pacific Financial Technical Assistance Centre (PFTAC), commenced the review of the current regulatory framework for banks and non-bank financial institutions to ensure ongoing compliance with the Basel framework and core principles. This included a diagnostic review of the current Prudential Banking Standards. The PFTAC assistance continues into FY 2022/23 with a diagnostic review of the regulatory framework for foreign exchange dealers and developing prudential standards for the microfinance institutions, moneylenders and credit union.

Prudential Supervision

Supervisory work during the year continued to focus on ensuring the financial system remained sound despite the challenges posed by the prolonged global pandemic and local community transmission as well as the successive natural disasters. In encouraging financial institutions to assist their customers during these difficult times, the Reserve Bank extended the due dates for the submission of reports and temporarily ceased the charging of administrative penalties for wrong and late reporting by all financial institutions.

Enhanced supervision of banks was necessary due to the heightened risks to financial stability as the economy slowed down and the lack of bankable projects. Ensuring financial customers' interests continue to be adequately protected was also important.

Bilateral meetings with the banks, as well as with banks' external and internal auditors, and meetings with the Association of Banks in Tonga (ABT), continued during the year to ensure the Reserve Bank is kept abreast of the banks' strategies in light of the market developments and that they continue to operate prudently and in compliance with the Reserve Bank's requirements. Due to the pandemic and border restrictions, virtual audits required more time to verify the financial information and have resulted in delays in meeting the due date for the submission of the audited accounts to the Reserve Bank for one bank.

The supervision of foreign exchange dealers (FEDs) continued during the year to ensure their businesses are sustained by ensuring that they still comply with all legal and regulatory requirements, especially the AML/CFT requirements. Supervisory activities included undertaking technical meetings, ongoing quarterly spot checks, annual compliance check visit, trainings and guidance to the foreign exchange dealers. These were important in strengthening their AML/CFT compliance.

The volcanic eruption and the COVID-19 outbreak in Tonga had impacted the Reserve Bank's scheduled quarterly spot checks of FEDs. The majority of the smaller-sized FEDs could not operate given the lack of internet access or lockdown of their overseas agents. Close monitoring of their operations were carried out to ensure the Reserve Bank's continued awareness of the operational status of the FEDs at these times.

During the year, the Financial System Department took on the responsibility for the anti-money laundering/counter-terrorism financing (AML/CFT) supervision of banks and non-bank financial institutions to augment the efforts of the Financial Intelligence Department. An AML/CFT onsite examination of one bank was conducted in June 2022. This AML/CFT supervision capacity will continue

to be built with training of staff and refinements to the supervision regulation.

In managing the unclaimed monies paid to the Reserve Bank by the commercial banks, the Reserve Bank continued to publish those accounts that remained unclaimed as per section 94(3) of the Banking Act 2020, totaling \$699,632.15. This allows customers to place their claims for their funds before they are forfeited to the Government if they remain unclaimed after 5 years of being paid to the Reserve Bank. During the year, an amount of \$276,500.50 was forfeited to the Government's account pursuant to sections 94 (7) & (8) of the Banking Act 2020.

Banking Sector

As of the end of June 2022, there were 4 banks licensed to operate in Tonga. The banks' access points remained relatively stable over the year except for the EFTPOS machines for both Bank of South Pacific (BSP) Tonga Limited and ANZ, which fell by 59 and 5 machines, respectively from June 2021. This was mainly due to the closure of the borders, which led to the inactive usage of EFTPOS services. TDB's branches also declined from 8 to 6 over the year resulting from the closing of their branches at Niua Toputapu and Niua Fōou, which the Ministry of Finance replaced as their agent.

TABLE 1
BANKING SERVICES IN TONGA

Banks	ANZ	BSP	MBf	TDB
Branches (including Head Office at Nuku'alofa)	2	4	2	6
Agents/In-store banking	-	34	-	2
ATMs	11	15	-	-
EFTPOS	116	265	-	-
Internet Banking	Yes	Yes	No	Yes
Money Transfer Services	Yes	Yes	No	Yes
<i>Source: Commercial Banks</i>				

All banks maintained their head offices in Tongatapu. MBf Bank Limited and BSP Bank also maintained their branches and sub-branches in Vava'u. Tonga Development Bank (TDB) continued to be the only bank serving all the outer islands of Ha'apai, Vava'u, and 'Eua as well the two Niuas (Niua Toputapu and Niua Fōou). Their two other sub-branches in Tongatapu are Tatakamotonga for the Hahake District and Nukunuku for the Hihifo District.

In support of customers recovering from the aftermath of the natural disasters and COVID-19 lockdown, the commercial banks offered relief packages during the financial year 2021/22. BSP Tonga also introduced a new Tsunami Repair Loan product in January 2022. This product was offered at a 10% fixed interest rate for a maximum term of 60 months until April 2022. In addition, TDB introduced a new housing loan package for the Tongatapu, 'Eua & Ha'apai customers only, expiring in March 2023. This housing loan package was offered at a 5.5% interest rate for the first year, 6.5% interest rate in the second year before returning to the base rate of 8%.

Financial Position

TABLE 2:
SHARES OF LOANS BY SECTOR

Loan by Sector	June 21 (%)	June 22 (%)
Other Financial Corporations Domestic	0.3	0.3
Statutory Non-financial Corporations Domestic	10.6	9.9
Private Sector Domestic	89.0	89.3
Non-financial Corporations	34.7	35.6
Manufacturing	2.0	2.0
Agriculture	1.5	1.3
Electricity/Gas/Water	0.0	0.1
Forestry	0.4	0.5
Fisheries	0.3	0.3
Construction	4.3	3.5
Distribution (Wholesale & Retail)	10.4	12.0
Tourism (Hotels & Restaurants)	4.6	4.5
Transport	2.9	3.0
Professional & Other Services	8.3	8.3
Housing	43.5	43.4
Vehicles/Transport	0.1	0.1
Other	10.7	10.2
Non-profit Institutions Serving Households	0.1	0.5
Total	100	100
<i>Source: Commercial Banks</i>		

The total assets of the banking system increased over the year 2021/22 by \$81.9 million (7.6%) to \$1.16 billion at the end of June 2022 compared to a \$194.8 million

(21.9%) growth in the previous year. This resulted mainly from higher Exchange Settlement Account (ESA) balances rising by \$74.5 million (22.2%), compared to a \$171 million (104%) rise last year. The ongoing influx of funds to the Government's accounts throughout the year from development partners for COVID-19 assistance and other projects, and receipt of private remittances, fueled the rise in banks' ESA.

Credit growth contracted by \$10.1 million (2.1%), similar to the previous year, reflecting minimal lending opportunities over the year, coupled with the ongoing loan run-offs. Private business loans as a proportion of total loans rose over the year to 35.6%, increasing from 34.7% in June 2021. The majority of the business loans were still for the distribution (wholesale & retail) sector, professional & other services, tourism, and construction. Table 2 shows the breakdown of loans by sector. On the other hand, private individual loans continued to hold more than half of the total loan portfolio at 53.6% falling from 54.2% in the previous year. Private individual loans include vehicles/transport, others and Housing loans. Housing loans continued to dominate the bulk of the banking system loan portfolio at 43.4% remaining relatively stable from the previous year reflecting lending opportunities mainly for civil servants.

TDB continued to administer the Government Development Loan (GDL) scheme with its low-interest rate for targeted sectors. As of June 2022, the total outstanding loan under GDL was \$9.2 million compared to \$8.2 million in June 2021. The majority of the total outstanding loans was lent to the agricultural sector (43.2%), followed by 16.7% to the fisheries development sector and 14.0% to the education sector. Most recent changes effective in May 2022 include a reallocation of sectoral limits to encourage further lending to the customers affected by COVID-19 and the January disasters. Furthermore, all loans are now offered at a 1% per annum interest rate for 12 months before returning to 3%.

Total banks' liabilities also rose over the year by \$67.2 million (7.6%) to \$957.6 million driven mainly by the total deposits rising by \$68.7 million (8.6%). This compares with a \$112.4 million (46.2%) rise a year ago. Growth in deposits was mainly due to the increase in demand deposits by \$51.1 million (14.3%), reflecting mainly the ongoing deposits from private non-financial corporations, accumulation of retirement funds, and Government receipts. This was coupled with the increase in the savings deposit by \$36.3 million (24.0%) over the year, reflecting the ongoing savings of private individuals, money transfer businesses, and non-profit organizations.

TABLE 3
DEPOSIT ACCOUNT
Banking System

	2020/21	2021/22
Demand Deposits		
Number of Accounts	48,822	51,445
Value of Deposits (\$m)	356.0	407.1
Saving Deposits		
Number of Accounts	49,088	50,041
Value of Deposits (\$m)	151.1	187.4
Time Deposits		
Number of Accounts	1,877	1,780
Value of Deposits (\$m)	292.9	274.2
Total Number of Accounts	99,787	103,266
Total Value of Deposits (\$m)	799.9	868.6
<i>Source: Commercial Banks</i>		

The total number of deposit accounts reported by banks increased over the year by 3.5% to 103,266 compared with a 4.2% rise last year. The total value of deposits also increased by \$68.7 million (8.6%) to \$868.6 million.

TABLE 4
NUMBER OF LOAN ACCOUNTS
Banking System

Loans & Advances	2020/21	2021/22
Number of Accounts	8,327	9,601
Value of Loans (\$)	474,274	464,179
<i>Source: Commercial Banks</i>		

The total number of loan accounts reported by banks increased by 15.3% to 9,601 while the total value decreased by \$10.1 million (2.1%) to \$464.2 million over the year to June 2022. In comparison to June 2021, total accounts decreased over the year by 13.9% to 8,327 and similarly the total value of loans fell by \$10.0 million (2.1%) to \$474.3 million.

Profitability

The total banking system profitability slightly increased over the year. The banks recorded an after-tax profit of \$18.981 million for the year ended June 2022, which is equivalent to 1.7% of the total average assets, compared to an after-tax profit of \$18.486 million in the previous year, representing 1.9% of the average assets. Key contributors to banks' profitability over the year was the write-back of loan loss provisions of \$2.7 million (86.8%) and higher foreign exchange revaluation income of \$2.3 million (8.2%). On the other hand, interest income fell by \$1.5 million (3.3%), aligning with the lower annual credit growth. Non-interest expenses also rose by \$2.3 million (8.2%) due mainly to higher other expenses.

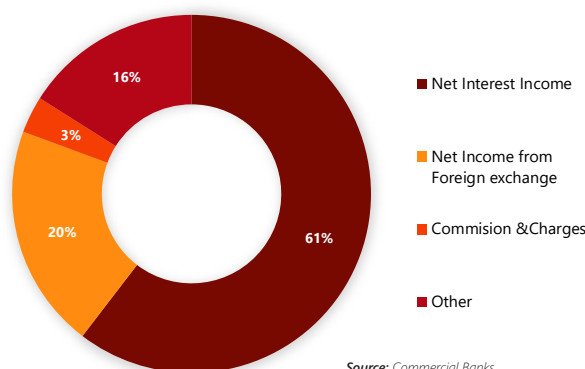
TABLE 5
FINANCIAL PERFORMANCE

	2020/21	2021/22
Pre-tax Net Profit (% average total assets)	2.5%	2.6%
After-tax Net Profit (% average total assets)	1.9%	1.9%
Total Operating Income (% average total assets)	5.7%	5.7%
Net Interest Income (% average total assets)	3.4%	3.3%
Non-Interest Income (% average total assets)	2.3%	2.4%
Net Interest Margin	3.0%	2.9%
Total Operating Expenses (% average total assets)	2.9%	3.1%
Consolidated Risk-weighted Capital Ratio (%)	31.4%	33.6%

Source: Commercial Banks

Net interest income remained dominant, representing 57.2% of total operating income, although it fell from 60.4% in June 2021. Foreign exchange income followed at 24.2% of total operating income, increasing from 20.3%.

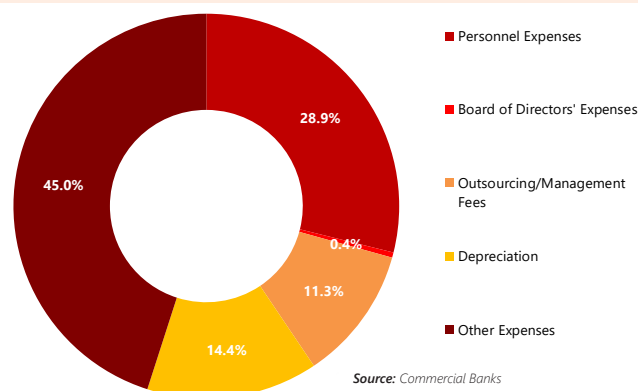
FIGURE 5
COMPONENTS OF OPERATING INCOME
Banking Sector



Source: Commercial Banks

Over the year, total operating expenses slightly increased by 8.2% driven by Other Expenses (a combination of administrative and occupancy expenses). The largest share of operating expenses is attributed to other expenses at 45.0%, increasing from 41.9% in June 2021. This was followed by Personnel Expenses at 28.9% and Depreciation expenses at 14.4% compared to 31.4% and 13.9%, respectively in June 2021.

FIGURE 6
COMPONENTS OF OPERATING EXPENSES
Banking Sector



Source: Commercial Banks

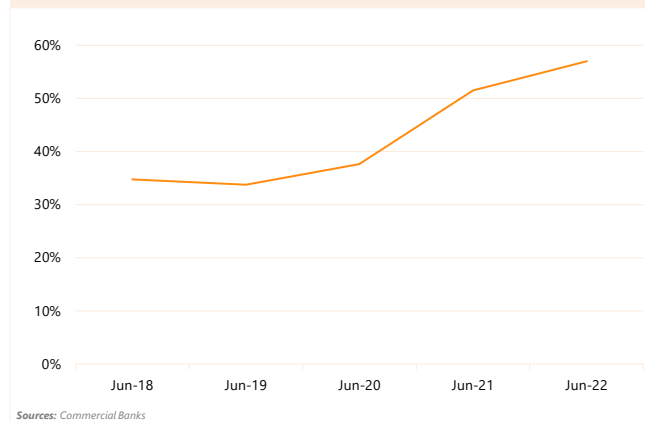


Members of the Association of Banks Tonga (ABT) during an ABT meeting at the NRBT Conference Centre.

Liquidity

High liquidity remains in the banking system during the year 2021/22. The Liquid Asset Ratio rose to 57.0% in June 2022 compared to 51.5% in June 2021, continuing to remain well above the Reserve Bank's minimum requirement of 5%.

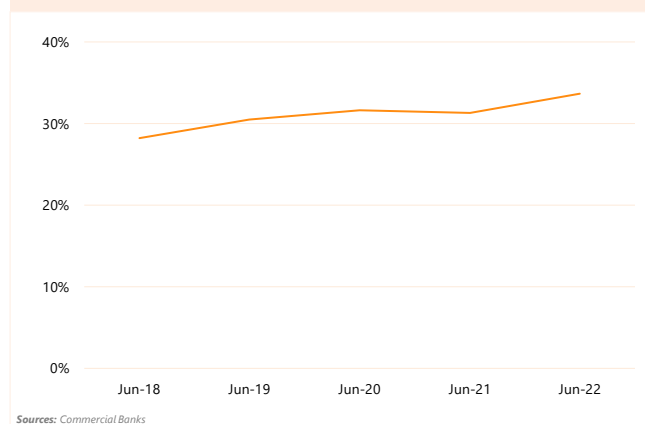
FIGURE 7
LIQUID ASSET RATIO



Capital

As of June 2022, strong capital position of the banking system was maintained as banks' risk-weighted capital ratio remained well above the Reserve Bank's 15% minimum requirement. The consolidated risk-weighted capital ratio for the banks improved to 33.6% at the end of June 2022 from 31.4% in June 2021. The higher profitability resulted in a further increase in eligible capital of \$9.1 million (5.3%) while the risk-weighted assets fell reflecting mainly the lower loan balances.

FIGURE 8
RISK WEIGHTED CAPITAL RATIO



Asset Quality

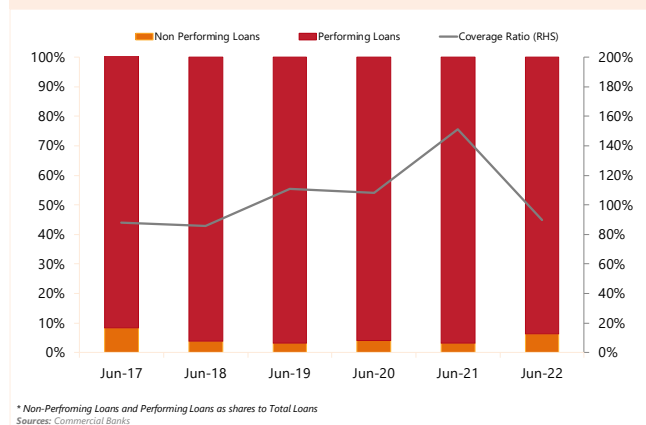
The overall quality of the banks' assets weakened over the year to June 2022. Total Non-Performing Loans (NPLs) increased by \$11.7 million (72.3%) to \$27.9 million at the end of June 2022, due mainly to downgrades of business loans to the construction sector and housing loans. NPLs represented 6.0% of total loans compared with 3.4% a year ago. This reflected the impact of Hunga Tonga-Hunga Ha'apai volcanic eruption, tsunami, or COVID-19 lockdown on the private sector's debt serviceability.

Household loans continued to account for the highest share of the total NPLs in June 2022 at 56.0%, a slight increase from 55.8% in June 2021, while the remaining 44.0% was for private business loans.

Total provisions against loans increased by \$0.6 million (2.6%) to \$25.1 million, which was mainly due to the rise in specific provisions by \$2.0 million (41.2%). This ensured banks held adequate specific provisions as required by the Reserve Bank. General provisions, on the other hand, fell by \$1.4 million (7.1%) reflecting the write-back of provisions in line with the IFRS 9 requirements.

The Reserve Bank continued to work closely with banks to monitor the customers that were adversely impacted by COVID-19 and the natural disasters in early 2022. Stress tests are also undertaken on a monthly basis to ensure the adequacy of the banking system capital should NPLs and provisions continue to rise further.

FIGURE 9
ASSET QUALITY



During the year, the Banking Supervision Team contributed the following co-jointed development projects:

- (a) The development of an in-house Know Your Customer (KYC) database to enhance the identification and monitoring of clients dealing with the Reserve Bank. There was also work on a Regional KYC Project to strengthen compliance with AML/CFT requirements, which involved collaboration with development partners (World

Bank and ADB), and regional central banks. In June 2022, the South Pacific Governors decided to discontinue the regional project and for each central bank to focus on developing their own KYC database, which the NRBT is developing in-house.

- (b) The development of an in-house Credit Registry System to assist banks' credit checks and better monitor household and corporate indebtedness.
- (c) Completed the documentation and launch of the Domestic Electronic Payment System (DEPS) on 1 July 2022.

Non-Bank Financial Institutions Supervision

Foreign Exchange Dealers

During the year, the Reserve Bank continued to closely supervise and monitor the operation of all the sixteen (16) licensed foreign exchange dealers (FEDs) under the Foreign Exchange Control (FEC) Act 2018. Ten (10) of the FEDs hold a Type A license, five (5) hold a Type B license, and only one (1) holds a Type C license. FEDs with Type A licence are authorized to conduct money conversion, make foreign currency payments on behalf of their clients, and receive funds from overseas (both inward and outward remittances). FEDs with Type B license are authorized to receive funds from overseas only (inward remittances), and Type C license is permitted to conduct currency conversion only. All banks are authorized under their banking license to conduct foreign exchange business. BSP continued to hold agency arrangements with MoneyGram while TDB continued to offer its 'Ave Pa'anga Pau (product) as another platform for receiving and sending remittances.

TABLE 6
FOREIGN EXCHANGE DEALERS BY LICENSE TYPE

License Type	2020/21	2021/22
Type A (Inward and Outward Transfer)	10	10
Type B (Inward Receipts and Local Disbursement Only)	5	5
Type C (Currency Conversion Only)	1	1
Total	16	16

Source: Foreign Exchange Dealers

The Reserve Bank issued four (4) letters of warning under the FEC Act 2018 during the year, to unauthorized foreign exchange dealers to immediately cease their operations and apply for a license under the Act.

Microfinance Institution

The Reserve Bank continued to regulate and supervise the South Pacific Business Development (SPBD) as the single licensed microfinance institution under the Microfinance Institution Act 2018. This was by ensuring that they provided essential micro-financial services to meet the financial needs of their members and at the same time, the interest of their members are protected. In assisting their members' financial needs following the natural disasters and COVID-19 national lockdown, SPBD offered new financial products and a volcano eruption and tsunami rehabilitation plan were established to help their members as well as their small businesses recover. The members who were most negatively impacted by the tsunami and the volcano eruption were the focus of the rehabilitation plan. The plan assisted with the cost of rebuilding their damaged homes and businesses options. These included loan restructuring, loan moratoria, and rehabilitation financing. SPBD also ceased all loan repayments of their members for about four months since January 2022.

Moneylenders

TABLE 7
TYPES OF LICENSED MONEYLENDERS

Moneylender License	Number of Moneylenders
Type A (Able to lend an amount of T\$6,000 or more to a member of the public)	6
Type B (Able to lend an amount of T\$2,000 to a maximum of T\$5,999 to a member of the public)	26
Type C (Able to lend an amount of T\$1,999 or less to a member of the public)	28
Total	60

Source: Moneylenders

The Reserve Bank has commenced licensing of the moneylenders in Tonga. It is important to ensure that the moneylenders providing micro loans to the public are conducting their business in accordance with the requirements of the Moneylenders Act 2018. In protecting the financial consumers, ensuring fair costs are being imposed on the financial services offered including on the interest rates charged and collateral requirements. The Reserve Bank has licensed 60 moneylenders during the year 2021/22, in which 10% are Type A, and 43% and 47% are Type B and Type C respectively (Table 8 refers). By island groups, the majority of moneylenders are in Tongatapu at 93%, 5% from Vava'u and 2% from 'Eua. The Reserve Bank will be visiting the outer islands in early

2023 to provide an awareness programme and ensure Moneylenders are licensed from all over Tonga.

Insurance Companies

The insurance companies continued to work closely with the Reserve Bank during the year 2021/22. The insurance companies insure the risks of businesses and households in Tonga against loss of assets particularly during a natural disaster. These assets are used as collateral for loans by banks and other non-bank financial institutions. As such, they are very important for the stability of the financial system. Regulating insurance companies would mitigate the negative spill over effect of an insolvent insurer from impairing the functioning of the financial system and materially impact economic growth. In this regard, the Reserve Bank continues to consult the stakeholders on expanding its mandate to license and regulate insurance companies in Tonga.

During the year, as a result of the volcano eruption and tsunami, three insurance companies received more than 100 claims and paid out T\$7.1 million on the successful claims. These insurance claims were all from Tongatapu, about 90 percent of the total claims were property claims and the remaining claims were vehicle claims. These claims were both from businesses and households. At the end of June 2022, the insurance companies have yet to assess their members in the outer islands mainly 'Eua and Ha'apai who were affected by the tsunami.

Retirement Funds

The Reserve Bank continues to monitor and work closely with the two Retirement Funds in Tonga in terms of collecting monthly financial reports during the year 2021/22. These reports help the Reserve Bank better understand the operations of the retirement funds and the impact that they might have on financial stability. Providing pensions to all employees in Tonga is of fundamental economic and social importance to ensure the successful delivery of adequate retirement income for members upon their retirement. This therefore requires prudent management and investment of members' retirement entitlements. The Retirement Funds also pose systemic risks to the financial system, given the ongoing accumulation of members' retirement funds. Supervising of retirement funds therefore is to promote the stability, security and good governance of the pension funds and plans, and to protect the interests of pension fund members and beneficiaries. Furthermore, regulating of retirement funds who also provide credit/loans to its members ensures a level playing field for all other lenders that are being regulated by the Reserve Bank.

The Retirement Fund Board offered a tsunami relief fund of \$800 per member to support them in the aftermath of the natural disasters in January 2022.

Credit Unions

The Credit Union Act 2021 has been endorsed and gazetted in November 2021 and still awaits the proclamation from Cabinet. In this regard, the Reserve Bank prepares to implement the Act once the proclamation is issued.

Financial Inclusion

Access Indicators show a decline over the year

Over the year ended June 2022, the number of cash in and cash out access point indicators decreased compared to the year ended June 2021. The decrease in the number of banks' EFTPOS terminals was the major contributor which outweighed the increase in the number of agents (refer Table 8).

TABLE 8
ACCESS POINT PER 10,000 ADULTS
Banks & Non-Banks

Access Indicators	2022	2021	2020	2019
Number of cash-in and cash-out access points per 10,000 adults	129	136	151	144
Number of branches per 10,000 adults	10	10	11	11
Number of ATMs per 10,000 adults	4	4	4	4
Number of EFTPOS per 10,000 adults	59	69	84	77
Number of Agents per 10,000 adults	55	53	52	52

Source: Banks & Non-Banks, National Reserve Bank of Tonga

In terms of constituency, Tongatapu 2, Tongatapu 4 and Tongatapu 8 drove the decline in the total number of access points mainly due to lower number of EFTPOS machines, in these constituencies. According to the banks, the decrease in the number of EFTPOS machines over the year was mainly due to the continuous removal of some of the inactive EFTPOS terminals at some store merchants as a result of the internet outage and COVID-19 national lockdown. On the other hand, the number of agents and branches increased by 7 altogether, driven mainly by non-bank financial institutions. The increase in the number of agents was driven mainly by foreign exchange dealers and South Pacific Business Development (SPBD) particularly in Tongatapu 7, 'Eua 11 and Ha'apai 12 (refer Table 10). This is part of the foreign exchange dealers' financial services outreach programme to the outer islands. Furthermore, the increase in SPBD's meeting centres also contributed to the increase over the year ended June 2022.

TABLE 9
SUMMARY OF BANKS & NON-BANKS ACCESS POINTS IN TONGA
by Constituency

Constituency	June 22					June 21				
	Total Access Points	No. of Branches	No. of Agents	No. of EFTPOS	No. of ATMs	Total Access Points	No. of Branches	No. of Agents	No. of EFTPOS	No. of ATMs
Tongatapu 1	56	1	19	34	2	46	1	19	25	1
Tongatapu 2	202	24	23	141	14	239	24	29	168	15
Tongatapu 3	42	1	12	28	1	50	1	15	34	0
Tongatapu 4	142	4	22	113	3	159	3	22	134	3
Tongatapu 5	32	1	23	8	0	35	1	25	9	0
Tongatapu 6	39	1	31	6	1	41	1	33	6	1
Tongatapu 7	49	1	38	9	1	34	1	22	11	0
Tongatapu 8	24	0	14	10	0	34	0	22	12	0
Tongatapu 9	37	4	24	8	1	40	5	24	10	1
Tongatapu 10	28	0	28	0	0	28	0	28	0	0
'Eua 11	41	7	31	2	1	40	7	27	5	1
Ha'apai 12	25	7	15	2	1	21	8	9	3	1
Ha'apai 13	16	1	13	2	0	17	0	14	3	0
Vava'u 14	20	0	19	1	0	18	0	17	1	0
Vava'u 15	50	14	18	17	1	52	11	16	24	1
Vava'u 16	18	0	18	0	0	15	0	15	0	0
Ongo Niuas 17	5	0	5	0	0	3	2	1	0	0
Total	826	66	353	381	26	872	65	338	445	24

Source: Banks & Non-Banks, National Reserve Bank of Tonga

Usage indicators showed positive outcome

The usage indicators showed a mixed outcome over the year ended to June 2022 with an increase in the total number of individual deposit accounts and a decline in the number of individual loan accounts (*refer Table 5*). The increase in total number of individual deposit accounts is mainly due to an increase in new customer accounts reflecting the opening of new accounts by Regional Seasonal Employment scheme (RSE) workers as it is part of the RSE scheme requirements. Furthermore, facilitating of customers' ongoing direct deposits of remittances to their bank account via the ATMs or EFTPOS machines due to the COVID-19 national lockdown also contributed to the increase. The decline in the individual loan accounts was due to customers' loan settlement, which outweighed the new loans disbursed. Due to the COVID-19 national

lockdown, the number of loan applications declined as customers' were less able to visit the bank to complete the loan application forms and the prolonged processing of the loan applications.

TABLE 10
USAGE OF FINANCIAL SERVICES INDICATORS
Banks

Indicators	2022	2021	2020	2019
Number of regulated deposit accounts per 10,000 adults	16,743	16,184	15,801	15,024
Number of regulated credit accounts per 10,000 adults	2,027	2,233	2,205	2,006

Source: Banks & Non-Banks, National Reserve Bank of Tonga

Usage of financial services increase

TABLE 11
SUMMARY OF USAGE OF FINANCIAL SERVICE
by Gender

Banks & Non-Banks	June 22			June 21			Year ended June 22	
	Total	Male	Female	Total	Male	Female	Change	Change (%)
No. of Deposit Accounts	108,393	60,823	47,570	103,699	58,490	45,209	4,694	5%
No. of Loan Accounts	14,013	3,741	10,272	14,305	5,636	8,669	-292	-2%

Source: Banks & Non-Banks, National Reserve Bank of Tonga

Over the year ended June 2022, there were balanced proportion of shares of total number of male and female individual deposit accounts, which was in line with the increase in the number of individual deposit accounts both owned by male and female. There was an increase in RSE workers' new deposit accounts coupled with the new accounts created to facilitate the remittances sent via FEDs. In contrast, the number male owned loan accounts declined outweighing the increase in the number of female owned loan accounts. The decline in the male-owned loan accounts was mainly due to the loan settlements outweighing the new loan disbursements during the year. However, SPBD loans drove the increase in female-owned loan accounts and reflects SPBD's relief packages for their members after the January 2022 natural disaster as well as the local COVID-19 outbreak (refer Table 12).

The level of financial inclusion reflects the development of the impact of COVID-19 in banking the unbanked, and the financial institutions (banks and non-banks) continuing to provide accessible and affordable financial services to the people of Tonga particularly those in the rural and remote areas (outer islands).

Micro, Small and Medium Enterprises (MSMEs) Report

MSMEs Outstanding Loans Declined over the Year

Over the year ended June 2022, the MSMEs outstanding loans fell by \$3.8 million (17.9%) to \$17.5 million. This reflects the impact of the Hunga Tonga-Hunga Ha'apai disaster and COVID-19 lock down. The decline in MSMEs' outstanding loans was mainly in the manufacturing, agriculture and fishing sectors, which outweighed the increase in outstanding loans to the construction sector (refer Table 13). Manufacturing and fishing sectors mainly drove the decline in the non-banks' loans whereas the agriculture sector led the decline in the banks'

outstanding loan balance. The banks as well as SPBD had offered loan moratorium to their customers. Banks hold the bulk of the total MSMEs' outstanding loans at 85.9%. Vava'u 15, 'Eua 11 and Tongatapu 5 constituencies were the main contributors to the decline in the total MSMEs' outstanding loan balance for the agriculture sector whereas Ha'apai 13, Tongatapu 3, Tongatapu 4 and Tongatapu 5 were the major drivers of the decline in the total outstanding loans for the manufacturing and fishing loan sectors.

Number of MSME Loans Declined over the year

The number of MSME borrowers in the banks also decreased by 546 (26.0%) to 1,556 MSMEs owing to a significant decrease in the number of MSME borrowers from the manufacturing and agriculture sectors. Ha'apai 12, Ha'apai 13 and Tongatapu 4 and 5 were the major contributors to the decrease in the number of MSMEs loans for manufacturing whereas Tongatapu 3, Vava'u 15 and 'Eua 11 constituencies were the main drivers of the decline in the number of MSME borrowers in the agriculture sector.

Female-Owned MSMEs dominate the share of MSMEs sector

The majority of the MSMEs are owned by female. 60.3% of the total number of MSMEs are female-owned, 39% are male-owned and the remaining loans are co-owned male and female owners (refer to Table 13). The number of female-owned MSMEs led in the agriculture, manufacturing, wholesale & retail and fishing sectors, which is the bulk of the total number of MSMEs. The improvement in the number of female-owned MSMEs for the agriculture sector reflects women starting a farm to grow and sell vegetables and fruits, root crops and Kava Tonga. Similarly, the manufacturing sector is also led by the female-owned MSMEs which consists of weaving mats/ta'ovala, tapa making and handicrafts activities.

TABLE 12
BANKS & NON-BANKS MSMES SECTOR GROWTH

Types of Sector	June 22		June 21		Change over the year			
	No. of MSMEs	MSMEs Outstanding Balance (T\$m)	No. of MSMEs	MSMEs Outstanding Balance (T\$m)	No. of MSMEs		MSMEs Outstanding Balance	
					Change	Change (%)	Change (T\$m)	Change (%)
Overall Total	1,532	17.5	2,102	21.31	-570	-27.1	-3.8	-17.9
Agriculture	861	4.9	1,050	6.52	-189	-18	-1.6	-24.8
Construction	8	0.88	5	0.45	3	60	0.4	94
Fisheries	71	1.78	94	2.1	-23	-24.5	-0.3	-15.1
Forestry	1	0.02	1	0.02	-	0	0	-24
Manufacturing	409	3.03	733	5.76	-342	-44.2	-2.7	-47.5
Other Services	55	1.87	94	2	-39	-41.5	-0.1	-6.7
Tourism	16	1.7	20	1.82	-4	-20	-0.1	-6.1
Transport	20	0.74	20	0.82	-	0	-0.1	-9.9
Wholesale/Retail	83	2.46	85	1.82	-2	-2.4	0.6	35.1

Source: Banks & Non-Banks Department, National Reserve Bank of Tonga

TABLE 13
BANKS & NON-BANKS TOTAL NUMBER OF MSMES BY GENDER

Types of Sector	June 22				June 21			
	No. of MSMEs				No. of MSMEs			
	Male	Female	Male/Female	Total	Male	Female	Male/Female	Total
Overall Total	604	924	4	1,532	1,006	1,090	6	2,102
Agriculture	414	447	-	861	726	324	-	1,050
Construction	7	1	-	8	5	-	-	5
Fisheries	33	38	-	71	62	32	-	94
Forestry	1	-	-	1	1	-	-	1
Manufacturing	78	331	-	409	117	616	-	733
Other Services	25	27	3	55	26	64	4	94
Tourism	6	17	1	24	14	4	2	20
Transport	7	13	-	20	14	6	-	20
Wholesale/Retail	33	27	-	83	41	44	-	85

Source: Banks & Non-Banks Department, National Reserve Bank of Tonga

Local Money Transfer

Over the year ended June 2022, the inward transfers continued to decline by \$0.7 million (6%) to \$10.2 million, mainly due to lower local inward transfer from Vava'u and Ha'apai to Tongatapu. The decline in family support and kava export proceeds attributed to this trend. The impact of the internet outage due to the January 2022 natural disaster and the continuous impact of the COVID-19 pandemic on economic activity contributed to the annual decline. On the other hand, the remittances-in-kind (shopping) and gifts increased over the year, which was outweighed by the decline in the family supports and kava export proceeds.

Financial Systems Corporate Plan Targets

The Banking Supervision department committed to 66 targets in the 2021/22 corporate plan, in which 51 were successfully achieved at the end of the financial year. During the 2021/22 corporate plan review, new targets were added to guide the department in delivering its expected output. The Non-Banking Supervision department committed to 71 targets in the 2021/22 corporate plan, in which 42 were successfully achieved as at the end of the financial year 2021/22. During the 2020/21 corporate plan review, new targets were added to guide the department in delivering its expected output as well as to reflect the contribution to other reports within the Reserve Bank related departments corporate plans.

Payment Systems

The Payment Systems Department is responsible for the settlement of interbank obligations arising from the conduct of Exchange Settlement Accounts (ESA), the National Reserve Bank of Tonga's own trading activities, and undertaking of banking business and depository for the Government. This financial year, the bank continues to modernise Tonga's payment and settlement system by introducing the Domestic Electronic Payment system (DEPS) where transactions between banks are settled in real-time.

Domestic Electronic Payment System Project

By the end of June 2022, training and consultations with Commercial Bank's on the Domestic Electronic Payment System were completed. The Agreement between the Reserve Bank and the Commercial Bank's was signed in July 2022, and the workstations to the respective banks were deployed.

Interbank Daily Cheque Clearance

A total of 121,534 cheques were presented for clearance at the Reserve Bank during the financial year 2021/2022, a decrease by 12.8% from the previous year. The reduction in the number of cheques presented for clearance was driven by the broader usage of electronic transfer payments such as internet banking and EFTPOS machines. COVID-19 pandemic outbreak and the national lockdown during the financial year also contributed to the decrease in cheque presented. The clearance of cheques continued, and all participants were committed to settle their dues on time.

Cross Border Payments

One of the core functions of the Reserve Bank is to be the principal banker for Government for its counterparties overseas, the offshore payments on behalf of both Government and Banks were successfully conducted with no issue. Cross border payments via SWIFT are closely managed with the enforcement of strict controls administered by the IT department to mitigate any operational risks or financial loss. Internal controls through the reconciliation of the account balances to ensure the safety and security of the Reserve Bank's assets overseas continued to be undertaken. The Settlement and IT staff continue to attend virtual meetings and training to prepare the Reserve Bank for the mandatory migration from the current swift MT messaging format to the ISO20022 platform. Due to the developments of transactions in the financial markets, the ISO 20022 message format has more details, consistency of data, and would assist with the quality and automation of the process. Test and trainings sessions were held for the operators to familiarise themselves with the new message format.

Fiscal Agent for Government

During the year, the Reserve Bank continued to facilitate government payments and receipts both locally and overseas from its accounts at the Reserve Bank with no issue.

Payment System Corporate Plan Targets

During the year, the Payment System Department participated in the review of the 2022 Corporate Plan. The department was assigned 42 measurable targets, with 88% achieved, the remaining 12% will be completed once the Domestic Electronic Payment System is launched. The measurable targets were related to promoting an efficient settlement and secured payments system and the modernisation of the operations of the Reserve Bank. The review also set 41 measurable targets for the Department for FY2022/23, under 4 major programs.

Financial Intelligence Unit

The Reserve Bank is the Transaction Reporting Authority (TRA), which functions as Tonga's Financial Intelligence Unit (FIU) as well as the Anti-Money Laundering/Counter the Financing of Terrorism (AML/CFT) supervisor. The roles and functions of the TRA are provided under the Money Laundering and Proceeds of Crime (MLPC) Act. The Financial Intelligence Department (FID) continued to carry out the TRA's functions, with the impact of the COVID-19 related restrictions being reflected on the FID's activities during the year 2021/22. The FID is one of the leading agencies in Tonga responsible for detecting and preventing money laundering and terrorist financing activities. This enables the Reserve Bank to meet its objective of promoting a safe and sound financial system.

Receipt and Analysis of Financial Information

A key function of FID is to analyse suspicious transaction reports (STRs) and other financial transaction reports that it receives from reporting entities and other agencies in Tonga. During the year, the FID received 10,993 financial transactions and other reports. These reports consisted of STRs; currency transaction reports (CTRs), and border currency reports (BCRs).

TABLE 14
NUMBER OF REPORTS RECEIVED

Types of Reports Filed	2018/19	2019/20	2020/21	2021/22
Suspicious Transaction Reports (STRs)	23	39	21	22
Currency Transaction Reports (CTRs)	14,068	12,944	18,096	10,969
Border Currency Reports (BCRs)	97	63	2	2
Total	14,188	13,046	18,119	10,993

Source: National Reserve Bank of Tonga

Details of the financial transaction reports received during the year are provided below.

Suspicious Transaction Report

The FID received 22 STRs during the year, an average of 2 STRs per month compared to 21 STRs reported in the previous year.

TABLE 15
SUSPICIOUS TRANSACTIONS REPORTED

STR(s)	2018/19	2019/20	2020/21	2021/22
Suspicious Transaction Reports (STRs)	23	39	21	22

Source: National Reserve Bank of Tonga

Financial Institutions and Cash Dealers are required under **Section 14 of the MLPC Act** to report suspicious transactions to the TRA. A suspicious transaction is an actual or attempted transaction in which a reporting entity has reasonable grounds to suspect that it may be relevant to the investigation or prosecution of a serious offence or terrorist financing.

The dominant STR indicator were reports relating to a large-scale cash transactions followed by reports related to large and rapid movement of funds. One report categorized under other indicators, was in relation to an ongoing drugs related investigation reported in the media.

TABLE 16
SUSPICIOUS TRANSACTION REPORTS
by Type

STR(s)	2018/19	2019/20	2020/21	2021/22
Unusual significant transaction	5	4	2	2
Largely Rapid movement of Funds	3	4	0	3
Using personal accounts for business purposes/possible tax evasion	5	4	5	2
Possible avoidance of regulatory requirements ¹	6	4	1	1
Large scale of cash transaction	-	21	12	13
Scams	0	1	0	0
Others	4	1	1	1
Total	23	39	21	22

Source: National Reserve Bank of Tonga

¹ EC, Reporting & Other Requirements

Currency Transaction Reports

The FID received 10,969 CTRs during the year, an average of 914 CTRs per month. This is a decrease of 39% compared to 18,119 CTRs reported in the previous year. Limited activities during the lockdown period in early 2022 contributed to the fewer number of CTRs. Majority of the reports filed were for funds moving into the financial system for business purposes.

TABLE 17
CURRENCY TRANSACTION REPORTED

CTR	2018/19 (TOP\$M)	2019/20 (TOP\$M)	2020/21 (TOP\$M)	2021/22 (TOP\$M)
Movement of Transactions				
Inwards	243.2	234.0	372.9	216.5
Outwards	139.2	118.0	155.4	109.7
Purpose of Transactions				
Business	250.9	229.0	363.2	237.7
Personal	131.5	123.0	165.1	88.5
Type of Transactions				
TT	34.7	26.2	28.1	48.2
Cash	163.4	156.3	194.6	125.4
Cheque	103	109.4	207.3	99.9
Other ²	55.4	34.8	66.5	8.6
Cash/Cheque	25.9	25.3	31.8	44.1
Source: National Reserve Bank of Tonga				

Financial Institutions are required under MLPC Regulation 23 to report to the TRA currency transactions involving currency of any country of a value greater than \$10,000. A transaction in currency includes deposits, withdrawal, and exchange of currency, other payments or transfers.

Border Currency Reports

During the year, the FIU received only 2 BCRs. This is a decrease of 96 percent compared to 63 BCRs received in the previous year. This decrease is due to the COVID-19 border restrictions which drastically reduced the number of travellers to and from Tonga during the year.

² Other type of transactions includes transfer between accounts, exchange of currency and other type of payment not specified above

TABLE 18
BORDER CURRENCY DECLARATIONS

BCR	2018/19 (TOP\$M)	2019/20 (TOP\$M)	2020/21 (TOP\$M)	2021/22 (TOP\$M)
Movement of Transactions				
Inwards	1.0	0.7	0	0.7
Outwards	43.4	42.2	1.4	1.0
Purpose of Transactions				
Business	43.5	42.6	1.4	1.7
Personal	0.9	0.3	0	0
Source: National Reserve Bank of Tonga				

Section 19 of the MLPC Act requires any person who enters or leaves the Kingdom with cash amounting to more than \$10,000, shall make a declaration to an authorised officer. This reporting is administered by the Ministry of Revenue & Custom at the airport and copies of the reports are sent to the TRA.

Reports and Intelligence Development

The MLPC Act section 11A requires the FID to analyse and assess all reports and information that it receives. The FID uses its financial intelligence analysis procedure to assess all STRs and develop intelligence on possible money laundering, terrorism financing or other serious offences. Other reports such as CTRs and BCRs provide critical information, which is used to analyse the STRs.

Enquiries with Reporting Entities

The FID has powers under the MLPC Act to obtain information from financial institutions and cash dealers. As part of its analysis process, the FID made several enquiries to the reporting entities, although lower than last year. Some queries were aimed at developing further intelligence on information filed in the STRs. Some queries were in relation to ongoing investigations of financial crimes and other serious offences. During the year, the FID made 10 enquiries primarily to banks and foreign exchange dealers. The majority of queries sent were for (i) customer transaction history, (ii) customer identification details, and (iii) customer account details.

TABLE 19
ENQUIRIES TO REPORTING ENTITIES

Request for Information (RFI)	2018/19	2019/20	2020/21	2021/22
Number of Individuals & Businesses	26	44	18	10
Source: National Reserve Bank of Tonga				

Dissemination of Financial Intelligence

Intelligence Reports to Law Enforcement Agencies

The FID continues to analyse STRs and other financial transaction information such as CTRs and BCRs to develop financial intelligence. The results of the FID's analysis of STRs are disseminated to relevant law enforcement agencies, a core function of the department. Financial intelligence enables our law enforcement agencies to investigate predicate crimes, money laundering and terrorist financing activities. Subsequent to the analysis of the 22 STRs received during the year, 12 reports were disseminated to law enforcement agencies for further investigations.

TABLE 20
NUMBER OF DISSEMINATED REPORTS

Number of Disseminated Report(s)	2018/19	2019/20	2020/21	2021/22
Disseminated Reports	9	28	12	12

Source: National Reserve Bank of Tonga

About 50% of the dissemination reports were referred to the Ministry of Revenue & Customs and 50% were passed to Police for further investigation of possible offences. Majority of the STRs received were retained for future references.

TABLE 21
DISSEMINATED REPORTS TO LAW ENFORCEMENT AGENCIES

Number of Disseminated Report(s)	2018/19	2019/20	2020/21	2021/22
Ministry of Police	7	5	3	6
Ministry of Revenue & Customs	7	27	9	6
Ministry of Foreign Affairs (Immigration)	0	0	0	0
Ministry of Trade & Economic Development	0	0	0	0

Source: National Reserve Bank of Tonga

Investigative Assistance Provided to Law Enforcement Agencies

The FID responded to 19 requests for information from law enforcement agencies such as Tonga Police, Ministry of Revenue & Customs and the Attorney General's Office, in relation to subjects that are under investigations for possible predicate offences.

TABLE 22
REQUEST FOR INVESTIGATIVE ASSISTANCE

Request Report(s)	2018/19	2019/20	2020/21	2021/22
Number(s) of Request for Investigative Assistance	15	28	18	19

Source: National Reserve Bank of Tonga

Dissemination of Information to Foreign FIUs

During the year, the FID made 1 request for information. Information received from foreign FIUs adds value and assists with the FID's financial intelligence analysis function.

TABLE 23
DISSEMINATION OF INFORMATION TO FOREIGN FIUS

Dissemination of Information to Foreign FIUs	2018/19	2019/20	2020/21	2021/22
Request Made	1	5	2	1
Request Received	1	1	1	0
Total	2	6	3	1

Source: National Reserve Bank of Tonga

Due Diligence

During the year, the FID conducted background checks on 138 individuals and entities. The FID also responded to several surveys from the Reserve Bank's correspondent banks, in relation to its AML/CFT policy and procedures.

TABLE 24
REQUESTS FOR BACKGROUND CHECKS

Background Checks	2018/19	2019/20	2020/21	2021/22
Customer of Interests/Business of Interests Numbers	194	250	145	138

Source: National Reserve Bank of Tonga

Supervising of Reporting Entities

Compliance Reviews

The Reserve Bank has taken steps to strengthen AML/CFT supervision of reporting entities. The Financial System Department has been engaged to be responsible for the AML/CFT supervision of banks and non bank financial institutions, while the FID is tasked with the supervision of cash dealers. In collaboration with the Financial System Department, an onsite inspection was conducted on one bank in June 2022. The FID's AML/CFT supervision of cash dealers is planned to commence in late 2022. Assistance is being sought from donor providers to help strengthen the AML/CFT supervisory framework, including the review of the AML/CFT guidelines. Both teams also continue to undergo AML/CFT supervision training.

Domestic Coordination and Engagement

Working Group on Serious Financial Crimes

The Working Group is the national coordinating committee responsible for ensuring Tonga meets its AML/CFT obligations. The focus of the Working Group during the year was on prioritizing areas for immediate actions in Tonga's Mutual Evaluation (ME) report. This includes collaborative effort in reviewing the Money Laundering and Proceeds and Crime (MLPC) Act and addressing the key deficiencies in Tonga's technical compliance report.

National Risk Assessment & Policy

The revision of Tonga's National Risk Assessment (NRA) report and National AML/CFT Policy as recommended by the ME report is another priority area for the Working Group. Consultation with the relevant sectors on the 2021 update of the NRA report is to be undertaken prior to its finalization and publication.

Engagement with Law Enforcement Agencies

In September 2021, several meetings were held with law enforcement agencies such as Ministry of Revenue and Customs, Tonga Police, Immigration and the Attorney General's Office to collectively gather information relevant to an ongoing investigation. The FID assisted the investigation by providing financial analysis required for certain persons of interest.

International Engagement and Contribution

Mutual Evaluation of Tonga

Tonga's mutual evaluation report (MER) was adopted by the members of the Asia Group on Money Laundering (APG) at its plenary meeting in July 2021 and published in September 2021. The MER highlighted several areas in Tonga's AML/CFT framework and operations that

require prioritized actions from the relevant Government Ministries and the Reserve Bank. The Working Group members developed action plans for addressing the gaps identified in the report.

In addition to amending the MLPC Act, which would address a large part of the technical deficiencies, the Reserve Bank as the Transaction Reporting Authority's priority areas of focus are to;

- (a) *Ensure risk assessment for reporting entities are completed to guide its supervisory framework and to feed into Tonga's National Risk Assessment.*
- (b) *Further develop, implement and enforce a comprehensive AML/CFT regulatory and supervisory framework for all financial institutions (FIs) and Designated Non-Financial Businesses and Professions (DNFBPs) covered under the MLPC Act.*
- (c) *Update and strengthen the 2015 AML/CFT Guidelines and increase outreach and trainings of FIs and DNFBPs regarding their AML/CFT obligations and money laundering & terrorism financing risks, including preventive measures.*
- (d) *Enhance the FID's operational procedure and explore other sources of information such as government agencies databases i.e. transport register, births register etc, to assist with its financial analysis function.*
- (e) *Allocate greater resources to the FID in order to undertake its core work, and to make the best use of its wide information gathering powers. Secondment from other key AML/CFT agencies to the FID could also be undertaken.*
- (f) *Create a more robust database for the maintenance and collection of statistics relating to the reports the FIU receives.*
- (g) *Ensure effective screening solutions are in place for reporting entities.*
- (h) *Improve implementation of Targeted Financial Sanctions obligations in relation to Terrorism Financing & Proliferation Financing by all FIs and DNFBPs particularly in sectors less compliant, through clear direction and targeted outreach.*

International Monetary Fund

In prioritizing the review of Tonga's MLPC Act, the Reserve Bank engaged the assistance of the IMF Legal Department to ensure compliance of Tonga's AML law with the FATF standards' requirements. The amendments to the MLPC Act is expected to be submitted for the legal processing in late 2022.

Asia Pacific Group on Money Laundering

As Tonga's designated lead agency in coordinating and ensuring Tonga meets its APG membership requirements, the FID continued to liaise with the APG on various AML/CFT issues relevant to Tonga, especially in relation to the coordination of Tonga's mutual evaluation process and technical assistance and training needs.

AUSTRAC

TABLE 25
TECHNICAL ASSISTANCE AND TRAINING
PROVIDED BY AUSTRAC

Technical Assistance & Trainings	Status
Financial Intelligence Analysis Course – Phase 2	TBC
Funding of World-check One Refinitiv Solution	Ongoing
Video Conferencing Kit	Completed
Trade Based Money Laundering Workshop	Completed
IT System Solution (Taipan System)	In progress

The FID has solicited the assistance of AUSTRAC, Australia's FIU, to develop a new system called Taipan to assist with its financial intelligence analysis. Taipan is a low cost, simple and secure database and analysis platform that facilitates the collection, analysis and

exchange of financial intelligence. This project will assist in addressing the Mutual Evaluation Report's recommended action relating to the enhancement of the FID's financial intelligence analysis function and developing of a robust database for the storage of the FID's reports. Due to the COVID-19 border restrictions, the completion of the project was deferred and it is anticipated that the AUSTRAC team will complete the project by end of 2022. Other AUSTRAC assistance are reflected on Table 25 below.

Pacific Financial Intelligence Community

The FID as Tonga's FIU joined the PFIC in early 2022. It is a forum for Pacific FIUs to identify, develop and operationalise strategies to combat regional ML/TF threats in the Pacific. It encourages multilateral and bilateral collaboration on issues of mutual priority through the regular dialogue and engagement between members that it provides. Since it joined PFIC, the FID has participated in several monthly meetings as well capacity building courses held over the months.

Financial Intelligence Unit Corporate Plan Targets

For 2020/21, the department set 20 targets to achieve. These targets aim to effectively supervise reporting entities, ensure a well-informed regime, and comply with global AML/CTF related requirements. The department contributes to the first strategic priority of the Reserve Bank in setting a platform for Tonga to become a high growth economy.



Governor Sione Ngongo Kioa with representatives from the Reserve Bank's staff welcoming the Acting Australian High Commissioner to Tonga, together with the video conferencing equipment that will virtually connect AUSTRAC with NRBT in setting up the Taipan System.

Financial Market

The Financial Market Department's mandate is to manage the official foreign reserves, manage the foreign exchange operations and implement monetary policy to assist Management and the Board of Directors to achieve the Reserve Bank's principal objectives of:

- *Maintaining internal and external monetary stability;*
- *Promoting a sound and efficient financial system; and*
- *Supporting macroeconomic stability and economic growth.*

The department is divided into 3 main divisions namely:

- *Foreign Reserves Management;*
- *Foreign Exchange Operations; and*
- *Domestic Operations; which includes being the fiscal agent.*

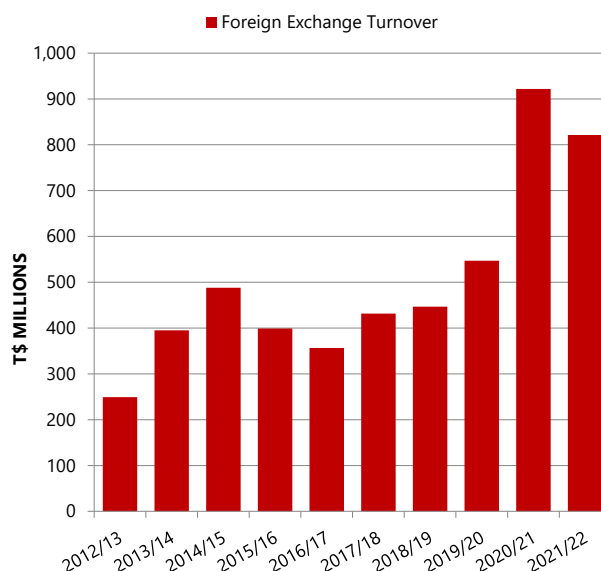
During the financial year 2021/22 the Financial Markets continued to implement its targets to achieve its objectives.

Foreign Reserves Management

The gross official foreign reserves was maintained well above the minimum 3 months of import cover. The level of foreign reserves peaked at a record high of T\$893.1 million during April 2022 before levelling at T\$871.2 million on 30 June 2022, equivalent to 12.6 months of import cover compared to T\$715.2 million (11.8 months of import cover) as at 30 June 2021. The significant increase in foreign reserves was attributed mainly to receipts of remittances, Government budget support, volcanic eruption and tsunami recovery assistance,

project funds, and other capital receipts. The Reserve Bank continues to monitor the banks' compliance with their respective Nostro account limits and that any excess foreign exchange is sold to the Reserve Bank. This is one of the foreign reserves management tools to ensure an adequate level of foreign reserves is maintained.

FIGURE 10
FOREIGN EXCHANGE TURNOVER



Source: Commercial Banks' Exchange Rates

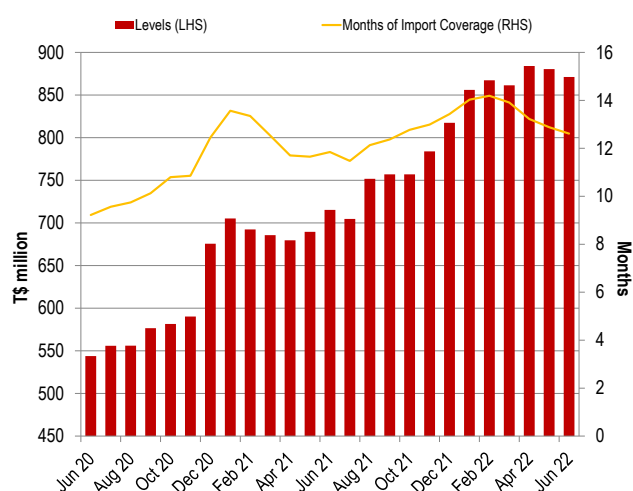
During the year, the Reserve Bank was a net purchaser in the spot foreign exchange markets. Foreign exchange purchases of T\$510.3 million exceeded sales of T\$311.0 million giving a total foreign exchange turnover for the year of T\$821.3 million. This is a decrease from T\$921.8 million last year due mainly to a fall in the volume of foreign exchange transactions. The Reserve Bank conducted foreign exchange operations for its customers and its account in various currencies.

The management of the foreign reserves met the objectives of safety, liquidity and profitability. The currency composition of the foreign reserves was mainly in US dollars, Australian and New Zealand dollars.

The Reserve Bank's investment policy is to maximize income commensurate while maintaining safety, liquidity and the maintenance of overall value which has proven to be challenging, given the uncertainty and volatility in the global financial markets and the continued low interest rates in the trading partner countries in the first half of the financial year. The currency composition, therefore, deviated from the benchmark portfolio but remained within the Board approved limit to maximize income and maintain the value of the foreign reserves. The currency composition exposes the Reserve Bank to exchange rate and interest rate risks. However, the Reserve Bank

continued to closely monitor the implications of the movements of the exchange rates on the value of the foreign reserves. Income on the investment of the foreign reserves increased by \$0.5 million compared with the previous year, which was in line with the significant increase in the level of foreign reserves by \$155.9 million over the year. Higher interest rates in global markets in the second half of the fiscal year also aided income growth, as trading partner countries raised official interest rates to combat rapidly rising inflation.

FIGURE 11
GROSS OFFICIAL FOREIGN RESERVES
Monthly



Source: Financial Markets | Economics Department

Throughout the year, the Reserve Bank reviewed the Reserve Management Policy to ensure that it is in line with current international best practices for managing key risks such as credit, interest rate, liquidity, and foreign exchange risks while achieving the objectives of safety, liquidity, and profitability. During the year, all of the Board-approved risk parameters for managing foreign reserves were observed. Investments were made with banks rated higher than the Board-approved minimum "A" rating by international credit rating agencies while minimizing investment concentration in one bank.

Foreign Exchange Control Operations

The Reserve Bank continued to implement the requirements of the Foreign Exchange Control (FEC) Act 2018, by ensuring compliance with the Exchange Control Directive. Given the high level of foreign reserves, the outlook for the foreign reserves to remain at comfortable levels and the current accommodative monetary policy stance, the Reserve Bank did not impose any new restrictions on the Exchange Control Requirements in 2021/22.

During the year, 520 exchange control applications for

current and capital payments were processed by the reserve bank. This included 13 applications of amounts below the delegated limit of T\$100,000 majority of which were for customers referred to the Reserve Bank for monitoring due to non-compliance with the exchange control requirements. The approved exchange control applications amounted to T\$249.2 million (of which 12.3% were classified as capital transactions) compared to the 546 exchange control applications (of which 13.2% were capital transactions) processed in the previous year, amounting to T\$211.5 million. The target for a half day turnaround time for processing and approval of applications were mostly achieved. Delays in approvals were mainly due to incomplete documentation or supporting documents that did not meet all the requirements. The exchange control data on foreign currency payments by large customers such as the Government, large importers particularly for oil, dairy products, construction materials, and telecommunication resources, customers who repatriate their dividends/ operating profit and customers who purchase properties for residential purposes were key inputs to the Reserve Bank's foreign reserves forecast and monetary policy decisions. Furthermore, the exchange control requirement for supporting documents ensures that the payments are genuine transactions.

In addition, 4 applications totaling T\$2.4 million for the removal of cash (both Tongan pa'anga and foreign currency notes totaling T\$10,000 and above) across the border were reviewed and granted by the Reserve Bank. There was a slight decrease in the value of applications for the removal of cash that were processed as compared to the T\$2.6 million approved last year. The consistent decline is attributed to the COVID-19 pandemic border lock-down and travel restrictions. The approval for the removal of cash is subject to the banks and authorized foreign exchange dealers repatriating these proceeds from the sale of foreign currency notes within a month of the application. The exchange control unit also notified the Ministry of Revenue and Customs of all approved applications for exports of cash, two (2) days prior to the date of travel, with some exceptions due to late submission of applications from banks, authorized foreign exchange dealers, and individual applicants.

Quarterly and monthly spot checks were conducted during the year to ensure banks and authorized foreign exchange dealers were compliant with the Exchange Control Directive. Internal monitoring of compliance through other reports continued for reports such as the Overseas Exchange Transactions (OET), Foreign Exchange Transactions with a value equivalent to and above T\$50,000, Forward Exchange Contracts (FEC) and the Foreign Currency Accounts (FCA). During the year, the Reserve Bank provided awareness through training for the banks and authorized foreign exchange dealers upon request to keep them informed of the Exchange

Control Directive and also to raise issues identified from the spot checks. To enhance compliance with the FEC Act, the Reserve Bank introduced an Administrative penalty for breaches and non-compliance with the Exchange Control Directive effective on 1 September 2021. The Reserve Bank continued to issue monthly lists for those close to or have reached the delegated limit of T\$50,000 for gift payments and those who have breached the limit on Travel allowance of T\$20,000. The foreign exchange payments of the non-compliant customers were referred to the Reserve Bank for approval. Close monitoring of the non-compliant customers to ensure consistent compliance with the exchange control requirements and that payments are bona fide transactions also supports the Reserve Bank's anti-money laundering initiatives.

Setting the Exchange Rate

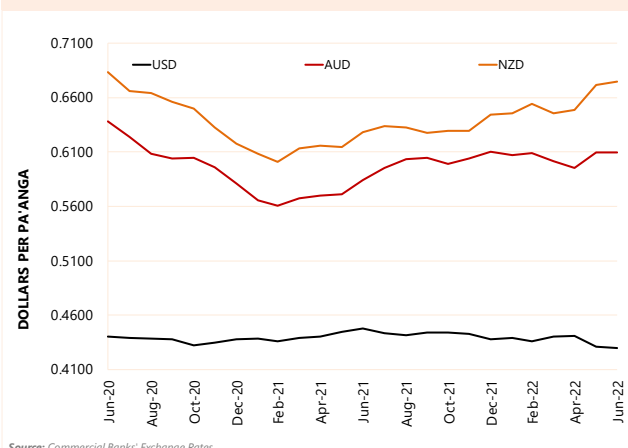
The Reserve Bank determines the rate at which the Tongan pa'anga is exchanged for foreign currencies on a daily basis by reference to a weighted basket of currencies of Tonga's major partners in foreign trade and foreign receipts and payments transactions. The exchange rates set on a daily basis generally form the basis of the commercial banks' publicly quoted foreign exchange dealing rates.

The Reserve Bank reviewed the basket of currencies during the year in accordance with the latest trend in bilateral trades with Tonga's major trading partners. As a result, there were no changes to the currencies and the weights of the currencies in the basket to maintain the strength of the pa'anga and reduce volatility and risks given the ongoing uncertainties in the global market.

The Reserve Bank monitored the movement of the rate of exchange of the pa'anga against other currencies to ensure that the country's balance of payments position and price stability are maintained at levels consistent with the achievement of macroeconomic stability.

Over the year ended June 2022, the Tongan pa'anga (TOP) fluctuated against the Australian dollar (AUD) & New Zealand dollar (NZD) in narrower bands, compared to last year. This reflected decreased volatility in the AUD and NZD. At the same time, the TOP fluctuated against the US dollar (USD) in a wider band than last year, reflecting increased volatility in the USD during the year. The USD strengthened against the NZD and AUD mainly on safe haven demands amidst COVID-19 related concerns and uncertainties stemming from the Russian-Ukraine war. The AUD and the NZD depreciated on the back of the strong USD and relatively weaker economic prospects in Australia and New Zealand. Consequently, the TOP strengthened against the AUD and NZD while it weakened against the USD over 2021/22.

FIGURE 12
PA'ANGA EXCHANGE RATES



The Reserve Bank also continued to monitor the commercial banks' exchange rate spreads to ensure that they complied with the Reserve Bank's approved limits. Despite the introduction of the levy on foreign exchange transactions in June 2016, the spread limits were not revised. In collaboration with the Association of Banks in Tonga (ABT), it was agreed that banks not pass on the levy burden to customers. These directives meant that the banks would absorb the levy burden within their profit margin instead of passing it to the public. The Reserve Bank paid T\$1.2 million in levy tax to the Ministry of Finance during 2021/22.

The Reserve Bank also continued to publish financial information, such as comparisons of financial institutions' daily and weekly exchange rates and fees related to foreign exchange transactions, to assist the public with their financial decisions.

Fiscal Agent and Policy Advice Support

As the Registrar of Government Securities, the Reserve Bank processed 6 bond series that matured over the financial year in which all were rolled over. The bond issues were oversubscribed indicating a strong demand for investment in Government bonds due to lower interest rates offered on bank deposits. The Reserve Bank continued to offer an electronic transfer service of principal and interest on maturing bonds to customers' bank accounts and provide bond statements upon request.

The Reserve Bank also continued to provide incentives on Government foreign exchange transactions by offering competitive exchange rates and extensions of cut-off times for foreign exchange deals. On the last day of the month, weekly and monthly exchange rates are also sent to the Ministry of Finance and the Ministry of Revenue and Customs to assist with the ministries' functions.

Implement Monetary Policy and Develop Tonga's Financial Market

The Reserve Bank's accommodative monetary policy stance continued during the financial year 2021/22. Therefore, the Reserve Bank did not issue any Reserve Bank notes as it continued to encourage banks to use the excess liquidity in the banking system for lending to support economic growth.

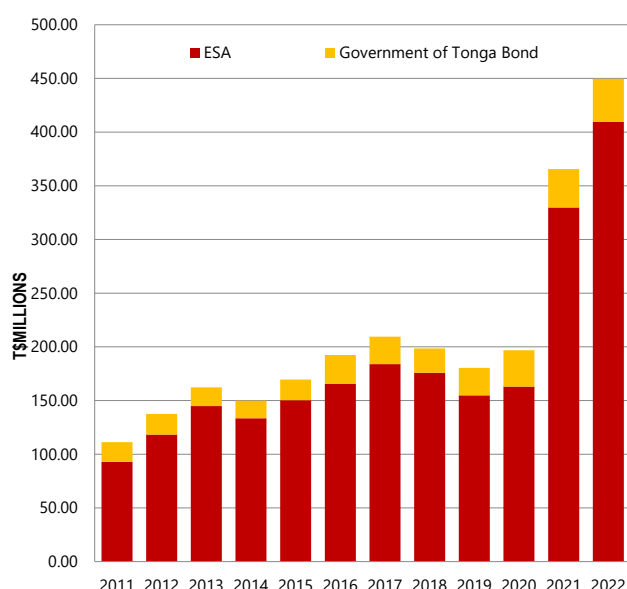
As of the 30 June 2022, the banking system liquidity rose to \$449.6 million from \$365.6 million at the end of June 2021. The banking system liquidity comprised mainly of \$409.6 million in the banks' Exchange Settlement Accounts (ESA) held with the Reserve Bank and \$40.0 million of Government of Tonga bonds held by the banks. The increase in liquidity was in line with the rise in foreign reserves and Government bonds held by the banks.

The Reserve Bank is also exploring options to develop the domestic market operations to be more market-oriented. Amendments to the NRBT Act, approved in February 2017, to allow the balance above \$10 million in the Revaluation Reserve Account to cover the Reserve Bank's monetary policy costs, enhances the Reserve Bank's ability to issue NRBT notes to implement the monetary policy and develop the domestic market.

Financial Market Corporate Plan Targets

A review of the 2021 corporate plan and targets was also conducted during the financial year. The review showed that the Financial Markets Department (FMD) had achieved 37 out of the 47 targets. As a result of the review, the FMD's corporate plan was unchanged with 47 targets for the financial year 2022/23.

FIGURE 13
BANKING SYSTEM LIQUIDITY



Source: Financial Markets, National Reserve Bank of Tonga

The Financial Markets Department continued to review its current measures of the banks' precautionary demand to better reflect the excess liquidity in the banking system. In this regard, the Reserve Bank will continue to explore ways to reduce the excess liquidity in the system to improve its monetary policy transmission mechanism. Due to the excess liquidity in the banking system, there was no activity in the inter-bank market. Similarly, there were no applications for repurchase agreements during the year.



Risk Management & Compliance

The Reserve Bank continued its effort of inculcating a risk awareness culture and integrating an effective risk management framework into all policy oriented and operational activities. The Risk Management Unit under the Governor's Office work in collaboration with all Departments in identifying, assessing, managing and monitoring the many risks the Reserve Bank faces. Extensive use of Management Committees set up ensures that all risks, inherent and emerging, are considered with regular reporting to the Board of Directors.

Corporate Risk Governance

The Reserve Bank has been operating an Enterprise Risk Management (ERM) model for a number of years. The basis for ERM is to ensure the Reserve Bank is aware of risks associated with its core functions – monetary and financial stability and a sound and efficient financial system – and has relevant policies and an effective framework to mitigate these risks.

Incident Reporting is part of the Risk Management Framework of the Reserve Bank to document events that occur and that may adversely affect the achievement of the Reserve Bank's mandate as outlined in the Act. There were fifteen incidents reported during the financial year with only eight reported incident still work in progress to be resolved.

Internal Audit

A strong, independent and objective internal audit function is a key part of the Reserve Bank's overall commitment to good corporate governance practice. The Risk Management Unit is also tasked with the internal audit function to improve the effectiveness of internal controls, governance and risk management processes. The results of these checks and reviews on high risk areas were reported to the Board on a monthly basis.

Delegation of Authority

All activities and expenditure in the Bank must be authorised in accordance with the respective delegations, policies and procedures. The Risk Management Unit is responsible for the annual review and updating of the delegation of authority.

Complaints Management

The Risk Management Unit is also tasked with receiving complaints from external parties, stakeholders or the general public, in relation to the performance of the Reserve Bank's services and/or functions, as well as the services of the financial institutions that are licenced by the Reserve Bank. These financial institutions include banks, authorised foreign exchange dealers and microfinance institutions. During the year, there were two complaint lodged with the Reserve Bank against the licensed financial institutions. There was no complaint against the Reserve Bank regarding its services and/or functions.

Business Continuity and Disaster Recovery Management

The continuity of critical business functions before, during and after a disruptive event is a key area of focus for the Reserve Bank. The Reserve Bank continues to refine its Business Continuity and Disaster Recovery Plan during these unprecedented times of National State of Emergency due to the worldwide pandemic outbreak COVID-19 and the catastrophic impact of the Hunga Tonga Hunga Ha'apai volcanic eruption and tsunami in January 2022.

IMF Safeguard Assessment

International Monetary Fund (IMF) conducted the Safeguard Assessment of the Bank's operation for the first time in November 2021. During this assessment, IMF reviewed mainly the high-risk areas with a focus on the 5 main pillars underpinning good corporate governance. These includes the External Audit Function, Legal Function, Reporting Function, Internal Audit Function and Internal Control Function. At the conclusion of this assessment, there were key areas of operation highlighted by the IMF to improve and recommended actions for the banks to consider. The Board and Management are working on addressing these recommendations so that the bank continue to adopt international best practice on its operation.

Risk Management Corporate Plan Targets

In the approved revised Reserve Bank's Corporate Plan for 2021/22, the Risk Management Unit was allocated with fourteen specific measurable targets. A review of the financial year corporate plan was carried out in March 2022, which revealed that the Unit achieved only three targets while eleven targets were unachieved. These unachieved targets were mainly due to other priorities therefore delaying the completing of those targets. In the new Corporate Plan, the department's name is changed to Internal Audit and Quality Assurance Department as part of the management way forward in addressing the IMF safeguard review.



Legal Unit

The Legal Department continued its focus on implementing its strategic targets concerning the review of its legislative frameworks as well as offering ongoing support to the Governors and senior management teams of the Reserve Bank on daily legal issues. The processing of the Reserve Bank's proposed Bills to the Legislative Assembly was set back by a number of challenges during the year. This included delays due to the community outbreak of the COVID-19 pandemic and the occurrence of unprecedented natural disaster in early 2022. Additionally, the position of Chief Manager Legal Department became vacant in September 2021 and a replacement was only recruited to the role in May 2022.

Nonetheless, work was able to continue on the review of the following priority Bills –

Pension Funds Bill 2021

Stakeholder consultation was conducted on the Bill in August 2021. Issues raised by stakeholders included the need for stronger justification for the creation of

a new overarching and standalone legislation given there are existing retirement fund legislations governing existing retirement funds. Feedback also included the view that there was a need for the legislation to ensure the independence of the Reserve Bank as regulator of pension funds. Following these consultations, the Reserve Bank continued to work towards addressing stakeholder concerns through further review with the technical assistance of the Pacific Private Sector Development Initiative (PSDI) of the Asian Development Bank.

Insurance Bill 2021

Stakeholder consultation conducted on the Bill drew valuable feedback from various representatives of the insurance industry in Tonga. The Reserve Bank, in conjunction with these stakeholders, has since began work to address these concerns with work commencing on the rewrite of the Bill to ensure that it was more simple and contextualized to the Tongan business environment. The new piece of legislation is now scheduled to be completed for submission to Cabinet by June 2023.

Money Laundering and Proceeds of Crime Bill

The Legal Department continued work with the Financial Intelligence Department and the Attorney General's Office to review the feedback on the Bill provided by the IMF Legal Department as well as in line with the outcomes and recommendations of Tonga's Mutual Evaluation Report released in September 2021.

Legal Unit Corporate Plan Targets

The abovementioned constraints meant that work to progress the Bank's draft Bills through to the Legislative Assembly was not possible as initially envisaged. On the other hand, the Reserve Bank was able to manage legal issues and risks as targeted by engaging external Solicitors to provide legal advice and guidance as and where appropriate.



Governor Sione Ngongo Kioa with representatives from the Retirement Fund Board, National Retirement Fund Board and other agencies after the consultation regarding the Pension Funds Bill 2021.

Currency Management

The National Reserve Bank of Tonga is responsible for regulating the issue of currency in the Kingdom of Tonga and maintaining an adequate supply of quality banknotes and coins in circulation to meet the public's currency needs. The Reserve Bank redeems any banknotes or coins that are mutilated or no longer fit for circulation and destroys them accordingly.

On the 30 June 2022, the face value of currency in circulation, both new and reissuable in the old KGV design and new KTVI design, totaled \$138.0 million. This was an increase of 19.1 percent over the previous year and it was attributed to the impact of the border closure, the

national COVID-19 lockdown and the volcanic eruption which boosted demand for banknotes. The value of banknotes in circulation for the financial year rose by 19.5 percent to 132.7 million. The \$50 banknote denomination recorded the highest growth of 33.5 percent to 77.1 million, mainly due to its increased usage in ATMs. The \$50 note also recorded the highest volume of notes in circulation. The value of coins in circulation increased by 8.7 percent to 5.3 million as at end of June 2022. The 50 seniti registered the highest growth of 9.3 percent to \$1.3 million while the 10 seniti accounted for the highest volume of coins in circulation at 8.2 million pieces. High usage of the 50 seniti and large volume of 10 seniti in circulation are both attributed to merchants usage.

The Reserve Bank focuses on maintaining an adequate supply of quality banknotes and coins by accommodating commercial banks banking operations. Over the 2021/2022 financial year, \$134.3 million of notes and coins was issued to commercial banks, 16.6% less than the previous financial year. The commercial banks returned \$111.0 million worth of notes and coins to the Reserve Bank to be processed. Of this \$81.9 million was deemed fit for reissue while \$29.1 million were deemed unfit.

Currency Corporate Plan Targets

At the end of the financial year, the currency department achieved 93% of corporate plan targets while 7% still work in progress. Despite the challenges due to the pandemic resulting in travel restriction, our technicians managed to provide the ongoing support services for the Cobra and X-Range machines in order to be able to continue with the daily counting/destruction of redeemed banknotes.

Corporate Services

Staffing

In promoting the Reserve Bank as the Employer of Choice, the Human Resources (HR) Department provides a range of services to the Bank as a whole. This entails facilitating services to maintain staff productivity, such as annual performance appraisal reviews, recruitment and selection of a professional team, enhanced staff training and development, review of job descriptions and promotion of a healthy organization, as well as reducing absenteeism by initiating health programs. The Department also maintained compliance with all legal, statutory and Reserve Bank organizational policies. During the 2021/22 financial year, the HR Department continued to implement its corporate plan programs and targets to develop, maintain and retain high-quality employees.

At the end of June 2022, the Reserve Bank maintained a total staff of 81 employees, 36 per cent on fixed-term contracts, 64 per cent permanent employees, and 2 per cent were new recruits. The staff on fixed-term contracts increased by 3% over the year, mainly to enhance leadership roles in each Department and strengthen staff capacity. The Reserve Bank also supported staff engagement in further studies via part-time correspondence study, overseas full-time professional study and secondment. Of the 81 staff, 52 per cent are women, and 48 per cent are men. The staff turnover in 2021/22 financial year increased from 2% in 2020/21 financial year to 4% where 3 employees exited the Bank due to various reasons.

To achieve the functions of the Bank and the increase in Programs and Targets outlined in the corporate plan, the Reserve Bank recruited 2 employees in 2021/22 financial year to strengthen staff capacity in the Security and Legal Department. With 81 employees onboard, the Bank continued to facilitate and deliver its core responsibilities to achieve the Bank's objective and strategic priorities.

Staff Training and Development

Staff overseas professional training declined in the financial year 2021/22 due to the COVID-19 global pandemic that affected overseas travel worldwide. However, the Reserve Bank with its technological capability enabled staff to continue to attend overseas trainings, workshop, meetings and conferences virtually via online web conference applications (i.e., Zoom, WebEx, Microsoft Teams and Google meet). The Bank also continued to provide financial support to staff taking part-time correspondence studies at the University of the South Pacific, Tonga. In April 2022, 1 employee (part-time studies) completed her Bachelor's degree in Professional Accounting.



Staff were required to conduct and return a negative RAT Test before they are allowed to enter the building. Positive results were advised to return home and rest while they were also monitored from the Ministry of Health.



The Reserve Bank's very own COVID-19 Testing Station. The team consists of staff from various department and were there every morning to conduct the RAT Test for the staff. Thank you all and much appreciated.

Organizational Health and Safety

In the 2021/22 financial year, the Bank continued to promote and encourage a healthy work environment by supporting staff to participate in corporate netball tournaments and various health activities. The Reserve Bank believes that a healthy employee improves self-confidence, health, staff productivity, and overall morale.

In response to the COVID-19 local outbreak and national lockdown restriction, the NRBT activated its Pandemic Preparedness and Response Plan to respond effectively to the pandemic and ensure the continuity of the Bank's operation. The Bank operation during national lockdown were operated on hybrid work environment where majority of the staff worked from home and essential staff worked onsite to ensure critical function of the Bank

is operational. Staff with COVID-19 and were in home quarantine or isolation utilized their Hospitalization leave entitlements. The HR team, with the assistance of the Ministry of Health, operated an in-house COVID-19 Rapid Antigen Test (RAT) station for staff during the outbreak and the red and orange alert. The Bank also provided protective equipment and safety gear as preventative measures for staff to use during this time.

Human Resource Corporate Plan Targets

The Human Resource (HR) Department had 6 Programs with 22 overall targets approved under the 2021/22 Corporate Plan. At the Corporate Plan review, the HR department achieved about 64% of the targets (14 targets), 2 targets (9%) were still work in progress to complete, and 6 targets (27%) were unachieved.

Information Technology

The Information Technology (IT) Department continued to provide technological support for the Bank in achieving its core functions while enhancing operational efficiency and enabling digital transformation. Over the year, the IT work towards the achievement of the Corporate Plan with a focus on the development of the Domestic Electronic Payment System, building Cybersecurity and resilience, ongoing development of the website and supporting the Bank's operational efficiency through database developments and process automation.

Domestic Electronic Payment System

The Bank continues to work towards implementing the last phase of the Domestic Electronic Payment System (DEPS) Project. In this phase, the IT installed and configured the DEPS infrastructure (hardware, software and application), installed the clients' computers, and configured the network connection. There were works carried out on strengthening the security of the DEPS network and documenting the process and procedures for DEPS's operation. The deployment of the DEPS clients' computers and network devices to commercial banks and live operation is planned to complete in July 2022.

Cybersecurity

Similar to previous years, the Bank continues to strengthen its Cybersecurity capabilities and build cyber resilience. This includes developing the Cybersecurity Policy, drafting the Cybersecurity Risk Management Framework and ongoing threat monitoring of the Bank's network to enhance a safe and secure IT operation environment. Additionally, the IT department works to raise staff awareness of cybersecurity issues by sending out regular recommendations and general policy reminders. The Bank also continues to comply with the SWIFT's mandatory Customer Security Program (CSP) requirements. This compliance attestation to all CSP mandatory controls 2021 indicates the Bank's commitment to promote an internationally reputable financial system. The Bank will work in the next financial year to comply with the remaining advisory controls of the SWIFT CSP. In order to evaluate the effectiveness of the cyber incident

response plan and to practice and become familiar with the roles and responsibilities of each member of the Cyber Incident Response Team in the case of a cyber-incident, the Bank also carried out a desktop exercise of its cyber incident response plan. This exercise is due for an annual review towards the end of 2022.

COVID-19 Response

The Hunga Tonga-Hunga Ha'apai volcanic eruption, the COVID-19 epidemic, and the subsequent national lockdown restriction caused the NRBT to function under a hybrid work schedule where the majority of the staff members worked from home. Only essential staff worked onsite to ensure critical functions were in operation. The IT enabled the platform for work from home where staff could access the corporate email and conduct Management meetings virtually via the Zoom web conference meeting application. During this time, the IT provided remote helpdesk support to staff while ensuring that work from home was carried out safely and securely.

Technology Review and Delivery

Despite the COVID-19 outbreak and its restriction, with IT support and the right equipment and tools, the Bank continued with business-as-usual operations by conducting virtual meetings, training and participation in seminars and conferences online. To remain efficient and relevant, the banks' technology was upgraded and updated on a regular basis. This included replacing workstations that have been operating for more than 5 years. The IT reviewed the Asset Management System to improve asset categorization, classification and records. The IT infrastructure, including websites and networks, has remained secure and resilient throughout the year.

Information Technology Corporate Plan Targets

In the 2021/22 financial year, the IT Department reviewed its level of implementation and achievement of the Department Corporate Plan targets. The review showed the IT Department achieved 14 of its 21 targets. 5 of the targets were rolled over to the 2021/22 financial year.

Building & Property

The Building & Property Unit continued to maintain the standards of the Bank's building, property, plant and equipment during the financial year 2021/2022 while at the same time working together to promote a safe and healthy working environment for its staff, tenants and stakeholders.

During the year, the Building & Property Unit managed to successfully provide in-house repair and maintenance programs to ensure efficient operation of all systems.

There were a number of refurbishment projects during the year, which include the following:

- Completion of the NRBT plumbing system upgrade for all the bathrooms at Level 1 to Level 3;
- Phase one and two of the upgrade works towards the centralized air condition system and automation control;
- Installation of temporary split air condition unit at the Level 4 Conference Centre;
- Upgrade the existing rain water tank layout at the Low Security car park and installed another water tank to cater for the building as part of the Unit's disaster recovery plan for a backup to the main water supply;
- Expansion of ADB's lease to include additional space for their satellite dish at the high security area;
- Replacement and restocking of security cameras for the CCTV system;
- Setup of a temporary location for the Rapid Antigen Test Station for COVID-19.
- Temporary rearranging seating for the staff to meet the 2 meters physical distancing on COVID-19 safety guidelines.

Challenges faced during the year with the COVID-19 Pandemic, Hunga Tonga Hunga Ha'apai Volcanic Explosion and Tsunami allowed the Building and Property Unit to activate its Business Recovery Plan in order to maintain the ongoing service checks of the elevators, standby generator, fire alarm system, plumbing system, centralized and split air condition system, physical and electronic security system. The Bank also activated its Disaster Recovery Plan by recalling back its staff during the National Lock Down to help clean the volcanic ashes that covered the whole building complex in order to open back up to the public and people of Tonga. This was a major success story for the team as they managed to utilize the limited resources available locally at the time to devise a plan that will keep the building mechanics functioning up to standard and keep its doors open for banking services.

Staff tirelessly worked for 4 whole days to clean up the volcanic dust after the fateful day of January 15, 2022.



The arrival of the new air conditioning chiller units.

Building & Property Corporate Plan Targets

The Building and Property Unit's Corporate Plan targets for the year ended 2021/2022 resulted in achieving 93% targets. The remaining 7% of the targets were reviewed and revised to complete in the next financial year 2022/2023. This includes awareness training of the Department Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP), reviewing the existing electronic security camera system for upgrade, and quarterly site inspection of the Tenant's office. Also completing the final phase of developing the Knowledge Base Database for capturing building plant and equipment maintenance and data migration processes.

General Administration

In 2021/2022 financial year, the Administration Unit continued to provide support services to the other departments through its responsibilities for procurement of goods, premises security access, physical keys registry as well as management of the transport services. Records management, purchase orders & commitment budget, electronic filing system, and corporate communications systems are also support services provided by the Administration Unit.

General Administration Corporate Plan Targets

During the year, the Administration Unit participated in the review of the 2022 Corporate Plan. The Unit was assigned twenty-six measurable targets for the calendar year 2021 of which twenty-five were achieved. The measurable targets were related to the modernization of the operations of the Reserve Bank.

Security Unit

The security unit mission is to provide a supportive roles to align, enhance and maintain appropriate physical security for the Bank and its assets at all times to ensure the objectives of the Bank are achieved effectively and efficiently. To achieve this mission, the security unit must be vigilant and visible at all times.

Security Corporate Plan Targets

During the 2021/22 financial year the security unit was able to carry out its responsibilities by ensuring the building, plant and equipment of the Bank are operational at all times. The security unit also continued to assist the safeguarding of the currency operations and consignments. At the end of the 2021/22 financial year, the security unit maintained its achievement of 87% of its corporate plan targets. This was the result of consistently upholding its vision and mission.

Financial Performance

The Finance Department is responsible for the National Reserve Bank's financial statements, reporting obligations, prepares the Bank's budget and provides a range of support services including keeping records of staff provident fund, staff gratuity fund, staff insurance fund, payroll, and corporate payments.

The gross income from operations for the year ended 30 June 2022 amounted to \$8.41 million, compared to \$7.95 million of the previous year. The 6% increase in gross income from the previous year was mainly driven by the increase in investment income in line with the increase in the level of foreign reserves and the recent increase in global interest rates in the first quarter of 2022. Income from foreign exchange deals increased by 2% due to the increase in the number and volume of the Government foreign transactions for budget support, Hunga Tonga Hunga Ha'apai volcanic eruption and tsunami assistance, and official grants for development projects.

Total Expenditures incurred during the year was \$7.88 million compared to \$7.75 million, in the previous year. The 2% increase was due to the COVID-19 pandemic outbreak in Tonga where unforeseen expenditures such as buying of full PPE and Rapid Antigen Test kit for staff usage.

The Bank's total assets stood at \$898.38 million as at 30 June 2022, representing a 21% increase in the foreign reserves and consequently and increase in short term investments and current accounts as a result of Government fund receipts for budget support, Hunga Tonga Hunga Ha'apai volcanic eruption and tsunami emergency response project as well as funds from donor partners for development projects. The gradual increase in global interest rates also contributed to the increase as foreign investments are reinvested into higher interest

rates. On the liabilities side, the increase is mainly reflected in the build-up of local demand deposits, commercial banks' statutory required reserves and currency in circulation.

The net profit for the year ending 30 June 2022 was \$0.53 million, compared to \$0.20 million of the previous year. The National Reserve Bank of Tonga according to section 8(1) of the NRBT (Amendment) Act 2014, at the end of the year will transfer 30 percent of the profit to the Bank's General Reserves and 70 percent of the profit for the year is payable to the Government. In this regard, \$0.37 million will be transferred to the Government of the Kingdom of Tonga.

Finance Department Corporate Plan Targets

In the approved revised Reserve Bank's Corporate Plan for 2021/22, the Finance department was allocated with 56 specific measurable targets. A review of the financial year corporate plan was carried out in May 2022 which revealed that the department achieved all of its targets.

These targets are related to the strategic priority to modernize the operations of the reserve bank.





Financial Statements

For year ended 30 June 2022

National Reserve Bank of Tonga



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 2022, and the related Statement of Comprehensive Income, Distribution, Changes in Equity and Cash Flows for the year ended on that date and report as follows:

1. Directors

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

- *Lord Sevele 'o Vailahi - Chairman
(appointed in February 2022)*
- *Mr. Richard Prema*
- *Dr Sione Ngongo Kioa - Governor*
- *Mrs. Sinaitakala Tu'itahi*
- *Mrs. Balwyn Fa'otusia
(resigned in August 2021)*
- *Mrs. Joyce Mafi*
- *Mr. Alfred Cowley
(appointed in February 2022)*
- *Mrs. Pisila 'Otunuku
(appointed in December 2021)*

2. Principal Activities

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

1. maintain internal and external monetary stability;
2. without prejudice to its principal objective, the Bank shall
 - a. *promote financial stability; and*
 - b. *promote a sound and efficient financial system.*
3. subject to subsections (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.*

3. COVID-19

The COVID-19 pandemic and the measures undertaken to contain it have dramatically changed the global economic outlook, causing large-scale economic disruption and pronounced volatility in financial markets.

The Bank carefully considered the impact of COVID-19 in preparing its financial statements for the year ended 30 June 2022. The impact of the COVID-19 pandemic is significant to the Tongan economy and it has resulted in the Bank's operations experiencing challenging and uncertain times. The Bank has incorporated the effects of COVID-19 on expected credit losses.

The Bank's investment portfolio continues to be monitored, however, in the event the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this may have an impact on the Bank's income. Given the unprecedented set of circumstances which are still evolving, a definitive assessment of the longer term's outcomes of the COVID-19 pandemic and the consequent economic and societal impacts is difficult at this stage.

4. Trading Results

The net profit of the Bank for the year ended 30 June 2022 was \$529,534 (2021: \$200,050).

5. General Reserves

In accordance with Section 8(1)(b) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$158,860 (2021: \$60,015) being 30% of the current year profit, is transferred to the General Reserve at year end.

6. Payable to Government

In accordance with Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$370,674 (2021: \$140,035) 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

There were no material movements in provisions during the year apart from the normal amounts set aside for such items as employee entitlements.

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

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 other than what is disclosed in the financial statements.

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.

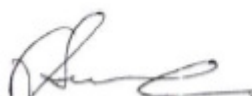
12. Other Circumstances

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.

For and on behalf of the Board of Directors in accordance with a resolution of the Directors this 31 day October, 2022.



Lord Sevele 'o Vailahi
Chairman



Ms Jessie Cocker
Acting Governor

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 2022;*
- 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 2022;*
- c. *the accompanying statement of distribution is drawn up so as to give a true and fair view of the distribution of operating profit of the Bank for the year ended 30 June 2022;*
- d. *the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in equity for the year ended 30 June 2022; and*
- e. *the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the year ended 30 June 2022.*

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 31 day of October, 2022.


Lord Sevele 'o Vailahi
Chairman


Ms Jessie Cocker
Acting Governor





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 accompanying financial statements of the National Reserve Bank of Tonga (the 'Bank'), which comprise the balance sheet as at 30 June 2022, and the statement of comprehensive income, statement of distribution, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2022, and of its financial performance and cash flows for the year then ended in accordance with the accounting policies described in Note 2 of the financial statements and in the manner required by the National Reserve Bank of Tonga Act, 1988, the National Reserve Bank of Tonga (Amendment) Act, 2009, the National Reserve Bank of Tonga (Amendment) Act, 2014 and the National Reserve Bank of Tonga (Amendment) Act, 2017.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2(a) and (b) to the financial statements, which refers to the reporting framework and the policy on the treatment of exchange gains and losses and its variance with IAS 21 "Effect of changes in Foreign Exchange Rates". Our opinion is not modified in respect of this matter.

Independence

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

Other Information

Directors and management are responsible for the other information. The other information comprises the information included in the Annual Report of the Bank and Director's Report for the year ended 30 June 2022, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Management for the Financial Statements

Directors and management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the National Reserve Bank of Tonga Act, 1988, the National Reserve Bank of Tonga (Amendment) Act, 2009, the National Reserve Bank of Tonga (Amendment) Act, 2014 and the National Reserve Bank of Tonga (Amendment) Act, 2017 and for such internal control as the directors and management determine 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, the directors and management are responsible for assessing 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 the directors and management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors and management are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the 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 the financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism 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 the directors and management*
- *Conclude on the appropriateness of the directors and managements 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 auditor's 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 auditor's 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 represents the underlying transactions and events in a manner that achieves fair presentation.*

We communicate with the directors and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the National Reserve Bank of Tonga Act, 1998, the National Reserve Bank of Tonga (Amendment) Act, 2009, the National Reserve Bank of Tonga (Amendment) Act, 2014 and the National Reserve Bank of Tonga (Amendment) Act, 2017, in our opinion;

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;*
- proper books of account have been kept by the Bank, so far as appears from our explanation of those books;*
- the statement of financial position and statement of profit or loss and other comprehensive income dealt with by this report are in agreement with the books of account; and*
- in those cases in which we have called for explanation or information from the offices or agents of the Bank, these have been satisfactory.*

Restriction on Use

This report is made solely to the Board of Directors of the Bank, as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

PricewaterhouseCoopers
Chartered Accountants

Wiliki Takiveikata
Partner

31 October 2022
Suva, Fiji

National Reserve Bank of Tonga Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

Balance Sheet

As at 30 June 2022	Notes	2022 (\$)	2021 (\$)
ASSETS			
Foreign Currency Assets			
Short Term Investments and Current Accounts	8	801,947,340	686,665,621
Accrued Interest		7,033,412	4,493,599
International Monetary Fund (IMF)	9		
- Reserve Tranche Position	9(b)	10,749,556	11,036,073
- Special Drawing	9(a) iii	58,435,683	17,512,174
Local Currency Assets			
Cash on Hand	18	7,456	219,493
Accrued Interest		-	55,009
Other Assets	10	9,921,042	11,142,910
Property, Plant and Equipment	11	10,281,822	10,620,901
Total Assets		898,376,311	741,745,780
LIABILITIES			
Foreign Currency Liabilities			
Accrued Interest		4,142	380
Demand Deposits	12(a)	41,550,419	48,992,080
IMF Special Drawing Rights Allocation	9(a) iii	61,956,445	21,132,939
Local Currency Liabilities			
Payable to Government	13	370,674	140,035
Demand Deposits	12(b)	541,184,871	449,720,078
Accrued Interest		15,456	15,307
Other Liabilities	16	3,383,208	3,606,944
Currency in Circulation	14	138,018,723	115,893,273
Statutory Reserve Deposits	15	81,819,000	67,883,000
Employee Provisions	17	147,063	122,590
Total Liabilities		868,450,001	707,506,626
NET ASSETS		29,926,310	34,239,154
CAPITAL & RESERVES			
Authorised Capital		5,000,000	5,000,000
Paid up Capital		5,000,000	5,000,000
General Reserves		16,631,854	16,472,994
Revaluation Reserve Account		8,294,456	12,766,160
TOTAL CAPITAL AND RESERVES		29,926,310	34,239,154

The above Balance Sheet should be read in conjunction with the accompanying notes.

National Reserve Bank of Tonga Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

Statement of Comprehensive Income

Year Ended 30 June 2022	Notes	2022 (\$)	2021 (\$)
Income			
Interest Income	4	5,351,355	4,915,851
Other Income	5	3,060,776	3,029,240
Total Operating Income		8,412,131	7,945,091
Expenses			
Interest Expense	6	153,036	82,375
Administration and Other Expenses	7	7,712,145	7,658,522
Allowance for impairment losses		17,416	4,144
Total Operating Expenses		7,882,597	7,745,041
Net Profit available for Distribution		529,534	200,050
Net (losses) arising from the translation of foreign currency balances to local currency		(4,471,704)	(1,683,955)
Other comprehensive income for the period		(4,471,704)	(1,683,955)
Total Comprehensive (Loss)/Income		(3,942,170)	(1,483,905)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

National Reserve Bank of Tonga Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

Statement of Distribution

Year Ended 30 June 2022	Notes	2022 (\$)	2021 (\$)
Net Profit Available for Distribution		529,534	200,050
Distribution as follows:			
Transfer to General Reserves as required under Section 8(1) (c) of the National Reserve Bank of Tonga (Amendment) Act, 2014	2(n)	158,860	60,015
Balance Payable to Government of Tonga as required under Section 8(3) of the National Reserve Bank of Tonga (Amendment) Act, 2014	13	370,674	140,035
		529,534	200,050

The above Statement of Distribution should be read in conjunction with the accompanying notes.

National Reserve Bank of Tonga Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

Statement of Changes in Equity

Year Ended 30 June 2022	Paid Up Capital (\$)	General Reserves (\$)	Revaluation Reserve Account (\$)	Total (\$)
Balance 30 June 2020	5,000,000	16,412,979	14,450,115	35,863,094
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	(1,683,955)	(1,683,955)
Transfer to General Reserves (as provided for under Section 8(1)(c) of the National Reserve Bank of Tonga (Amendment) Act 2014, and approved by the Minister of Finance (note 2n)	-	60,015	-	60,015
Balance 30 June 2021	5,000,000	16,472,994	12,766,160	34,239,154
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	(4,471,704)	(4,471,704)
Transfer to General Reserves (as provided for under Section 8(1)(c) of the National Reserve Bank of Tonga (Amendment) Act 2014, and approved by the Minister of Finance (note 2n)	-	158,860	-	158,860
Balance 30 June 2022	5,000,000	16,631,854	8,294,456	29,926,310

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

National Reserve Bank of Tonga Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

Statement of Cash Flows

Year Ended 30 June 2022	Notes	2022 (\$)	2021 (\$)
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		2,866,550	9,615,708
Rental Income		593,808	603,574
Numismatic Sales		80,565	64,058
Other Income		2,394,391	2,409,225
Purchase of currency		(1,636,511)	(1,318,123)
Interest Paid		(149,125)	(99,374)
Payments to suppliers and employess		(4,543,405)	(3,853,519)
Net Cash Inflow from Operating Activities		(393,727)	7,421,549
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(239,449)	(1,228,271)
Net movement in IMF accounts		(40,636,993)	(529,199)
Net movement in staff loans		(142,193)	(115,341)
Net Cash used in Investing Activities		(41,018,635)	(1,872,811)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in Currency in Circulation		22,125,450	23,179,686
Net movement in Demand Deposits		79,896,275	166,900,331
Net movement in Statutory Deposits		13,936,000	11,873,000
Net movement in Government of Tonga account		3,986,823	(34,819,907)
Net movement in funds held for clearance		157,447	(232,199)
Net movement in IMF SDR Allocation		40,823,506	320,805
Net transfer from Revaluation Account		-	-
Net Cash Flow from Financing Activities		160,925,501	167,221,716
NET INCREASE IN CASH		119,513,139	172,770,454
CASH AND CASH EQUIVALENT AT BEGINNING OF FINANCIAL YEAR		686,913,361	515,826,862
NET EFFECT OF CHANGE IN EXCHANGE RATE	2(b)	(4,471,704)	(1,683,955)
CASH AND CASH EQUIVALENT AT END OF FINANCIAL YEAR	18	801,954,796	686,913,361

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

1. GENERAL INFORMATION

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

1. maintain internal and external monetary stability;
2. without prejudice to its principal objective, the Bank shall
 - a. *promote financial stability; and*
 - b. *promote a sound and efficient financial system.*
3. subject to subsections (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 31 day of October 2022.

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

(a) Basis of Accounting

The financial statements of the Bank have been prepared in accordance with the National Reserve Bank of Tonga Act, 1988, the National Reserve Bank of Tonga (Amendment) Act, 2007, and the National Reserve Bank of Tonga (Amendment) Act, 2014. The Bank's accounting policies are based on International Financial Reporting Standards ("IFRS") except where the Act requires a different treatment, as noted in Note 2 (b), in which the Act takes precedence.

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.

(b) Foreign Currencies

Foreign currencies 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 and losses of the Bank as required under International Accounting Standard 21, "The effects of changes in foreign exchange rates" (IAS 21). The impact of this in the statement of comprehensive income would be a decrease in net profit by \$4,471,704 (2021: decrease by \$1,683,955).

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

Any credit balance in the Revaluation Reserve Account at the end of each year may be used by the Reserve Bank for the costs of implementing the monetary policy subject to the approval by the Board or be paid to the Government upon the request of the Minister in writing to the Reserve Bank subject to the market conditions and approval by the Board. According to the National Reserve Bank of Tonga (Amendment) Act 2017, the Revaluation Reserve Account is to be maintained at a minimum balance of \$10,000,000 and any balance remaining in the Revaluation Reserves Account shall be carried forward to the next financial year.

(c) Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are categorised in the period in which the estimates are revised and in any future periods affected.

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

Note 2 (d) – Expected credit losses

Note 2 (j) – Provisions for employee entitlements

Impact of COVID-19 on expected credit losses

The bank has carefully considered the impact of COVID-19 in preparing its financial statement for the year ended 30 June 2022. The key impact on the financial statements, including the application of critical estimates and judgments, related to the expected credit loss model. There was no significant change to the existing expected credit loss model used by the Bank at 30 June 2022 as credit ratings for counterparties have remain the same from prior year. As the pandemic will prolong to the future, the expected rise in corporate defaults, falling asset prices and liquidity issues in overseas counterpart will drive the Bank to adjust the current ECL model by revising the (PD) estimates, the loss given default (LGD), and the exposure at default (EAD) estimates to clearly reflect the effects of COVID 19 on the Bank's financial statements.

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

(d) Financial Assets and Liabilities

Financial instruments

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

Financial assets

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

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

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

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

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

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

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

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

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

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;*

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

- *the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;*
- *how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and*
- *the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.*

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

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

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

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

In making this assessment, the Bank considers:

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

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

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

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, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

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

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

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.

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.

Offsetting

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

Impairment

Financial instruments

The Bank recognises loss allowances for 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.

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

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.*

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank considers this to be B 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 statement of financial position

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

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

Write-off

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

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

(e) Currency and Numismatics Inventory

Currency and numismatics on hand are recognised in the statement of financial position at cost. Cost includes the cost of bringing currency to the Bank's premises. Currency issuances are determined on a first-in-first-out basis. When currency is issued the value is reduced and amortisation expense is recognized in the income statement.

(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.

(g) Coins sold as numismatic items

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 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.

(h) Income tax

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

(i) Depreciation

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

- Leasehold and buildings 1.01% - 2%
- Furniture and fittings, computer and office equipment 6.67% - 25%
- Motor vehicles 25%

(j) Employee Entitlements

The Bank has its own Staff Provident Fund and all staff contribute to this scheme. The bank and staff contributions are based on the years of service. Liabilities for other employee entitlements which are not expected to be paid or settled within twelve months of the reporting date are accrued in respect of all employees at the present value of future amounts expected to be paid.

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

(k) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes tellers cash, current accounts and short term deposits.

(l) Revenue

Interest Income

Interest income is recognised 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.*

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 and Other comprehensive income.

Rental income

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

Other income

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

(m) 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.

(n) General Reserve and Distribution of Profits

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

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

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

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

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

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

(o) Revaluation Reserve

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

(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 following the amount of the initial measurement of lease liability.

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

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

As a lessor

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

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

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

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

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS

(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 2021/2022 a total of \$877k (2021: \$806k) of assets were acquired while \$628k (2021: \$789k) remains unused.

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

(r) Functional and Presentation Currency

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

(s) Rounding

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



Notes To and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL RISK MANAGEMENT

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

(a) Credit Risk

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

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

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

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

	2022 (\$)	2021 (\$)
Foreign Currency Assets		
Short Term Commercial Paper and Current Accounts	801,947,340	686,665,621
Local Currency Assets		
Staff Loans	4,528,491	4,386,298
Total Financial Investments	806,475,831	691,051,919

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.

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL RISK MANAGEMENT

	Rating	2022 (\$)	2021 (\$)
Australia	AAA	2,493,488	907,112
	AA-	222,080,084	164,598,584
	A+	130,512,998	109,099,596
New Zealand	AA+	544,988	13,715,388
	AA-	154,075,245	147,376,807
United States of America	AA+	8,155,788	15,819,979
	AA	459,862	380,584
Switzerland	AAA	212,945,672	184,529,941
United Kingdom	AA	964,510	334,467
Fiji	BB+	8,152	77,563
Singapore	AA-	69,754,317	49,857,050
Tonga	N/R	4,569,174	4,387,239
		806,564,279	691,084,310
Less: Allowance for impairment losses		(88,448)	(71,031)
Total Financial Investment		806,475,831	691,013,279

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

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL RISK MANAGEMENT

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

Maturity Analysis as at 30 June 2022	0 - 3 Months	3 - 12 Months	1 - 5 Years	Over 5 Years	No Specific Maturity	Total
Foreign Currency Assets						
Short Term Investments and Current Accounts	13,249,089	701,841,812	86,856,439	-	-	801,947,340
Accrued Interest	7,033,412	-	-	-	-	7,033,412
IMF						
- Reserve Tranche Position	10,749,556	-	-	-	-	10,749,556
- Special Drawing Rights	58,435,683	-	-	-	-	58,435,683
Local Currency Assets						
Cash on hand	7,456	-	-	-	-	7,456
Accrued Interest	0	-	-	-	-	0
Other Assets	9,921,042	-	-	-	-	9,921,042
IMF - Currency Subscription	32,198,006	-	-	-	-	32,198,006
Property, Plant & Equipment	-	-	-	-	10,281,822	10,281,822
Total Assets	131,594,244	701,841,812	86,856,439	0	10,281,822	930,574,317
Foreign Currency Liabilities						
Accrued Interest	4,142	-	-	-	-	4,142
Demand Deposits	41,550,419	-	-	-	-	41,550,419
IMF - Special Drawing Rights Allocation	-	-	-	-	61,956,445	61,956,445
Foreign Currency Liabilities						
Payable to Government	370,674	-	-	-	-	370,674
Demand Deposits	541,184,871	-	-	-	-	541,184,871
Accrued Deposits	15,456	-	-	-	-	15,456
Other Liabilities	-	3,383,208	-	-	-	3,383,208
Currency in Circulation	-	-	-	-	138,018,723	138,018,723
Statutory Reserve Deposits	-	-	-	-	81,819,000	81,819,000
IMF - Currency Subscription	-	-	-	-	32,198,006	32,198,006
Employee Provisions	-	128,000	14,263	4,800	-	147,063
Total Liabilities	583,125,562	3,511,208	14,263	4,800	313,992,174	900,648,007
Net Assets	(451,451,318)	698,330,604	86,842,176	(4,800)	(303,710,352)	29,926,310

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL RISK MANAGEMENT

The maturity analysis noted below includes all financial and non-financial assets and liabilities as at 30 June 2021.

Maturity Analysis as at 30 June 2021	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	31,848,766	498,044,090	156,772,765	-	-	686,665,621
Accrued Interest	4,493,599	-	-	-	-	4,493,599
IMF						
- Reserve Tranche Position	11,036,073	-	-	-	-	11,036,073
- Special Drawing Rights	17,512,174	-	-	-	-	17,512,174
Local Currency Assets						
Cash on hand	219,493	-	-	-	-	219,493
Accrued Interest	55,009	-	-	-	-	55,009
Other Assets	11,142,910	-	-	-	-	11,142,910
IMF - Currency Subscription	33,624,675	-	-	-	-	33,624,675
Property, Plant & Equipment	-	-	-	-	10,620,901	10,620,901
Total Assets	109,932,699	498,044,090	156,772,765	0	10,620,901	775,370,455
Foreign Currency Liabilities						
Accrued Interest	380	-	-	-	-	380
Demand Deposits	48,992,080	-	-	-	-	48,992,080
IMF - Special Drawing Rights Allocation	-	-	-	-	21,132,939	21,132,939
Foreign Currency Liabilities						
Payable to Government	140,035	-	-	-	-	140,035
Demand Deposits	449,720,078	-	-	-	-	449,720,078
Accrued Deposits	15,307	-	-	-	-	15,307
Other Liabilities	-	3,606,944	-	-	-	3,606,944
Currency in Circulation	-	-	-	-	115,893,273	115,893,273
Statutory Reserve Deposits	-	-	-	-	67,883,000	67,883,000
IMF - Currency Subscription	-	-	-	-	33,624,675	33,624,675
Employee Provisions	-	33,618	80,372	8,600	-	122,590
Total Liabilities	498,867,880	3,640,562	80,372	8,600	238,533,887	741,131,301
Net Assets	(388,935,181)	494,403,528	156,692,393	(8,600)	(227,912,986)	34,239,154

Notes To and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

3. FINANCIAL RISK MANAGEMENT

(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 36 months. The duration of the portfolio is re-balanced regularly to maintain the target duration.

(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 tables show the currency concentration of the Bank's net exposure to foreign currencies as at 30 June 2022 in Tonga Pa'anga equivalents.

	2022 (\$)	2021 (\$)
United States Dollar	461,835,404	384,141,912
Australian Dollar	71,197,404	65,187,974
Great Britain Pound	969,270	339,666
New Zealand Dollar	233,459,847	192,450,406
Other	7,241,029	7,493,763
Total Net Foreign Exchange Position	774,702,954	649,613,721

(iii) Sensitivity to Foreign Currency Risk and Interest Rate Risk

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

Impact of:	2022	2021
Change in equity due to a 5% appreciation/depreciation of the Tonga Pa'anga	38,735,148	32,480,686
Change in profit/loss due to a rise/drop of 1 percentage point in interest rate	70,295	44,934

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

4. INTEREST INCOME

	2022 (\$)	2021 (\$)
Overseas Investments	5,230,978	4,700,635
Staff Loans	120,377	215,216
	5,351,355	4,915,851

5. OTHER INCOME

	2022 (\$)	2021 (\$)
Numismatic Coins	80,565	64,058
Rental Income	585,820	555,957
Gain on Sale of Assets	80	5,840
Forex Sales/Purchases	2,260,227	2,213,815
Bank User Fees	66,279	70,560
Miscellaneous	67,804	119,010
	3,060,776	3,029,240

6. INTEREST EXPENSE

	2022 (\$)	2021 (\$)
Foreign Currency Accounts	64,674	15,495
Domestic Currency Accounts	88,362	66,880
	153,036	82,375

7. ADMINISTRATION AND OTHER EXPENSES

	2022 (\$)	2021 (\$)
Administration	1,485,481	2,282,926
Retirement Fund	545,411	497,564
Staff Costs	3,297,296	3,384,929
Audit Fees	25,000	36,181
Currency Issue (refer Note 10)	1,712,846	1,520,398
Depreciation	592,488	547,363
	7,658,522	8,269,361

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

8. SHORT TERM INVESTMENTS AND CURRENT ACCOUNTS

	2022 (\$)	2021 (\$)
Current Accounts	13,249,089	31,848,766
Short Term Investments	788,746,016	654,848,305
	801,995,105	686,697,071
Less: Impairment allowances for financial instruments	(47,765)	(31,450)
	801,947,340	686,665,621

Allowance for impairment losses have been provided on short term investments and current accounts in accordance with the requirements of IFRS 9. The impact of COVID-19 has been factored in the impairment allowances.

9. INTERNATIONAL MONETARY FUND

(a)

- (i) The Bank was designated to serve with effect from 1 July 1989 as the fiscal agent of the Kingdom of Tonga for the purposes of the International Monetary Fund (IMF) by virtue of Section 51(1) of the National Reserve Bank of Tonga Act, 1988, and assumed the financial obligations of the membership of the Kingdom of Tonga as from that date by virtue of section 36(1)(c) of the National Reserve Bank of Tonga Act, 1988.
- (ii) As at 30 June 2022, Tonga's membership subscription to the International Monetary Fund was SDR13,800,000 (2021: SDR13,800,000). Of this total amount, SDR3,436,633 (2021: SDR3,436,633) had been paid in foreign currencies, shown in the Balance Sheet as Reserve Tranche Position, and the remaining balance representing the Currency Subscription portion was satisfied by crediting the demand deposit accounts of the International Monetary Fund with the Bank.
- (iii) Special Drawing Rights holdings is an interest-bearing international reserve asset created by the IMF and is allocated to members on the basis of their quotas in the Fund. As at 30 June 2022, the Special Drawing Rights holdings had a balance of SDR18,681,888 (2021: SDR5,453,291). The increase represents additional SDR allocations to member countries to address the global need for reserves, build confidence, and foster the resilience and stability of the global economy. This allocation will particularly help most vulnerable countries struggling to cope with the impact of the COVID-19 crisis.

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

(b) Reserve Tranche Position

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

	2022 \$	2021 \$
Member's Quota Subscriptions	42,947,340	44,660,748
(Less) IMF Holdings in Member's - designated depositing agency	32,198,005	33,624,674
Reserve Tranche Position	10,749,556	11,036,073

10. OTHER ASSETS

	2022 \$	2021 \$
Staff Loans and Advances	4,569,174	4,387,239
Currency and Numismatics	5,201,384	5,053,509
Other Assets	191,167	1,741,744
	9,961,725	11,182,492
Less: Impairment allowances for staff loans	(40,683)	(39,582)
	3,921,042	11,142,910

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

Allowance for impairment losses have been provided on the staff loans in accordance with the requirements of IFRS 9. The impact of COVID-19 has been factored in the impairment allowances.



Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

11. (A) PROPERTY, PLANT & EQUIPMENT

	Leasehold & Buildings	Computer & Office Equipment	Furniture & Fittings	Motor Vehicles	WIP	TOTAL
At 30 June 2020						
Cost	11,620,032	2,255,719	248,084	364,249	377,246	14,865,330
Accumulated Depreciation	(3,020,775)	(1,313,899)	(212,083)	(333,455)	0	(4,880,212)
Net Book Amount	8,599,257	941,820	36,001	30,794	377,246	9,985,118
Year Ended 30 June 2021						
Opening Net Book Value	8,599,257	941,820	36,001	30,794	377,246	9,985,118
Additions	344,187	88,125	6,405		789,554	1,228,271
Transfer In/Out	(153,291)	368,826	100,174		(315,709)	0
Depreciation	(290,286)	(226,874)	(44,534)	(30,794)		(592,488)
Closing Net Book Value	8,499,867	1,171,897	98,046	0	851,091	10,620,901
At 30 June 2021						
Cost	11,810,928	2,712,670	354,663	364,249	851,091	16,093,601
Accumulated Depreciation	(3,311,061)	(1,540,772)	(256,618)	(364,249)	0	(5,472,700)
Net Book Amount	8,499,867	1,171,898	98,046	0	851,091	10,620,901
Year Ended 30 June 2022						
Opening Net Book Value	8,499,867	1,171,898	98,046	0	851,091	10,620,901
Additions	18,584	75,935	7,747		137,184	239,449
Transfers In/Out	13,106	149,561			(162,667)	0
Depreciation	(293,305)	(241,165)	(44,058)	0		(578,528)
Closing Net Book Value	8,238,252	1,156,229	61,735	0	825,608	10,281,822
At 30 June 2022						
Cost	11,842,617	2,938,166	362,410	364,249	825,608	16,333,050
Accumulated Depreciation	(3,604,367)	(1,781,937)	(300,676)	(364,249)	0	(6,051,228)
Net Book Amount	8,238,252	1,156,229	61,735	0	825,608	10,281,822

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

11. (B)

The Bank leases 1,189 sqm of its building premises under operating leases to tenants for a term of 2 to 3 years. Rental income is recorded over the term of the tenancy agreement on a straight-line basis.

12. (A) FOREIGN CURRENCY DEMAND DEPOSITS

	2022 (\$)	2021 (\$)
Government of Tonga	41,429,050	48,864,988
Other Institutions	121,369	127,092
	41,550,419	48,992,080

(B) LOCAL CURRENCY DEMAND DEPOSITS

	2022 (\$)	2021 (\$)
International Banks	216,292	140,157
Domestic Banks	409,624,267	329,804,127
Government of Tonga	131,344,312	119,775,794
	541,184,871	449,720,078

13. PAYABLE TO GOVERNMENT

	2022 (\$)	2021 (\$)
Amount payable to Government in accordance with Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act 2014	370,674	140,035

14. CURRENCY IN CIRCULATION

	2022 (\$)	2021 (\$)
Notes	132,702,944	111,003,429
Coins	5,315,779	4,889,844
	138,018,723	115,893,273

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

15. STATUTORY RESERVE DEPOSITS

The deposits represent the reserves required to be maintained by each financial institution under Section 39 of the NRBT Act 1988.

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

16. OTHER LIABILITIES

	Notes	2022 (\$)	2021 (\$)
Other creditors and accruals		1,127,040	1,092,603
Development Budget Fund 2021/2022	(a)	628,316	788,817
Deferred Development Fund	(b)	877,232	783,032
Payable to the National Reserve Bank of Tonga Staff Provident Scheme	(c)	750,620	942,492
		3,383,208	3,606,944

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

	2022 (\$)	2021 (\$)
Opening Balance	788,817	-
Transfer from Asset Revaluation Reserve	-	-
Amount utilised - Transfer to Deferred Development Fund. Refer (b) below.	(160,501)	(806,167)
Closing Balance	628,316	788,817

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

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

	2022 (\$)	2021 (\$)
Opening Balance	783,032	-
Transfer from Development Budget Fund	160,501	806,167
Amount amortised	(66,301)	(23,135)
Closing Balance	877,232	783,032

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

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

Notes To and Forming Part of the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2022

17. PROVISION FOR EMPLOYEE ENTITLEMENTS

	2022 (\$)	2021 (\$)
Opening Balance	122,590	174,929
Entitlements during the year	180,546	171,818
Utilised/reversals	(156,073)	(224,157)
	147,063	122,590

18. CASH AND CASH EQUIVALENTS

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

	2022 (\$)	2021 (\$)
Cash on hand	7,456	219,493
Short term investments and current accounts	801,947,340	686,693,868
	801,954,796	686,913,361

19. 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 2022 were Lord Sevele 'o Vailahi (Chairperson) – appointed February 2022, Richard Prema, Sinaitakala Tu'itahi, Balwyn Fa'otusia (resigned August 2021), Joyce Mafi, Pisila 'Otunuku (appointed December 2021), Alfred Cowley (appointed February 2022), and Sione Ngongo Kioa (Governor).

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

Transactions with related parties

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

The transactions with the Government of the Kingdom of Tonga include banking services, foreign exchange transactions and registry transactions. The total interest paid to Government on Deposits held amounted to \$61,757 (2021: \$63,407).

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:

	2022 (\$)	2021 (\$)
Provident Fund payments made by the Bank	619,401	545,411
	619,401	545,411

Notes To and Forming Part of the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2022

19. RELATED PARTIES

The funds of the National Reserve bank of Tonga Staff Provident Fund are invested within the Bank at an average rate of 3.00% (2021: 3.22%) per annum. The total interest paid by the Bank for the financial year amounted to \$8,718 (2021: \$6,963). The Trustees of the Staff Provident Fund are indemnified by the Bank against all losses, damages or other costs which may be sustained or suffered by or made against a trustee as a result of any act or omission committed by the Trustee or Trustees which is not a breach of trust on the part of the Trustee.

The Directors are paid fees and sitting allowances for services rendered. The Directors entitlements to the retirement fund at year end amounted to \$228,799 (2021: \$231,010). The Bank also provides non-cash benefits to the Executive officers in addition to their salaries.

Total remuneration below is included in 'administrative costs'.

	2022 (\$)	2021 (\$)
Executive Staff	460,690	410,541
Director's fees and allowances	126,599	146,933
	587,289	557,474

20. COMMITMENTS

Capital and Other Commitments

	2022 (\$)	2021 (\$)
Commitment not provided for in the financial statements are as follows:		
Capital commitment: approved and contracted	940,865	1,091,685

21. CONTINGENT LIABILITIES

Contingencies not otherwise provided for in the accounts and which existed at 30 June 2022 comprise:

- (i) **Contracts for foreign exchange transactions was nil (2021: \$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.**

22. 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 term investments and current accounts

The reported 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.

Notes To and Forming Part of the Financial Statements FOR THE YEAR ENDED 30 JUNE 2022

22. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Statutory Reserve Deposits

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

Demand Deposits

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

Currency in Circulation

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

Other Financial Assets and Liabilities

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

23. COVID-19

The COVID-19 pandemic and the measures undertaken to contain it have dramatically changed the global economic outlook, causing large-scale economic disruption and pronounced volatility in financial markets.

The Bank carefully considered the impact of COVID-19 in preparing its financial statements for the year ended 30 June 2022. The impact of the COVID-19 pandemic is significant to the Tongan economy and it has resulted in the Bank's operations experiencing challenging and uncertain times. The Bank has incorporated the effects of COVID-19 on expected credit losses.

The Bank's investment portfolio continues to be monitored, however, in the event the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this may have an impact on the Bank's income. Given the unprecedented set of circumstances which are still evolving, a definitive assessment of the longer term's outcomes of the COVID-19 pandemic and the consequent economic and societal impacts is difficult at this stage.

24. EVENTS SUBSEQUENT TO BALANCE DATE

The Bank did not identify any subsequent events precipitated by COVID-19 that would require adjustment to the amounts or disclosures in the financial statements. Given that the border opened in September 2022 and the economy has slowly recovered, the Bank will continue to regularly review forward looking assumptions and forecast economic scenarios.

Apart from the matters noted above, 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.

