



2023/2024 ANNUAL REPORT



NATIONAL RESERVE BANK OF TONGA

Hon. Tiofilusi Tiueti
Ministry of Finance
St. George Building
Nuku'alofa

30 September 2024

Subj. **NRBT Annual Report for the Year Ended 30 June 2024**

In accordance with Section 54(1)(b) of the National Reserve Bank of Tonga (NRBT) Act, I am pleased to submit the Annual Report of the National Reserve Bank of Tonga operations for the year ended 30 June 2024. The report includes the financial statement summary from the KPMG Audited Annual Financial Statement for the same period, submitted separately. Presentation of same to Hon. Cabinet members and to the Parliament of Tonga is requested.

Thank you for your support and guidance for the financial well-being of all the people of Tonga here and abroad.

Yours Sincerely,

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Tatafu Moeaki.

Tatafu Moeaki
Governor.

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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 reference inflation rate is to be maintained below 5%.

Maintenance of external monetary stability is pursued through maintaining an adequate amount of foreign currencies (foreign reserves) to meet the country's foreign currency demands to pay for imports and other obligations. As such, the Reserve Bank's monetary policies aim to ensure that Tonga always have 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:

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

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

NATIONAL RESERVE BANK OF TONGA

STAFF of 2024



Back Row: Haniteli Palenapa, Tangiloto Finau, Simote Leone, Mafoaeata Pongipongi, Alexander Fungavaka, Fोलolisi Masila, Latu 'Aho, 'Ilaisa Vaiomo'unga, Semisi Vaipuna, Joshua Archer, 'Etuete Fonua, Siaso Tonga, 'Aseli Fifita, Sateki Seau, Sonatane Tupou, Lipulu Tupou, Filisione Sevaki, Viliami Fakasi'i'eiki, Paula Vea, Tevita 'Akau'ola.

Third Row: 'Aleksanita Lasike, Selai Moala, Malieta Taufa, Sokopeti Vite, Salome Lama, Melenaite Tupou, 'Alanieta Tu'ipulotu, Losaline Finau, Louveve Leone, Vasi Feke, Tenisia Tovi, Keakelani Mausia, Taufa Lutui, Ikatonga Hufanga, Kitiosi Tupou, Meliano Vea

Second Row: 'Ana Kavaliku, Penisimani Ngahe, Senolita Lutui, Veisia Tonga, Koloisa Tupou, Cecilia 'Akau'ola, Talasia Fanaua, Losaline Taufu'i, Kalesita Falesiva, Katrina Taufatofua, Linda Mokofisi, 'Amelia Vea, Monika Toe'api

Front Row: Teau 'Isitolo, Viliami 'Akau'ola, Seneti Fifita, Kasaline Lolohea, Lata Tangimana, Tatafu Moeaki, Lord Sevele 'o Vailahi, 'Ungatea Latu, Daniel Taumoepeau, Teisa Tongia, Lupe Ma'u, Nanuma Fakatava, 'Olivina 'Aholelei

BOARD OF DIRECTOR'S STATEMENT

35th Anniversary and 2023-24 Profit

In 2024, the Bank proudly marks a dual milestone: celebrating its 35th anniversary and recording a historic \$35 million net profit, the highest in its history, and an improvement of 75% on last year's \$20 million milestone. These achievements highlight the Bank's renewed growth over the past two years, and help set the targets for the years ahead. The Bank has now established a performance platform to enhance operational efficiency and effectiveness, organizational improvements, and updates to HR policies.



Governance Strengthening, Commitment, and Focus

Throughout the year, the Board focused on strengthening governance and regulatory policies and compliance. A key initiative was a review of the National Reserve Bank Act to align with the IMF 2021 Safeguards recommendations. Notable governance enhancements included re-establishing the Board Audit & Risk Committee (BARC) and strengthening measures to combat money laundering, terrorism financing, and financial crime prevention.

By the end of FY2024, 8-of-the-10 IMF 2021 Safeguards Assessment recommendations had been successfully implemented, significantly improving the Board's oversight and governance functions.

Further governance strengthening occurred with the recruitment of a Chief Internal Auditor in December 2023 and the formal establishment of the internal audit function. Pricewaterhouse Coopers (PwC) was engaged to conduct the Information & Communication Technology (ICT) audit, advancing resilience to technology.

The Board's commitment to its oversight role is reflected in the frequency of its meetings—33 for the Board and 18 for the BARC — well above the mandated 10 meetings, demonstrating the Board of Directors' dedication to providing strategic guidance and oversight for Tonga's financial stability and prosperity.

Regular Board meetings and management reports enabled continuous monitoring of the Bank's performance and resource usage, ensuring full compliance with the NRBT Act. Under the Board's leadership, the Bank achieved record financial performance, economic stability, and effective price control in FY2024, without the need to increase interest rates.

Inflation

The Board remained focused on monetary policy, foreign reserves management, and maintaining the pegged exchange rate to ensure macroeconomic stability. It has now become abundantly clear that attempts to tame inflation via the interest rate mechanism have not met with any notable success, and that fiscal policies must be addressed together with monetary policies.

Currency

The Bank also launched the King Tupou VI 2023 currency series, featuring polymer notes for the heavily circulated \$5 and \$10 denominations.

The Board also supported management in resolving a 4-year redeemable currency backlog, that has improved the availability of quality notes and controlled currency costs. With support from the Reserve Bank of Fiji, currency policies were upgraded and staff received enhanced training.

Security Management

Security measures were strengthened following a drug seizure at NRBT premises in February 2024. Disappointingly, this drug seizure reflects a long-standing security failure that has inflicted irreparable damage to the Bank's reputation.

Private Sector Economic Growth

The Reserve Bank has taken a collaborative view in promoting economic growth, self-sufficiency, and self-reliance. The strategy includes fostering a closer working relationship between key stakeholders from the public and private sectors in recognition of the Reserve Bank's role in enabling economic development and growth through the private sector. As the IMF has repeatedly stressed, the private sector is the key to greater and more durable economic development and growth, and, to this effect, the Board has taken the decision to establish a Private Sector Investment Committee.

Lord Sevele
Chairman

Board of Directors

June 2024



LORD SEVELE 'O VAILAHI
Chairman



MR. RICHARD PREMA
Deputy Chairman



MRS. SIOSI LATU MAFI
Director



MR. JOHN PAUL CHAPMAN
Director



MRS. VIKA FUSIMĀLOHI
Director



MRS. KILISITINA TUAIMEI'API
Director
Secretary for Finance



MR. TATAFU MOEAKI
Governor



MS. 'UNGATEA LATU
Deputy Governor
Board Secretary

GOVERNOR'S FOREWORD

The first quarter of FY2023 saw Tonga experience its highest inflation in two decades. In response, we issued a tightening signal to reduce inflation as our top priority, aiming to contain inflation within the 5% reference rate, which was successfully achieved during FY2024 despite the weak impact of monetary policies on the interest rate channel. Alongside this, NRBT committed to supporting economic recovery from the COVID-19 pandemic and the 2022 volcanic eruption.

The banking sector remains well-capitalized with ample liquidity, although risks have increased. As of June 2024, the non-performing loans to total loans ratio rose to 11.2%, despite maintaining strong profitability. In response, enhanced supervision of banks was carried out as we rolled out new reforms in 2024 to address risks to financial stability. These reforms include establishing a new Financial Stability Unit and working to establish an in-house electronic credit registry with ADB PSDI's assistance. With the IMF's assistance we are reviewing the NRBT Act mainly to strengthen central bank governance, and considering options to better utilise the long-standing excess liquidity in the financial system to be more helpful to the country's economic development and also improve the effectiveness of monetary policy transmission. This includes exploring developing a domestic capital market and other financial instruments aimed at enhancing resilience to climate and other external shocks. Additionally, we sought the World Bank's assistance to develop a new National Payment System and bolstered our supervisory role in combating financial crimes, including AML/CFT measures, to preserve the integrity of the financial sector. We also welcome the efforts by licensed banks and non-bank financial institutions to introduce new financial products and technologies to advance the financial sector.

Our management of the foreign reserves and daily monitoring of the pegged exchange rate have supported macroeconomic stability. Notably, the value of the Tongan pa'anga, measured by the nominal effective exchange rate (NEER), strengthened over the year. Our monetary policy stance remained unchanged in 2024, following last year's tightening measures aimed at reducing inflation, which eased to 5.4% by June 2024.

A financial inclusion strategy was launched to drive the work on promoting access to financial services. Our focus towards the end of FY2024 shifted toward increasing access to affordable credit, particularly for under-served sectors such as agriculture, fisheries, handicrafts, and tourism.

Internally, we have strengthened internal control through the new Internal Audit function, embraced technology, addressed a four-year currency backlog, and improved management processes. Upgrades to our ICT systems and the digitization of HR management, including staff work plans and performance evaluations, have also been implemented. In response to a security incident during the year, we enhanced our security equipment and protocols.

Looking ahead, the Bank's first 5-year Strategic Plan (2024-2028) was approved by the Board in FY2024, aimed at fostering inclusive, sustainable, and resilient development for Tonga. This plan focuses on five pillars to enhance the Bank's impact on price stability, financial stability, and economic growth. The FY2025 Corporate Plan was also approved to guide the implementation of this Strategic Plan. Key policies on Enterprise Risk Management, Procurement, and Cybersecurity were also approved during the year.

We extend our gratitude to the Minister for Finance, the Government of Tonga, our banking partners, development organizations such as ADB, MFAT, DFAT, WBG, and our Pacific central bank counterparts.

As we celebrate our 35th anniversary, along with the Board, I commend our staff for their dedication in advancing the Bank's mission, fostering financial stability, and strengthening the banking sector through sound monetary policies and technological innovation.

Malo 'aupito



Tatafu Moeaki
Governor.

Our Executive Management



MR. TATAFU MOEAKI
Governor



MS. 'UNGATEA LĀTŪ
Deputy Governor

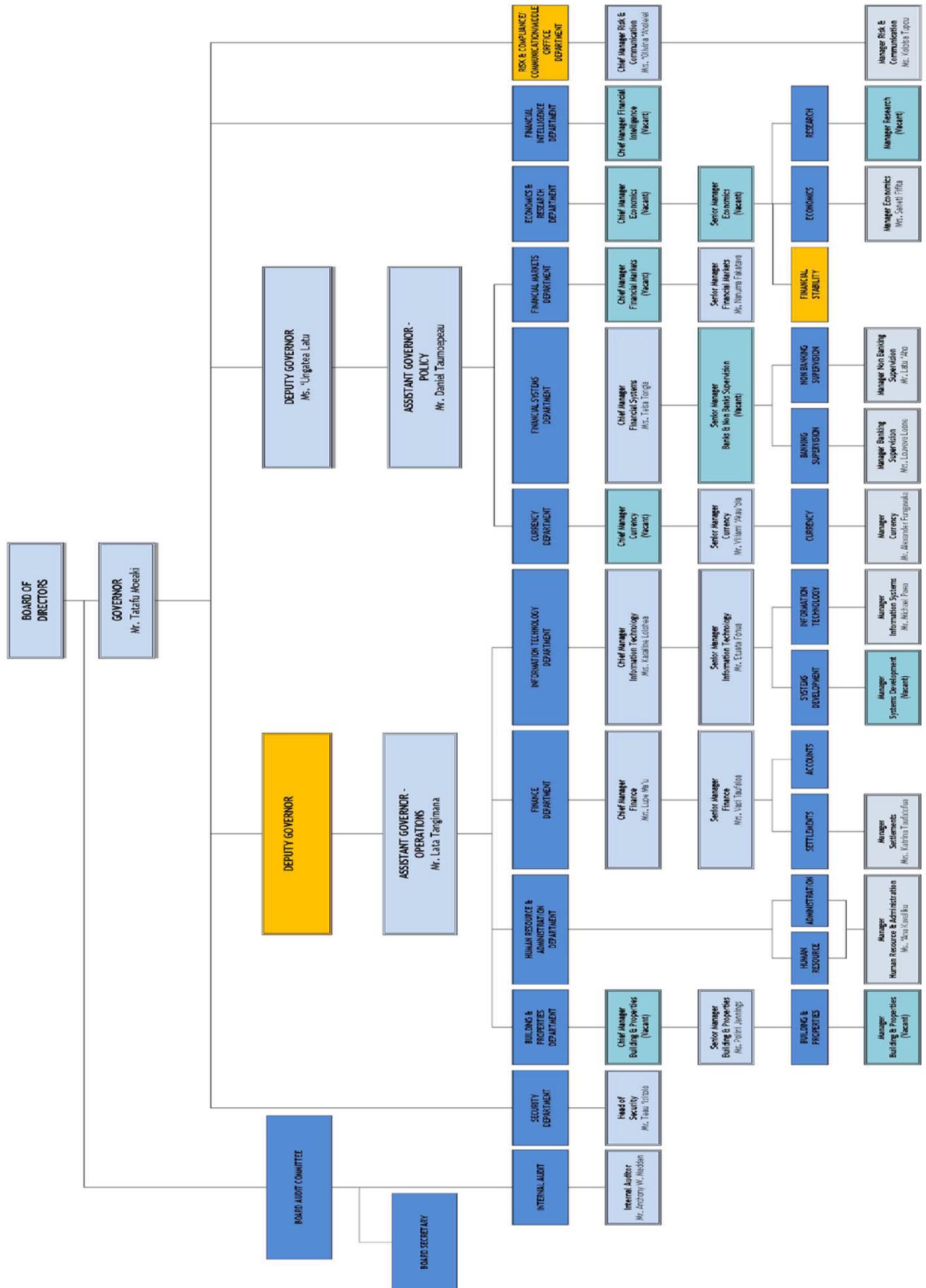


MR. LATA TANGIMANA
Assistant Governor Operations



MR. TANIELA TAUMOEPEAU
Assistant Governor Policy

FIGURE 1: OUR ORGANIZATIONAL CHART | JUNE 2024



HIGHLIGHTS OF THE YEAR

PRICE STABILITY:

Inflation dropped from a decade high of 14% (FY2023Q1) to an average of

4.6%
in FY2024.



Foreign Reserves:

Foreign Reserves rose to **\$924.3 MILLION**

with a 11.9 months' worth of imports



\$35.8 MILLION

Net Profit for Financial Year 2023/2024

FY 2022/23: \$20.4 MILLION

Financial Stability:

- Banking sector maintains strong capitalization and ample liquidity & profitability but risks have heightened.
- The **SRD Ratio was maintained at 15%**, setting aside a higher portion of liquid assets in the banks' SRD accounts.

Banknotes and coins:

LAUNCHED THE NEW BANKNOTES SERIES 2023, INCLUDING THE FIRST POLYMER BANKNOTES



Banknotes and coins in circulation up to

\$128.0 MILLION

in 2023/24

Cleared A Four-Year Backlog Of Uncounted Parcels

\$25 MILLION

Distribution to Government to support overall development

FY 2023: \$14.2 MILLION



December 2023

Reserve Bank launched its first **Strategic Plan 2028**



December 2023

Reserve Bank launched its first **National Financial Inclusion Strategy 2027**

CORPORATE PLAN

OUR STRATEGIES AND OUR PERFORMANCE IMPROVEMENTS



VISION

ENSURE SUSTAINABLE AND INCLUSIVE DEVELOPMENT FOR TONGA

MISSION

Facilitation of Inclusive, Sustainable, and Resilient Development for the benefit of all the people of Tonga

VALUES

- ✓ We embrace our **Christian values** and **integrity**
- ✓ We are **one team**, embracing **excellence**
- ✓ We work to **improve performance** and to **innovate**
- ✓ We work with **respect** and **humility**, aligned with the national culture of Tonga

PRICE STABILITY

Economic Analysis and Research

We completed monthly economic analysis and research, formulated monetary policy recommendations, prepared and analyzed forecasts, and produced and disseminated economic publications. Key publications released in FY2023/24 include the:

1. *August 2023 & February 2024 Monetary Policy Statements*
2. *2 Quarterly Bulletins*
3. *12 Monthly Monetary Policy Data sheets*
4. *12 monthly updates on the performance of the economy and analyses of important indicators of the economy such as Overseas Exchange Transactions, Remittances and Inflation*
5. *Labour market survey*
6. *Household expenditure survey*

These publications are made available to the public on the Reserve Bank's website. To better meet stakeholder needs, some of the publications such as the Quarterly Bulletins and monthly reports are undergoing restructuring.

Furthermore, we shared data and analysis with the Board of Directors of the Reserve Bank, the International Monetary Fund (IMF), the Tonga Department of Statistics, and other stakeholders that requested data from the Reserve Bank. Additionally, we engaged with the public and private sector through liaison meetings to inform our research and analysis.

To enhance data quality, we conducted training sessions for banks and foreign exchange dealers on the Overseas Exchange Transactions (OET) reporting requirements during the year.

We enhanced our capacity through technical assistance and missions from development partners. The ongoing IMF's Forecasting and Policy Analysis System (FPAS) mission significantly improved the Economic Department's capabilities by creating a Quarterly Projection Model for Tonga. The nowcasting models for GDP and inflation, and the macro-econometric analysis tool were also reviewed during the year.

We contributed to the Reserve Bank's knowledge base by conducting research on topics of interest. This was important for assessing the effectiveness of the Reserve Bank's monetary policies as well as the impact of shocks on the Reserve Bank's forecasts and policy decisions. This included an internal survey of staff household expenditure patterns, to assist with inflation forecasting and analysis, and to ensure that the correct policies were recommended to address the

high inflation that was prevalent in Tonga. Moreover, an analysis of the cost structure of key imported goods was conducted to identify the factors that are driving imported prices high. There was also research done on the relationship between money supply, statutory required deposits, exchange rates and inflation to assess the effectiveness of the monetary policy tools.

A Financial Stability Unit was established and tasked with identifying and monitoring of key macro-financial risks, conducting stress tests of the financial system and making recommendations on actions to be taken to reduce vulnerabilities in the financial sector and increase overall financial sector resilience. The work to establish a macro-prudential framework is in progress to be fully implemented in FY2025.

Economic Advice to Stakeholders

We also liaised, collaborated with, and provided policy advice to various arms of the Government during joint meetings such as four (4) Macroeconomic Committee meetings to enhance the coordination of fiscal and monetary policies. Contributions were provided for the Ministry of Finance's budget statement for FY2024/25. We also engaged in knowledge sharing by presenting economic and financial analyses to external stakeholders, including development partners through platforms like the Ministry of Finance's Donor's Forum, the Korea-Tonga Business Forum, the Tonga National Business Forum, and the Joint Policy Reform Matrix (JPRM) meetings.

Monetary Policy Formulation

During the year, we contributed to the analysis of Tonga's macro-economic position and performance which informed the formulation of monetary policy. The IMF Article IV mission and staff visit in July 2023 and March 2024 respectively also provided useful inputs to the monetary policy formulation. Similarly, liaisons with the domestic stakeholders in the private sector and the commercial banks were also conducted.

Given persistent inflationary pressures while foreign reserves remained at comfortable levels, monetary policy aimed at maintaining macroeconomic stability by keeping inflation below the reference rate while at the same time strengthening prudential supervision to ensure financial stability and exploring initiatives to enhance access to financing for vulnerable and under-served sectors.



Stakeholders during the IMF's 2023 Staff Visit

Monetary Policy Actions

Price Stability

The Reserve Bank used the following monetary policy measures to maintain price stability.

- Maintain monetary policy rate of zero percent.
- Maintain Statutory Reserve Deposit at 15 percent.
- Develop initiatives to provide access to more favourable exchange rates for targeted groups such as exporters and remittance recipients.

Macroeconomic Stability

To achieve macroeconomic stability, emphasis was put on addressing supply-side constraints that put pressure on price stability. As such, the Reserve Bank also sought to complement the expansionary fiscal policy by:

- Ceasing the deposit facility offered to the retirement funds, which would support the banks' lending activities and liquidity needs.
- Continuing to support developing financial instruments to address internal imbalances including increased financial instruments to support credit easing in consultation with the Ministry of Finance.
- Continuing to support developing the domestic financial market to provide local investment opportunities.
- Addressing financial sector structural factors to enhance the credit environment and lower credit costs for banks.
- Greater collaboration between the Reserve Bank and Government to address base cost pressure susceptible to inflationary increases such as freight costs, transportation costs, and taxation.

Monetary Policy Outcomes

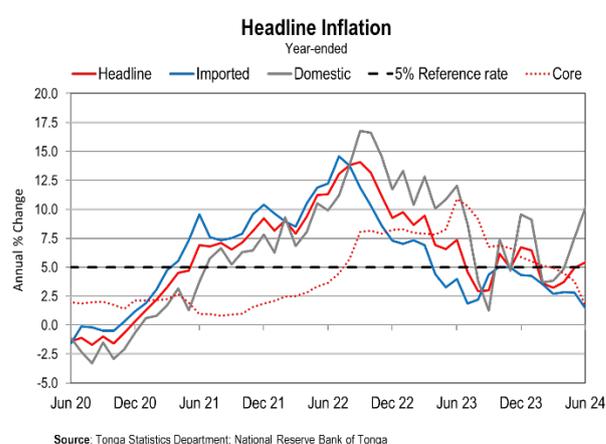
The outcome of the Reserve Bank's monetary policy is reflected in Inflation stabilizing towards the end of FY2023/24 and mostly staying below the reference rate, while foreign reserves remained at an adequate level. Excess liquidity in the banking system remains, weakening monetary policy transmission. The robust foreign reserves position provides

confidence that businesses and individuals in Tonga can meet their foreign currency obligations.

Inflation

Inflation remained below the 5% reference rate during most parts of FY2023/24 as prices have moderated significantly from highs experienced in FY2022/23. The annual headline inflation average for FY2023/24 was 4.6% compared to 10.3% in the previous year. Lower inflation was driven by favourable movements in global commodity prices which translated into lower domestic prices. The Reserve Bank's exchange rate policy is seen to also have contributed to this decline. The Reserve Bank's February 2024 MPS remained vigilant to inflationary concerns and was ready to adjust its monetary policy settings if necessary to address future inflationary pressures.

FIGURE 2: INFLATION



Foreign Reserves

External monetary stability was maintained throughout the year. Foreign Reserves rose to T\$924.3 million at the end of June 2024, sufficient to cover 11.9 months of imports. This exceeds the IMF's recommended level of 7.5 months, reflecting the Reserve Bank's commitment to ensuring Tonga's financial resilience through adequate foreign reserve holdings.

Exchange Rates

The Nominal Effective Exchange Rate (NEER) increased over the year to June 2024 by 1.1% as the Tongan Pa'anga (TOP) strengthened against most of its major trading partner currencies such as the US Dollar, Fijian Dollar, Japanese Yen, and the Euro. The Real Effective Exchange Rate (REER) is estimated to have also increased at the end of the year to June 2024 by 2.9% in line with the higher NEER and Tonga's inflation rate.

FINANCIAL STABILITY

Specific challenges arise in licensing and supervising both banks and non-bank financial institutions to ensure they manage risks prudently and safeguard the financial system's stability. We carry out our supervisory function through offsite collection and analysis of reports and other relevant information, as well as spot checks and onsite visits to verify compliance with the prudential requirements.



Prudential Regulation

The review of the prudential requirements as outlined in the prudential standards continued with the assistance of the Pacific Financial Technical Assistance Centre (PFTAC) to ensure ongoing compliance with the Basel framework and international best practices. PFTAC's assistance in FY2023/24 focused on developing Excel-based templates for impact study of the implications of the revised prudential standards on banks. To enhance risk-based supervision, staff training in financial risk analysis of banks based on supervisory reporting was also conducted, while providing guidance on preparing individual bank risk profiles and a banking system risk report.

In monitoring the impacts of the Monetary Policy Statement (MPS) on financial stability, banks' liquidity remain comfortable after no change to the statutory required deposit requirement, as reflected in the loans to deposit ratio declining to 53.9% from 55.0% last year.

Prudential Supervision

As the economy recovers and the excess liquidity provides space for increased lending, enhanced supervision of banks continued with a risk-based approach. The increase in non-performing loans warranted more attention to assessment of credit risk management, including ensuring adequate provisioning, as well as the conduct of stress testing and analysis of potential shocks to the financial system. Attention

was also on addressing new risk areas such as cybersecurity, which poses potential risks to financial stability as banks continue to digitise their services and operations. Key supervisory actions during the year include:

1. 2 onsite visits to one bank particularly on credit risk management and 1 visit on cyber risk management
2. 12 monthly offsite analyses of each bank's position, performance and compliance with prudential requirements
3. 13 directives issued
4. 4 tripartite meetings with external auditors of banks
5. 1 meeting with Association of Banks in Tonga (ABT) and 10 bilateral meetings with banks

As of June 2024, the banking sector's capital adequacy remained strong at 32.1%, well above the 15% regulatory requirement, supported by the sector's solid profitability. However, the banking system's non-performing loans to total loans ratio increased from 9.7% in September 2023 to 11.2% at the end of June 2024. With the non-performing loans on the rise (driven and accounted for by one institution) posing risks on the sector's capital adequacy and balance sheet going forward, the Reserve Bank as the regulator targeted addressing the persistent weaknesses in operations to manage risks of distorting financial markets, and to preserve financial stability. Ensuring the safety and soundness of this bank is not only a fiscal imperative¹ but it equally matters for economic development and growth.

Overall, systemic risks remain largely contained and the Reserve Bank plans to conduct more regular stress tests to ensure that banks maintain sufficient capital to absorb any potential losses.

The Bank hosted one roundtable during the year with the two retirement funds to further discuss the proposed extension of the Bank's supervisory authority to retirement funds, while also exploring opportunities for enhancing the efficiency and depth of financing to better utilize the excess liquidity in the banking system.

Our supervision of seventeen (17) licensed foreign exchange dealers aimed at improving compliance with both legal and regulatory requirements, which is critical to mitigate risks of de-risking or closure of their bank accounts. Furthermore, stronger systems and controls dissuade risks of being misused for facilitation of financial crimes. Key supervisory actions include:

¹ To the Government as the main shareholder. As a result of regulatory measures, the same institution has brought litigations against the regulator which is managed through the Courts.

1. 3 quarterly spot checks to 17 foreign exchange dealers
2. 1 annual compliance check visits to 17 foreign exchange dealers
3. 1 annual training for all foreign exchange dealers and 6 specific trainings for 6 foreign exchange dealers
4. Approval of 2 new agents
5. 1 enforcement action including revocation of 1 licence

We continued to increase the licensing of moneylenders during the year. We licensed 16 moneylenders in FY2023/24, taking the total number of licensed moneylenders to 103 moneylenders (12 with licence Type A, 38 with licence Type B, and 53 for licence Type C). Key supervisory actions include:

1. 1 training conducted for license Type A moneylenders on the Money Lender Act's requirements and license conditions, including the reporting requirements.
2. The reporting template was issued to 10 Type A moneylenders for adoption effective October 2023.

Our supervision of the sole licensed microfinance institution (SPBD) continued to promote compliance with their license conditions and that the interest of their members is protected. Key supervisory actions include:

1. Reviewing draft prudential standards for the microfinance institutions and credit institutions developed with PFTAC assistance.

Consumer Empowerment

In empowering consumers to make prudent financial decisions, we continued to update and publish the commercial banks' fees & charges and interest rates on our website to assist financial consumers make informed decisions. This update is done at least bi-annually, with the latest update in February 2024.

We also received and processed a total of three (3) complaints from the banks' customers during the year. The complaints cover a combination of cyberattack and anti-money laundering and prudential non-compliances.

In managing the unclaimed monies paid to the Reserve Bank by banks, 2,142 unclaimed accounts totaling \$1,013,952.86 were published to allow customers to place their claims for their funds before they are forfeited to the Government. During the year, an amount of \$139,872.96 (247 accounts) was forfeited to the Government's account pursuant to sections 94 (7) & (8) of the Banking Act 2020.



A mission team on AML/CFT from the IMF Legal Department together with the Reserve Bank's staff from the Financial Institutions Department.

AML/CFT Supervision

The IMF Legal Department provided technical assistance to enhance AML/CFT supervision. Risk-Based AML/CFT supervision tools have been developed and issued to banks for adoption. Similar tools are being developed for non-bank financial institutions and designated non-financial businesses and professionals (DNFBPs). The implementation of this offsite AML risk tool is scheduled for July 2024, with annual reports becoming effective in December 2024. These tools determine the supervisory strategy for the financial institutions and DNFBPs covered by the Money Laundering and Proceeds of Crime Act (MLPCA).

Resources for AML/CFT supervision increased over the year with the recruitment of a Compliance Analyst for DNFBPs supervision. The outreach program for DNFBPs has been undertaken to identify their services and determine coverage by the MLPCA.

The amendments to the MLPCA establishes the supervisory authority and strengthens the supervisory and enforcement powers to foster compliance. A template for a draft Virtual Assets Service Providers (VASP) Act was also introduced.

FINANCIAL INTELLIGENCE

Intelligence Analysis and Dissemination

We continue to collect, assess and analyze suspicious transaction reports (STRs) and other financial transaction reports received from reporting entities and other agencies in Tonga.

TABLE 1: REPORTS RECEIVED

Types of reports filed	2020/21	2021/22	2022/23	2023/24
Suspicious Transaction Reports (STRs)	21	22	23	22
Currency Transaction Reports (CTRs)	18,096	10,969	17,790	14,863
Border Currency Reports (BCRs)	2	2	1	0
TOTAL	18,119	10,993	17,814	14,885

Source: Financial Intelligence Department, National Reserve Bank of Tonga

TABLE 2: REQUEST FOR INVESTIGATIVE ASSISTANCE

Request Report(s)	2020/21	2021/22	2022/23	2023/24
Number(s) of Request for Investigative Assistance	18	19	27	37

Source: Financial Intelligence Department, National Reserve Bank of Tonga

During the year, we received 14,885 reports consisting of STRs and CTRs.

- 22 STRs were received during the year, of which 4 reports were disseminated to Tonga Police and 8 reports to the Ministry of Revenue & Customs for further investigation.
- The STRs were mostly related to large-scale cash transactions, large and rapid movement of funds, and possible cases of tax evasion.

- 14,863 CTRs were received during the year, majority of which were funds moving into the financial system for business purposes. These are critical information for the analysis of the STRs.

Due Diligence

During the year, we conducted background checks on 362 individuals and entities. We also responded to several surveys from our correspondent banks, in relation to the Bank's AML/CFT policy and procedures. The higher number of requests processed reflects incoming new individuals and businesses conducting transactions and attempted transactions with the Bank, as well as increased awareness of the importance of enhanced due diligence on clients.

TABLE 3: REQUESTS FOR BACKGROUND CHECKS

Background Checks	2020/2	2021/2	2022/2	2023/2
Number of Customer of Interests/Businesses of Interests	145	138	146	362

Source: Financial Intelligence Department, National Reserve Bank of Tonga



Governor Moeaki and Chairman Lord Sevele with the Pacific Banking Forum, 9 July 2024.

Coordination and Engagement

Information sharing

We responded to 37 requests for information from law enforcement agencies, such as Tonga Police, the Ministry of Revenue & Customs and the Attorney General's Office, in relation to individuals and businesses that are under investigation for possible predicate offences. This is an increase from 27 requests last year which reflects increased coordination of efforts to respond to the increased number of cases during the year.

We also requested information to assist with our analysis of reports and due diligence. 31 requests were sent to domestic authorities and 6 requests sent to 3 international agencies such as AUSTRAC, NZ FIU and PFIC.

Working Group on Serious Financial Crimes

We are the Co-chair and Secretariat of the Working Group as the technical arm of the Cabinet Committee on Serious Financial Crimes. The Working Group continued to focus on addressing the APG Mutual Evaluation's recommendations to close the compliance gaps. Key events during the year included:

- **APG Strategic Implementation Plan (SIP) Workshop** – A 2-day workshop facilitated by the APG and UNODC held on the 27th-28th of May 2024 to update progress in addressing the MER recommendations and developing plans for implementation of the remaining MER recommendations.

- **Review of Tonga's MLPCA** – In addition to discussions with the IMF Legal Department the draft MLPC Bill and the Sub-Drafting Committee Meeting in March and May 2024 respectively, the Attorney General's Office also received technical assistance from the Australian Attorney-General's Department on the asset forfeiture provisions of the Bill. The Bill is set to be submitted to Parliament in September 2024 after consultation with relevant stakeholders.

The Financial Intelligence Department collaborated with the Financial System Department in conducting 2 trainings for 2 new foreign exchange dealers, on the AML/CFT obligations. 34 spot checks on 17 foreign exchange dealers were also conducted.



Pacific Banking Forum (PBF) Participants, Convention Centre, South bank, Brisbane Australia, 8-9 July 2024.

PAYMENT SYSTEMS & ACCESS TO FINANCE

Access to Financial Services

We promote financial inclusion initiatives to increase access to financial services and thereby support inclusive economic growth and poverty reduction efforts. Over the year to December 2023, the total number of access points of financial services slightly increased, due mainly to the introduction of new money transfer agents in the rural area as well as engaging retail outlets to conduct payments via electronic platforms (EFTPOS).



Dr. Alfred Hannig, Executive Director of the Alliance for Financial Inclusion (seated in the middle), together with Mr. Eliko Boletawa, Director for Policy Programs & implementation (right) during the presentation of the National Financial Inclusion Strategy 2023 – 2027.

Engaging with relevant national and international stakeholders in supporting financial inclusion initiatives continued. In collaboration with the Alliance of Financial Inclusion, an in-country training was held in June 2024 on Inclusive Green Finance concepts and Digital Financial

System. These are critical pillars of our National Financial Inclusion Strategy 2023- 2027 which was launched in December 2023.



Governor Moeaki launching the National Financial Inclusion Strategy 2023 – 2027 jointly with Dr. Alfred Hannig, Executive Director of the Alliance for Financial Inclusion.

Access points and usage of financial services

We collect and analyze reports on access to financial services. Tonga has seen increased access to financial services with the labour mobility schemes' expansion and linkage of foreign exchange dealers' (FEDs) remittance products to bank accounts. The total number of cash in and cash out access points increased by 1% over the year to December 2023. This was driven by an increase in the number of EFTPOS (by 2%) and number of agents (by 1%). The yearly movement also reflects the closing down of bank branches in the outer islands.

TABLE 4: SUMMARY OF FINANCIAL INSTITUTIONS' ACCESS POINTS

Access Points	Dec '23	Dec '22	Year ended – Dec '23	
			Volume	Change (%)
Branches	66	68	-2.0	-3%
Agents	355	350	5.0	1%
EFTPOS	393	387	6.0	2%
ATMs	25	25	0	0%
TOTAL	839.0	830.0	9.0	1%

Source: Banks & Non-Bank Financial Institutions

In terms of constituency, Tongatapu 9, Ongo Niua 17 and Vava'u 15, recorded the highest increase in total number of access points mainly due to the rise in the number of agents in these constituencies. The higher number of agents was driven mainly by Foreign Exchange Dealers and the microfinance institution (South Pacific Business Development) increasing their disbursement outlets in the

rural areas and the demand for financial services from overseas seasonal workers and remittances. This is part of the Foreign Exchange Dealers' financial services outreach program to the rural areas and outer islands. The increase in branches also reflected the entrance of new Foreign Exchange Dealers.

TABLE 5: SUMMARY OF FINANCIAL INSTITUTIONS' ACCESS POINTS (BY CONSTITUENCY)

Constituency	Dec '23					Dec '22				
	Total Access Points	Branches	Agents	EFTPOS	ATMs	Total Access Points	Branches	Agents	EFTPOS	ATMs
Tongatapu 1	54	1	19	34	0	59	1	19	36	3
Tongatapu 2	194	23	23	141	7	200	24	23	141	12
Tongatapu 3	42	1	12	28	1	42	1	12	28	1
Tongatapu 4	143	5	22	113	3	143	5	22	113	3
Tongatapu 5	32	2	22	8	0	32	2	22	8	0
Tongatapu 6	39	1	31	6	1	39	1	31	6	1
Tongatapu 7	49	1	38	9	1	48	1	38	8	1
Tongatapu 8	24	0	14	10	0	24	0	14	10	0
Tongatapu 9	61	9	43	8	1	38	4	24	9	1
Tongatapu 10	28	0	28	0	0	28	0	28	0	0
'Eua 11	34	5	26	2	1	40	7	31	2	0
Ha'apai 12	20	5	12	2	1	25	7	15	2	1
Ha'apai 13	16	1	13	2	0	16	1	13	2	0
Vava'u 14	20	0	19	1	0	20	0	19	1	0
Vava'u 15	65	11	17	37	0	55	14	18	21	2
Vava'u 16	17	0	17	0	0	17	0	17	0	0
Ongo Niua 17	9	0	9	0	0	4	0	4	0	0
TOTAL	847	65	365	401	16	830	68	350	387	25

Source: Banks & Non-Bank Financial Institutions

The usage of financial services also increased with the rise in the total number of individual deposit accounts and loan accounts. The increase in new customer accounts reflect the opening of new bank accounts by Regional Seasonal Employment (RSE) workers as part of the RSE schemes' requirements, coupled with the availability of the service for remittances to be directly deposited to bank accounts. This enabled contactless access to remittance receipts via the ATMs or EFTPOS machines.

Micro, Small and Medium Enterprises

TABLE 6: SUMMARY OF MSMES LOAN (BY SECTOR)

Type of Sectors	Dec '23		Dec '22	
	Number of MSMEs	MSMEs Outstanding Balance (T\$m)	Number of MSMEs	MSMEs Outstanding Balance (T\$m)
Overall Total	3,951	41.1	2,479	32.3
Agriculture	982	10.2	909	6.4
Construction	11	0.1	19	1.9
Fisheries	119	2.1	114	2.2
Forestry	-	0.0	1.0	0.0
Manufacturing	2,502	16.9	1,168	10.7
Other Services	127	6.3	61	3.6
Tourism	75	2.4	52.0	2.3
Transport	30	0.6	21.0	0.7
Wholesale/Retail	105	2.5	134	4.5

Source: Banks & Non-Bank Financial Institutions

The MSME sector's access to financial services improved with both the number of MSME loans and the MSMEs outstanding balance rising. This reflected the incoming new small private businesses set up, with improvement in support for the MSME sector. Access to financing for MSMEs in the manufacturing and other services improved in line with new private businesses. Banks' increased lending to MSMEs were predominantly to the other services and wholesale retail sectors while non-banks' lending to MSMEs were mostly to the manufacturing sector.

Banks hold the bulk of the total MSMEs outstanding loans at over 60%. The number of MSME borrowers in both banks and non-banks increased by 1,472 (59.4%) to 3,951

Financial products and services

Developing financial products and services that are affordable and relevant for the financial consumers' financing needs is important for promoting financial inclusion. We continued to support efforts to leverage on technology and other enablers in developing financial products that can be accessible and affordable, particularly for the vulnerable and productive sectors, while ensuring adequate protection of financial consumers. To help enhance access to financial services and reduce vulnerability to external shocks we supported the introduction of new products, including digital financial services, parametric insurance, and credit scoring facility, to be piloted or rolled out by the financial institutions with the assistance of development partners.



Dr. Eliki Boletawa and experts from the Alliance for Financial Inclusion hosting a 3-day workshop for various stakeholders on promoting inclusive green financing and digital financial services.

Payment Systems

We regulate and supervise the Payment Systems which involves the daily settlement of interbank obligations arising from the conduct of transactions on the banks' Exchange Settlement Accounts (ESA), the Reserve Bank's own trading activities, and undertaking of banking business and depository for the Government.

The commercial banks issue cards (both debit and credit cards) to their customers and have deployed ATMs and POS for facilitating card-based payments of customers. The other access channels provided by banks to customers for their payment transactions include internet and mobile banking and services through agents. A few banks also provide separate online services to corporates for initiating their payment transactions. Mobile money operators provide mobile money services to their customers and provide cash-in and cash-out services through their agents. Banks and mobile money operators through these channels facilitate P2P transfers, and utility bill payments on their own, through arrangement or through bilateral arrangements. Cross-border inward

remittances are facilitated through MoneyGram and Western Union.

The Government has digitized its salary payments through an arrangement with four licensed banks, where employees are required to hold accounts.

Domestic Electronic Payment System

We manage and update DEPS live on a daily basis from terminals located at each of the commercial banks. Key transactions processed by DEPS during the year include the following:

1. 6,198 interbank transactions
2. 113,884 cheque clearance physically exchanged by the banks daily and then settled through the DEPS

A dedicated standalone terminal has been provided by NRBT to each bank for initiating and receiving payment transactions for both systems. These standalone terminals are not integrated with banks' internal systems necessitating manual data entry at the banks' end. The lack of straight through

processing capability and manual data entry processes pose significant levels of operational risk. In addition, upgrades to the software applications to make them safe and secure are not feasible as the solution provider has indicated its inability to provide continued software maintenance support to NRBT.

The oversight and efficiency of Tonga's payment systems can be further enhanced. The banks, money lenders, FX dealers and a microfinance institution are supervised by the NRBT while only the banks are participants in DEPS. The World Bank conducted its fact-finding mission to Tonga in May 2024 and recommended developing a new National Payment System to provide functionality for clearing and settling all electronic interbank (including non-banks) payments, both high and low value, within one integrated software package.



A mission team from the World Bank in consultation with the Reserve Bank's staff in planning for developing a new National Payment System.

The new payment system is designed to be in place in FY2025 equipped with the needed functions in line with both business and technological developments over the next decade to include 24x7 instant payments, FinTech systems, open banking and API connectivity, distributed ledger (blockchain) based developments, regulatory sandboxes, innovative customer identification technologies and others.

Interbank Daily Cheques Clearance

A total of 113,884 cheques were presented for clearance at the Reserve Bank through DEPS during the financial year 2023/24, compared with 98,266 cheques in 2022/23². On average, 60 transactions are settled on a daily basis. The clearinghouse clears between 100-300 cheques per day. The cheque clearing is carried out on a bilateral basis between banks with final settlement taking place in the books of the Reserve Bank. The operating hours of the two systems are from 9.00 am to 4.00 pm. Banks are the only participants in both the systems.

Cross Border Payments

We manage cross-border transactions for the Government and commercial banks. 1,499 offshore payments on behalf of both Government and commercial banks were successfully conducted in 2023/24.

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 safety and security of the Reserve Bank's assets overseas continued to be undertaken. Transition to SWIFT ISO 20022 is still ongoing and we continued to work closely with our Correspondent Banks to validate the new SWIFT messages and also to confirm alignment with the Cross Border Payment and Reporting Plus (CBPR+) Standard. We continued to attend virtual meetings on ISO20022, and continuous training has been conducted with operators on the new message format. We are expecting to go-live by December 2024.

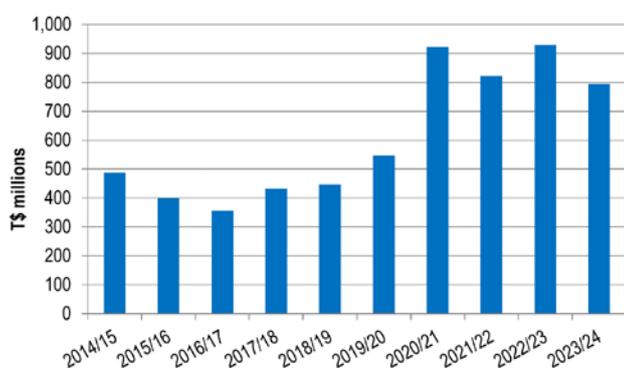
² 120,113 cheques in 2021/2022, 139,404 cheques in 2020/2021, and 145,821 cheques in 2019/2020.

FINANCIAL MARKET OPERATIONS

Foreign Reserves Management

Gross official foreign reserves were maintained well above the IMF’s optimal level of 7.3 months of import cover. It peaked at a record high of T\$946.5 million during July 2023 before levelling at T\$924.3 million by the end of June 2024, equivalent to 11.9 months of import cover compared to T\$921.4 million (11.9 months of import cover (revised)) as of 30 June 2023. The significant increase in foreign reserves was attributed mainly to Government budget support, project funds, other capital receipts, and remittance receipts, which outweighed the higher import payments during the year.

FIGURE 3: 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\$398.9 million exceeded sales of T\$396.0 million, giving a total foreign exchange turnover for the year of T\$794.9 million. This is a decrease from T\$928.9 million last year. The Reserve Bank conducted 615 foreign exchange deals with the Government and the commercial banks. The Reserve Bank paid T\$1.1 million in foreign exchange levy tax from these transactions to the Ministry of Finance.

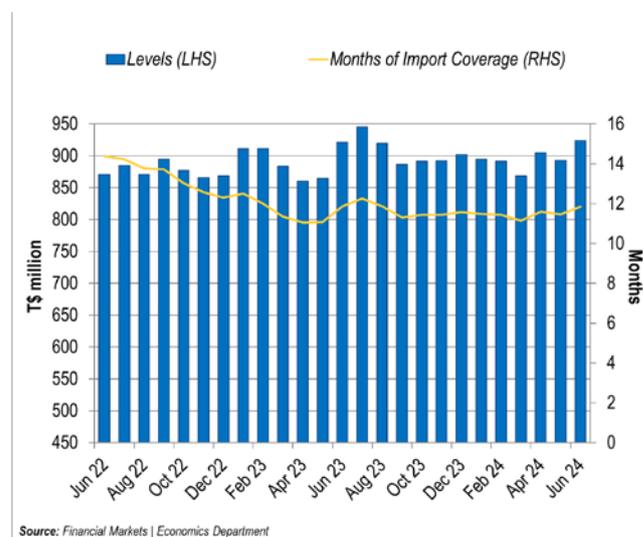
Our investment policy focused on maximizing income while maintaining safety, liquidity and the maintenance of overall value. This has proven to be challenging given the uncertainty and volatility in the global financial markets. The currency composition of the foreign reserves was mainly in US dollar, Australian dollar and New Zealand dollar.

Our investment strategy continued to maintain the value of the foreign reserves, valued in Tongan pa'anga. As a hedge against currency fluctuations, the foreign reserves are invested in accordance with the weights of the currencies in the exchange rate basket (benchmark) that are used to calculate the rate of exchange of the Tongan pa'anga against other currencies. During the year, against a background of fluctuating exchange rates, the exchange rate policy decision was to strike a delicate balance between safeguarding price stability and enhancing interest income on investments and maintaining the value of the foreign reserves. As a result, the

deviation from the benchmark holdings resulted in a revaluation loss.

Income on the investment of the foreign reserves increased by \$18.4 million from the previous year to an all-time high. This aligned with the higher interest rates in global markets due to prolonged aggressive tightening by the US, New Zealand and Australian central banks to combat inflationary concerns during the year. High level of foreign reserves during the year also supported the growth in investment income.

FIGURE 4: GROSS OFFICIAL FOREIGN RESERVES - MONTHLY



Source: Financial Markets | Economics Department

Foreign Exchange Control Operations

We managed the foreign exchange operations and processed 738 exchange control applications totaling T\$450.6 million (of which 15.0% were classified as capital transactions) compared to 682 applications last year. The exchange control data and information on foreign currency payments by large customers are essential inputs to the Reserve Bank’s forecast of foreign reserves, investment decisions and monetary policy decisions, while ensuring the payments are genuine transactions.

In addition, we reviewed and authorized 57 applications totaling T\$57.6 million for the removal of physical cash (both Tongan pa'anga and foreign currency notes above T\$10,000) across the border, increasing from T\$44.8 million approved last year due to the border reopening.

Furthermore, we conducted regular spot checks, reviewed monthly reports received from banks and foreign exchange dealers, and provided training to address and strengthen compliance with the Exchange Control Directive.

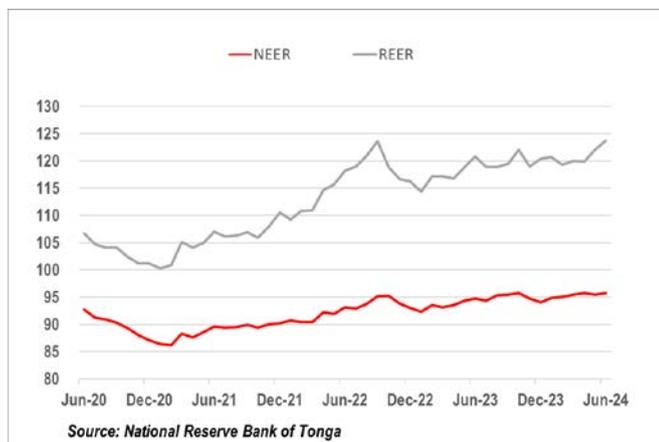
Exchange Rate Management

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. The exchange rates set on a daily basis generally form the basis of the commercial banks' publicly quoted foreign exchange dealing rates.

We 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.

FIGURE 5: NOMINAL & REAL EFFECTIVE EXCHANGE RATES - MONTHLY



Over the year ended June 2024, the Tongan pa'anga (TOP) generally strengthened against almost all of Tonga's trading partners' currencies except for the AUD & NZD. The strength of the TOP as measured by the Nominal Effective Exchange Rate (NEER) increased by 1.1%. The TOP appreciated against the USD by 0.2% while it weakened against the NZD and the AUD by 0.1% and 0.2% respectively. The Real Effective Exchange Rate (REER) increased over the year by 2.9%. The annual increase is in line with the higher NEER and Tonga's higher inflation compared to its major trading partners, indicating a loss of competitiveness for Tongan goods on the global market.

As part of the Reserve Bank's efforts to mitigate inflationary pressures, the Reserve Bank continued to monitor and ensure compliance of the exchange rate spreads of all authorized persons with the Reserve Bank's approved limits.

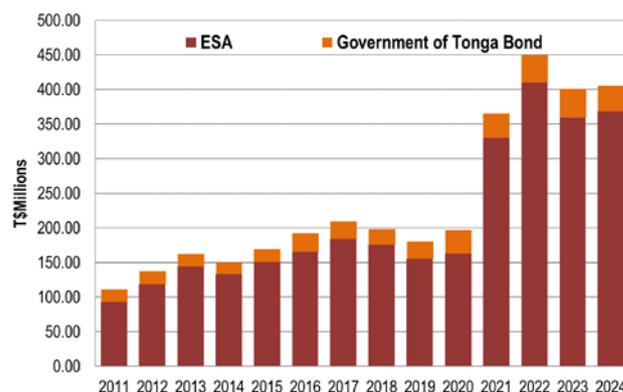
The Reserve Bank also continued to publish on the website, financial information, such as comparisons of financial institutions' daily and weekly exchange rates and fees related

to foreign exchange transactions, to assist the public with their financial decisions.

Implement Monetary Policy and Develop Tonga's Financial Market

The Reserve Bank's February 2024 Monetary Policy Statement remains vigilant to inflationary concerns. The statutory reserve deposits (SRD) rate was maintained at 15%. We ceased the deposit facilities offered to the Retirement Funds to support the banks' lending activities and liquidity needs, hence the high level of excess liquidity in the banking system exceeding \$300 million remains.

FIGURE 6: BANKING SYSTEM LIQUIDITY



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.

The Reserve Bank is also exploring options to develop the domestic market operations to be more market-oriented and provide domestic investment opportunities.

FINANCIAL PERFORMANCE

NRBT's financial position improved significantly over the course of the year. In 2023, its total net worth stood at \$32.8 million. However, by 2024, this figure had grown to \$42.8 million representing an increase in net worth enhancing NRBT's financial stability, and better management of its assets and liabilities. The increase in net worth strengthens NRBT's ability to support financial stability in the broader economy.

The Bank's total assets stood at \$979.89 million at 30 June 2024, compared with \$963.13 million at 30 June 2023 and \$898.38 million at 30 June 2022. The gradual increase in the Bank's total assets is attributed mainly to the increase in Foreign Reserves as a result of receiving large funds for the Government budget and development projects. 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 2024 was at a record level of \$35.78 million, compared to \$20.39 million in 2023, and \$0.53 million in 2022. According to section 8(1) of the NRBT (Amendment) Act 2014, at the end of the year 30% of this profit is transferred to the Bank's General Reserves and 70% to the Government of Tonga. In this regard, \$25.05 million will be transferred to the Government of the Kingdom of Tonga.

In distributing a record \$25.1 million in profit to the Government in 2024, alongside \$14.3 million in 2023, this marks a one-time milestone for NRBT in making significant contribution to the Government's budget totaling near \$40 million over two years (2023-2024). This reflects the Bank's enhanced financial performance and strengthened management.

TABLE 7: COMPARISON OF FINANCIAL RESULTS OVER THE YEARS

	2024	2023	2022	2021	2020
Foreign Currency Assets	952,671,684	940,998,055	878,165,991	719,707,467	553,063,047
Local Currency Assets	27,221,843	22,128,521	20,210,320	55,662,988	55,328,502
Total Assets	979,893,527	963,126,576	898,376,311	775,370,455	608,391,549
Foreign Currency Liabilities	102,559,963	140,094,098	103,511,006	70,125,399	94,115,730
Local Currency Liabilities	834,533,685	790,218,001	764,938,995	671,005,902	478,412,725
Total Liabilities	937,093,648	930,312,099	868,450,001	741,131,301	572,528,455
Net Assets	42,799,879	32,814,477	29,926,310	34,239,154	35,863,094
Net Profit available for distribution	35,778,967	20,387,379	529,534	200,050	4,273,964
Transfer to Government of Tonga	25,045,277	14,271,165	370,674	140,035	2,991,775

RISK MANAGEMENT AND COMPLIANCE

Risk Management

We are committed to ensuring that effective risk management is central to all our policy-oriented and operational activities. We continued to implement the principles of the Enterprise Risk Framework, Policy and Appetite for a number of years now. The basis for enterprise risk management 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 effective processes to mitigate these risks.

Key activities during the year include the following:

- 1. 26 incident reports collected and analyzed with Management taking mitigation actions and process review to strengthen internal controls within the Bank's operation. The majority of the incidents were Operational and Financial Risk related incidents, however they were low rated risks and are manageable.*
- 2. An immediate review of our Security System was a result of one major incident. The Bank's security system was therefore further strengthened. Other incidents were caused by external factors, which were beyond the Reserve Bank's control, however the resilient controls embedded in the processes were very effective leading to proactive alerts to Management.*
- 3. 3 complaints received from external parties, stakeholders or the general public regarding the services of the financial institutions that are licensed and supervised by the Reserve Bank. These were referred to the Financial Systems department for processing. There were no complaints against the Reserve Bank regarding its services and/or functions.*

The continuity of critical business functions before, during and after a disruptive event is a key area of focus for the Bank. We continued to refine our Business Continuity and Disaster Recovery Plan to be submitted to the Board for approval in FY2025.

Internal Audit

In December 2023, the Bank appointed a Chief Internal Auditor who reports directly to the Board Audit and Risk Committee.

The internal audit adopts a risk-based approach with the objective of providing assurance as to the adequacy of management risk controls and identifying opportunities to improve process efficiency and effectiveness.

During FY2023/24, a comprehensive internal audit of the Reserve Bank's Currency Department was conducted. Remedial actions were recommended to strengthen management risk controls and the adoption of enhanced equipment and information technology to improve the operational performance of the Currency Department.

CURRENCY MANAGEMENT

We regulate the issuance of the national currency, and it is our priority to ensure there is an adequate supply of high-quality banknotes and coins in circulation to meet the public's currency needs. The Reserve Bank removes any unfit banknotes or coins from commercial banks and destroys them in accordance with its clean currency policy.



HRH Prince Ata officially launched the Kingdom's new banknote currency, which includes the nation's first ever polymer banknotes.

The launch of the new 2023 banknote series on 4 December 2023 signified the introduction of the first polymer notes in the Tongan currency, with the \$5 and \$10 denominations being made of polymer while the \$2, \$20, \$50 and \$100 notes continued to be printed on paper. The polymer notes were made available to the public in December 2023, whereas the remaining denominations are scheduled for release in July 2024 following public awareness campaigns in Tongatapu and the outer islands.



On the 30 June 2024, the total of currency in circulation was \$128 million. This was an increase of 8.5% over the past year reflecting the release of the new polymer design notes coupled with other factors such as inflation. The value of banknotes in circulation for FY2023/24 rose by 8.6% to \$122 million. The \$2 and the \$50 banknotes remained the most popular banknotes for the previous 5 years and recorded the highest volume of notes in circulation. The value of coins in circulation increased by 5.2% to \$6 million as at end of June 2024. The 10 senti accounted for the highest volume of coins in circulation at 9.2 million pieces.



TABLE 8: CURRENCY IN CIRCULATION

Tongan Pa'anga	19/20	20/21	21/22	22/23	23/24
Banknotes (\$millions)	88.2	111	132.7	112.3	122
Coins (\$millions)	4.4	4.8	5.3	5.7	6
TOTAL	92.6	115.8	138.0	118.0	128

We enhanced our capacity and resources in order to better meet public demand and make banking operations easier for commercial banks. We issued the mint and reissueable notes to meet the commercial banks' demand for cash. More reissueable notes were available as note processing improved during the year with the enhanced Currency Department capacity. The department cleared a backlog of uncounted redeemed parcels deposited during previous financial years. A total of 1,682 parcels were processed during the year, of which 720 were parcels from previous years and 973 were deposited during the financial year. We counted and sorted all parcels to fit and unfit notes. Fit notes were repacked to be reissued, and unfit notes were all destroyed during the year. Since April 2024, the department continued to meet the 10 working days timeline for processing of redeemed notes from banks.

TABLE 9: REDEEMED PARCELS PROCESSED

Total Redeemed \Parcels	FY 2023/24		
	No. of Parcel	Volume (No. Of Note Pieces)	Value (TOP\$)
Opening 1 July 2023	720	3,490,000	88,943,000
New Deposited	973	4,567,000	162,600,000
Counted (Authenticated)	1,682	8,018,000	250,344,000
Closing 30 June 2024	11	39,000	1,199,000

Counterfeit Banknotes

The Currency Department prioritizes the preservation of the national currency's integrity. Initiatives aimed at combating counterfeit currency were enhanced through collaborative efforts and public awareness campaigns. Throughout FY2023/24, we received 2 reports confirmed to be counterfeit with a total of 5 pieces. All counterfeits received were \$50 pa'anga notes. Reports were submitted to the Police to aid in their investigation and efforts to stop counterfeiters.

Numismatic Currency

During the year, we improved our sales of numismatic currency. We continued to work closely with our loyal

customers to meet their demand. The income from the sale of numismatic currency increased to \$0.51 million compared to only \$0.03m in the previous year, reflecting the high demand for the new series.

We are gearing up to meet our strategic goals with expected improvements in the currency operations with updated policies and procedures, developing an alternative strategy to boost numismatic sales to diversify our income, and digitization of our processes.

CORPORATE SERVICES

Information System Technology

In FY2023/24, the IT Department consistently focused on maintaining a resilient network infrastructure and dependable and highly available systems that support the ongoing operations of the Reserve Bank. Technology serves as a crucial enabler of our operational excellence and is essential for helping the Bank achieve its goals and objectives.

SWIFT System Migration

We successfully completed the migration and back source of the SWIFT system from service bureau back to the Bank and SWIFT network. The migration was accomplished with dedicated support from the SWIFT consultant and in close collaboration with our project team.



Governor Moeaki and the delegation from the Reserve Bank, together with the team from SWIFT in preparation SWIFT System Migration Project.

Cybersecurity Initiative

Cybersecurity continues to be a top priority this year, with ongoing threat monitoring and detection of emergency security vulnerabilities to ensure the protection of the Bank's systems and information. This commitment is reinforced by the completion and approval of our dedicated Cybersecurity Policy in June 2024.

Our cybersecurity literacy is strengthened by comprehensive programs aimed at enhancing cybersecurity awareness among all Bank's employee, as well as fostering cyber intelligence-sharing with financial institutions, the Government (TongaCERT), and other central banks in the region. In August 2023, the IT team conducted an in-house cybersecurity awareness refresher training for all employees of the Bank on Cyber hygiene, Phishing and Ransomware and others.

The Cyber Incident Response Team (CIRT) again successfully conducted the annual cyber desktop in November 2023. During the exercise, the CIRT also reviewed and updated the Cyber Incident Response Plan 2023 (CIRP) with improvements to areas and processes identified as a gap and loopholes in the CIRP. Towards the end of 2023, the Bank successfully completed the Independent SWIFT CSP

Attestation, fulfilling all security controls mandatory requirements.

We implemented a Privileged Remote Access system in May 2024 which adds another layer of security to our network access monitoring ability. This initiative is part of our Cybersecurity Program and Projects.

Technology Review and Support Services

We completed an assessment of the Bank's technology assets, evaluating the condition and security of its applications. As a result, we have initiated two distinct projects: the implementation of a real-time monitoring system and a vulnerability management platform. Additionally, we are exploring enhancements to our endpoint protection security to bolster the security of our technological assets.

We are actively progressing in the establishment of its business resumption site, enhancing our business continuity capabilities and disaster recovery processes. Furthermore, we continue to explore innovative technological advancements to improve our operations, thereby supporting the achievement of our strategic priorities.

Building & Property

The Building and Property Unit is responsible for managing and maintaining the Reserve Bank's physical assets to ensure the effective operation of the Bank. We also play a crucial role in executing the Bank's business continuity and disaster recovery plans.

Throughout FY2023/24, we upheld high standards in maintaining the Bank's buildings, property, plant, and equipment, fostering a safe and secure environment for staff and tenants. We managed in-house repairs and maintenance while also collaborating closely with external contractors and specialists when the Bank required expertise in specific areas. These efforts are essential to ensuring uninterrupted building services and minimizing operational risks. Several refurbishment projects were undertaken during this period, including:

- (a). *Completion of the NRBT plumbing system upgrade for the Level 5 main water supply.*
- (b). *Ongoing progress on the final phase of the centralized air conditioning system and control upgrades.*
- (c). *Replacement of a faulty air conditioning unit at the Embassy of Japan.*
- (d). *Upgrading of air conditioning units in the Control Room and Board Room.*

- (e). *Upgrading the building's main power regulator for essential electrical service lines.*
- (f). *Upgrading the main water softener for the building's water supply.*
- (g). *Completion of the review of NRBT Protective Services and Security.*
- (h). *Completion of the NRBT Fire System and Safety review by Tonga Fire & Emergency Services.*
- (i). *Review and renewal of the lease agreement for the Embassy of Japan for another five years.*
- (j). *Review and renewal of the lease agreement for the Japan International Cooperation Agency for another year.*
- (k). *Ongoing work on the office fit-out upgrade for the Embassy of the United States of America.*
- (l). *Conducting the NRBT Building Evaluation for insurance coverage.*
- (m). *Engaging NRBT Property Management Services (CPM Ltd) and completing the building's assessment to provide a preventative and urgent maintenance program.*

Additionally, we continued our engagement with Willis Tower NZ Ltd to manage our insurance programs. Following the building evaluation in June, the market value of the building increased to \$24.2 million, while the value of the plant and contents remained at \$1.6 million.

Security Unit

The mission of our Security Unit is to provide support in enhancing and maintaining robust physical security for the Reserve Bank and its assets, ensuring that the Bank's objectives are met effectively and efficiently. Throughout 2024, we continued to fulfill our mission and responsibilities by ensuring the safety and security of the Reserve Bank, its staff, and assets. This was achieved through effective 24-hour surveillance of the Reserve Bank building and compound. One of our primary responsibilities is managing the bank's entry points, monitoring the movements of visitors on the property to ensuring proper authorization, and safeguarding currency operations and consignments to mitigate potential risks in these areas.

Nonetheless, we continue to face new physical security and safety challenges as evident in the unexpected seizure of 9.927 kg of illicit drugs by the Tonga Police on the Bank's premises in February this year. We confronted this challenge by ensuring that our Security Team is equipped with the appropriate skills, tools and equipment that are needed to

better support their readiness to respond to any potential safety and security challenge the future might bring, and also to make sure that the Bank is a drug-free zone. We have completed the review of our Security Unit's Standing Orders and Standard Operating Procedures, and are renewing our Security Team's uniforms, radio communications. New security handheld metal detectors have been acquired and we are in consideration of buying a security scanner in the coming future.

Our Security team are at the heart of the Reserve Bank's functions as we ensure that we foster a workplace that is secure and safe.

Staffing

We have always placed significant emphasis on the development and management of our human resources. As we continue to evolve in response to global and local economic challenges and technological advancements, our workforce remains the cornerstone of our ability to achieve our strategic goals and objectives. We continued to support staff welfare, enhance staff productivity and increase employee engagement through the following key activities during the year:

1. *49 annual performance appraisal reviews*
2. *7 new staff recruitment, and 8 staff resignation due to various reasons*
3. *37 staff training and development programs both local and overseas through 18 training workshops, 19 meetings.*
4. *review of 11 job descriptions and 11 rotations of jobs*
5. *sponsored participation in the corporate netball tournament, golf membership, and staff regular medical checks*
6. *2 staff under full time study leave and 2 staff are part time students*

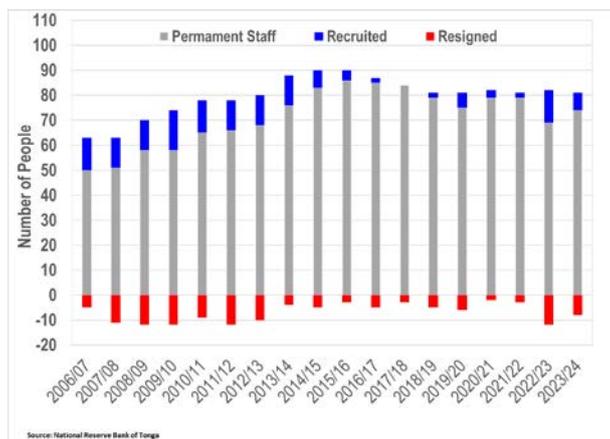
At the end of June 2024, the Reserve Bank staff complement was 81, a slight decline of 1% from the last financial year. Out of the 81 staff, 20% are fixed-term contracts, 73% permanent employees, 1% volunteer workers and 6% are daily paid staff. In terms of gender composition, female make up the majority of total number of staff with 53% whilst 47% are male, similar to previous financial years (FY2022/23 and FY2021/22).

Human Resource Information System

During FY2023/24 we continued to implement the features of the modernized Human Resource Information System (HRIS), ELMO. The adoption of ELMO for online staff leave application commenced in November 2023. Work is in

progress to also complete the automation of the Staff Performance Management System (PMS) in FY2025.

FIGURE 7: NRBT TOTAL NUMBER OF STAFF



General Administration

During FY2023/24, we the Administration Unit continued to provide support services to the other departments in terms of procurement of goods and services, managing access to the building, physical and electronic keys registry as well as managing and monitoring the transport services and office delivery. Records and filing system management, purchase orders, commitment records, and corporate communications systems management are services provided by the Administration Unit.

Policy developments and reviews

We reviewed and developed several staff policies during FY2023/24 to improve human resource management and monitoring of staff training.

ANNEX 1: AUDITED NRBT FINANCIAL STATEMENTS

<u>NATIONAL RESERVE BANK OF TONGA</u>	<u>BALANCE SHEET</u> <u>AS AT 30 JUNE 2024</u>	
	<u>2024</u> \$	<u>2023</u> \$
ASSETS		
Foreign Currency Assets		
Short/Long Term Investments and Current Accounts	854,872,306	851,157,990
Accrued Interest	28,401,393	19,610,321
International Monetary Fund (IMF)		
- Reserve Tranche Position	10,706,022	10,889,205
- Special Drawing Rights	58,691,963	59,340,539
Local Currency Assets		
Cash on Hand	11,366	10,666
Accrued Interest	57,307	52,586
Currency inventory	6,446,160	4,178,502
Other Assets	9,661,452	7,443,353
Property, Plant and Equipment	11,045,558	10,443,414
Total Assets	979,893,527	963,126,576
LIABILITIES		
Foreign Currency Liabilities		
Accrued Interest	70,125	57,689
Demand Deposits	40,784,308	77,275,079
IMF Special Drawing Rights Allocation	61,705,530	62,761,330
Local Currency Liabilities		
Payable to Government	25,045,277	14,271,165
Demand Deposits	541,744,553	504,158,153
Accrued Interest	35,410	167,528
Other Liabilities	4,582,479	5,102,780
Currency in Circulation	128,042,734	118,026,586
Statutory Reserve Deposits	134,912,000	123,395,000
Debt Securities Issued	-	25,000,000
Employee Provisions	171,232	96,789
Total Liabilities	937,093,648	930,312,099
NET ASSETS	42,799,879	32,814,477
CAPITAL AND RESERVES		
Paid up Capital	5,000,000	5,000,000
General Reserves	33,481,758	22,748,068
Revaluation Reserve Account	4,318,121	5,066,409
TOTAL CAPITAL AND RESERVES	42,799,879	\$32,814,477

Income	<u>2024</u>	<u>2023</u>
	\$	\$
Interest Income	45,231,784	26,810,437
Other Income	4,695,025	3,581,734
	<hr/>	<hr/>
Total Operating Income	49,926,809	30,392,171
 Expenses		
Interest expense	3,194,391	1,889,625
Administration and other expenses	10,945,361	8,096,542
Allowance for impairment losses	8,090	18,625
	<hr/>	<hr/>
Total Operating Expenses	14,147,842	10,004,792
	<hr/>	<hr/>
Net profit available for distribution	35,778,967	20,387,379
Net losses arising from the translation of foreign currency balances to local currency	<hr/> (748,288)	<hr/> (3,228,047)
	<hr/>	<hr/>
Other comprehensive losses for the period	(748,288)	(3,228,047)
	<hr/>	<hr/>
Total comprehensive (loss)/income	35,030,679	17,159,332
	<hr/>	<hr/>

NATIONAL RESERVE BANK OF TONGA**STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 JUNE 2024**

	Paid up Capital \$	General Reserves \$	Revaluation Reserve Account \$	Retained Earnings \$	Total \$
Balance 30 June 2022	5,000,000	16,631,854	8,294,456	-	29,926,310
Net Profit	-	-	-	20,387,379	20,387,379
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	(3,228,047)	-	(3,228,047)
Transfer to General Reserves (as provided for under Section 8(1)(c) of the National Reserve Bank of Tonga (Amendment) Act 2014, and approved by the Minister of Finance	-	6,116,214	-	(6,116,214)	-
Balance Payable to Government of Tonga as required under Section 8(3) of the National Reserve Bank of Tonga (Amendment) Act 2014.	-	-	-	(14,271,165)	(14,271,165)
Balance 30 June 2023	5,000,000	22,748,068	5,066,409	-	32,814,477
Net Profit	-	-	-	35,778,967	35,778,967
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	(748,288)	-	(748,288)
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	-	10,733,690	-	(10,733,690)	-
Balance Payable to Government of Tonga as required under Section 8(3) of the National Reserve Bank of Tonga (Amendment) Act 2014.	-	-	-	(25,045,277)	(25,045,277)
Balance 30 June 2024	5,000,000	33,481,758	4,318,121	-	42,799,879

	2024 \$	2023 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	36,435,991	14,180,943
Rental income	1,230,938	1,762,652
Numismatic sales	509,642	37,654
Other income	2,791,170	2,684,798
Purchase of currency	(6,012,449)	(3,266,467)
Interest paid	(3,314,073)	(1,684,006)
Payments to suppliers and employees	(8,547,945)	(5,336,140)
	<hr/>	<hr/>
Net cash inflow from operating activities	23,093,274	8,379,434
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(1,370,447)	(860,603)
Net decrease/(increase) in IMF accounts	831,759	(1,044,504)
Net movement in staff loans	(388,195)	263,111
Net movement in investible reserves	4,288,222	(50,044,821)
	<hr/>	<hr/>
Net cash used in investing activities	3,361,339	(51,686,817)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net movement in currency in circulation	10,016,148	(19,992,137)
Net movement in demand deposits	9,990,475	(50,684,062)
Net movement in statutory deposits	11,517,000	41,576,000
Net movement in Government of Tonga account	(8,894,846)	49,382,004
Net movement in IMF SDR Allocation	(1,055,800)	804,885
Profit repatriation to Government	(14,271,166)	(370,674)
Debt securities issued by the Bank	(25,000,000)	25,000,000
	<hr/>	<hr/>
Net cash inflow from financing activities	(17,698,189)	45,716,016
NET INCREASE IN CASH	8,756,424	2,408,633
CASH AND CASH EQUIVALENT AT BEGINNING OF FINANCIAL YEAR	12,437,131	13,256,545
NET EFFECT OF CHANGE IN EXCHANGE RATE	(748,288)	(3,228,047)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENT AT END OF FINANCIAL YEAR	20,445,267	12,437,131