



National Reserve Bank of Tonga

Annual Report for the Year Ended 30 June 2015

Celebrating
25
Years of Service

**Celebrating
25 Years of Service**

<i>Issued by:</i>	National Reserve Bank of Tonga Salote Road Nuku'alofa Kingdom of Tonga	<i>Postal Address:</i>	Private Mail No. 25 Post Office Nuku'alofa Kingdom of Tonga
<i>Enquiries:</i>	Phone: (676) 24-057 Facsimile: (676) 24-201 Email: nrbt@reservebank.to	<i>Subscription:</i>	Economics Department National Reserve Bank of Tonga Private Mail Bag No. 25 Post Office Nuku'alofa Kingdom of Tonga

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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 Vision

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

Our Values

Integrity | Innovation | Team work | Excellence

Governor's Foreword

The financial year 2014/15 was an important year for the Reserve Bank as we celebrated 25 years of service. This important milestone was commemorated on the 1st July 2014. The Reserve Bank's milestone achievements during the year included the launch of the new currency by His Majesty Tupou VI, the NRBT logo and the board approval of the first Corporate Plan for the Reserve Bank for 2015-2017. The Corporate plan articulates 4 key strategic priorities based on the mandate of the Bank outlined in the NRBT (Amendment) Act 2014.

The domestic economic activities were supported by the developments in Tonga's key trading partners. Unemployment fell over the year in the economies of our major remittance source countries mainly the US and New Zealand. World oil prices declined by more than 40% to US\$ 62 per barrel and the Tongan pa'anga strengthened against the Australian and the New Zealand dollar while it depreciated against the US dollar. The Reserve Bank estimated Tonga's Real Gross Domestic Product (GDP) growth of 2.2% in 2014/15 based on strong growth from the construction sector, trade, transportation and communication sector.

Strong economic growth was recorded during the 2014/15 year for all sectors except the Agricultural sector. The stronger domestic economic activities were boosted by preparations for festivities and special events scheduled for mid-2015, including the King's Coronation in July 2015. Agricultural export volumes mainly for the squash industry fell due to unfavourable weather conditions, despite efforts by the Government to improve access to finance for all sectors through the Government's managed funds loan scheme facilitated by the Tonga Development Bank. The trade and transportation sectors improved, supported by a combination of declining global oil prices and spill over effects of improved construction activities. Remittances remained above T\$200 million during the year despite the increasing trend of banks de-risking which resulted in the closure of some of the foreign exchange dealers' accounts. The banking system also increased its lending to businesses, particularly public enterprises, as well as private individuals during the year. Interest rates declined with the weight-

ed average interest rate spread narrowing to an all-time low of 5.95% in June 2015 compared to 6.54% in June 2014.

The Consumer Price Index (CPI) remained at low levels, recording four consecutive months of headline deflation, and well below the Reserve Bank's reference range. The foreign reserves rose to \$289.7 million in the year to June 2015, sufficient to cover 7.9 months of imports, and remained well above the Reserve Bank's minimum range. Given these outcomes of low inflation, high foreign reserves, stable and competitive exchange rates, improving monetary conditions with high liquidity, improving credit and deposit growth and narrowing interest rate spreads, the Reserve Bank's decision to maintain its accommodative monetary policy stance has supported macroeconomic stability and economic growth during the 2014/15 financial year.

During the year, the Reserve Bank continued its prudential supervision of banks and the financial system remained stable and strong, despite the Westpac Bank of Tonga decision to sell its operations to the Bank South Pacific. The banks remained well capitalized and above the prudential requirements, asset quality in the banking system improved and the banks' liquidity remained at excessive levels as banks cautiously built their loan portfolio. The Reserve Bank also carried out other important functions such as the supply of clean bank notes and coins for public usage as well as act as the fiscal agent and banker for Government which contributed to the operational expenses and income of the Reserve Bank.

On the Reserve Bank's financial performance, the easing of monetary policy in the global economies and the historically low interest rates around the world has contributed to lower investment income for the Reserve Bank during the year. In this regard, the Reserve Bank's net profit fell to \$1.261 million in 2014/15, from \$3.552 million in the previous year. In accordance with section 8(1) of the NRBT (Amendment) Act 2014, only 70% of the net profit shall be transferred to the Government of Tonga.

During the year, to modernise the operations of the bank, several projects were undertaken by the Reserve Bank to enhance its operational efficiency as well as ensuring the security of the Reserve Bank's assets are well protected. These included the automated data collection and recording as well as upgrading of the information systems and technology. Consistent with the strategic priority to become the employer of choice and to retain a professional team, the Reserve Bank reviewed its organisation structure and remuneration policy as well as built capacity through training, succession planning, and recruitment of professional staff to achieve the mandate of the Reserve Bank.

I wish to thank the Chairman and the Board of Directors for their valuable advice and contribution. I acknowledge the support received from the Ministry of Finance, Government, the domestic banks and the non-bank

financial institutions including authorised foreign exchange dealers in pursuing our common goal of promoting macroeconomic stability and economic growth. The assistance from the international organisations, Tonga's development partners and other central banks in the region is acknowledged with appreciation. I would also like to thank the staff for their hard work, professionalism and continued dedication which has achieved the outcomes detailed in this Annual Report.

Dr. Sione Ngongo Kioa
Governor



His Majesty King Tupou VI and the Prime Minister 'Akilisi Pohiva at the launch of the new currency.



Royal Australian Mint presenting a gift to His Majesty King Tupou VI

Logo

After considering several logo designs put forward by Management and the IT Division, the Board of Directors approved the Reserve Bank's first ever logo which is now featured on the Bank's publications and letter head.



The symbols embodied in the logo are characterized by the:



Crown depicts the uniqueness of Tonga as the remaining constitutional monarchy in the Pacific region.



Dove with an olive sprig, signifies hope and the positive outlook for Tonga's Economy against the red background which is the national colour.



Tokelaufeletoa kupesi (design) represents our Tongan identity and values.



Two Olive branches represents the Government and the Church - the foundation for a strong country – the need for the support from the Government and the blessings from the church to strengthen Tonga's economic growth.

Functions and Objectives

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

- (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 benchmark inflation is to average between 6% and 8%.

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; and*
- (p) *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.

Governance



From left to right: Mr. Tatafu Moeaki (Secretary for Finance), Mrs. Sinaitakala Tu'itahi, Mr. Steven Edwards (Chairman), HRH Princess Salote Mafile'o Pilolevu Tuita, Mr. Richard Prema, Dr. Sione Ngongo Kioa (Governor)

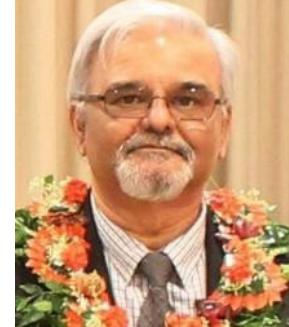
Board of Directors



Chairman
Mr. Steve Edwards



Director
HRH Princess Salote Mafile'o
Pilolelu Tuita



Director
Mr. Richard Prema



Director
Mrs. Sinaitakala Tu'itahi



Governor
Dr. Sione Ngongo Kioa



Director (Secretary for Finance)
Mr. Tatafu Moeaki

Key Decision Makers

The Board of Directors comprises of the Chairman (non-executive Director), the Governor, Secretary for Finance, and 4 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. As at the end of June 2015, one director position was vacant.

In accordance with the Act, the Board must meet at least 10 times during the calendar year to discuss and formulate the policies of the Bank and to monitor its operations. The Board Sub-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 Sub-Committee met 19 times during the financial year, the Board met 29 times to formulate the policy of the Bank, monitor the Bank's operations and provided 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 operation 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, which came into effect in October 2014, specifies the powers and functions of the Board which may not be delegated. During the year, the Board of Directors diligently carried out these powers and functions and defined and adopted the accommodative monetary policy stance which was published in the bi-annual Monetary Policy Statements in August 2014 and February 2015. The Directors also reviewed the exchange rate basket but did not recommend any change to the regime for the determination of the external value of the Tongan currency. The Directors also defined and adopted financial stability policies,

foreign exchange policies and other policies of the Bank regarding the execution of its functions. These policies included the amendments to the NRBT Exchange Control Policy Guidelines as well as the Anti-money laundering Policy and Guidelines.

During the year, major changes to the financial system were approved by the Board to ensure financial stability was maintained and the continuation of banking services to the people of Tonga. During the year, the Directors considered and approved the sale of shares and the revocation of WBOT's bank licence and the simultaneous issuance of a new bank licence to BSP subject to conditions as well as the commercialization of the Tonga Development Bank. The Directors also met and discussed with the commercial banks directors and management their compliance with the bank license requirements and prudential statements to ensure that depositors funds are protected at all times. The Directors discussed the commercial banks liquidity, capital, credit growth and profitability as well as their exchange rates, interest rates and fees & charges. To maintain financial stability, the Directors also approved and issued 3 directives to one commercial bank of which as at the end of June 2015 only one of these directives remains in force. During the year, the Board did not issue any new prudential statements by the Bank. To supervise the implementation of the policies and the exercise of the functions of the Bank, the Directors were updated on a monthly basis by management at Board meetings. The implementation of the NRBT's functions by management was also discussed at the sub-committee meetings.

To ensure the operations of the Bank are carried out efficiently and effectively during the year, the Directors approved the review and changes to general policies and internal rules applicable to the administration and operations of the Bank. The revised policies adopted and implemented during the year include the accounting policy with changes on the amortisation of the currency notes and coins. The Directors also approved the review and amendments to the Reserve Bank's terms and conditions of employment which are outlined in the NRBT Terms and Conditions of service policies. During

the year, the Board also approved changes to the Staff Remuneration Policy through changes to the Provident Fund Scheme Rules and staff benefits including the Staff Loan Scheme Policy and Staff Travel Policy. These changes contributed to strengthening the Bank's Corporate Plan strategic priority of positioning the Bank as the employer of choice while maintaining a high staff retention rate.

The Directors also endorsed the 2013/14 annual budget of the Bank as well as the annual report for 2013/14. Monthly financial statements comparing the actual financial outcomes against the budget were also approved by the Directors and sent to the Minister of Finance and the Prime Minister's Office to be published in the Government Gazette. The Board also recommended the appointment of Price Waterhouse Coopers as the external auditors of the Bank to the Minister in accor-

dance with section 53 of the National Reserve Bank Act. The Board met with the external auditor to discuss the external audit report 2013/14 and monitored management's response and actions.

The Directors also determined and approved the denominations and design of the new banknotes and coins under section 25 of the National Reserve Bank Act, and arranged for the minting of coins and the printing of currency notes which was successfully launched to mark the coronation of His Majesty King Tupou VI on the 29th June 2015.

The highlight of the Bank's milestone achievements during the year and to mark its 25th anniversary were the Board approval of the first Corporate Plan for the Bank 2015-2017 and the NRBT logo.

Accountability

Relationship with Government

The National Reserve Bank of Tonga Act specifies the relationship between the Government and the Reserve Bank. It requires the Reserve Bank to provide advice and statistics when requested by the Minister of Finance, and to inform the Minister on economic developments that are relevant to the achievement of the Reserve Bank goals. The Reserve Bank undertakes the role of being the principal banker, fiscal agent and depository for the Government.

Over the financial year, regular discussions between the Chairman of the Reserve Bank Board, the Governor and the Minister served to keep the Minister informed, as did the provision of various reports. Among the reports provided were the Reserve Bank's weekly foreign reserves and liquidity report, monthly statement of assets and liabilities, six monthly monetary policy statements, the operations summary together with the audited annual accounts and the annual report for the 2013/2014 financial year.

Other forms of accountability

The Reserve Bank also seeks to ensure a high degree of public accountability for its decisions and processes, which necessitates a high degree of public transparency. The transparency in the 2015 financial year was achieved through regular public communication, in both written and verbal forms.

In written forms, the Reserve Bank published two Monetary Policy statements, which detailed the rationale behind its monetary policy decisions. The Reserve Bank also published its Annual Report for the financial year 2013/14, containing its audited financial statements, a summary of its operations, and a detailed assessment of the condition of Tonga's financial system. It disseminated quarterly economic statistics in its quarterly Bulletin publication and issued a monthly economic review. The Bank continued to keep the public informed on its assessment of the Tongan economy and increased the number of economic data flashes. All the Bank's publications are also posted on the Bank's website.

In verbal forms, the Governor made several public addresses over the 2015 financial year. During the year, the Governor presented to the Tonga Development Partners Meeting and the Chamber of Commerce on the Tongan economy. The Governor also presented an update on the Tongan economy at the bi-annual meeting of the Association of the Banks in Tonga (ABT) which comprises of the Governor and the General Managers of the banks in Tonga.

Also worth noting, this year the Reserve Bank responded to inquiries from the Standing Committee on Finance and Public Accounts and the Cabinet Economic and Development Committee, via verbal and formal presentations on banking and financial system issues. The demand for responses on inquiries from the Cabinet and parliamentary inquiries continued to increase. These demands were largely met with existing Reserve Bank resources.



Organisational Chart

National Reserve Bank of Tonga Organizational Structure – 30th June 2015

BOARD OF DIRECTORS

— Governor

Dr. Sione Nigaigo Kioa
Ms. Jessie Cocker

— Deputy Governor

Ms. Jessie Cocker

Assistant Deputy Governor - Operation

Mr. Lata Tangimana

Mr. Elikeni Samani

Assistant Deputy Governor - Policy

Ms. 'Ungatea Latu

Head of Corporate Services

Mr. Elikeni Samani

Manager Corporate Services

Mrs. Kassaline Lofina

Manager Financial Institutions

Mr. Tevita Veha'i

Manager Financial Markets

Ms. Isapela Hifanga

Manager Economics

Ms. Ana Soakai

Guard Commander

Mr. Semisi Fifita

General Counsel

Ms. Mere Mangisi

Corporate Plan

Approved by the Board of Directors on 21st November 2015, the Reserve Bank launched its first Corporate Plan in January 2015.

The Corporate Plan is a 3-year rolling plan, from January 2015 through to December 2017, running on a calendar year thus overlapping with the Bank's financial year. This provides Management with the opportunity to assess the Plan and ensures there are sufficient resources budgeted in the Bank's budgeting cycle to implement the Plan. Management will update the Board at least once annually on the progress of implementing the Plan.

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 Vision

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

Our Values

We will pursue our mission with:

1. *Integrity* Being professional and exercising sound judgment
2. *Innovation* Continually improving what we do
3. *Team work* Working together for a more effective Bank
4. *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

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.

Economic Overview

Overseas Economies

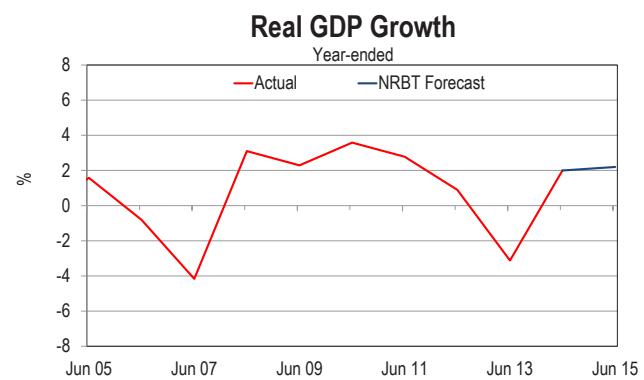
Developments in Tonga's key trading partners varied yet continued to support domestic economic activities. Unemployment in the US and New Zealand fell over the year from 6.1% to 5.3% and 6.0% to 5.8% respectively, while it remained unchanged at 6.0% in Australia. World oil prices declined over the year to June 2015 by more than 40% from US\$113 to US\$62 per barrel. The US dollar strengthened against the currencies of Tonga's major trading partners in the year to June 2015. This was translated to the Tongan pa'anga appreciating against the Australian and the New Zealand dollar while it depreciated against the US dollar. The stronger Tongan pa'anga may exert some pressure on Tonga's export industries and other receipts such as remittances and tourist receipts, while easing imported inflation.

Developments in the Domestic Economy

The National Reserve Bank of Tonga estimates Tonga's Real Gross Domestic Product (GDP) growth of 2.2% in 2014/15 based on strong growth from the construction sector, trade, transportation and communication sector, financial intermediation and the tourism industry.

Although the Agricultural sector contracted in 2014/15 due mainly to the adverse weather conditions, following a very productive year in 2013/14, all other sectors advanced which boosted domestic economic activity. This is supported by preparations for festivities and special events scheduled for mid-2015. The volume of agricultural exports fell by 18.9% over the year due to decline in root and vegetable products. This coincides with a 34.1% decrease in agricultural proceeds. Despite enabling conditions set in place such as managed funds loans to assist in boosting agricultural sector growth, the adverse weather conditions throughout the year had a large impact on agricultural output. In contrast, the trade sector advanced, coinciding with a 15.3% rise in container registrations. Payments for imports excluding oil also showed an increase over the year. Likewise, International air arrivals increased by 8.0% indicating an active tourism sector. This in turn benefited the transportation sector, especially tour operators. Vehicle registrations rose by 28.9% due mainly to an increase in "Taxis & Rentals" and an influx of donor-funded vehicles for the coronation. These annual movements align with the NRBT's GDP estimate for 2014/15.

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Source: Tonga Department of Statistics; NRBT



Monetary Policy Formulation

Monetary policy Actions

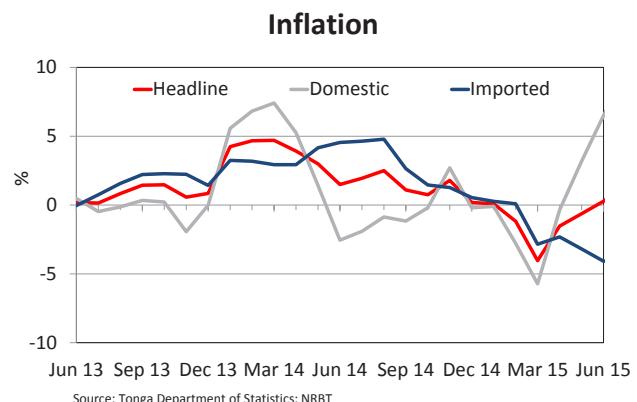
The NRBT's monetary policy target is to maintain adequate level of foreign reserves above 3-4 months of import cover and to promote low and stable inflation below 6% annually.

Against the background of low inflation, high foreign reserves, stable and competitive exchange rates, improving monetary conditions with high liquidity, improving credit and deposit growth and narrowing interest rate spreads, the Reserve Bank maintained its accommodative monetary policy stance to continue to support macroeconomic stability and economic growth.

The Statutory Required Deposits was left unchanged at 5% and there were no Open Market Operations. Similarly the Exchange Control requirements in terms of delegated limits to the banks and authorised foreign exchange dealers remained unchanged during the year. The annual review of the exchange rate basket was conducted to update the basket with the current overseas exchange transaction patterns. The Liquid Asset Requirement also remained unchanged at 5% during the year.

Monetary Policy Outcomes

Headline inflation remained relatively low over 2014/15. Consumer Price Index (CPI) records 0.2% inflation over the year to June 2015 after four consecutive months of headline deflation. This was caused by Domestic prices which increased by 6.6%, offsetting a 4.1% decline in Imported prices. Prices for food items, namely Fruit & Vegetables and Meats, Fish & Poultry caused a 21.5% increase in Domestic Food prices whereas the same food items drove Imported Food prices down by 4.3%. Contrastingly, Domestic Fuel & Power prices fell over the year affecting the Household Operation and Transportation components. However, this was insufficient to offset the rise in Food prices.

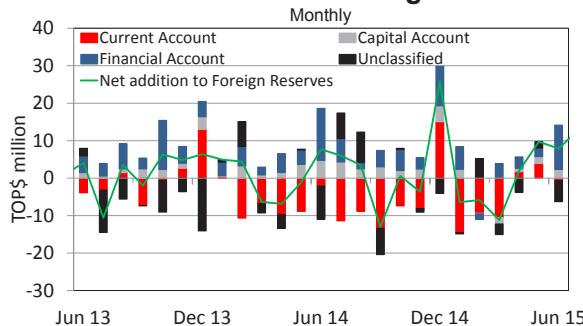


Import payments grew by 15% to \$301.1 million over the year to June 2015. Driving the rise were mainly payments for imports of wholesale & retail goods, construction materials, and motor vehicles. Export receipts were slightly lower than a year ago, with proceeds from fish and other marine exports more than enough to offset a fall in agricultural exports. Remittances remained at high levels of \$202.4 million, a decrease from \$208.9 million in the previous year. This is primarily due to a change in methodology for calculating remittances following Tonga's transition in May 2014 into Balance of Payments and International Investment Position Manual 6 (BPM6), endorsed by the International Monetary Fund (IMF). Official transfers for budget support and other aid funds from donor partners rose by over \$15 million over the year to June 2015. A portion of this funding consisted of budget support delayed from the previous financial year.

Over the year to June 2015, the net Overseas Exchange Transactions (OET) therefore recorded a net inflow of \$15.2 million, 36% higher than the net inflow recorded a year ago. The foreign reserves rose by \$15.2 million to \$289.7 million in the year to June 2015, sufficient to cover 7.9 months of imports, and well above the NRBT's minimum range.

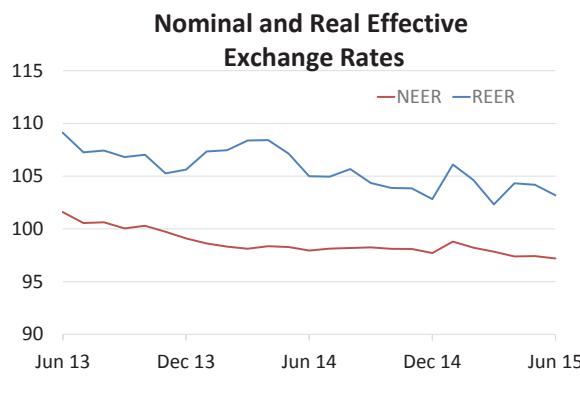


Balance of Overseas Exchange Transactions



Source: NRBT; Banking System; Foreign Exchange Dealers

The Nominal Effective Exchange Rate (NEER) fell in 2014/15 by 0.8% following an appreciation of the US dollar which was partially offset by the depreciation of the Australian and New Zealand dollar against the Tongan Pa'anga. The Real Effective Exchange Rate (REER) continued to decline in 2014/15 by around 1.7%. The lower REER indicates an improvement in Tonga's price competitiveness against that of its major trading partners.

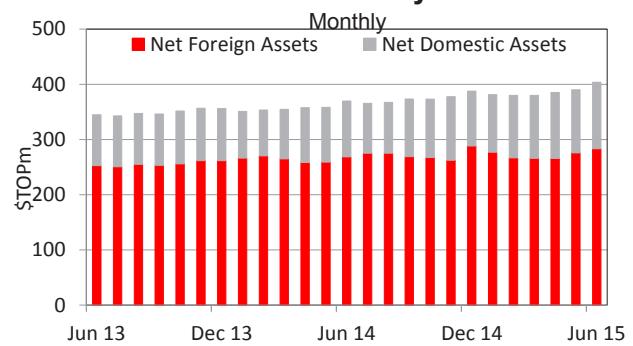


Source: NRBT

Over the year to June 2015, Broad Money rose by 9.3%, due to a 19.7% rise in net domestic assets and a 5.5% rise in net foreign assets. The increase in net domestic assets reflects a 10.6% increase in banks' lending while an increase in the foreign reserves drove the growth in net foreign assets. Total domestic demand deposits and currency in circulation also increased in line with the rise in broad money. Banking system liquidity also increased over the year by 13.7%.

In year ended terms, total bank lending balances rose by 11.4% (\$31.5 million) supported by the high liquidity in the banking system and the decline in lending interest rates. Including loans extended by non-banks, the lending balance increased by 8.2% over the year. Weighted average interest rate spread narrowed to a record low of 5.95% from 6.54% in June 2014.

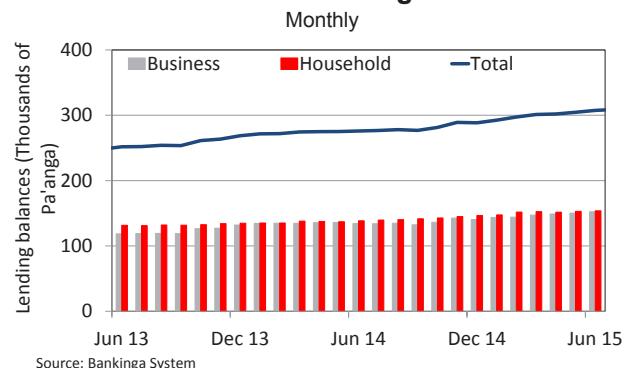
Broad Money



Sources: NRBT, Banking System

Net credit to government increased by 8% over the year to June 2015 compared to a decline of 20% over the year to June 2014. The rise in net credit to government reflects more than 15% rise in banks' holdings of government bonds and a 2% fall in government deposits.

Banks' Lending



Source: Banking System

Financial Stability

Financial Sector

The Reserve Bank continued to be responsible for the promotion of a sound and efficient financial system. This is pursued through the licensing, regulating and supervising of financial institutions, which are the banks and authorised foreign exchange dealers. The NRBT (Amendment) Act 2014 extended the mandate of the Reserve Bank to the licencing and supervision of non-bank financial institutions (NBFIs). Separate legislations are being developed for the licencing and supervision of the individual NBFIs.

There are now 5 banks licensed to operate in Tonga.

Banking Services in Tonga					
Banks	ANZ	WBOT	MBf	TDB	PICB
Branches (including Head Office at Nuku'alofa)	3	2	2	8	1
ATMs	9	8	-	-	-
EFTPOS /Instore Facilities	150	16	-	-	-
Internet Banking	Yes	Yes	No	No	No
MoneyGram Agent	No	Yes	Yes	No	No
Money Transfer Card	Yes	Yes	No	No	No
Other Services	Insurance Agent (NPI)		Business advisory services, Microfinance		

All banks maintained their head offices in Tongatapu. The Westpac Bank of Tonga and MBf Bank Limited maintained their branches in Vava'u. The ANZ Bank also maintained its sub-branch in Vava'u. TDB continued to be the only bank serving all the outer islands of Ha'apai, Vava'u and 'Eua and the outermost islands of Niuatoputapu and Niuao'ou. TDB also has two other branches in Tongatapu located in Tatakamotonga and

Nukunuku. TDB continued to be an agent for Westpac Bank of Tonga's customers in Ha'apai and 'Eua.

During the year, the banks maintained their current banking services, and rolled out some new banking services.

TDB is in the process of expanding its services to more commercial banking products. TDB introduced its cheque accounts and overdraft facilities in July 2014 and continued to provide business advisory services to its customers. In March 2015, TDB commenced offering deposits and withdrawal services on Saturdays. The expansion plan includes offering foreign exchange products which are scheduled to be launched in 2015/16. TDB also commenced administering the Government "Managed Fund" loan scheme during the year, which is a low interest rate on-lent facility ranging from 1% to 4% to support primarily the growth sectors and education.

In early 2015, the Reserve Bank was informed of Westpac's plan to sell its shares to Bank of South Pacific (BSP) as part of a regional deal that involves Westpac banks in 5 Pacific Island countries including Tonga, Cook Islands, Samoa, Solomon Islands, and Vanuatu. The Board of Directors considered foremost the importance of the continuance of the banking services provided by Westpac, given this is the largest bank in Tonga, and the financial strength and credibility of the BSP. The Board therefore approved the sale of shares and the revocation of WBOT's bank licence and the simultaneous issuance of a new bank licence to BSP subject to conditions. The sale was targeted to be finalized by the 29th of May 2015 but was still outstanding at the end of the financial year due to delays from the other Pacific Island countries.

Financial System Supervision and Regulation

In 2014/15, the Reserve Bank continued to focus its supervisory activities of banks on reducing the vulnerability of the banking system to credit and liquidity risks. Even though liquidity is considered to be high, the ex-

cess liquidity in the system was slightly reduced by the positive annual credit growth of 11.4% over the year. The monitoring of the banks' credit risk management systems and recovery process continued in order to ensure that the declining trend in non-performing loans is maintained.

The Reserve Bank continued to monitor the movements in banks' interest rates and spot checked banks' compliance with the requirements of Prudential Statement 4 on Disclosure of Interest rates and Fees & Charges, as these are common issues which directly affect the public. This also supports the consumer protection initiatives of the Reserve Bank. Interest rates have declined over the year, with the weighted average interest rate spread narrowing to a record low of 5.95% in June 2015 compared with 6.54% in June 2014. This decline largely reflects the high liquidity in the banking system. In addition, banks continue to offer lower rates to selective good customers while the published interest rates on loans remained the same. Deposit rates further declined over the year by up to 1% mainly for time deposit rates, compared to a reduction of up to 2% last year.

The Reserve Bank also focused on enhanced supervision of one bank. This included the issuance of three directives of which one is still in force under Section 37(1)(a) of the Financial Institutions Act and imposing of special requirements to address the high liquidity and operational risks of this bank.

Onsite examination of banks continues to be one of the core parts of the Reserve Bank's supervisory framework. The Reserve Bank examination team conducted an onsite visit to one bank in May 2015, together with the assistance of a technical expert funded by the IMF PFTAC office, to verify the bank's compliance with the Reserve Bank requirements as well as check on the progress of addressing the recommendations raised in previous onsite visits. One scheduled visit was deferred to the next financial year given the Reserve Bank's other commitments. The Reserve Bank will continue its onsite examination cycle of a bank every 2 years in the next financial year.

The National Reserve Bank of Tonga [NRBT] (Amendment) Act 2014 and the Financial Institutions [FI] (Amendment) Act became effective in October 2014. The amendments were mainly to ensure the NRBT Act and FI Act are in line with international best bank-

ing practices that have been taken on by other regional central banks. The Reserve Bank is currently working with the assistance of PFTAC to incorporate the amendments of the NRBT Act and the FI Act in the Prudential Statements, as well as develop a new Prudential Statement for Operational Risk Management. There is ongoing collaboration with the banks to ensure that they comply with statutory and prudential requirements at all times, which includes spot checks and bilateral technical meetings.

Monthly bilateral meetings with the banks as well as bi-annual meetings with the Association of Banks in Tonga (ABT) were held during the year to obtain updates on the banks' strategies in light of the market developments to ensure they continue to operate prudently and in compliance with the Reserve Bank's requirements. Furthermore, the meetings discuss issues which would support a sound and stable financial system such as issues relating to asset quality, profitability, interest rates and liquidity in the banking system.

Banking System Financial Performance

The total assets of the banking system increased by \$47.6 million (8.7%) to \$596 million in 2014/15. This was mainly due to a \$31.6 million (11.4%) growth in total loans and advances. The increase in loans largely reflected the increase in loans to businesses, particularly public enterprises, as well as private individuals during the year. Banks' Exchange Settlement Account (ESA) also rose by \$9.9 million (7.0%) during the year which reflects the increase in customers' deposits.

The credit growth over the year was attributed to factors such as lending to public enterprises and a major tourism project mainly by the two large banks. This was followed by the housing reconstructions in Ha'apai due to the recent cyclone disaster. Government also offered a low interest lending scheme through managed funds administered by TDB offering 1% and 4%. This scheme targeted specific key sectors in the economy such as agriculture, tourism, fishing and education.

At the end of the financial year 2014/15, the banks' outstanding loans portfolio comprised of loans to private businesses, including public enterprises, agriculture and fisheries (75.2%), private individuals (24.8% of

which 79% was for housing) compared with 70.2% and 29.8% (of which 92.3% was for housing) respectively in the previous year.

Total liabilities increased by \$39.6 million (9.4%) to \$461

Financial Sector Deposit Accounts

	2013/2014	2014/2015
Demand Deposits		
Number of Accounts	20,953	23,016
Value of Deposits (\$m)	143.3	155.8
Saving Deposits		
Number of Accounts	34,486	38,251
Value of Deposits (\$m)	53.7	61.2
Time Deposits		
Number of Accounts	2,236	2,062
Value of Deposits (\$m)	144.8	159.5
Deposit by Other Banks		
Value of Deposits (\$m)	15.6	17.5
Total Number of Accounts	57,675	63,329
Total Value of Deposits (\$m)	357.4	393.9

million. This was due mainly to a \$36.6 million (8.7%) growth in total deposits, compared with an increase of \$17.8 million (5.2%) in 2013/14. The significant increase in total deposits largely reflected an increase in Time Deposits. On the other hand, total provisions fell by \$4.1 million (18.9%), reflecting the write back of specific provisions for some impaired loans during the year.

The total number of deposit accounts reported by banks increased by 9.8% to 63,329 and the total value of deposits increased by 9.3% to \$393.9 million.

Profitability

The profitability of the total banking sector slightly decreased in the year ended June 2015 compared to the previous year. The total banking system showed an after-tax profit of \$12.1 million for the year ended June 2015, which is equivalent to 2.2% of average assets, compared with a profit of \$12.2 million for the previous year, which was equivalent to 2.3% of average assets.

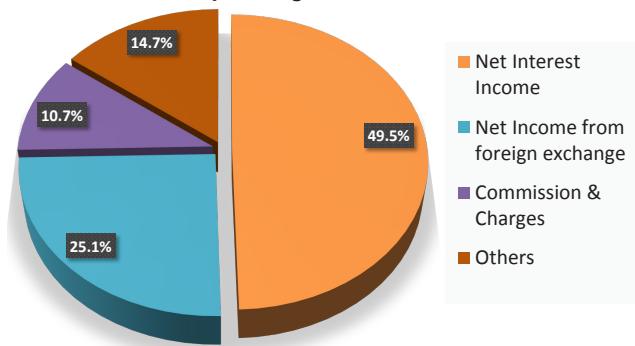
The decline in profitability over the year was attributed mainly to a decrease in non-interest income to 3.7% of average total assets compared to 4.0% in the previous year. This reflects the decrease in net gain on foreign currency revaluation over the year.

Financial Performance

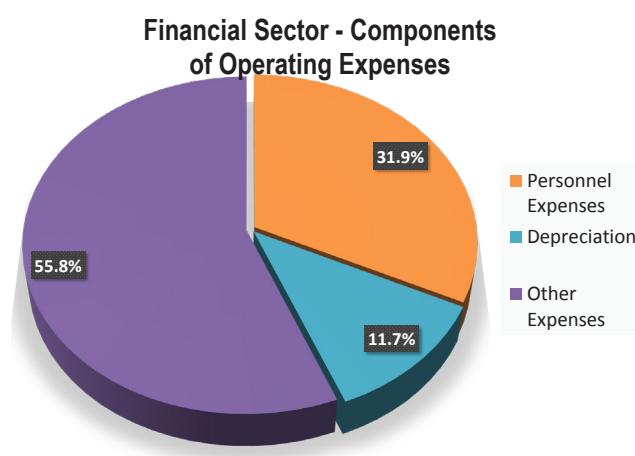
	2013/14	2014/15
Pre-tax Net Profit (% average total assets)	2.9	2.9
After-tax Net Profit (% average total assets)	2.3	2.1
Total Operating Income (% average total assets)	7.8	7.7
Net Interest Income (% average total assets)	3.6	3.7
Non-interest Income (% average total assets)	3.9	3.7
Total Operating Expenses (% average total assets)	4.8	4.5
Consolidated Risk-weighted Capital Ratio (%)	39.8	39.0

Total operating income as a percentage of average assets slightly decreased to 7.7% from 7.8% in the previous year. This declining trend reflects the larger magnitude of the growth in average assets which outweighed the improved income. The proportion of total operating income from net interest income increased to 51.8% in 2014/15 compared with 47.7% in 2013/14 and similarly the proportion of operating income from non-interest income decreased to 48.2% from 52.3% in the previous year. The decline in non-interest income reflects the decrease in net income from foreign exchange to 26.2% of average assets from 27.1% in the previous year. Total operating expenses decreased to 4.5% of average assets in 2014/15, compared with 4.8% in 2013/14. This was mainly due to a decrease in other operating

Financial Sector - Components of Operating Income



expenses over the year. The operating expenses of the banks comprised mainly of 31.9% personnel expenses, a decrease from 32.1% in the previous year reflecting the decrease in operating expenses due to banks streamlining their operational cost and a reduction in the number of staff during the year. Depreciation and amortization accounted for 11.7% of total administrative expenses and the balance of 55.8% was made up of the banks' other expenses for the daily operation needs which decreased from 59.3% in the previous year due mainly to lower outsourcing and management fees.



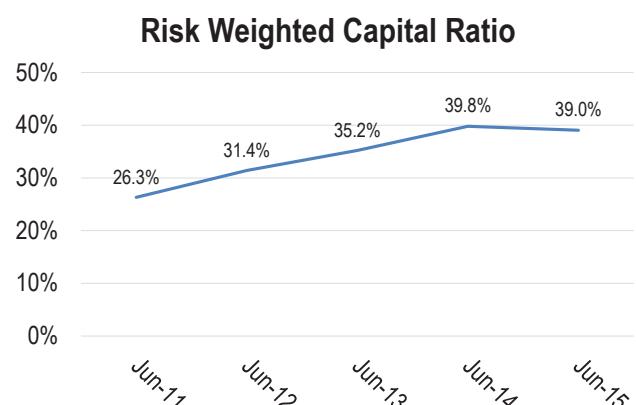
Liquidity

Liquidity in the banking system remained high during 2014/15 at comfortable levels. The increase in eligible liquid assets by \$13.3 million over the year contributed to the high liquidity but was partially offset by an increase in credit growth. Net loans as a proportion of deposits rose to 73.7% from 71.2% in June 2014. Furthermore, the Liquid Asset Ratio remained relatively stable at 40% over the year compared June 2014 and continued to remain well above the Reserve Bank's minimum requirement of 5%.



Capital

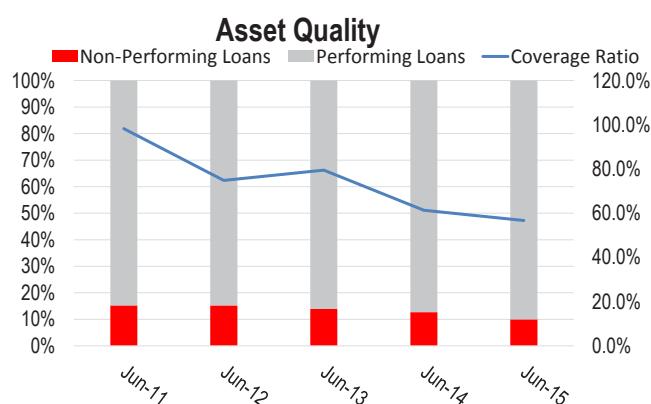
The capital position of the banking industry remained strong and above the minimum ratio required by the Reserve Bank of 15%. The consolidated risk weighted capital ratio for the banks slightly decreased to 39% at the end of June 2015, compared with 39.8% in the previous year, and has remained at this level since June 2014. The higher capital position was mainly attributed to the decision by the banks to not repatriate their profits and leave their annual profits in Tonga. Over the last 10 years some banks have not been repatriating but accumulating profits over the year.



Asset Quality

The overall quality of the banks' assets improved over the year to June 2015. Total non-performing loans decreased by \$4.4 million (12.5 %) to \$30.7 million compared to \$35.1 million in June 2014. This largely reflected loan write offs during the year. The ratio of non-performing loans to total loans also improved to 10.0% from 12.7% in June 2014. The total non-performing loans comprised of loans to businesses (54.4%), mainly the hotels and restaurants and wholesale and retail sectors, as well as housing for private individuals (22.9%).

Total provisions against loans fell by \$4.1 million (19.1%) to \$17.4 million which is in line with the decline in non-performing loans over the year. The coverage ratio of the non-performing loans by total loan loss reserves, therefore, declined to 56.7%, compared with 61.4% in June 2014. The Reserve Bank is working closely with banks to ensure the adequacy of provisions as well as the accurate reporting of security values.



Licencing and Supervision of Restricted Foreign Exchange Dealers

During the year, the Reserve Bank licensed 4 and registered 11 authorized restricted foreign exchange dealers. Three registered authorized restricted foreign exchange dealers ceased operation before the renewal of the authorized restricted foreign exchange dealers for 2015.

All foreign exchange dealers generally complied with the conditions of the license/registration which formed the basis for the Reserve Bank's approval of the renewal of 12 authorized restricted foreign exchange dealers for 2015. New conditions were imposed in 2015 which included the requirement for the foreign exchange dealer's overseas agents to be licensed with the appropriate licensing authority. This was mainly to provide assurance that the overseas agents are subject to similar licensing regime thereby reduce the risk of facilitating illicit flows through these foreign exchange dealers.

The Commercial Banks are licensed as authorized dealers under their banking license. Two of the commercial banks, namely WBOT and MBf Bank currently have agency arrangements with MoneyGram.

The coordinated efforts of the Reserve Bank and the Ministry of Commerce, Tourism and Labour continued to enhance compliance with the requirement for businesses that were conducting foreign exchange business without a license to apply for a license. The proposed amendments to the Foreign Exchange Control Act will include strengthening of the Reserve Bank's licensing and enforcement powers.

Compliance spot checks, training of the authorized foreign exchange dealers, stakeholder and quarterly meetings when required contributed to the improvement in the understanding and compliance with the conditions of license/ registration.

Financial Inclusion

During the year, the Reserve Bank became more active in its participation in the Alliance for Financial Inclusion (AFI) network in order to promote financial inclusion. Inclusive economic growth and improving access to financial services was crucial for poverty reduction and improving the people's standard of living.

The Reserve Bank participated in the AFI Global Policy Forum (GPF) and the Pacific Islands Working Group (PIWG) meeting in September 2014. This meeting agreed to convert the PIWG into a long-term regional initiative, known as the Pacific Island Regional Initiative (PIRI) to focus on addressing the challenges faced by the Pacific region of having the highest unbanked rates in the world due to geographical dispersed islands, low population density and underdeveloped physical and banking infrastructure. The inaugural launch and first meeting of the PIRI was held in Dili, Timor Leste in May 2015 which the Governor attended.

The Reserve Bank has been working closely with the Pacific Financial Inclusion Programme (PFIP), a Pacific-wide programme that is jointly managed by the UN Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) and is also a partner agency of AFI, in providing technical and financial assistance to the Reserve Bank in progressing financial inclusion in Tonga. In March 2015, the first activity in the process of developing a National Financial Inclusion Strategy for Tonga was issuing the "Supply side survey" to all financial services providers in the Kingdom. The objective of this survey was to assess the level of access and availability of financial services to financial customers. Other activities are scheduled to be conducted later in the year with the assistance of AFI and the PFIP.



Payment System

The NRBT (Amendment) Act 2014 broadens the role of the Reserve Bank to include being exclusively responsible for the regulation, licensing, registration and oversight of payment, clearing and securities settlement systems. The Reserve Bank continued its discussions with the World Bank IFC during the year on assistance for enhancing the framework for the payment system oversight. The Reserve Bank's priority was to ensure the implications of the payment system reform are well understood by all stakeholders and that all stakeholders are ready for these reforms.

Meanwhile, the manual settlement system, involving the inter-bank cheque clearance that is conducted by the Settlement Unit on a daily basis is operating well.

Interbank Cheques Clearance

The Reserve Bank facilitates a daily clearance service for the commercial banks to ensure a safe and efficient clearing system. The commercial banks operating in Tonga have signed an interbank clearing agreement for the clearance of cheques on a daily basis. A total of 147,934 cheques were presented for clearance at the Reserve Bank during the financial year 2014/15, an increase of 11% from the previous year. The increase in the number of cheques being cleared may be attributed to the increase in economic activity over the year and during the month of June in relation to the Coronation celebrations. The clearance of cheques in the centre is running well and all participants are committed to settle their dues on time. Reflecting the high level of liquidity available in the domestic market, there were no special cheque clearances between the banks during the year.

Financial Intelligence Unit

The Reserve Bank is the Transaction Reporting Authority (TRA) established under the Money Laundering and Proceeds of Crime Act 2000 (MLPC Act). The TRA is vested with the function of a Financial Intelligence Unit (FIU) in ensuring the financial system is protected from money laundering and terrorist financing activities. This in turn supports the Reserve Bank's objective of promoting a safe and sound financial system. The FIU's role and functions prescribed under the MLPC Act includes policy formulation and enforcement.

During 2014/15, the FIU continued to implement the requirements of the MLPC 2010 legislative amendments and the recommendations from the 2010 Mutual Evaluation Report. In July 2014, the Inter-Agency Memorandum of Understanding (MOU) was signed by six government agencies including the FIU. Other agencies include Tonga Police, Ministry of Revenue & Customs, Ministry of Commerce, Tourism and Labour, Ministry of Foreign Affairs and Trade and the Attorney General's Office. The MOU facilitates, through information sharing, a framework at operational level where by which partner agencies will work together to effectively, perform their respective duties, investigate crime including money laundering and terrorist financing and prosecute criminal offenders.

The FIU's membership application to the Egmont Group progressed during the year. Membership benefits include improving the FIU's capacity to exchange information with foreign counterparts and access technical assistance and training provided for Egmont members. In October 2014, Egmont membership sponsors, Cook Islands FIU and Fiji FIU, visited the FIU to assess its operational standards. This review has indicated that there is a need for improved independence and operational autonomy of the FIU. In April 2015, the Board approved the renaming of the TRA unit as the FIU within the NRBT, to be solely responsible for implementing the prescribed functions of the TRA under the MLPC Act, and to be headed by a Director, so as to improve the FIU's independence.

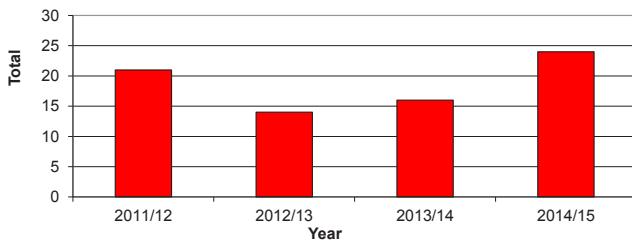
The improvement to the operational independence of the FIU and other recommendations from the Egmont Legal Working Group are included in the proposed amendments to the MLPC Act.

In May 2015, the FIU issued a Revised AML/CFT Guideline to all financial institutions and cash dealers. This replaced the first AML Guideline issued in 2006. The revision was to incorporate the requirements of the MLPC (Amendment) Act & Regulations 2010 and to also broaden the scope to include cash dealers, which were not previously covered.

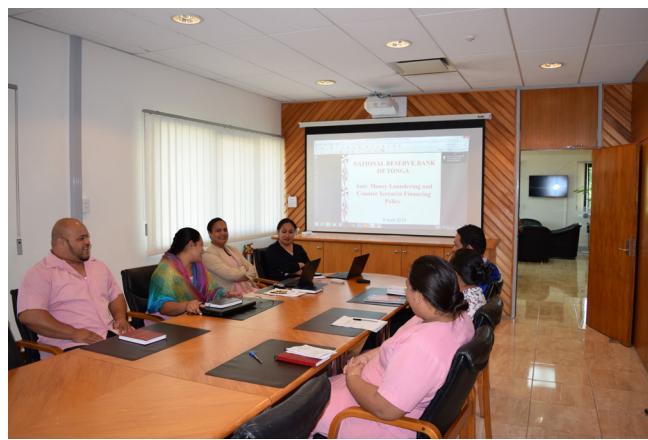
The Reserve Bank also adopted its very first AML/CFT Policy developed by the FIU in May 2015. The purpose of this policy is to implement anti-money laundering and counter terrorist financing measures within the operations of the Reserve Bank.

In preparation for Tonga's second round of Mutual Evaluation, the FIU together with the Attorney General's Office coordinated a National Risk Assessment for Tonga with technical assistance from New Zealand in May 2015. This project is still in progress.

Total number of Suspicious Transactions Report



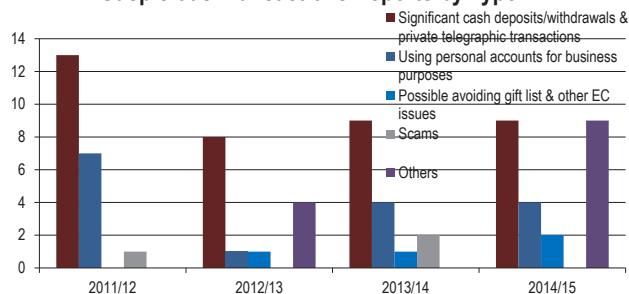
The FIU and the Foreign Exchange Dealer Unit conducted onsite visits to the authorized restricted foreign exchange dealers in the process of the annual review of their licenses. In response to the global banks' de-risking decisions, enhanced AML/CFT supervision and monitoring of the authorized restricted foreign exchange dealers continued in order to improve their AML/CFT compliance status. In addition, some of the autho-



AML Training - NRBT

rzized restricted foreign exchange dealers consented to the FIU sharing its assessment of their AML/CFT compliance with one of the banks. This was to support the request made to banks to retain the foreign exchange dealers' bank accounts.

Suspicious Transactions Reports by Type



Furthermore, spot checks of banks' compliance with AML/CFT requirements such as the customer due diligence and ongoing monitoring of the accounts of Politically Exposed Persons (PEPs) were also conducted during the year. All reporting entities were generally compliant with the AML/CFT requirements.

The FIU received 24 STRs from the commercial banks and authorized restricted foreign exchange dealers during the year, representing an increase of 12% from the previous year. The increase in the STRs being reported is a result of improved awareness throughout the reporting entities as they become more mindful of the elements and indicators of suspicious transactions. The trainings provided by the FIU played a major role in increasing awareness and educating of reporting entities in reporting of STRs.

Summary of the number of STRs received by FIU since 2011

Year	2011/12	2012/13	2013/14	2014/15
Total STR received	21	14	16	24
Total STR passed to TCU	16	7	11	5
Total STR passed to IRD	14	0	1	6
Total STR passed to Immigration	2	0	1	0
Total STR passed to MCTL	0	0	1	0
Total Scams	1	0	2	0

The dominant STR indicator continued to be unusual significant cash deposits; withdrawals, foreign currency conversion or telegraphic transfers that were inconsistent with the customer's profile or the sources of funds were undetermined. Four (4) STRs were related to the usage of a personal account for conducting of business transactions, similar to the previous year. The remaining reports were related to third-party transactions and structured payments.

Subsequent to the analysis of the STRs, 5 of the 24 STRs were reported to the Police (TCU) for further investigations of possible money laundering and other serious offences. Six (6) STRs were disseminated to the Ministry of Revenue and Customs for possible tax evasion and non-compliance with Customs requirements.

The FIU conducted monthly and quarterly meetings with the law enforcement agencies to follow up feedback on the investigation of the STRs, and also share trends

from the analysis of reports collected by the FIU. The other reports collected by the FIU include the Currency Transaction Reports and Border Currency Reports.

The FIU conducted due diligence checks upon request by relevant agencies. To assist in its due diligence and background check function, the FIU subscribed to an AML screening solution with Acuity in September 2014.

The FIU continued to disseminate the terrorist list from the Office of Foreign Assets Control's (OFAC) of the United States Department of the Treasury of Specifically Designated Nationals (SDN) and the dissemination list of the Non-Cooperative Countries and Territories and countries that are subject to the Financial Action Task Force's public statements.

Financial Markets Operation

Monetary Policy Formulation

The NRBT's monetary policy target is to maintain adequate level of foreign reserves above 3-4 months of import cover and to promote low and stable inflation below 6% annually. Throughout the 2014/15 financial year, the level of foreign reserves remained above seven months of import cover and headline inflation remained low. The NRBT monetary policy therefore remained accommodative throughout the year.

Domestic Market Operations

The Reserve Bank maintained its accommodative monetary policy stance remained unchanged during the financial year 2014/15 and the Reserve Bank therefore did not issue any Reserve Bank notes. This was to continue leaving excess liquidity in the system to encourage banks to lend and support economic growth.

As of the 30 June 2015, the banking system liquidity stood at \$169.5 million, an increase from \$149.9 million at the end of June 2014. The banking system liquidity comprised mainly of \$150.3 million in the banks' Exchange Settlement Accounts (ESA) held with the Reserve Bank and \$19.2 million of Government of Tonga's Bonds held by the banks. The higher liquidity was in line with the higher foreign reserves and government bonds held by the banks.

Due to the excess liquidity in the banking system, there was no activity in the inter-bank market and similarly there were no applications for repurchase agreements

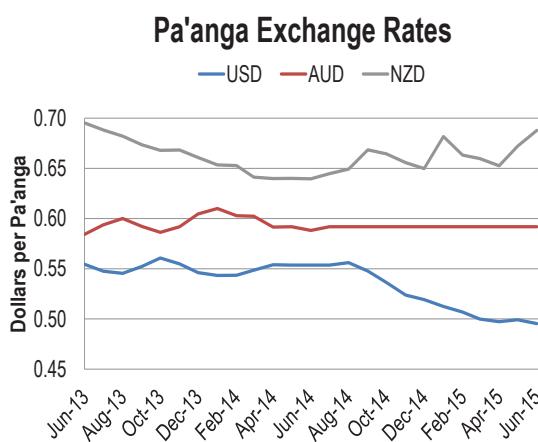
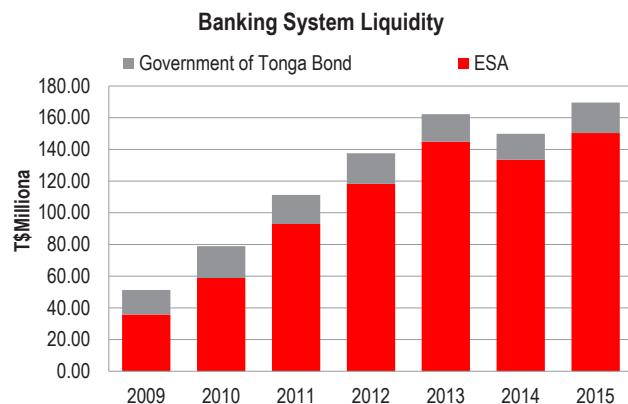
during the year. The interest rate for repurchase agreements therefore remained unchanged at 3.9% during the year.

Foreign Exchange Operations

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. Following the review of the exchange rate currency basket in June 2014, the revised currency basket weights became effective on 1 July 2014. 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 monitored the movement of the rate of exchange of the pa'anga against other currencies with a view to ensure that the country's balance of payments position and price stability are maintained at levels that are consistent with the achievement of macroeconomic stability.

The Tongan pa'anga fluctuated against the US dollar (USD) and the Australian dollar (AUD) in wider bands in 2014/15, compared to last year. This reflected the increased volatility in the USD and AUD during the year. Meanwhile, the volatility of the New Zealand dollar (NZD) was lower in 2014/15 compared to the previous year. This largely reflects the strengthening of the USD against all major currencies during the year and the AUD weakening at a relatively larger magnitude compared to



the NZD due to relatively stronger economic prospects in New Zealand.

Foreign Reserves Management

The Reserve Bank Portfolio

The gross official foreign reserve was maintained well above the benchmark of 3 to 4 months of imports. As at the end of June 2015 the level of foreign reserves was at T\$289.7 million which was equivalent to 7.9 months of import cover. The foreign reserves ranged between 7.5 months and 9.1 months of import cover during the year. The level of gross official reserves peaked at a record high of T\$293.6 million which was equivalent to 7.8 months of import coverage as at the end of December 2014, compared to T\$274.4 million and 9.1 months of import as at 30 June 2014. The significant increase in the level of foreign reserves was attributed mainly to significant receipts of budget support for the Government.

During the year, the Reserve Bank was a net purchaser in the spot foreign exchange markets. Foreign exchange purchases of T\$248.5 million exceeded sales of T\$239.6 million giving a total foreign exchange turnover for the year of T\$488.1 million, an increase from T\$395.0 million last year. The Reserve Bank also conducted foreign exchange operations for its other customers mainly the Government, and for its own account, in a range of currencies.

Foreign Exchange Turnover



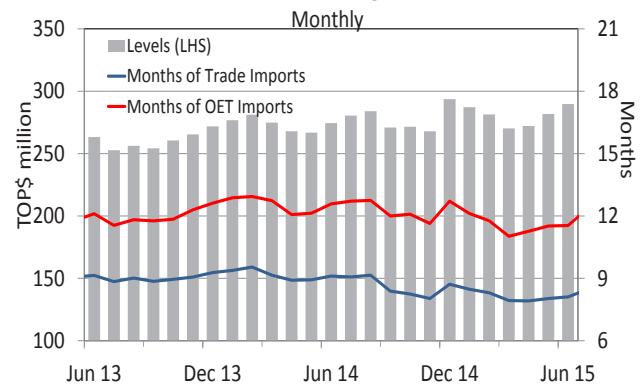
The management of the foreign reserves met the objectives of safety, liquidity and profitability. The currency composition of the foreign reserves was mainly in US dollars, Australian and the New Zealand dollars.

The Bank's investment policy is to obtain the maximum income commensurate with safety, liquidity and the maintenance of overall value which continued to be

a challenge, given the uncertainty and volatility in the global financial markets and continued low interest rates in the trading partner countries. The currency composition therefore deviated from the benchmark portfolio but remained within the Board approved limit, in order to maximize income and maintain the value of the foreign reserves. The currency composition exposes the Bank to exchange rate risk. However, the Reserve Bank continued to closely monitor the implications of the movements of the exchange rates on the value of the foreign reserves. Against the background of lower interest rates in the global markets coupled with the general appreciation of the Tongan pa'anga against the NZD and AUD, the income on the investment of the foreign reserves declined by \$2.1 million compared with the previous year, despite the significant increase in the level of foreign reserves by \$15.3 million.

The Reserve Bank complied with all the Board approved risk parameters for the management of foreign reserves during the year and ensured that investments were held with banks rated above the Board approved minimum "A" rating by international credit rating agencies.

Gross Official Foreign Reserves



Source: Banking System; Statistics Department; Foreign Exchange Dealers

Exchange Control Operations

During 2014/15, the Reserve Bank processed 722 exchange control applications for payments of amounts above the delegated limit and all capital payments as stipulated in the Exchange Control guidelines. The approved exchange control applications amounted to T\$212.3 million in 2014/15 (of which 11% were classified as capital transactions) compared to the 728 exchange control applications (11% capital transactions) processed in 2014/15 amounting to T\$226.2 million. The decrease in the number of exchange control applications and the total amount of the applications re-

flect lower valued and less applications were processed during the year. The exchange control data on foreign currency payments by large importers were key inputs to the Reserve Bank's foreign reserves forecast and monetary policy decisions.

The Reserve Bank also received 47 applications for the removal of foreign currency cash over T\$10,000 across the border, of which all applications were approved totaling T\$35.6 million. This is an increase from 38 applications totaling T\$26.2 million last year. This increase is attributed to more applications for export of cash by banks and foreign exchange dealers due to favorable exchange rates offered overseas.

Spot checks were conducted during the year to ensure banks and licensed foreign exchange dealers were compliant with the exchange control guidelines. The annual review of the Exchange Control Policy Guidelines was completed during the year and came into effect on 1st May 2015. Training with the banks and foreign exchange dealers were conducted to improve their understanding of the exchange control requirements.

The review of the Foreign Exchange Control Act and Regulations is in progress to be finalized in 2015/16. One of the main objectives of this review is to ensure all foreign exchange due to Tonga are captured which would support the Reserve Bank's role of maintaining the foreign reserves at adequate level. In addition, the Reserve Bank's enforcement powers will be strengthened.



Exchange Control Training with Foreign Exchange Dealers

Export Proceeds

The Reserve Bank continued to work towards setting up a framework for the return of export proceeds to Tonga. The export trade data collected from Customs and data on export proceeds were analyzed to better understand the proportion of export proceeds being remitted back and the lag period between the shipment of export and the receipt of the export proceeds.

Over the year to June 2015, 43% of the total export value was remitted back through the banking system. This was mainly driven by fish proceeds of about 29%. This could be due to lag period for exporters to remit funds back and other factors such as funds left abroad for repayment of overseas obligations and also minimization of exchange rate risks. Furthermore, the analysis indicated that the data distortions identified in previous years generally have not improved such as possible understating of trade export data and the inconsistency in the exporters recorded by Customs and the licensed exporters recorded by the Ministry of Commerce, Tourism and Labour. On the other hand, there have been improvements in the reconciliations between the Customs export data and some of the shipping companies' export data. In this regard, more work needs to be done to improve the quality of the exports data as well as find a reliable source for the pricing of exports to ensure appropriate valuations of exports are done. The review of the Foreign Exchange Control Act to incorporate a legal framework to facilitate the establishment of an export proceeds monitoring regime is in progress for finalization in 2015/16. Consultations with relevant stakeholders are to be carried out to discuss how best to ensure the proposed framework works effectively.



Currency Management

The National Reserve Bank of Tonga is responsible for ensuring that there is an adequate supply of high-quality banknotes and coins in circulation to meet the public's currency needs.

During the financial year 2014/2015, the amount of new banknotes issued by the National Reserve Bank of Tonga was valued at T\$38.3 million. This is a decrease by T\$0.6 million from the previous year (T\$38.9 million). However at the end of June 2015, the total value of banknotes on issue in Tonga was T\$53.8 million, a 14.7% increase from the previous financial year.

All currency notes of the Kingdom are printed by De La Rue Currency in the United Kingdom.

The Reserve Bank distributes almost all of its banknotes via the commercial banks, either by adding to their on-site stocks of banknotes or to their Note Trust Depots. The Depots hold the National Reserve Bank of Tonga's banknotes in custody at the commercial banks, ready for distribution via ATMs and tellers when the need arises. The commercial banks have been reducing the amount of banknotes they hold in their Depots since the 2011 financial year, as they have become more risk averse and reduced their holdings of large amounts of cash on their premises. This has increased the frequency of the commercial banks visits to the National Reserve Bank of Tonga vault.

To maintain the quality of banknotes in circulation, the National Reserve Bank of Tonga destroyed 1.9 million (T\$26.4 million) pieces of unfit banknotes over the year compared to 1.7 million pieces (T\$28.3 million) in the previous year. There was only one (\$50 pa'anga) counterfeit note reported during the financial year, down from 20 counterfeit notes in the previous year. The counterfeit note was confirmed to be photocopied banknotes on an ink jet printer. Following these counterfeit reports, the National Reserve Bank of Tonga continued to issue public notices and brochures on identifying counterfeit banknotes both in the English and Tongan language.

At the end of June 2015, the face value of coins on issue totalled \$2.1 million, which remained unchanged compared to the previous year.

Numismatic Banknotes and Coins

The National Reserve Bank of Tonga received royalty from the sale of numismatic banknotes and coins directly to collectors and through agreements with specialised companies. Revenue from banknotes and coins sales totalled \$261,052.89 over the 2014/15 financial year, an increase from \$12,061.55 the previous year. The Currency Division also completed the setup of a museum to help generate awareness and increase the sales of numismatic bank notes and coins in Tonga. The latest issue of numismatic bank notes and coins on sale include the 2015 King Tupou VI family of coins set, the 2015 King Tupou VI bank note folder set and the uncut banknote sheets. Each uncut sheet contains fully printed banknotes consisting of 45 notes for 2, 5, 10 and 20 pa'anga. There are 36 notes for the 50 and 100 pa'anga uncut sheet. Each banknote on the uncut sheet is numbered with the special Serial Number KT 04.07.15 to commemorate the Coronation of King Tupou VI on the 4th July 2015.

His Majesty King Tupou VI Unveiled the Kingdom of Tonga's New Family of Coronation Currency

His Majesty King Tupou VI, launched the Kingdom of Tonga's new coronation currency series on 29th June 2015 at the Fa'onelua Convention Centre in Nuku'alofa. The new coronation currency consists of a new series of coins to replace the old coins and new banknotes with advanced security features.

The Privy Council in 2014 approved to change the portrait from His Late Majesty King George Tupou V to His Majesty King Tupou VI effigy on the banknotes with slight changes to the design and paper to improve the

quality and performance of the banknotes.

Among the major changes to Tonga's coronation currency series is the discontinuance of the 1 and 2 seniti and coining of the 1 pa'anga. Both the new notes and coins depict the portrait of His Majesty, King Tupou VI with the exception of the 1 pa'anga coin which depicts the portrait of His Majesty, the Late King George Tupou V.

The new family of coins consists of 5 coins featuring designs, themes and concepts that reflect Tonga's history, culture, economy and heritage. The sizes of the coins are now thinner, smaller in size and lighter in weight. The launch of Tonga's new coronation currency series is truly a historic event that marks the Kingdom's first coinage reform in almost 50 years.

Denominations	Obverse	Reverse (Theme)	Colour
Banknotes			
\$100	King Tupou VI's image	Vava'u Harbour	Cherry red and white
\$50	King Tupou VI's image	Royal Palace	Light green and yellow
\$20	King Tupou VI's image	NRBT Building	Brown
\$10	King Tupou VI's image	Royal Tomb	Blue
\$5	King Tupou VI's image	Ancient 'Otu Langi	Purple
\$2	King Tupou VI's image	Whale Watching	Light Red
Coins			
\$1	King George Tupou V's image	Coat of Arms	Gold
50¢	King Tupou VI's image	Milolua	Silver
20¢	King Tupou VI's image	Kalia	Silver
10¢	King Tupou VI's image	Malau	Silver
5¢	King Tupou VI's image	Heilala	Silver



External Relations

The Reserve Bank continued to participate in various international forums and bilateral relationships with other central banks held internationally during the year. The Reserve Bank's participation aimed at addressing the ongoing challenges facing the global economy, the Pacific Region and Tonga. NRBT's participation also contributed to strengthening the Bank's relationships with other central banks in the South Pacific and the IMF which provided technical assistance

and comprehensive assessments of Tonga's economic and financial performance and policies. To support its routine analysis of Tonga's domestic economic and financial conditions, the Reserve Bank continued to regularly meet with other stakeholders including the local banks, large private companies, development partners and their visiting delegations, as well as the Chamber of Commerce during the year.

Corporate Services

Celebrating 25 Years of Service

The financial year 2014/15 marked an important milestone in the Reserve Bank's history as it celebrated its 25th Anniversary on 1 July 2014. The Bank commemorated the legacy of its Silver Jubilee on 9 July 2014, with a low key prayer gathering of the Board of Directors and staff. In his welcoming speech, Governor Kioa acknowledged the Bank's appreciation of both former and current Board Directors, Governors and staff of the bank for their services rendered over the last 25 years thus bringing the Bank to be an effective and dynamic central bank in promoting Tonga's economic prosperity.

The Guest of Honor who is also the longest serving Board Director, HRH Princess Pilolevu Mafile'o Tuita also marked the occasion by presenting a silver coin to the longest service, Ms 'Isapela Hufanga - one of the remaining founding staff members since the establishment of the Reserve Bank in 1989.



HRH Princess Salote Mafile'o Pilolevu Tuita, the Governor and Ms. 'Isapela Hufanga the founding staff member.

Highlights of the commemoration of the Banks Silver Jubilee included the completion of the Phase 2 of the Level 2 upgrade. This was critical considering the Bank's functions have increased over the years, and it is anticipated that the number of staff would continue to increase in the coming years in order to carry out the Bank's functions. Therefore, the upgrade of the Level 2 open area into work stations to accommodate the increase in the number of staff was timely. The Level 2 board room and conference room were also renovated to become a meeting area for all the staff. Additionally,

a currency museum was constructed to display a collection of all the bank notes and coins as well as commemorative coins in Tonga. These notes and coins include those issued by the Reserve Bank since its establishment 25 years ago as well as notes and coins issued by the Commissioner of Currency before the Reserve Bank was established in 1989.

Staffing

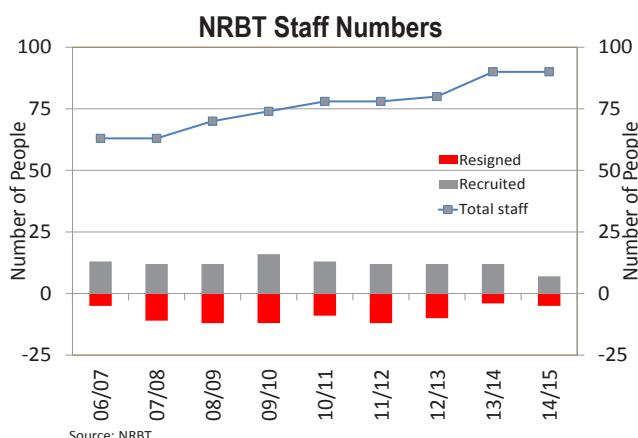
The Bank continued to focus on promoting its strategic priority to positioning the Reserve Bank as the employer of choice. This is through implementing competitive attraction and retention strategies in a culture of high performance. The Bank's human resource policies, staff benefits including staff loan and provident fund, training and development, transparent career path for staff and the organizational structure were reviewed. and implemented. These projects contributed to marking the commemoration of the Bank's Silver Jubilee on 1 July 2014.

During the year, the Reserve Bank endeavoured to be the employer of choice while implementing its second year of the Governor's Awards as part of the Bank's employee retention strategies to recognise and reward staffs with talent when consistently demonstrating the values of the Bank in their roles. At the end of 2014, the awardees of the Governor's Awards for 2014 were Mrs Melenaite Tupou as the employee of the year and Mr Siosaia Taione as the security of the year. These two awardees were rewarded one salary increment effective from the 1 January 2015 to mark this achievement. Management of the Bank anticipates that the staffs will continue to maintain a high standard of performance not only towards their teams but the Bank as a whole.



Staff of the National Reserve Bank of Tonga at the 25th Anniversary Celebration

Investing on building the Reserve Bank's capacity, 7 professional staffs were recruited mainly to the Economics & Research, IT, Accounts, Security and Financial Markets Departments. A Technical Advisor under the Australian Volunteers for International Development (AVID) program was also engaged to strengthen the facilitation of economic related activities. This was before the former Technical Advisor under the AVID completed his 1-year contract.



Through the commitment and support facilitated by technical assistants, 90 staff and 2 daily note counters, NRBT was able to deliver on its core responsibilities effectively during the year.

The Bank continued to engage staff through training programs offered in-house, locally and internationally to strengthen the core competencies needed to deliver the Reserve Bank's functions. During the year, the Bank completed 61% of the training programs scheduled and emerged during the year, a 20% decline from the previous year due to prioritizing of the Bank's commitments where some training opportunities were cancelled or deferred to the next financial year.

Staff members were encouraged to participate in the Bank's financial support program not only to further strengthen the competencies required for their job but also to build their career path at the Bank. One staff

Short Term Consultants and Technical Assistance (TA)

Descriptions	Department	Funding Source
Onsite and Offsite Supervision issues- PFTAC	Financial Institutions	PFTAC
Bank Licensing- PFTAC	Financial Institutions	PFTAC
IMF Legal Department (LEG)	Financial Institutions	IMF
Mission- Annual Review of Prudential Statements		
Review the classification of OET (Overseas Exchange Transaction) CODES - IMF	Economics Department	IMF

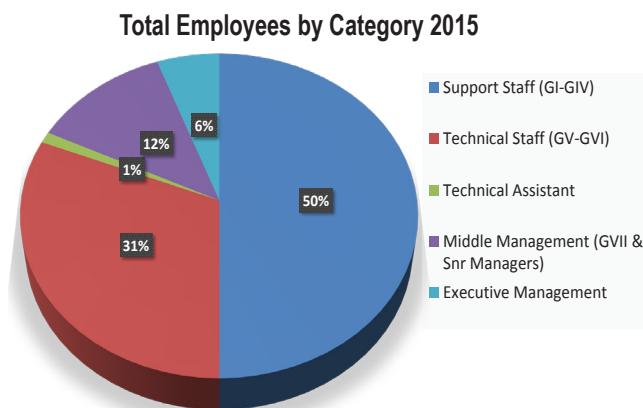
member is expected to complete a postgraduate study program in Risk Management in Australia, under the AusAID scholarship scheme, in July 2015 and return to the Bank. Two staff members completed their Certificates in Accounting during the year through part time studies locally.

The Reserve Bank acknowledges the technical support and advisory services provided through the IMF, Pacific Financial Technical Assistance Centre (PFTAC) and the Australian Volunteers for International Development (AVID) program.

Instance of Training

by Financial Year

	Number of training events			Number of participants				
	2011/12	2012/13	2013/14	2014/15	2011/12	2012/13	2013/14	2014/15
In-house	6	3	2	5	98	37	15	23
Online	-	-	3	3	-	-	5	7
Local	6	1	11	5	17	2	23	14
Overseas	4	16	28	14	6	17	20	11



Information Technology

The Information Technology Division continued to focus on providing services that are highly accessible, uninterrupted and secured from a broad range of information sources. This involved improving the internet connectivity by installing submarine fiber optic cable to both SWIFT network system and the corporate network infrastructure, providing additional wireless connections to improve accessibility to information and also MAC address filtering to enhanced security controls. The Email System was further developed to enhance high availability of the databases by applying Database Availability Group and virtual backup of mailboxes. Storage Area Network backup volume was expanded with additional hard disk drive to accommodate the increase in the volume of the bank's information. Desktop computers and operating system were replaced with new laptops and desktop computers to promote innovative performance in a flexible working environment. The desktop computers were also upgraded with the latest updates and patches to ensure stability and enhance security. Further development was made on the Bank's external website to better meet the Bank's needs for timely dissemination of accurate information that are accessible and highly available.

Focusing on the strategic priority to modernize the op-

erations of the Bank, the Reserve Bank continued to review the Human Resource Management Information System (HRMIS) to automate some of the Bank's critical processes and function. This resulted in the implementation of the Time and Attendance system using the existing Cardax Door System to capture the staff attendance. The review of the HRMIS will continue to be developed in the next financial year. The Division continued to work on completing the matters arising from the IT Audit 2013, consolidating the IT Disaster and Recovery Plan and reviewing the IT Risk Framework.

Property

The Property Division continued to work closely with the Security and General Administration Division in maintaining the safety and security of the Bank's property, staff and tenants throughout the year. This involved conducting routine service maintenance of the Bank's critical plants and equipment while carrying out refurbishment projects to uphold the standard of the Bank's building, its key facilities while providing conducive and a safe working environment to staff and tenants. The projects completed during the year include:

1. Implementation of the second Phase of the Key Review Management and System.
2. Review of the Fixed Asset Management System and labelling.
3. Upgrading of the split air condition system at the Embassy of Japan's office at Level 5 with additional air handling units.
4. Undertaking the Building review.
5. Review of the Tenants' rental rate and Tenancy agreements.
6. Review and renewal of the leased land agreement for the Westpac Bank of Tonga's car park
7. Continuing the refurbishment of the Bank's centralized air condition system to be completed in the 2015/16 financial year.
8. Refurbishment of the Level 2 Conference room and new office layout.



Refurbishment of the Level 2 Conference room

Financial Performance

The gross income from operations for the year ended 30 June 2015 amounted to \$7.375 million, compared to \$9.248 million of the previous year. The 20.3 percent significant decline of gross income in 2014/15 was mainly due to much lower interest income from investments as a result of lower yield and the strengthening of the Tongan pa'anga against the New Zealand and the Australian dollar. This has outweighed the significant increase in numismatic sales which reached a record high during the year due to the new currency launch and the sunset on the old coins in circulation as well as the increase in income from the sales and purchases of foreign currencies attributed to high value and volume of foreign exchange transactions during the financial year.

Interest expense, currency, administration and other costs totalled \$6.114 million compared to \$5.696 million of the previous year. The 7.0 percent increase of total expenditures was mainly due to the increase in staff cost after aligning the current staff salaries to the market rate, and higher costs of managing currency operations. The administration cost on the other hand, declined due to lower building maintenance costs and lower expenditures on goods and services during the year.



NRBT Board Chairman, Minister of Finance and the Governor.

The net profit for the year ending 30 June 2015 was \$1.261 million, compared to \$3.552 million of the previous year. In accordance with section 8(1) of the NRBT (Amendment) Act 2014, 30 percent of the profit shall be transferred to the Bank's General Reserves and 70 percent of the profit for the year is payable to the Government.

NATIONAL RESERVE BANK OF TONGA

Financial Statements

YEAR ENDED 30 JUNE 2015



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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 2015, and the related Statements 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:

Mr Steve Edwards – Chairman
HRH Princess Salote Pilolevu Tuita
Mr Richard Prema
Dr Sione Ngongo Kioa - Governor
Mrs Sinaitakala Tu'itahi
Mr Tatafu Moeaki

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; and
- p) carry out any other function or any ancillary activities incidental to the exercise of its functions under this Act or any other Act.

3. TRADING RESULTS

The net profit of the Bank for the year ended 30 June 2015 was \$1,260,729 (2014: \$3,552,247).

4. GENERAL RESERVES

In accordance with Section 8(1)(b) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$378,219 being 30% of the current year profit, is transferred to the General Reserve at year end.

5. PAYABLE TO GOVERNMENT

In accordance with Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act, 2014, the amount of \$882,510 (2014: \$3,552,247) is payable to the Government of the Kingdom of Tonga.

6. 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.

7. PROVISIONS

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

8. 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.

9. 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.

10. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year the directors are not aware of any matter or circumstances not otherwise dealt with in the report that has significantly affected the operations of the Bank, the results of those operations or the state of affairs of the Bank in subsequent financial years.

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.

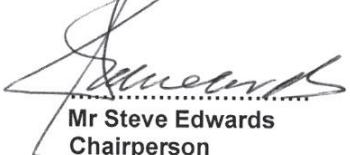
12. OTHER CIRCUMSTANCES

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 29th day of September, 2015.



.....
Mr Steve Edwards
Chairperson



.....
Dr Siore Ngongo Kioa
Governor



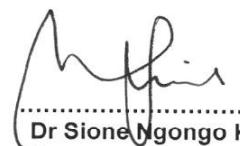
STATEMENT BY DIRECTORS

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 2015;
- (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 2015;
- (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 2015;
- (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 2015; 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 2015.

For and on behalf of the Board of Directors by authority of a resolution of the Directors this 29th day of September, 2015.


.....
Mr Steve Edwards
Chairperson


.....
Dr Sione Ngongo Kioa
Governor



Independent Auditor's Report

To the Board of Directors of National Reserve Bank of Tonga

Report on the Financial Statements

We have audited the accompanying financial statements of the National Reserve Bank of Tonga (the 'Bank'). The financial statements comprise the statement of financial position of the Bank as at 30 June 2015 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the National Reserve Bank of Tonga Act, 1988, National Reserve Bank of Tonga (Amendment) Act, 2007 and the National Reserve Bank of Tonga (Amendment) Act, 2014 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors and management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers, Level 8 Civic Tower, 272 Victoria Parade, Suva, Fiji.
GPO Box 200, Suva, Fiji.

T: (679) 3313955 / 3315199, F: (679) 3300981 / 3300947

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Opinion

In our opinion the accompanying financial statements of the National Reserve Bank of Tonga have been prepared, in all material respects, in accordance with the basis of preparation and 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, National Reserve Bank of Tonga (Amendment) Act 2007 and the National Reserve Bank of Tonga (Amendment) Act 2014.

Emphasis of Matter

We draw attention to Note 2 (a) and (b) to the financial statements which refer 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 qualified in respect of this matter.

Restriction on Distribution or Use

This report is made solely to the Board of Directors of the Bank. Our audit work has been undertaken so that we might state to the Board of Directors those matters we are required to state 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 Bank's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

29 September 2015
Suva, Fiji

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants

**BALANCE SHEET
AS AT 30 JUNE 2015**

	Notes	<u>2015</u> \$	<u>2014</u> \$
ASSETS			
Foreign Currency Assets			
Short Term Investments and Current Accounts	8	263,691,758	250,118,877
Accrued Interest		8,803,874	9,489,821
International Monetary Fund (IMF)	9		
- Reserve Tranche Position		5,050,555	4,729,574
- Special Drawing Rights		20,923,187	19,590,569
Local Currency Assets			
Cash on Hand	18	418,132	1,214,948
Accrued Interest		23,078	3,471
Other Assets	10	10,714,682	3,870,962
International Monetary Fund - Currency Subscription	9	14,467,901	14,564,431
Property, Plant and Equipment	11	9,388,370	9,641,335
Total Assets		333,481,537	313,223,988
LIABILITIES			
Foreign Currency Liabilities			
Accrued Interest		349	22,018
Demand Deposits	12(a)	10,921,827	14,582,858
IMF Special Drawing Rights Allocation	9	19,418,101	18,184,008
Local Currency Liabilities			
Payable to Government	13	882,510	3,552,247
Demand Deposits	12(b)	185,789,222	171,543,288
Accrued Interest		8,490	654
Other Liabilities	16	1,187,133	1,943,147
Currency in Circulation	14	55,961,459	48,931,805
Statutory Reserve Deposits	15	18,112,000	16,801,000
International Monetary Fund - Currency Subscription	9	14,467,901	14,564,431
Employee Provisions	17	80,853	125,069
Total Liabilities		306,829,845	290,250,525
NET ASSETS		26,651,692	22,973,463
CAPITAL AND RESERVES			
Authorised Capital		5,000,000	5,000,000
Paid up Capital		5,000,000	5,000,000
General Reserves	2(n)	10,378,219	10,000,000
Revaluation Reserve Account		11,273,473	7,973,463
TOTAL CAPITAL AND RESERVES		\$26,651,692	\$22,973,463

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



**STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 30 JUNE 2015**

Income	Notes	2015	2014
		\$	\$
Interest Income	4	4,993,252	7,083,708
Other Income	5	2,381,397	2,164,929
Total Operating Income		7,374,649	9,248,637
Expenses			
Interest expense	6	89,886	75,481
Administration and other expenses	7	6,024,034	5,620,909
Total Operating Expenses		6,113,920	5,696,390
Net profit		1,260,729	3,552,247
Net gains/(losses) arising from the translation of foreign currency balances to local currency	2(b)	3,300,010	5,567,337
Other comprehensive income for the period		3,300,010	5,567,337
Total comprehensive income		\$4,560,739	\$9,119,584

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

STATEMENT OF DISTRIBUTION
YEAR ENDED 30 JUNE 2015

	Notes	2015	2014
		\$	\$
Net profit available for distribution		\$ 1,260,729	\$ 3,552,247
Distribution as follows:	2(n)		
Transfer to General Reserves as required under Section 8(1)(b) of the National Reserve Bank of Tonga (Amendment) Act, 2014		378,219	-
Balance Payable to Government of Tonga as required under Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act, 2014	13	<u>882,510</u>	<u>3,552,247</u>
		\$ 1,260,729	\$ 3,552,247

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



STATEMENT OF CHANGES IN EQUITY YEAR ENDED 30 JUNE 2015

	Paid up Capital \$	General Reserves \$	Revaluation Reserve Account \$	Total \$
Balance 30 June 2013	\$5,000,000	\$10,000,000	\$2,406,126	\$17,406,126
<i>Other comprehensive income</i>				
Net gains arising from the translation of foreign currency balances to Tongan currency	-	-	5,567,337	5,567,337
Transfer to General Reserves (as provided for under Section 8(1)(c) of the National Reserve Bank of Tonga (Amendment) Act 2007, and approved by the Minister of Finance	-	-	-	-
Balance 30 June 2014	\$5,000,000	\$10,000,000	\$7,973,463	\$22,973,463
<i>Net losses arising from the translation of foreign currency balances to Tongan currency</i>				
Net losses arising from the translation of foreign currency balances to Tongan currency	-	-	3,300,010	3,300,010
Transfer to General Reserves (as provided for under Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act 2014, and approved by the Minister of Finance	-	378,219	-	378,219
Balance 30 June 2015	\$5,000,000	\$10,378,219	\$11,273,473	\$26,651,692

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

STATEMENT OF CASH FLOWS
YEAR ENDED 30 JUNE 2015

	Notes	2015 \$	2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		5,659,592	2,831,854
Rental income		778,981	1,029,205
Numismatic sales			7,220
Other income		1,341,363	1,153,174
Purchase of currency		(7,315,020)	(1,126,956)
Interest paid			(75,033)
Payments to suppliers and employees		(4,386,538)	(3,593,432)
Net cash (outflow)/ inflow from operating activities		<u>(3,764,288)</u>	<u>226,032</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(316,894)	(845,243)
Net movement in IMF accounts		(1,653,599)	(237,776)
Net movement in staff loans		<u>(899,748)</u>	<u>(241,966)</u>
Net cash used in investing activities		<u>(2,870,241)</u>	<u>(1,324,985)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in currency in circulation		7,029,654	10,391,387
Increase in demand deposits		10,584,903	(12,387,254)
Increase in statutory deposits		1,311,000	540,000
Net movement in Government of Tonga account		(3,552,247)	8,549,361
Net movement in funds held for clearance		(496,819)	354,896
Net movement in IMF SDR Allocation		<u>1,234,093</u>	<u>174,178</u>
Net cash inflow from financing activities		<u>16,110,584</u>	<u>7,622,568</u>
Net increase in cash and cash equivalents		9,476,055	6,523,615
Cash and cash equivalents at the beginning of the financial year		\$251,333,825	239,242,873
Net effect of change in exchange rates	2 (b)	3,300,010	5,567,337
Cash and cash equivalents at the end of the financial year	18	\$264,109,890	\$251,333,825

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



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS YEAR ENDED 30 JUNE 2015

1. GENERAL INFORMATION

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

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

The principal functions of the Bank shall be, to:

- a) issue currency;
- b) formulate and implement monetary policy;
- c) prescribe the regime for the determination of the external value of the Tongan currency in consultation with the Minister;
- d) determine the foreign exchange rate and implement foreign exchange policy;
- e) determine and implement financial stability policy, and oversee the maintenance of the stability of the financial system as a whole;
- f) regulate as required the supply, availability and international exchange of money;
- g) exclusively hold and manage the external reserves of the Kingdom;
- h) provide advisory services to the Minister on banking and monetary matters;
- i) be the principal banker, fiscal agent and depository of the Government;
- j) undertake banking business, in Tonga or elsewhere, subject to the provisions of this Act;
- k) regulate and supervise financial institutions, including non-bank financial institutions;
- l) oversee and promote the efficient, sound and safe functioning of the payment system;
- m) collect and produce statistics;
- n) cooperate with and participate in international councils and organisations, including public international financial institutions, and cooperate with domestic and foreign public entities, concerning matters related to its objectives and functions;
- o) regulate and supervise capital markets in Tonga; and
- p) 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 29 September 2015.

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.

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS -
Continued**

New standards, amendments and interpretations issued but not yet effective and not early adopted

A number of new standards and amendments to standards and interpretations are effective for accounting periods beginning on or after 1 July 2015. None of these is expected to be relevant to the Bank, except the following set out below:

Standard/ Interpretation	Content	Applicable for financial years beginning on/after
IFRS 9, 'Financial instruments'	IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The Bank is in the process of evaluating the potential effect of this standard.	Annual periods beginning on or after 1 January 2018

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 National Reserve Bank of Tonga Act, 1988, the NRBT (Amendment) Act, 2007, the Miscellaneous Amendments (Privy Council) Act 2010 and NRBT (Amendment) Act 2014, 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 an increase in net profit by \$3,300,010 (2014 \$5,567,337)

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 is applied first, on behalf of the Government, to the redemption of any non-negotiable market interest bearing notes previously transferred to the Bank by the Government to cover losses. According to the National Reserve Bank of Tonga (Amendment) Act 2007, any balance remaining in the Revaluation Reserves Account shall be carried forward to the next financial year.



NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS -
Continued**

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) – Provisions for impairment of financial assets

Note 2 (i) – Depreciation

Note 2 (j) – Provisions for employee entitlements

d) Financial Assets and Liabilities

i. Financial Assets

The Bank classifies its financial assets in the following categories: Held to maturity investments and loans and receivables.

• Held to Maturity Investments

Held to Maturity Investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention to hold to maturity.

Held-to-maturity investments are carried at amortised cost. Any premium or discount on purchase is capitalised and amortised over the term of the investment on a constant yield to maturity basis.

All purchases and sale of investment securities are recognised at settlement date, which is the date that the asset is transferred to the Bank.

• Loans and Receivables (Staff Loans)

Are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are carried in the balance sheet at historical cost net of impairment provisions.

Impairment of Financial Assets

For financial assets that are not classified as fair value through profit or loss, the Bank assesses as at each balance date whether there is objective evidence of impairment. This would include observable data that comes to the attention of the Bank such as significant financial difficulty of the issuer or counterparty; the disappearance of an active market for financial asset because of financial difficulties or a market downgrade in credit rating of the counterparty.

For loans and receivables an appraisal is carried out at the end of the financial year by management. The amounts of potential losses that have been identified are either written off against provisions in the year in which they are recognised or recognised as an expense in the income statement.

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS -
Continued**

ii. Financial Liabilities

Financial liabilities are recognised at fair value plus transaction costs. They are recognised when an obligation arises and derecognised only when the obligation is discharged, cancelled or expired.

Financial liabilities are recorded at trade date, the date on which the Bank commits to borrow or repay the relevant funds.

• Demand Deposits

Demand Deposits represent funds placed with the Bank by financial institutions and other organisations brought to account on a cost basis. These deposits are at call. Interest is paid on demand deposits of commercial banks held with the Bank.

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 recognised in the income statement.

f) Currency in Circulation

The face value of notes and coins on issue is taken up as a liability in the accounts. Where notes and coins on issue are no longer considered to be in circulation, either through their age or their numismatic value, they are written back to income.

g) Coins sold as numismatic items

The Bank sells, or receives royalties on, coins which are specially minted or packaged as numismatic items. These coins have not been accounted for as currency issued for circulation as they are not issued for monetary purposes. In terms of Section 53(2) of the National Reserve Bank of Tonga Act, 1988 and the Miscellaneous Amendments (Privy Council) Act 2010, Cabinet has specified by notice in the Gazette that the Bank shall not be required to include in its financial statements the face value of these coins in circulation.

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 only certain staff contribute to this scheme. The bank and staff contributions are based on the years of service. Other staffs contribute to the National Provident Fund Scheme.

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 - continued
YEAR ENDED 30 JUNE 2015

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS -
Continued**

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 Recognition

Interest income is brought to account on an accrual basis.

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:

- 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;
- where the General Reserve exceeds 50% of the authorised capital of the Bank, 30% to be transferred to 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.

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.

p) Segment Reporting

The Bank presents financial assets and financial liabilities, and their associated income and expense streams, by distinguishing between foreign and local currency activities. The Bank considers that these reporting approaches provide appropriate segmental reporting of the Bank's activities.

q) Leases

Where the Bank is the lessee, the lease rentals payable on operating leases are recognised in the Income Statement over the term of the lease.

Where the Bank is the lessor, the assets leased out are retained in Property, Plant & Equipment.

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND STATUTORY REQUIREMENTS -
Continued**

r) Functional and Presentation Currency

The Bank's financial statements are expressed in Tonga Pa'anga. Amounts in the financial statements are rounded to the nearest dollar unless otherwise stated.

3. FINANCIAL RISK MANAGEMENT

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.

	<u>2015</u> \$	<u>2014</u> \$
Foreign currency assets		
Short Term Commercial Paper and current accounts	<u>263,691,758</u>	<u>250,118,877</u>
Total financial investments	<u>\$ 263,691,758</u>	<u>\$ 250,118,877</u>
	=====	=====

The Bank's end of year concentration of credit exposure, based on the country in which the counterparty is resident, is as follows:

	<u>2015</u> \$	<u>2014</u> \$
Australia	163,736,255	174,930,065
New Zealand	86,879,388	49,758,418
United States of America	12,190,307	14,704,361
Switzerland	538,127	10,483,985
United Kingdom	297,052	159,228
Fiji	<u>50,629</u>	<u>82,820</u>
Total financial investments	<u>\$263,691,758</u>	<u>\$250,118,877</u>



**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

3. FINANCIAL RISK MANAGEMENT - Continued

The following table presents the Bank's financial assets based on Standard & Poor's credit rating of the foreign counterparties based on the country in which the counterparty is resident. N/R indicates the entity has not been rated by Standard & Poor's and includes exposure to Supernational.

	2015 \$	2014 \$
AAA	836,837	267,488
AA+	12,215,013	14,704,361
AA	122,007	180,902
AA-	193,331,011	224,399,321
A+	56,598,134	-
B+	50,629	82,820
N/R	<u>538,127</u>	<u>10,483,985</u>
Total financial investments	\$ 263,691,758 =====	\$ 250,118,877 =====

(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.

The table below analyses the Bank's liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

Maturity Analysis as at 30 June 2015

	0-3 months	3-12 months	1- 5 years	Over 5 Years	No Specific maturity	Total
Liabilities						
Foreign Currency Liabilities						
Accrued Interest	349	-	-	-	-	349
Demand Deposits	10,921,827	-	-	-	-	10,921,827
IMF Special Drawing Rights Allocation	-	-	-	-	19,418,101	19,418,101
Local Currency Liabilities						
Payable to Government	882,510	-	-	-	-	882,510
Demand Deposits	185,789,222	-	-	-	-	185,789,222
Accrued Interest	8,490	-	-	-	-	8,490
Other Liabilities	-	-	-	1,187,133	1,187,133	1,187,133
Currency in Circulation	-	-	-	55,961,459	55,961,459	55,961,459
Statutory Reserve Deposits	-	-	-	18,112,000	18,112,000	18,112,000
International Monetary Fund - Currency Subscription	-	-	-	14,467,901	14,467,901	14,467,901
Employee Provisions	59,508	4,198	-	17,147	-	80,853
Total Liabilities (contractual maturity dates)	197,661,906	4,198	-	17,147	109,146,594	306,829,845

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

3. FINANCIAL RISK MANAGEMENT - Continued

(b) Liquidity Risk - continued

Maturity Analysis as at 30 June 2014

	0-3 months	3-12 months	1- 5 years	Over 5 Years	No Specific maturity	Total
Liabilities						
Foreign Currency Liabilities						
Accrued Interest	22,018	-	-	-	-	22,018
Demand Deposits	14,582,858	-	-	-	-	14,582,858
IMF Special Drawing Rights Allocation	-	-	-	-	18,184,008	18,184,008
Local Currency Liabilities						
Payable to Government	3,552,247	-	-	-	-	3,552,247
Demand Deposits	171,543,288	-	-	-	-	171,543,288
Accrued Interest	654	-	-	-	-	654
Other Liabilities	978,874	42,730	-	-	921,543	1,943,147
Currency in Circulation	-	-	-	-	48,931,805	48,931,805
Statutory Reserve Deposits	-	-	-	-	16,801,000	16,801,000
International Monetary Fund - Currency Subscription	-	-	-	-	14,564,431	14,564,431
Employee Provisions	101,112	-	4,810	19,147	-	125,069
Total Liabilities (contractual maturity dates)	190,781,051	42,730	4,810	19,147	99,402,787	290,250,525



**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

3. FINANCIAL RISK MANAGEMENT - Continued

(c) Market Risk

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

(i) Interest rate risk

Interest rate risk refers to the risk of loss arising from changes in interest rates. The Bank limits interest rate risk by modified duration targets. The benchmark modified duration for the total portfolio is capped at 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 assets and liabilities as at 30 June 2015 and 2014 in Tonga Pa'anga equivalents.

At 30 June 2015	USD	AUD	GBP	NZD	Other	Total
ASSETS						
Short Term Investments and Current Accounts	107,702,565	40,038,736	302,478	115,597,349	50,630	263,691,758
Accrued Interest	533,091	3,134,665		5,136,118		8,803,874
International Monetary Fund - Reserve Tranche Position	-	-	-	-	5,050,555	5,050,555
- Special Drawing Rights	-	-	-	-	20,923,187	20,923,187
Total Assets	108,235,656	43,173,401	302,478	120,733,467	26,024,372	298,469,374
LIABILITIES						
Demand Deposits	10,239,973	293,357		260,190	128,307	10,921,827
Accrued Interest	-	-	-	-	349	349
IMF Special Drawing Rights Allocation	-	-	-	-	19,418,101	19,418,101
Total Liabilities	10,239,973	293,357	-	260,190	19,546,757	30,340,277
NET POSITION	97,995,683	42,880,044	302,478	120,473,277	6,477,615	268,129,097

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

3. FINANCIAL RISK MANAGEMENT - Continued

(c) Market Risk - continued

ii. Foreign exchange risk – continued

At 30 June 2014	USD	AUD	GBP	NZD	Other	Total
ASSETS						
Short Term Investments and Current Accounts	93,846,828	69,035,529	164,209	86,989,491	82,820	250,118,877
Accrued Interest International Monetary Fund - Reserve Tranche Position	304,534	5,590,934	1	3,592,873	1,479	9,489,821
- Special Drawing Rights	-	-	-	-	4,729,574	4,729,574
	-	-	-	-	19,590,569	19,590,569
Total Assets	94,151,362	74,626,463	164,210	90,582,364	24,404,442	283,928,841
LIABILITIES						
Demand Deposits	5,110,208	305,518	-	20,696	9,146,436	14,582,858
Accrued Interest IMF Special Drawing Rights Allocation	-	-	-	-	22,018	22,018
	-	-	-	-	18,184,008	18,184,008
Total Liabilities	5,110,208	305,518	-	20,696	27,352,462	32,788,884
NET POSITION	89,041,154	74,320,945	164,210	90,561,668	(2,948,020)	251,139,957

iii. Sensitivity to Foreign Currency Risk and Interest Rate Risk

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

Impact of:	2015	2014
Change in equity due to a +/-5% appreciation / depreciation of the Tonga Pa'anga	13,405,561	12,556,998
Change in profit/loss due to a rise/drop of +/-1 percentage point in interest rate	2,681,112	2,511,400



NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015

4. INTEREST INCOME

	<u>2015</u> \$	<u>2014</u> \$
Overseas investments	4,960,018	7,078,310
Staff loans	<u>33,234</u>	<u>5,398</u>
	\$ 4,993,252	\$ 7,083,708
	<u>=====</u>	<u>=====</u>

5. OTHER INCOME

Numismatic coins	259,849	7,220
Rental income	778,980	1,004,535
Gain on sale of assets	-	5,704
Forex sales/ purchases	1,180,006	1,095,121
Bank user fees	161,357	17,962
Information services – publications	10	512
Miscellaneous	<u>1,195</u>	<u>33,875</u>
	\$ 2,381,397	\$ 2,164,929
	<u>=====</u>	<u>=====</u>

6. INTEREST EXPENSE

Foreign currency accounts	32,174	13,385
Domestic currency accounts	<u>57,712</u>	<u>62,096</u>
	\$ 89,886	\$ 75,481
	<u>=====</u>	<u>=====</u>

7. ADMINISTRATION AND OTHER EXPENSES

Administration	1,594,699	1,768,701
Retirement fund	265,001	143,851
Staff costs	2,312,115	2,041,837
Audit fees	26,288	15,657
Currency issue (refer note 10)	1,256,072	1,112,767
Depreciation	<u>569,859</u>	<u>538,096</u>
	\$ 6,024,034	\$ 5,620,909
	<u>=====</u>	<u>=====</u>

8. SHORT TERM INVESTMENTS AND CURRENT ACCOUNTS

Current accounts	13,762,613	25,800,899
Short term investments	<u>249,929,145</u>	<u>224,317,978</u>
	\$ 263,691,758	\$ 250,118,877
	<u>=====</u>	<u>=====</u>

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

9. INTERNATIONAL MONETARY FUND

- (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 2015, Tonga's membership subscription to the International Monetary Fund was SDR6,900,000 (2014: SDR6,900,000). Of this total amount, SDR1,711,633 (2014: SDR1,711,633) 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 2015, the Special Drawing Rights holdings had a balance of SDR7,090,868 (2014: SDR7,089,827).

10. OTHER ASSETS

	<u>2015</u> \$	<u>2014</u> \$
Staff loans and advances	1,179,094	279,346
Currency and numismatics	4,119,559	2,335,028
Other assets	<u>5,416,029</u>	<u>1,256,588</u>
	<hr/> \$ 10,714,683	<hr/> \$ 3,870,962
	<hr/> =====	<hr/> =====

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.



**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

11. PROPERTY, PLANT & EQUIPMENT

	Leasehold & Buildings	Computer and Office Equipment	Furniture and Fittings	Motor Vehicles	WIP	TOTAL
At 30 June 2013						
Cost	12,653,761	2,736,028	297,296	273,124	-	15,960,209
Accumulated Depreciation	(4,552,030)	(1,690,107)	(195,184)	(188,700)	-	(6,626,021)
Net Book Amount	8,101,731	1,045,921	102,112	84,424	-	9,334,188
Year Ended 30 June 2014						
Opening net book value	8,101,731	1,045,921	102,112	84,424	-	9,334,188
Additions	290,293	343,628	22,872	177,108	11,342	845,243
Transfers in/(out)	-	-	-	-	-	-
Depreciation	(283,797)	(219,495)	(702)	(34,102)	-	(538,096)
Closing net book value	8,108,227	1,170,054	124,282	227,430	11,342	9,641,335
At 30 June 2014						
Cost	12,944,054	3,079,656	320,168	450,232	11,342	16,805,452
Accumulated Depreciation	(4,835,827)	(1,909,602)	(195,886)	(222,802)	-	(7,164,117)
Net Book Amount	8,108,227	1,170,054	124,282	227,430	11,342	9,641,335
Year Ended 30 June 2015						
Opening net book value	8,108,227	1,170,054	124,282	227,430	11,342	9,641,335
Additions	202,588	41,980	20,326	52,000	-	316,894
Disposals	-	-	-	-	-	-
Transfers in/(out)	11,342	-	-	-	(11,342)	-
Depreciation	(272,909)	(218,015)	(7,287)	(71,648)	-	(569,859)
Closing net book value	8,049,248	994,019	137,321	207,782	-	9,388,370
At 30 June 2015						
Cost	13,157,984	3,121,636	340,494	502,232	-	17,122,346
Accumulated Depreciation	(5,108,736)	(2,127,617)	(203,173)	(294,450)	-	(7,733,976)
Net Book Amount	8,049,248	994,019	137,321	207,782	-	9,388,370

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

12. (a) FOREIGN CURRENCY DEMAND DEPOSITS

	<u>2015</u> \$	<u>2014</u> \$
Government of Tonga	10,869,418	14,528,276
Other institutions	<u>52,409</u>	<u>54,582</u>
	\$ 10,921,827	\$ 14,582,858
	=====	=====

(b) LOCAL CURRENCY DEMAND DEPOSITS

International banks	27,083	28,965
Domestic banks	151,819,096	133,503,544
Government of Tonga	<u>33,943,043</u>	<u>38,010,779</u>
	\$ 185,789,222	\$ 171,543,288
	=====	=====

13. PAYABLE TO GOVERNMENT

Amount payable to government in accordance with Section 8(1) of the National Reserve Bank of Tonga (Amendment) Act 2014	\$ 882,510	\$ 3,552,247
	=====	=====

14. CURRENCY IN CIRCULATION

Notes	53,822,891	46,876,495
Coins	<u>2,138,568</u>	<u>2,055,310</u>
	\$ 55,961,459	\$ 48,931,805
	=====	=====

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.

16. OTHER LIABILITIES

	<u>2015</u> \$	<u>2014</u> \$
Other creditors and accruals	1,102,604	1,905,021
Payable to the National Reserve Bank of Tonga		
Staff Provident Scheme – refer note below	<u>84,529</u>	<u>38,126</u>
	\$ 1,187,133	\$ 1,943,147
	=====	=====

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 - continued
YEAR ENDED 30 JUNE 2015

17. PROVISION FOR EMPLOYEE ENTITLEMENTS

	<u>2015</u> \$	<u>2014</u> \$
Opening balance	125,069	62,894
Entitlements during the year	163,931	133,385
Utilised/reversals	(208,147)	(71,210)
	\$ 80,853 =====	\$ 125,069 =====

18. CASH AND CASH EQUIVALENTS

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

	<u>2015</u> \$	<u>2014</u> \$
Cash on hand	418,132	1,214,948
Short term investments and current accounts	263,691,758	250,118,877
	\$ 264,109,890 =====	\$ 251,333,825 =====

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 2015 were Steve Edwards (Chairperson), HRH Princess Salote Pilolevu Tuita, Richard Prema, Sinaitakala Tu'itahi, Sione Ngongo Kioa (Governor) and Tatafu Moeaki.

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 Deputy Governor-Operation), Etikeni Samani (Head of Corporate Services), 'Ungatea Latu (Assistant Deputy 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 Bank contributes to the National Reserve Bank of Tonga Staff Provident Fund in accordance with the Provident Scheme Rules. The contributions in the current financial year were as follows:

	<u>2015</u> \$	<u>2014</u> \$
Provident Fund payments made by the Bank	265,001	143,851
	\$ 265,001 =====	\$ 143,851 =====

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015**

19. RELATED PARTIES - continued

The funds of the National Reserve bank of Tonga Staff Provident Fund are invested within the Bank at an average rate of 3.89% (2014: 3.74%) per annum. The total interest paid by the Bank for the financial year amounted to \$7,163 (2014: \$2,573). 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.

Transactions with director related entities include purchases of goods and services and receipt of rental and utilities income as follows:

	2015 \$	2014 \$
Rent received in advance from Tonga SAT	131,469	70,079
Purchase of goods	143	889

The Directors are paid fees and sitting allowances for services rendered. The Directors entitlements to the retirement fund at year end amounted to \$234,089 (2014: \$199,753). The Bank also provides non-cash benefits to the Executive officers in addition to their salaries.

Total remuneration below is included in 'administrative costs'.

	2015 \$	2014 \$
Executive officers	338,303	337,819
Director's fees and allowances	<u>127,999</u>	<u>120,031</u>
	<hr/> \$ 466,302	<hr/> \$ 457,850
	<hr/> =====	<hr/> =====

20. COMMITMENTS

(a) Operating lease commitments

Lessee Disclosure

Operating lease expenditure and commitments contracted for are payable as follows:

Details of the major operating leases are as follows:

- (i) On 28 July 1992 the bank entered into an agreement with His Majesty the King of Tonga to rent the property in Fasi Moe Afi for 100 years ending 27 July 2091. Under the agreement, rent is payable at \$3,000 per year.
- (ii) On 6 April 1990 the bank entered into an agreement with His Majesty the King of Tonga to rent the property in Kolofo'ou for 100 years ending 5 April 2089. Under the agreement, rent is payable at \$2,000 per year.



NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS - continued
YEAR ENDED 30 JUNE 2015

20. COMMITMENTS - continued

(a) Operating lease commitments - continued

Lessee Disclosure - continued

Total commitments for future lease rentals which have not been provided for in the accounts are as follows:

	<u>2015</u> \$	<u>2014</u> \$
Due not later than one year	5,000	5,000
Due later than one year but not later than five years	20,000	20,000
Due later than five years	<u>356,000</u>	<u>361,000</u>
	\$ 381,000	\$ 386,000
	=====	=====

Lessor Disclosure

The Bank leases its building premises under operating leases to tenants for a term of 2 to 3 years. The minimum lease payments receivable at balance date are as follows:

	<u>2015</u> \$	<u>2014</u> \$
Due not later than one year	637,172	689,371
Due later than one year but not later than five years	<u>793,059</u>	<u>914,737</u>
	\$ 1,430,231	\$ 1,604,108
	=====	=====

(b) Capital and other commitments

	<u>2015</u> \$	<u>2014</u> \$
Commitment not provided for in the financial statements are as follows:		
Capital commitment: approved and contracted	\$ 2,791,450	\$ 721,039

21. CONTINGENT LIABILITIES

Contingencies not otherwise provided for in the accounts and which existed at 30 June 2015 comprise:

- (i) Contracts for foreign exchange transactions was nil (2014: \$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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS - continued YEAR ENDED 30 JUNE 2015

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.

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. EVENTS SUBSEQUENT TO BALANCE DATE

No charge on the assets of the Bank has arisen since the end of the financial year to the date of this report to secure the liabilities of any other person.

No contingent liability has arisen since the end of the financial year to the date of this report.

No contingent or other liability has become enforceable or is likely to become enforceable within a period of twelve months after the date of this report which, in the opinion of the directors, will or may affect the ability of the Bank to meet its obligations as and when they fall due.



KINGDOM OF TONGA'S NEW CURRENCY TO COMMEMORATE THE CORONATION



