TONGA DEVELOPMENT BANK

Annual Report for 18 months

Ended 30th June 2016

TDB

30th September 2016

Hon. Minister for Public Enterprises
Ministry of Public Enterprises
Nuku'alofa

Hon. Minister

I have the pleasure to present, on behalf of the Board of Directors, the Annual Report and Statement of Accounts of the Tonga Development Bank for the financial year ended 30 June 2016, as required under the Tonga Development Bank Act, 2014 Section 18 (6) and the Public Enterprises Act 2002 Section 20 (1).

Respectfully

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Lord Matoto
Chairman

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BACKGROUND

Tonga Development Bank was established on 1st September 1977 under the Tonga Development Bank Act 1977 and incorporated under the Companies Act, 1995 and registered again in 2001. The Tonga Development Bank Act was reviewed and re-enacted in 2014.

The TDB Act 2014 stipulates the mandate for TDB which may be summed up as promoting the social and economic development of the people and enterprises in Tonga through loans, savings, investments and advisory services which are provided on sound professional banking principles and ensuring such loans are repaid. With the TDB Act 2014 in force and within the next 3 years TDB is focusing on innovation and customer service by providing existing customers with services offered by commercial banks and where all their banking needs are met.

The Tonga Government is the sole shareholder of TDB since 1998. A Board of five Directors appointed by the Government oversees the policy management of the Bank. The Board includes a Managing Director and CEO to oversee the day to day management of the business.

VISION

"To be recognized as Tonga's outstanding provider of development and commercial finance which employs prudent banking principles to meet customer needs, demonstrates integrity and operates profitably"

MISSION

"To be committed to promoting Tonga's economic and social advancement by providing high quality development and commercial banking products and responsive professional services, while operating profitably as a financially sound banking institution"

To align its financial year to the Tonga Government's fiscal year, the Board of Directors of the Tonga Development Bank (TDB) resolved to have an eighteen (18) months year from 1st January 2015 to 30th June 2016 and thereafter have a twelve (12) months financial year from 1st July to 30th June.

This reporting period has been an exciting and a challenging one. As the TDB continues its transformation from a development bank into a commercial bank, many changes have taken place and will continue in the future. Although the bank is now fully commercial but there are still new products and services to implement to make it fully competitive in a rapidly developing and changing financial and economic environment, nationally and globally.

It can be seen from the financial statements for this period, and in the past, that TDB is in a strong financial position. The Bank is showing improved performance as commercialization brings benefits in income and a range of new banking activities. The Bank has basically achieved the targets set for this period in terms of profitability and other developments. Net Profit After Tax for the period was $1.80 million against a budget of $2.011 million. There are still improvements to be made in various areas of the Bank and such improvements will be seen in the future performance of the Bank.

Any transformation can be disruptive as it brings many changes and also new and innovative activities which require adjustments and trainings. The Bank's staff have remained committed to the transformation and have been responsive to the challenges. Their determination and focus have enabled the Bank to perform quite creditably in all aspects. Of course there are always rough patches that require smoothing over and these will receive attention as we move ahead.

The Feasibility Study recommending the Bank to become fully commercial was approved in 2013 and as the transformation began in early 2014, the Government decided to bring in potential investor. This resulted in the transformation being stalled as negotiations took place but after at least six (6) months the proposed investor backed out. Regrettably the source of assistance towards the transformation withdrew and the TDB had to work on its own, with assistance it sought using its own resources to progress the transformation.

Having developed its own treasury and chequing facilities in 2014, the Bank developed its own foreign currency products in 2015 and early part of 2016. There are still more products in foreign currency and trade finance to develop and also to improve customer service through new products and these are receiving attention now. Internet banking and Mobile banking are now available in order to improve customer service. Policies and work processes are also receiving attention and compliance, both statutory and regulatory, is receiving full attention at all times.

Staff productivity, employment conditions and development are all important aspects of the health of the organization. These are receiving priority attention as they are important to the transformation of the Bank and its growth. During the period, staff remuneration was received with help from the Hay Group (New Zealand) and this has been implemented resulting in increase in staff costs during this review period.

The Bank continues to provide agency services to Government by taking over Sub-Treasury functions in the outer islands, except Vava'u. The Government Treasury has fallen behind in meeting the agency fees for these services in Ha'apai and 'Eua. Whilst it funds its own activities, it has neglected to pay the agency fees despite repeated reminders.

To stimulate economic activity, the Government requires the bank to manage its Government Development Loan funds which provide low interest, with no attendant fees, to public borrowers on terms stipulated by the Government. Regrettably, the Government does not compensate the Bank fully for the expenses involved in the management of the funds and the loans. This in turn impacts on the Bank's own lending and its profitability which affects the dividends payable to the Government as the sole Shareholder of the Bank.

For this financial period the Bank has paid an interim dividend of $1.0 million to the Government and the final dividend will be close to $1.16 million. The return on equity is around 8.6% although for a 12 months period this figure will decline but efforts will be made to maintain the amount of dividend. The aim of the Bank is to achieve a return on equity in a year or two, of 10% or more and to pay increasing dividend to the Government.

TDB has won international recognition for providing services which support development purposes, a legacy of its origin, and assisting income generating projects for the disadvantaged and low income earners in Tonga. In recognition of its financial inclusive services, TDB was given an award by the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

As a good citizen of the Kingdom, the TDB has supported and is continuing to support a diverse-range of activities within the community which promote health, education, sports, community activities and charitable purposes. When the Open Heart team led by Dr John Wallace, was in Tonga providing voluntary open heart surgery at Vaiola Hospital in September 2015, the Bank provided a shuttle vehicle and fuel for their use.

TDB has been quite successful in growing deposits, both savings and fixed term. The growth in deposits has not been quite matched by growth in lending as the banking system has excess funds and has competition from non-bank financial institutions for loans.

In its quest to lend to bankable proposals, the bank is always mindful to ensure its loans portfolio is of good quality and repayable. Borrowers should get improvement in their financial situation and not be worse off. The loan products are regularly reviewed for improvements and where necessary new products are developed and trialed.

As the transformation continues and its completion becomes a reality in the next two years, the TDB will increase market share and will continue to grow with goals regularly moved higher. Government will get more than full value for its investment and the Bank will continue to be an agent of growth and development. The Bank will always balance affordability, customer satisfaction, growth and profitability. With regards to the calculation of the effective rate, the Bank disagrees with the method used by the National Reserve Bank of Tonga (NRBT), because some of the charges taken into calculation are really the borrowers' responsibility. This is being taken up with the NRBT.

To close, the opportunity is taken here to acknowledge the support received from the Governor and the NRBT, the Hon Minister for Finance and the Ministry of Finance and National Planning, the Hon Minister for Public Enterprises and the Ministry of Public Enterprises, the various ministries and CEOs of the Government of Tonga and from the many other sources which are too many to mention individually here. The CEO of the TDB, the Manager for Transformation, Managers and all staff are to be congratulated for their hard work and effort throughout the year. Although the Board of Directors was a director short for all this time, the directors and the secretary were tireless in giving their attention and guidance to the affairs of the Bank. This support and contributions are highly valued at all times, without which the Bank would not achieve the results for this period. Last but foremost in this appreciation and expression of gratitude goes to our highly valued customers for their support, trust and continuing confidence in TDB. Together we can grow and reach new heights.

Malo 'aupito

Lord Matoto
Chairman

BOARD OF DIRECTORS AS AT JUNE 2016

LORD MATOTO
Former Managing Director of the Bank and former Minister for Finance & National Planning. Chairman of the Board since February 2013.

MR PAULA TAUMOEPEAU
Business man and has been a Director of the Bank since September 2009.

MRS LEPAOLA VAEA
Deputy CEO of the Ministry of Revenue & Customs. Director of the Board in February 2014.

MRS LETA HAVEA KAMI
She was appointed in September 2013 as Managing Director & CEO.

2015/2016 was another year of success for TDB, taking it further into its next phase of expansion programmes and transformation!

I am very proud that TDB has achieved a historical milestone in becoming a commercial bank in March this year.

It took a lot of careful planning, research, persistence, risk management and hard work by everyone involved, from Board level to Management and right throughout all levels of the Bank.

Driven by customer demand and business opportunities offered by the church conferences and coronation in 2015, we launched the Foreign Currency Cash Exchange service in June 2015. While it was very challenging to secure correspondent banking relationships, our persistence paid off with launching the Telegraphic Transfer (Inward/ Outward) early March 2016. Parallel development of our new website and Online Banking services ready for launching by September 2016. Moreover, during the year, a lot of ground work was done in New Zealand to continue to enable the flow of low cost remittance to Tonga in full compliance with regulatory authorities and banking system of New Zealand. This has resulted in the development of a new remittance facility voucher product, namely 'Ave Pa'anga Pau set to be implemented in the first six months of 2016/2017.

Amidst the challenges of financial year changeover from 31 December to 30 June, our continued focus on strategic areas of activity and improving efficiency over the last 18 months has resulted in a satisfactory result with after tax profit of $1.80 million. We are very pleased with this remarkable achievement considering the high set-up costs and delays we had experienced with our new commercial banking products. Our focus on key target markets and strategic moves together with good control of expenses has enabled the Bank to enhance its value while focusing on effective customer service. At the same time the Bank is always alert to potential opportunities for development during the year and I commend the management team and staff for their determination, dedication and commitment.

1) OVERVIEW OF THE FINANCIAL PEROFRMANCE

(All figures are in Tongan Pa'anga)

The net profit after tax was $1.80m for the 18 months ending 30 June 2016 which is above the $1.14m recorded for the year 2014. The major contributing factors to this result were:

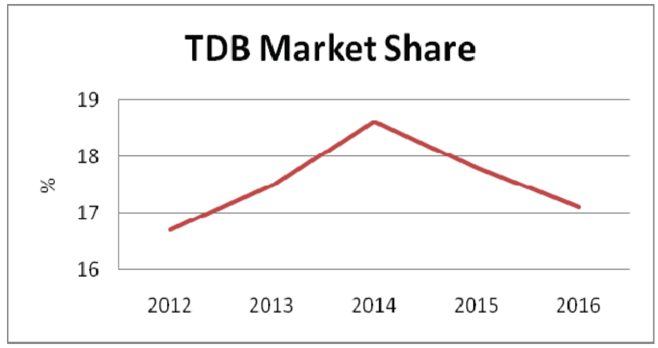
- Interest income increased from $4.71m to $7.19m up by 53%.
- Non interest income increased from $3.14m to $5.20m up by 66%.
- Net operating income increased from $6.37m to $9.41m up by 48%
- Expenses increased from $4.02m to $6.82m, up 70% resulted from increasing transformation cost for 18 months.
- Losses on loans and advances decreased from $0.694m in 2014 to ($0.188m). Very good recovery action and proactive management of problematic accounts resulted in $1.186m Provision written back.
- Income tax expenses increased significantly from $0.405m in 2014 to $0.542m in 2015/16. This is an increase of $0.137m (33.8%).

2) DOMESTIC BANKING ENVIRONMENT

There are five Commercial Banks in Tonga and in direct competition with TDB in the banking sector. Some banks are wholly or partially foreign owned (ie: Bank South Pacific, ANZ Bank, MBf Bank and Pacific International Commercial Bank). TDB is the only national bank with 100% ownership by the Government of Tonga.

A summary of the TDB share in the domestic banking industry with regards to gross lending and lending by sector is presented in the graph below. The decreasing trend over the last 18 months in market share mainly due to refinancing by other banks and competing Government Development Loans (GDL) with total funds up to $9.6 million by the end of June 2016.

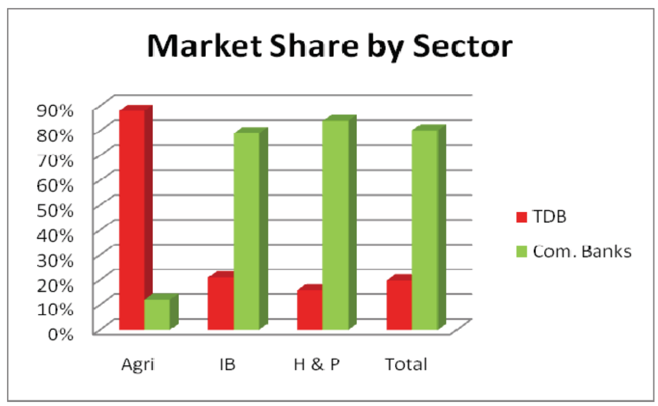
Graph 1



3) Lending Sector Share

TDB is the major financier for the Agriculture sector. Smaller market share held on loans in the Industry & Business sector as well as the Housing & Personal sector as depicted in graph below.

Graph 2



LENDING SECTORS

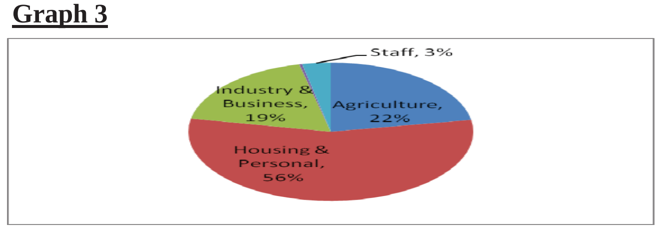
a) Loan Portfolio

The total loan portfolio recorded a decrease of 1.17% from $51.4 million in 2014 to $50.8 million at 18 months ending 30 June 2016. The competition from GDL contributed to this scenario.

b) Approval

The Housing & Personal sector continued to dominate the Bank's total lending portfolio with a 56% share. Followed by the Agriculture sector with 22%. The total level of approval increased by 39% from $19.3m in 2014 to $26.8m at 18 months ending 30 June 2016. The total loan approvals by major shown below:

Graph 3



Government Development Loans (GDL)

Government Development Loans (GDL) formerly known as Government Managed Funds, started in August 2014 with low interest rates of 1% and 4% to key productive sectors. It has increased its approval to $10.5m exceeding the revised budget of $8.6m by 23%. The major categories of approvals were Agriculture Loans followed by Student Loans. The GDL competes directly with our lending and we have brought this to the attention of our shareholder as a budget of $8.8m in 2015/16 is reflected in the decline in TDB's Agriculture sector by $1.1m (20.3%).

c) Agriculture/ Fisheries Sector

Lending to Agriculture and fisheries sector had increased by $1.8m (42%) from $4.2m in 2014 to $6.0m in 2015/16. The extension to 18months of the financial year contributed to the increase. However in comparison to the 12months of 2014, this is not a good rise in average. This was primarily related to the shifting of people's preference to Government Development Loans with its lower loan interest rates. As reflected in GDL lending to this sector was up by 260% from $1.4m in 2014 to $5.0m in 2015/16. The huge growth in this sector reflected in GDL exceeded its Revised Budgets for 18 months.

There is much need for increase in Agriculture sector as basis for improving economic development. However this is difficult to TDB as marketing to public is very competitive with the GDL.

The total loan portfolio for Agriculture was $4.07m in 2015/16 represented 7.73% of the overall loan portfolio. It decreased by 37% from $5.607m in 2014 to $4.075m in 2015/16.

d) Squash

We had a good squash year with favourable climate and good returns. Lending to this sector for 18 months amounted to $86k compared with $0.899m in the previous year, a decrease of $0.812m (90%). The decrease was largely driven by the impact of the low cost GDL funds available to customers. Most of the squash growers were funded by the GDL up to the limit under the Agriculture & Production sector (ie: $200K). Regardless of the competition with GDL, the Bank will continue to assist the development of the squash industry because of its positive contribution to the economy. TDB still maintain its close relationship with MAFF and MCTL for ongoing sustainability of the Industry.

e) Industry & Business

Lending to Industry and Business was $4.928m in 2015/16 compared to $5.645m in 2014 a decrease of $0.717m (12%). The decline was primarily driven by the impact of Industry & Business loans of $2.6m approved under the Government Development Loans. The opportunities for lending in the commercial sector have improved compared to 2014 especially on public and SMEs sectors. We also continued to receive enquiries for taking over of business customers' debts from commercial banks but most of these businesses are over committed. The Bank only considers proposal that are within our lending policy guidelines and are considered to be viable.

The total loan portfolio for Industry and Business was $24.3m in 2015/16 which is 46.07% of the total portfolio. The Industry and Business sector increased by $2.9m (13.71%) from $21.4m in 2014.

f) Housing & Personal

The Housing and Personal Loans remained dominant of the Bank's lending and portfolio in 2015/16. The total lending to Housing and Personal was $15.0m in 2015/16 compared to $8.1m in 2014. This is an increase of $6.9m (85%).

Despite the competition against GDL, we made considerable progress to our approval this 18 months. This was seen largely in our Housing and Personal sectors which saw a boost in its trend in line with a rise in our portfolio.

Housing and Personal lending totalled about $21.8 in 2015/16 represents 41.4% of the loan portfolio.

g) Staff Loans

Staff loans for 18months ended June 2016 was $2.543m accounted for 4.8% of the loans portfolio. Total approval for 2015/16 of $0.87m was slightly higher than the 18months revised budget.

h) Outer Island Lending

With TDB the only Bank with largest branch network, our Lending in the Outer Islands amounted to $6.7m contributing 25.0% in loans approved in 2015/16. This was an increase from $5.3m recorded in 2014 which was a devastating year with Cyclone Ian (category 5) hitting Ha'apai.

4) PERFORMANCE TARGETS AND MEASURES

a) Credit Risk Management (CRM)

We continued to apply prudent credit risk management principles and it is an ongoing process aimed at maintaining and improving the quality of the Loan Portfolio.

The loan grading system continued to be a valuable tool in assessing the overall health of the loan portfolio during the year.

b) Liquid Asset Ratio

The Reserve Bank continues to impose a threshold Liquid Asset Ratio (LAR) of 5% to ensure that sufficient liquidity is available in the system. The Bank's LAR as at end June 2016 was 39.38% a growth of 6.72% from 32.66% in the previous year.

c) Arrears

The arrears ratio was recorded at 12.49% at year end 30 June 2016 as compared to target 4.5%. This is an increase from the arrears ratio result of 3.39% at year end 2014. This was mainly due to problematic status of a large company loan.

The 2015/16 target for the number of accounts in arrears was 570. However, the actual number of account in arrears was 452 at year end 30 June 2016 indicating good control and proactive arrears management practices.

Internal training on arrears management practices and appropriate assessment of new proposals is ongoing and continuous effort is applied to improve both arrears and enhance loan portfolio management.

5) FUNDING

The main source of funding for the Bank's lending continued to be generated internally from loan repayments and other internal sources. This provided about 44.4% of the funding required.

6) REVOLVING FUNDS

The Bank manages funds on behalf of the New Zealand Government, ADB, Pacific Islands Forum Secretariat (PIFS) and Government of Tonga.

7) NET INTEREST MARGIN (NIM)

The Bank's NIM is reviewed on a quarterly basis. This includes matching of the average lending interest rates with average interest cost of funds. As at end June 2016 the Net Interest Margin was 6.90% with a positive impact on our Net Profit after Tax of $1.80m and a Return on Equity of 8.59%.

8) HUMAN RESOURCES MANAGEMENT

a) Staff

Full time staff numbers were 119 at the end of June 2016 which is an increase from 100 in January 2015. The increase was due to capacity building recruitment to support the Bank's expansion plans.

Staff members who resigned or retired are not automatically replaced but the relative job role is reviewed or possibly restructured. Any need for replacement is justified before any external recruitment. Staff turnover was at the rate of 16.44% and male to female ratio was at 1:1.25

Staff salary expenses for 2015/16 (18months) was projected to be $3.5m. However actual figure as at end June 2016 was $3.6m.

This reflects the continued increase in productivity now being achieved in all areas of the Bank's operations.

b) Staff Training

The Bank's commitment to staff development and provision of appropriate tools continued to be a high priority. During the year, numerous in- house trainings were conducted on the new processes and services, at Head Office and Branches by Executives and Senior Management. In July 2015, key staff from the International team and SWIFT operators were appointed to attend a SWIFT training conducted by external expertise from SWIFT organization. This is to ensure that the staffs have the required knowledge and skills to handle international transactions.

Other trainings included customer service, Anti-Money Laundering, compliance and computer applications were provided internally by Managers and our IT staff.

We continued to encourage staff to pursue formal training leading to higher qualifications. On the job training and coaching continue to be an important part of staff development. One of our IT staff was approved to pursue with his final year of studies in New Zealand for a Bachelor in IT under a TDB Scholarship.

In November 2015, Management Training was conducted by Hay Group consultant on Job Clarity and Job Descriptions as part of our transition moving to implement the new salary band.

To support our expansion programme, several staff (Manager Transformation and IT staff) attended attachment training at the Bank of Cook Islands, Rarotonga and Home Finance Corp, Fiji, to gain exposure to new commercial products and services since we are currently using the same software service provider, Ultradata- Australia.

We also considered staff participating at national and international training programmes that are relevant to broaden knowledge and skills thus rewarding to the bank especially areas that will support our expansion plans and commercial services.

c) Retirement Fund

The Bank continued its contribution to the NRBF at 7.5%, an increase from 5% since it was effective 1st January 2015.

d) Customer Service

We also continued to enhance our good relationship with corporate customers and keeping them informed on our expansion plans and new product developments. We restructured our organization structure to have a new Operations Division to be responsible for all front-line services and to maintain and improve our customer service level and add value to the business and personal aspirations of our valued customers. Customer service surveys and customer complaints process continued in 2015/2016. They serve as very good sources of information to help us promptly address customer feedback on specific matters which required immediate attention and improvement.

9) MONEY TRANSFER

Despite tough completion on local money transfer, the Bank continued to operate its local money transfer. In addition we also continued to operate as an agent for the Digicel Mobile Money (DMM) transfer using the mobile money.

Our new International Business Department was fully operational by December 2015 and staffed by local expertise hired from Westpac Bank of Tonga which exited from Tonga in July 2015. Starting in February 2016, we have successfully sent and received funds overseas efficiently and securely. We have grown this business from the private sector as well as from Government too. We continue to vigilantly monitor and ensure compliance by customers at the same time closely watch the process for AML compliance and to maintain relationship with correspondence banks. While the Government FX levy which was introduced on 1st June 2016 has an impact on our original profit margin projections, however, we do not pass on the levy to customers in accordance with the FX Levy Act.

10) INFORMATION TECHNOLOGY

The years 2015/2016 have been a busy year for the IT Department continuing to advance the technology solution in response to the Bank's Business Expansion needs and business directions.

The launching of the new website in December 2015 with the new corporate branding and feeling promoting our national color Red as TDB is Tonga's Bank for the people of Tonga.

IT also contributed to the successful start and operation of our International Telegraphic Transfer product. We are providing competitive rates for foreign currency cash exchanges and transfers.

To cater for the increasing demand of Online Banking speed connections, TCC has upgraded our internet link (TDB – TCC) to a fibre optic cable to improve capacity and faster internet connections.

A highlight of 2016 is the launching of our Internet and Mobile Banking products scheduled to start in September 2016. This is a milestone for the Bank to boost its operations with the trend in technology. Further, the ATM project is next on the agenda as an additional service to meet customer's demands and convenience.

Last but not the least, the security mechanisms like Secure Sockets Layer, Firewall and penetrating testing were also upgraded and conducted to provide optimum security for the Bank.

11) INSURANCE

Sufficient insurance coverage of all security assets with the Bank's interests is maintained. Life insurance cover is often required and assigned to the Bank for borrowers with exposure over $40,000.00.

The Loan Protection Cover Insurance scheme (LPCI) with the Federal Pacific Insurance Ltd during 18 months period provides cover on all lending to individuals loans up to $35,000.00 (excluding arrears), and below the age of 70.

The LPCI covers the balance of the debt in the event the borrower passes away.

12) PREMISES

Major renovations were carried out in 2015 at Ha'apai and Vava'u Branches to improve customers experience at the Bank.

All Bank's properties have continued to be maintained and upgraded during the one and half year with expected useful life of 35 years for office building and 25 years for residential buildings. Appropriate insurance covers are also in place.

13) BUSINESS ADVISORY SERVICES (BAS)

The Bank's business advisory services offers a variety of specialized services to its clients ranging from group training to one on one consultation. The BAS also plays a vital role in providing ongoing business advisory support to the Lending Staff. Moreover, we are the only bank offering this service to our customers.

14) GOVERNMENT POLICY OBLIGATIONS (GPO)

The Government is currently subsidizing the branch operations in the two Niuas (ie: T$75K for Niuafo'ou and T$75K for Niuatoputapu)

15) WORKING HOURS

The Bank's normal working hours is 8:30am to 4:30pm from Monday to Friday. As part of the expansion plan, the Bank started opening on Saturdays to the public in March 2015 except Niuatoputapu and Niuafo'ou Branches. The opening hours to public for Saturdays is 9:00am to 12:30pm.

16) FUTURE DIRECTION.

The transformation 2015/16 implementation has started the year on a positive note. We have been successful with launching of some of our new commercial products as planned. However we will continue to complete the plan for full commercial operation. Online Banking is expected to be in place by the second half of 2016. This is to improve convenience of services to existing customers. Remittance Facility namely 'Ave Pa'anga Pau anticipated to start later in the year.

The Manager- Transformation, and Business Expansion Committee team and their responsive and committed staff are tackling the challenges ahead of us with vigour and determination. The Board Sub-Committee, namely Steering Committee, provide the strategic direction and support on a monthly basis. We are confident that this will improve our performance for our shareholder and customers.

17) ACKNOWLEDGEMENT

In closing, I would like to express my deep gratitude to the management team especially the Business Expansion Committee and Steering Committee (Board Sub Committee) and the rest of the staff who are fully committed to our strategy and target resulting in the achievement of the level of profitability for 18 months ended 30 June 2016. Your dedication and contribution to our business performance is highly recognized.

I would also like to acknowledge the ongoing support received by the Bank from Vinstar (NZ), IFC, with oversight over our new FX products and the Ministry of Public Enterprises, Ministry of Finance and National Planning and other related Government Ministries during the period to enable the Bank in fulfilling its objectives in 2015/2016.

The trust and confidence of our customers given to the Bank is highly acknowledged. Counting you among our customers is something for which we are especially grateful. It is a privilege for us to serve you. The Bank can assure you all that we do care about your business and support your goals. We will continue to provide relevant services required by our customers as we continue to achieve our mission as a financial sound banking institution. Full banking services for our customers by 2017 as we reach our milestone of 40 years anniversary.

Our challenge is to continue to build upon the current platform of strong performance to ensure that the Bank provides superior customer service and ongoing growth resulting in higher profitability and positive impact on development activities.

Finally, I would also like to extend my gratitude and sincere thanks to the Chairman and the members of the Board of Directors for their continued support and providing strategic direction during 18 months period. We will continue to rely on your commitment in our efforts to put TDB on a path of sustainable growth. Together, we will continue to make TDB a strong and successful Bank.

Malo

Leta Havea Kami
Chief Executive Officer

FIVE YEARS SUMMARY

Profit & Loss TOP $'000s	2011	2012	2013	2014	June 2016 (18 months)	Movement 2014/June16
Interest Income	4,537	4,603	4,511	4,706	7,186	52.7%
Interest Expense	1,410	1,095	1,189	1,473	2,979	102.2%
Net Interest Income	3,127	3,509	3,322	3,233	4,207	30.1%
Fees & commission income	2,452	2,266	2,362	2,556	3,694	44.5%
Other Operating Income	251	339	443	580	1,504	159.3%
Losses on loans & advances	133	383	389	694	(188)	-127.1%
Bad Debts	34	73	4	31	32	3.2%
Income Tax Expense	439	597	270	406	542	33.5%
Operating Profit after tax	1,712	1,329	1,638	1,414	1,796	27.0%
Earnings per share	1.63	1.26	1.56	1.01	1.28	26.7%

Balance Sheet TOP $'000s	2011	2012	2013	2014	June 2016	Movement 2014/June16
Average assets	59,422	61,589	65,472	77,273	95,330	23.4%
Total Assets	61,642	61,537	69,407	85,140	105,521	23.9%
Gross Loans	40,660	42,328	47,329	51,379	50,844	-1.0%
Saving Deposits	6,315	6,885	9,246	10,888	20,855	91.5%
Shareholder's equity	18,239	18,903	19,722	20,288	20,916	3.1%

Performance Ratios	2011	2012	2013	2014	June 2016	Movement 2014/June16
Return on Assets	2.9%	2.2%	2.5%	1.8%	1.9%	0.1%
Return on Equity	9.4%	7.0%	8.30%	6.97%	8.59%	1.62%
Operating Costs to Total Income	72.2%	70.8%	71.1%	70.1%	83.5%	13.4%
Operating Income to Average Portfolio	19.5%	15.2%	16.3%	18.8%	24.1%	5.3%

DIRECTORS' REPORT

In accordance with a resolution of the Board of Directors, the directors herewith submit the balance sheet as at 30 June 2016, statement of profit or loss and other comprehesive income, statement of changes in equity and statement of cash flows for the eighteen months ended on that date and report as follows:

1. DIRECTORS

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

- Lord Matoto (Chairman)
- Paula Taumoepeau
- Leta Havea Kami
- Lepaola Vaea

2. PRINCIPAL ACTIVITY

The principal activity of the Bank is the provision of development and selected commercial banking services in the Kingdom of Tonga.

During the eighteen months ended 30 June 2016 there has been no material change in the nature of the Bank's business or in the classes of business in which the Bank has an interest.

3. TRADING RESULTS

The net profit after income tax for the eighteen months ended 30 June 2016 was $1,795,686 (year ended 31 December 2014: $1,414,055).

4. PROVISIONS

There were no material movements in provisions, other than provisions for losses on loans and advances, depreciation and employee entitlements.

5. DIVIDENDS

The directors declared a dividend based on 65% of net profit after tax for the eighteen months ended 30 June 2016. This amounted to $1,167,196 or $0.83 per issued share of which $1,000,000 interim dividend has been paid to the share-holder as at 30 June 2016.

The directors declared a dividend based on 60% of net profit after tax for the year ended 31 December 2014. This amounted to $848,433 or $0.60 per issued share.

DIRECTORS' REPORT - CONTINUED

6. RESERVES

The directors recommend that no amounts be transferred to reserves in respect of the 18 months ended 30 June 2016.

7. 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 report. Accordingly the directors believe the classification and carrying amounts of assets and liabilities as stated in these financial statements to be appropriate.

8. BAD AND DOUBTFUL DEBTS

The directors took reasonable steps before the Bank's statement of profit or loss and other comprehensive income and balance sheet 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.

9. EVENTS SUBSEQUENT TO BALANCE DATE

The directors are not aware of any other matters or circumstances not otherwise dealt with in the report that has significantly affected the operations of the Bank, the results of those operations or state of affairs of the Bank. The Business Expansion Program of the Bank relative to Foreign Exchange will be ongoing during the year and onwards.

10. UNUSUAL TRANSACTIONS

The results of the Bank's operations for the eighteen months ended 30 June 2016 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.

11. 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.

12. RELATED PARTY TRANSACTIONS

All related party transactions have been adequately recorded in the financial statements. The transactions with related parties are on normal commercial terms and conditions.

13. DIRECTORS' BENEFITS

No director has, since the end of the previous financial year, received or become entitled to receive a benefit (other than loans and advances given in the normal course of operation or benefit included in the total amount of emoluments received or due and receivable by directors as shown in the Bank's financial statements) by reason of contract made by the Bank or related entity with the director or with a firm of which he is a member or with a company in which he has substantial financial interest.

Signed in accordance with a resolution of the directors this 29th day of September 2016.

Leta Havea Kami	Lord Matoto
Chief Executive Officer	Chairman of the Board

STATEMENT BY DIRECTORS

In the opinion of the directors:

(a) the accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the eighteen months ended 30 June 2016;

(b) 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 2016;

(c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in shareholder's funds for the eighteen months ended 30 June 2016; and

(d) the accompanying statement of cash flows is drawn up so as to give a true and fair view of the cash flows of the Bank for the eighteen months ended 30 June 2016.

Leta Havea Kami
Chief Executive Officer

Lord Matoto
Chairman of the Board

Independent Auditor's Report

To the Shareholder of Tonga Development Bank Limited

Report on the Financial Statements

We have audited the accompanying financial statements of Tonga Development Bank Limited (the 'Bank'). The financial statements comprise the balance sheet of the Bank as at 30 June 2016 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period 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 Tonga Companies Act, 1995, the Financial Institutions Act, 2004, and the Tonga Development Bank Act, 2014, and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 30 June 2016, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion:

(a) proper books of account have been kept by the Bank, so far as it appears from our examination of those books, and

(b) the accompanying financial statements are in agreement with the books of account and to the best of our information and according to the explanations given to us give the information required by the Tonga Companies Act, 1995, the Financial Institutions Act, 2004, and the Tonga Development Bank Act, 2014, in the manner so required.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit.

Restriction on Distribution or Use

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

September 2016

PricewaterhouseCoopers

Suva, Fiji

PricewaterhouseCoopers
Chartered Accountants

TONGA DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE 18 MONTHS ENDED 30 JUNE 2016

	Notes	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Interest income	6	7,186,450	4,705,980
Interest and other borrowing expenses	6	(2,979,213)	(1,473,314)
Net interest income		4,207,237	3,232,666
Fees and commission income	7	3,694,189	2,555,519
Other operating income	8	1,504,342	580,311
Net operating income		9,405,768	6,368,496
Losses on loans and advances	13	187,517	(694,322)
Bad debts written off		(32,150)	(30,587)
Bad debts recovered/reversed		134,534	196,617
Other operating expenses	9	(7,358,462)	(4,020,215)
Profit before income tax		2,337,207	1,819,989
Income tax expense	20	(541,521)	(405,934)
Profit for the period/year from continuing Operations		$ 1,795,686	$ 1,414,055
Other comprehensive income		-	-
Total comprehensive income for the period/ year		$ 1,795,686	$ 1,414,055
Earnings per share	29	$ 1.28	$ 1.01

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

TONGA DEVELOPMENT BANK

BALANCE SHEET
AS AT 30 JUNE 2016

	Notes	30 June 2016 $	31 December 2014 $
ASSETS			
Cash on hand and at bank	10	35,239,900	20,094,545
Due from other financial institutions		305,474	-
Investment securities - held to maturity	12	7,776,302	4,864,652
Loans and advances	13	49,030,542	49,074,544
Other assets	14	1,284,599	461,220
Amounts receivable from shareholder	15	10,946	3,578
Statutory reserve deposit	16	3,758,000	2,772,000
Property, plant and equipment	17	6,738,754	6,597,817
Investment property	18	436,497	497,217
Intangible assets	19	294,582	-
Deferred tax asset	20(c)	644,954	774,695
Total assets		$ 105,520,550	$ 85,140,268
		===========	===========
LIABILITIES			
Savings deposits		20,855,083	10,887,871
Other liabilities	21	4,736,876	2,076,668
Amount payable to NRBT	16	100,000	23,000
Borrowings	22	57,440,947	48,548,895
Current tax liability	20(a)	104,441	539,165
Managed funds	23	104,835	833,554
Deferred tax liability	20(d)	1,094,779	1,094,779
Dividends payable	28	167,196	848,433
Total liabilities		84,604,157	64,852,365
SHAREHOLDERS' EQUITY			
Share capital	24	14,000,000	14,000,000
Retained earnings		6,916,393	6,287,903
Total shareholders' equity		20,916,393	20,287,903
Total equity and liabilities		$ 105,520,550	$ 85,140,268
		===========	===========

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

Signed in accordance with a resolution of the directors this 29th day of September 2016.

Leta Havea Kami
Chief Executive Officer

Lord Matoto
Chairman of the Board

STATEMENT OF CHANGES IN EQUITY
18 MONTHS ENDED 30 JUNE 2016

	Notes	Share Capital $	Retained Earnings $	Total $
Balance at 1 January 2014		$ 10,530,190	$ 9,192,091	$ 19,722,281
Comprehensive income				
Profit for the year		-	1,414,055	1,414,055
Other comprehensive income		-	-	-
Total comprehensive income		-	1,414,055	1,414,055
Transactions with owners				
Share issued from retained earnings		3,469,810	(3,469,810)	-
Dividends declared in 2014	28	-	(848,433)	(848,433)
Total transactions with owners		3,469,810	(4,318,243)	(848,433)
Balance at 31 December 2014		$ 14,000,000	$ 6,287,903	$ 20,287,903
Comprehensive income				
Profit for the period		-	1,795,686	1,795,686
Other comprehensive income		-	-	-
Total comprehensive income		-	1,795,686	1,795,686
Transactions with owners				
Dividend declared for the period	28	-	(1,167,196)	(1,167,196)
Total transactions with owners		-	(1,167,196)	(1,167,196)
Balance at 30 June 2016		$14,000,000	$ 6,916,393	$ 20,916,393
		==========	===========	==========

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

	Note	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Cash flows from operating activities			
Interest received		7,185,556	4,767,126
Interest payment		(2,816,225)	(1,329,723)
Fees and commission received		3,694,189	2,555,519
Other income		1,581,962	558,549
Income tax paid		(846,504)	(520,352)
Payment to employees and suppliers		(6,336,870)	(3,348,294)
Cash flows from operating activities before changes in operating assets and liabilities		2,462,108	2,682,825
Changes in operating assets and liabilities:			
Disbursements of loans		(23,644,619)	(25,055,460)
Repayments of loans		23,249,803	21,256,744
(Increase) in other debtors and prepayments		(822,485)	(148,533)
(Increase) in amounts receivable from shareholder		(7,368)	(3,214)
Increase/ (decrease) in other liabilities		2,419,600	(6,829)
Net cash generated from/ (used in) operating activities		3,657,039	(1,268,039)
Cash flows from investing activities			
Purchase of property, plant and equipment	17, 18	(983,559)	(752,918)
Purchase of intangible assets	19	(412,833)	-
Proceeds from sale of plant and equipment		-	22,913
Net (increase) in investment securities		(1,668,301)	-
(Increase) in statutory deposits	16	(909,000)	(713,000)
Net increase/ (decrease) in government bonds	12	(2,810,000)	100,000
Net cash used in investing activities		(6,783,693)	(1,343,005)
Cash flows from financing activities			
Net increase in TDB promissory notes		9,331,783	13,192,705
Net increase in savings deposits		9,967,212	1,642,156
Dividends paid		(1,848,433)	(818,884)
Repayment of borrowings		(439,731)	(362,144)
Net cash generated from financing activities		17,010,831	13,653,833
Net increase in cash and cash equivalents		13,884,177	11,042,789
Cash and cash equivalents at beginning of period/ year		21,661,197	10,618,408
Cash and cash equivalents at end of period/ year	11	$ 35,545,374	$ 21,661,197
		==========	===========

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

1 GENERAL INFORMATION

Tonga Development Bank Limited (the "Bank") provides development and selected Banking services in the Kingdom of Tonga.

The Bank was established in the Kingdom of Tonga by the Tonga Development Bank Act 1977 which was replaced by TDB Act 2014 and is also incorporated under the Tonga Companies Act 1995. The address of its registered office is at Fatafehi Road, Nuku'alofa, Tonga.

The financial statements were approved for issue by the Directors on 29 September 2016.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and requirements of the Tonga Companies Act 1995 and Tonga Development Bank Act 2014. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

During the period the bank changed its financial year from 31 December to 30 June.

(i) New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial period beginning on or after 1 January 2015 that would be expected to have a material impact on the Bank.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below.

IFRS 9, 'Financial Instruments' - addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in September 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(a) Basis of preparation - continued

(ii) New standards and interpretations not yet adopted - continued

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company intends to adopt IFRS 9 on its effective date and has yet to assess its full impact

IFRS 15, 'Revenue from contracts with customers' - This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard has an effective date from annual periods beginning on or after 1 January 2018.

IFRS 16, 'Leases' - replaces the current guidance in IAS 17. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with IFRS 15, 'Revenue from contracts with customers'.

The Bank is yet to assess the impact of the above standards and intends to adopt the standards no later than the accounting period in which it becomes effective.

(b) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and Chief Finance Officer who make strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

(d) Financial assets

The Bank classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(ii) Held-to-maturity financial assets

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 and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(d) Financial assets - continued

(iii) Available-for-sale financial assets

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Regular way purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date - the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss and other comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of profit or loss and other comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss and other comprehensive income when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Bank establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(e) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(f) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within ‘interest income’ and ‘interest expense’ in the statement of profit or loss and other comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Service fees charged by the Bank for servicing a loan are recognised as revenue as the services are provided. Loan establishment fees are recognised as income in the accounting period in which it is earned rather than received. The amount received is deferred over the term of the financial asset other than the earned amount which is recognised as income in the current accounting period.

Commission and fees arising from negotiating or participating in the negotiation of, a transaction for a third party - such as arrangement or renewal of insurance policies - are recognised on completion of underlying transaction. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(h) Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(h) Impairment of financial assets - continued

Assets carried at amortised cost - continued

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of legal proceedings;
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by the Bank's management for each identified portfolio. In general, the periods used vary between 3 months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

The amount of the loss is measured as the difference between the asset's carrying amount and the estimated value of collateralised security discounted by the Bank's security values. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the loans credit rating), the previously recognised impairment loss is reversed by adjusting the doubtful loan account. The amount of the reversal is recognised in the statement of profit or loss and other comprehensive income in impairment charge for loan losses.

(i) Property, plant and equipment

Land and buildings comprise mainly Bank offices located in the Kingdom of Tonga. All property, plant and equipment are stated at cost less depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(i) Property, plant and equipment - continued

Depreciation is calculated on a straight line basis so as to write off the cost or revalued amount of each property, plant and equipment over its expected useful life. The expected useful life of each asset is as follows:

	Years
Leasehold land	Life of lease
Buildings	25 - 40
Furniture and equipment	8
Library	8
Machines	8
Computers	4
Vehicles	4-5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of profit or loss and other comprehensive income.

(j) Investment property

Investment property, principally comprising residential leasehold land and buildings, is held for long term rental yields and is occupied by third parties.

Investment property is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost of each asset to its residual value over its estimated useful life. The estimated useful lives in use are:

	Years
Leasehold land	Term of lease
Buildings - residential	25 - 40

Rental income from investment property is recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(k) Intangible assets

Costs incurred to develop and enhance the Bank's computer systems are capitalised to the extent that benefits do not relate solely to revenue that already has been brought to account and will contribute to the future earning capacity of the economic entity. The cost of intangible assets is amortised over the economic life on a straight line basis. The amortisation rate is at 50%. Costs associated with maintaining computer software programs are recognised as an expense when incurred.

(l) Impairment of non-financial asset

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(m) Leases

Bank is the lessee
The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to other operating expenses in the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(n) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central Banks, amounts due from other financial institutions and short-term government securities.

(o) 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.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and casual leave are not recognised until the time of leave.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(p) Employee benefits - continued

(ii) Pension obligations

The Bank makes contributions to the National Retirement Benefit Fund for all permanent employees at a rate of 7.5%. These contributions are charged to the statement of profit or loss and other comprehensive income in the periods to which the contributions relate.

(q) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of property, plant and equipment, provisions for loan losses, unrealised exchange gains/losses and other provisions for staff entitlements.

The rates enacted or substantively enacted at the balance sheet date are used to determine deferred income tax.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The tax effects of income tax losses available for carry-forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

(r) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the effective interest method.

(s) Share capital

Ordinary shares are classified as equity and carried at the Bank's financial statements at par value.

(a) Share issue costs
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds. No additional shares were issued during the financial period.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the period that are declared before the balance sheet date are dealt with in the statement of changes in equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(t) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to third parties or customers are excluded from these financial statements where the Bank acts in a fiduciary capacity.

(u) Comparatives

Current year results are for the 18 months ended 30 June 2016, while the comparative is for the year ended 31 December 2014.

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

(v) Rounding

Amounts have been rounded to the nearest dollar except where otherwise noted.

3 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the development Banking business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a Risk Management department under policies approved by the Board of Directors and prudential guidelines issued by the National Reserve Bank of Tonga. Bank Treasury identifies and evaluates financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk and interest rate risk.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the credit risk management team and reported to the Board of Directors and Assets and Liabilities Committee regularly.

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.1 Credit risk - continued

(a) Loans and advances

In measuring credit risk of loans and advances to customers and to Banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements are embedded in the Bank's daily operational management.

(i) The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and are also based on prudential guidelines issued by National Reserve Bank of Tonga. The Bank clients are segmented into seven rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. The rating tools are kept under review and upgraded as necessary.

Bank's Ratings	Description of the grade
A	Customers with well conducted loans, fully secured and operational & financial stability.
B	Accounts where arrangements are generally observed but lending is not considered at risk, a minor degree of concern during general economic pressures, reasonable financial condition and adequate security.
C1	Fully productive accounts but not generating sufficient income to meet repayment, repayments from other sources may be required, partial or full security and arrears may occur for up to 3 months.
S	Special mention will be a loan in excess of $250,000 and current rating will be A, B, or C1; moved into arrears of 30 to 60 days and requires special attention and monitoring, repayment difficulties and showing high degree of risk.
C2	Accounts of doubtful quality requiring active management supervision, projects have failed, arrears between 3 to 6 months and no financial data.
D	Sub standard and doubtful customers whose loans have been classified non-accrual and partial loss of interest and fee is expected, doubt about ability to service the debt; realisable value of security is insufficient to cover principal and interest, breach of repayment arrangements and accounts in arrears over 6 months.
E	Loss of principal and interest is expected, accounts under legal action and accounts may be written off if no improvements over 12 months.

3.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and Banks, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector's are approved by the Board of Directors.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.2 Risk limit control and mitigation policies - continued

Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Guarantees by the shareholders/directors; and
- Charges over financial instruments such as debt securities and equities.

In order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances or will seek to increase repayments.

3.3 Impairment and provisioning policies

The internal rating systems described in Note 3.1 focus more on credit-quality mapping from the inception of the lending. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment.

The impairment provision shown in the balance sheet at year end is derived from each of the seven internal rating grades. The table below shows the percentage of the Bank's balances relating to loans and advances and the associated impairment provision for each of the Banks' internal rating categories:

Bank's rating	30 June 2016		31 December 2014	
	Loans and Advances (%)	Impairment Provision (%)	Loans and Advances (%)	Impairment Provision (%)
A	13.81	-	7.46	-
B	24.02	-	21.13	-
C1	43.33	23.91	56.26	28.90
S	10.01	5.52	9.30	4.38
C2	7.31	40.34	2.46	11.55
D	0.84	11.54	2.14	25.19
E	0.68	18.69	1.25	29.98
	100.00	100.00	100.00	100.00

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.3 Impairment and provisioning policies - continued

The internal rating tool assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of legal proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below C1 grade level.

The Bank's policy requires the review of individual financial assets based on the Bank's guidelines at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

3.4 Maximum exposure to credit risk before collateral held as categorised by the industry sectors:

	30 June 2016		31 December 2014	
	$	%	$	%
Industry sector:				
Agriculture	4,303,120	8.46	5,607,433	10.92
Industry and Business	19,815,536	38.97	21,353,979	41.55
Housing and Personal	24,394,075	47.98	21,876,154	42.58
Staff	2,330,981	4.59	2,541,590	4.95
	50,843,712	100.00	51,379,156	100.00

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its loan and advances portfolio based on the following:

- Mortgage loans, which represent the biggest group in the portfolio, are backed by collateral;
- Risk assessment review by the Manager Risk Management; and
- The Bank has introduced a stringent selection process upon granting loans and advances.

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.5 Loans and advances

(i) Loans and advances are summarised as follows:

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2016					
Neither past due nor impaired	3,814,778	12,052,818	23,267,329	2,322,705	41,457,630
Past due but not impaired	154,689	7,551,825	902,240	-	8,608,754
Individually impaired	333,653	210,893	224,506	8,276	777,328
Gross	4,303,120	19,815,536	24,394,075	2,330,981	50,843,712
Less: allowance for impairment	(193,302)	(891,817)	(724,211)	(3,840)	(1,813,170)
Net	$ 4,109,818	$18,923,719	$23,669,864	$ 2,327,141	$ 49,030,542

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 31 December 2014					
Neither past due nor impaired	3,189,813	13,024,975	19,042,549	2,489,854	37,747,191
Past due but not impaired	1,801,656	6,841,579	1,925,795	51,736	10,620,766
Individually impaired	615,964	1,487,425	907,810	-	3,011,199
Gross	5,607,433	21,353,979	21,876,154	2,541,590	51,379,156
Less: allowance for impairment	(1,418,926)	(512,287)	(373,399)	-	(2,304,612)
Net	$ 4,188,507	$20,841,692	$21,502,755	$ 2,541,590	$ 49,074,544

The total impairment provision for loans and advances is specific provision based on review of all specific individual accounts in the past due but not impaired and individually impaired categories, and group provisions based on the portfolio balance of risk rating groupings for all loans that are not specifically provisioned. These accounts are subject to regular monitoring by the Bank.

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.5 Loans and advances - continued

(ii) Loans and advances neither past due nor impaired are summarised as follows:

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2016					
Grades					
A	268,625	4,843,721	1,674,896	234,105	7,021,347
B	106,710	4,682,324	5,991,305	1,435,798	12,216,137
C1	2,547,477	4,652,958	9,348,746	582,476	17,131,657
S	-	5,088,489	-	-	5,088,489
	$ 2,922,812	$ 19,267,492	$ 17,014,947	$ 2,252,379	$ 41,457,630

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 31 December 2014					
Grades					
A	348,874	2,290,811	882,723	310,273	3,832,681
B	251,404	3,355,427	5,845,414	1,405,362	10,857,607
C1	2,589,535	2,601,553	12,314,412	774,219	18,279,719
S	-	4,777,184	-	-	4,777,184
	$ 3,189,813	$ 13,024,975	$ 19,042,549	$ 2,489,854	$ 37,747,191

(iii) Loans and advances past due but not impaired are summarised as follows:

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2016					
Past due up to 30 days	1,050,066	2,319,452	3,181,538	335,947	6,887,003
Past due 30 - 60 days	20,661	-	151,514	-	172,175
Past due 60 - 90 days	225,855	976,422	347,299	-	1,549,576
	$ 1,296,582	$ 3,295,874	$ 3,680,351	$ 335,947	$ 8,608,754
Fair value of collateral	$ 1,790,330	$ 1,944,984	$ 3,372,072	-	$ 7,107,386

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.5 Loans and advances - continued

(iii) Loans and advances past due but not impaired are summarised as follows (continued):

As at 31 December 2014	Agriculture	Industry & Business	Housing & Personal	Staff	Total
	$	$	$	$	$
Past due up to 30 days	961,125	5,966,221	1,043,608	51,703	8,022,657
Past due 30 - 60 days	222,765	146,632	70,496	10	439,903
Past due 60 - 90 days	617,766	728,726	811,691	23	2,158,206
	$ 1,801,656	$ 6,841,579	$ 1,925,795	$ 51,736	$ 10,620,766
Fair value of collateral	$ 4,353,263	$ 4,903,869	$ 4,071,467	$ 74,240	$ 13,402,839

(iv) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

Renegotiated loans that would otherwise be past due or impaired are as follows:

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2016					
Term loans	643,030	2,897,399	1,126,746	8,276	4,675,451
As at 31 December 2014					
Term loans	1,529,228	6,677,961	3,359,602	368,416	11,935,207

(v) Repossessed collateral

During the period, the Bank obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	Carrying amount 30 June 2016	Carrying amount 31 December 2014
	$	$
Land - tax allotment	3,035,000	80,000

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.5 Loans and advances - continued

(vi) Loans and advance exposure by categories:

	30 June 2016 $	31 December 2014 $
Large corporate entities	19,144,385	17,929,529
SMEs	27,780,818	27,432,291
Other	3,918,509	6,017,336
	$ 50,843,712	$ 51,379,156
	===========	==========

3.6 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

3.6.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Bank's risk management policy is designed to identify situations requiring active management and also to enable the Bank to develop strategies for managing foreign exchange exposure.

The Bank's assets and liabilities are mainly in local currency except to the extent shown below:

		30 June 2016 $		31 December 2014 $
Assets				
Due from other financial institutions	$	305,474		-
Liabilities				
Borrowings - foreign	$	1,819,905	$	1,753,327

3.6.2 Interest rate risk

The Bank takes on exposure due to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes. The Bank monitors the level of interest rate risk on a quarterly basis. Interest rates are reviewed annually or earlier if warranted.

3.7 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Bank is exposed to daily calls on its available cash resources from current accounts, maturing deposits and loan draw downs. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank monitors the level of liquidity on a daily basis.

The table on next page analyses assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.7 Liquidity risk - continued

As at 30 June 2016	Up to 1 month $	2-3 months $	4 - 12 months $	2-5 years $	Over 5 years $	No specific maturity $	Total $
Assets							
Cash on hand and at bank	35,239,900	-	-	-	-	-	35,239,900
Due from other financial institutions	305,474	-	-	-	-	-	305,474
Investment securities- held to maturity	-	-	1,917,302	5,859,000	-	-	7,776,302
Loans and advances	2,055,072	3,702,603	11,448,129	16,543,617	15,281,121	-	49,030,542
Statutory reserve deposit	-	-	-	-	-	3,758,000	3,758,000
Property, plant and equipment	-	-	-	-	-	6,738,754	6,738,754
Investment property	-	-	-	-	-	436,497	436,497
Intangible assets	-	-	-	-	-	294,582	294,582
Other assets	387,550	794,191	68,343	690,415	-	-	1,940,499
Total assets	37,987,996	4,496,794	13,433,774	23,093,032	15,281,121	11,227,833	105,520,550
Liabilities							
Saving deposits	20,855,083	-	-	-	-	-	20,855,083
Borrowings	145,437	11,146	1,144,083	1,739,008	620,900	-	3,660,574
Promissory notes	2,088,768	7,960,671	5,386,948	24,437,293	13,906,693	-	53,780,373
TDB bonds	-	-	-	-	-	-	-
Other liabilities	2,324,227	1,545,198	1,117,626	1,321,076	-	-	6,308,127
Total liabilities	25,413,515	9,517,015	7,648,657	27,497,377	14,527,593	-	84,604,157
Net liquidity gap	$ 12,574,481	($ 5,020,221)	$ 5,785,117	($ 4,404,345)	$ 753,528	$ 11,227,833	$ 20,916,393
As at 31 December 2014							
Total Assets	22,473,425	3,726,405	13,085,298	20,631,159	15,294,835	9,929,146	85,140,268
Total Liabilities	14,943,165	2,285,995	10,142,723	29,215,995	8,232,949	31,538	64,852,365
Net Liquidity Gap	$ 7,530,260	$ 1,440,410	$ 2,942,575	($ 8,584,836)	$ 7,061,886	$ 9,897,608	$ 20,287,903

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.8 Off-balance sheet items

(a) Loan commitments
The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities, are summarised in the table below.

(b) Operating lease commitments
Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in note 26, are summarised in the table below.

(c) Capital commitments
Capital commitments (note 26) are summarised in the table below.

	No later than 1 year	1 - 5 years	Over 5 years	Total
	$	$	$	$
At 30 June 2016				
Loan commitments	3,900,325	-	-	3,900,325
Operating lease commitments	8,320	33,280	147,000	188,600
Capital commitments	-	-	-	-
Total	$ 3,908,645	$ 33,280	$ 147,000	$ 4,088,925
	==========	========	==========	==========
At 31 December 2014				
Loan commitments	2,018,153	-	-	2,018,153
Operating lease commitments	13,420	47,680	162,740	223,840
Capital commitments	-	-	-	-
Total	$ 2,031,573	$ 47,680	$ 162,740	$ 2,241,993
	==========	========	==========	==========

3.9 Fair value of financial assets and liabilities

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

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

(i) Term deposits
The carrying values of term deposits are considered to approximate their fair values as they are denominated in cash and these amounts are repayable on demand.

(ii) Investment securities
Investment securities comprise interest bearing bonds which are being held to maturity. The fair value of the investment securities of $6,108,000 (31 December 2014: $3,298,000) is based on the indicative pricing using the prevailing interest rates.

(iii) Loans and advances to customers
Loans and advances are net of provisions for impairment. The carrying values of loans and advances are considered to approximate their fair values as all doubtful accounts have been provided for.

(iv) Savings deposits
The carrying values of savings deposits are considered to approximate their fair values as they are repayable on demand.

3 FINANCIAL RISK MANAGEMENT - CONTINUED

3.9 Fair value of financial assets and liabilities - continued

(v) Borrowings
The carrying values of borrowings are considered to approximate their fair value as they are repayable on demand.

(vi) Other financial assets and liabilities
The reported values of other financial assets and liabilities are considered to be their fair value.

3.10 Capital management

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulators of the Banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, based on the guidelines developed by the National Reserve Bank of Tonga (NRBT), for supervisory purposes. The required information is filed with the NRBT on a quarterly basis.

The NRBT requires the Bank to: (a) hold the minimum level of regulatory capital, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the agreed minimum of 18%.

The Bank's regulatory capital as managed by its Treasury comprises of:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the 18 months ended 30 June 2016 and year ended 31 December 2014. During that period, the Bank complied with all of the externally imposed capital requirements to which they are subject.

Tier 1 Capital	30 June 2016 $	31 December 2014 $
Share capital	14,000,000	14,000,000
Retained earnings	6,916,393	6,287,903
Total	$ 20,916,393	$ 20,287,903
Risk weighted assets	$ 49,030,542	$ 49,074,544
Ratio	42.66%	41.34%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated values of collateralised security values. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or local economic conditions that correlate with defaults on assets in the industry sectors. The methodology and assumptions used for reviewing impairment are reviewed regularly.

5 SEGMENT ANALYSIS

Industry segment

The Bank operates predominantly in the financial services industry.

Geographical segment

The Bank operates in Tonga and is, therefore, one geographical area for reporting purposes.

6 NET INTEREST INCOME

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Interest income		
Loans and advances	6,919,911	4,486,632
Term deposits and securities	266,539	219,348
	$ 7,186,450	$ 4,705,980
Interest and other borrowing expenses		
Borrowings	106,728	78,316
TDB promissory notes	2,609,431	1,267,329
TDB bonds	-	325
Savings deposits	261,667	123,258
Bank charges	1,387	4,086
	$ 2,979,213	$ 1,473,314

7 FEES AND COMMISSION INCOME

	Notes	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Service fees		3,497,080	2,405,254
Commissions		197,109	150,265
		$ 3,694,189	$ 2,555,519
		===========	===========

8 OTHER OPERATING INCOME

	Notes	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Rent		303,643	169,827
Net foreign exchange fees and earnings		413,449	-
Other	(a)	787,250	410,484
		$ 1,504,342	$ 580,311
		===========	===========

(a) Other operating income includes the following:

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Cost of operations and government policy obligations	688,500	176,750
BSP agency agreement fee	55,000	55,000
Other income	43,750	156,972
Gain on sale of property, plant & equipment	-	21,762
	$ 787,150	$ 410,484
	===========	===========

9 OTHER OPERATING EXPENSES

	Notes	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Staff costs	(a)	3,839,444	2,050,032
Administrative expenses		1,396,969	727,199
Amortisation expense		118,251	-
Auditor's remuneration - audit fee		33,000	27,000
Depreciation - Property, plant and equipment		841,242	533,979
- Investment property		62,100	41,366
Premises		397,002	254,178
Travel		301,211	173,686
Others	(b)	369,243	212,775
		$ 7,358,462	$ 4,020,215
		===========	===========

(a) Staff costs comprise:

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Wages and salaries and other staff costs	3,544,318	1,844,884
Retirement fund	295,126	205,148
	$ 3,839,444	$ 2,050,032
	===========	===========

(b) Others include:

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Staff training	72,078	92,242
Bad debts	80,000	-
Director fees	155,732	76,894
Others	61,433	43,639
	$ 369,243	$ 212,775
	==========	===========

9 OTHER OPERATING EXPENSES - CONTINUED

The Bank makes contributions to the National Retirement Benefit Fund for all permanent employees at a rate of 7.5%.

10 CASH ON HAND AND AT BANK

	30 June 2016 $	31 December 2014 $
Cash on hand	5,682,288	1,770,412
Cash at bank	29,557,612	18,324,133
	$ 35,239,900	$ 20,094,545
	===========	===========

11 CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	30 June 2016 $	31 December 2014 $
Cash on hand and at bank	35,239,900	20,094,545
Due from other financial institutions	305,474	-
Investment securities	-	1,566,652
	$ 35,545,374	$ 21,661,197
	===========	===========

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. Cash on hand, balances with the reserve bank and mandatory reserve deposits are non-interest-bearing. Other money-market placements are floating-rate assets.

12 INVESTMENT SECURITIES - HELD TO MATURITY

	30 June 2016 $	31 December 2014 $
BSP (formerly Westpac Bank of Tonga)	556,281	534,108
ANZ Bank	447,428	439,471
MBF Bank	664,593	593,073
Government of Tonga Local Development Bonds	6,108,000	3,298,000
	$ 7,776,302	$ 4,864,652
	===========	===========

The eighteen months ended 30 June 2016 interest rate receivable on term deposits range from 1.0% to 6.5% (Year ended 31 December 2014: 1.0% to 6.50%) per annum and the interest rate for the Government of Tonga Local Development Bond range from 3.0% to 4.0% (Year ended 31 December 2014: 3.0 % to 6.0%) per annum.

The interest is receivable on maturity for term deposits and annually after one year from the date of issue for the Government of Tonga Local Development Bonds.

13 LOANS AND ADVANCES

	30 June 2016 $	31 December 2014 $
Gross loans and advances	50,843,712	51,379,156
Less: Allowance for losses on loans and advances	(1,813,170)	(2,304,612)
Net loans	$ 49,030,542	$ 49,074,544
Loans and advances approved but not yet disbursed amounted to	$ 3,900,325	$ 2,018,153

Allowance for losses on loans and advances:

Movements in allowance for losses on loans and advances are as follows:

	30 June 2016 $	31 December 2014 $
Balance at beginning of the period/ year	2,304,612	1,945,065
Provision for loan impairment	998,690	918,135
Provisions written back	(1,186,207)	(223,813)
Loans written off during the period/ year	(303,925)	(334,775)
Balance at end of period/ year	$ 1,813,170	$ 2,304,612
Composition of allowance for losses on loans and advances:		
Specific provisions	777,503	1,089,395
Collective provisions	1,035,667	1,215,217
	$ 1,813,170	$ 2,304,612

The losses on loans and advances as shown in the statement of profit or loss and other comprehensive income is arrived as follows:

	30 June 2016 $	31 December 2014 $
Provision for loan impairment	998,690	918,135
Provisions written back	(1,186,207)	(223,813)
	($ 187,517)	$ 694,322

Non accrual loans and advances

	30 June 2016 $	31 December 2014 $
Non accrual loans and advances	3,534,686	2,135,803
Less: specific provision for impairment	(1,032,833)	(982,266)
	$ 2,501,853	$ 1,153,537

Loans to directors and director related entities are disclosed in note 25 (a) (iii).

13 LOANS AND ADVANCES - CONTINUED

In August 2009 the directors approved the adoption of a collective provisioning policy based on the existing internal credit risk rating system. The following percentages are assigned to each loan grade for the purposes of assessing collective provisions for those assets that share similar credit risk characteristics, and for which no specific provisions are made:

Grade	% for collective provisions
A	-
B	-
C1	2%
S	2%
C2	20%
D	50%
E	100%

14 OTHER ASSETS

	30 June 2016 $	31 December 2014 $
Prepayments	640,183	198,804
Accrued interests	105,079	104,185
Other assets	539,337	158,231
	$ 1,284,599	$ 461,220
	===========	===========
Other assets include the following:		
Robbery recovery	56,941	56,941
Lawyers suspense	59,709	41,583
Digicel mobile money receivable	229,118	8,172
Others	193,569	59,707
	$ 539,337	$ 158,231
	==========	===========

15 AMOUNTS RECEIVABLE FROM SHAREHOLDER

Comprises the following:	30 June 2016	31 December 2014
Claims for EEC	$ 10,946	$ 3,578
	===========	===========

16 STATUTORY RESERVE DEPOSIT

	30 June 2016	31 December 2014
National Reserve Bank of Tonga (NRBT)	$ 3,758,000	$ 2,772,000
	===========	===========

The Statutory Reserve Deposit with National Reserve Bank of Tonga (NRBT) is not available for use in the Bank's day to day operations. The Statutory Reserve Deposit rate at 30 June 2016 was 5% (31 December 2014: 5%).

	30 June 2016	31 December 2014
Amounts payable to NRBT	($ 100,000)	($ 23,000)
	===========	===========

Amounts receivable from/(payable to) NRBT represent surplus/(shortfall) in the statutory reserve deposit at year end.

17 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land and Buildings $	Fixtures, fittings and equipment $	Motor vehicles $	Computers $	Total $
At 31 December 2013					
Cost	6,962,266	912,299	599,232	2,535,340	11,009,137
Accumulated depreciation	(1,314,505)	(830,049)	(389,123)	(2,095,432)	(4,629,109)
Net book amount	$ 5,647,761	$ 82,250	$ 210,109	$ 439,908	$ 6,380,028
For the year ended 31 December 2014					
Opening net book amount	5,647,761	82,250	210,109	439,908	6,380,028
Additions	371,219	92,763	63,133	225,803	752,918
Disposals	-	-	(1,150)	-	(1,150)
Depreciation charge	(193,665)	(29,567)	(109,303)	(201,444)	(533,979)
Closing net book amount	$ 5,825,315	$ 145,446	$ 162,789	$ 464,267	$ 6,597,817
At 31 December 2014					
Cost	7,333,485	1,005,062	661,215	2,761,143	11,760,905
Accumulated depreciation	(1,508,170)	(859,616)	(498,426)	(2,296,876)	(5,163,088)
Net book amount	$ 5,825,315	$ 145,446	$ 162,789	$ 464,267	$ 6,597,817
For the 18 months ended June 2016					
Opening net book amount	5,825,315	145,446	162,789	464,267	6,597,817
Additions	275,673	75,246	70,105	561,155	982,179
Disposals	-	-	-	-	-
Depreciation charge	(314,326)	(72,999)	(112,020)	(341,897)	(841,242)
Closing net book amount	$ 5,786,662	$ 147,693	$ 120,874	$ 683,525	$ 6,738,754
At 30 June 2016					
Cost	7,609,158	1,080,308	731,320	3,322,298	12,743,084
Accumulated depreciation	(1,822,496)	(932,615)	(610,446)	(2,638,773)	(6,004,330)
Net book amount	$ 5,786,662	$ 147,693	$ 120,874	$ 683,525	$ 6,738,754

The depreciation policy adopted in respect of the above is set out in Note 2 (i).

18 INVESTMENT PROPERTY

	Land and Building $	Total $
At 31 December 2013		
Cost	829,248	829,248
Accumulated depreciation	(290,665)	(290,665)
Net book amount	$ 538,583	$ 538,583
	==========	==========
For the year ended 31 December 2014		
Opening net book amount	538,583	538,583
Additions	-	-
Disposals	-	-
Depreciation charge	(41,366)	(41,366)
Closing net book amount	$ 497,217	$ 497,217
	==========	==========
At 31 December 2014		
Cost	829,248	829,248
Accumulated depreciation	(332,031)	(332,031)
Net book amount	$ 497,217	$ 497,217
	==========	===========
For the 18 months ended 30 June 2016		
Opening net book amount	497,217	497,217
Additions	1,380	1,380
Disposals	-	-
Depreciation charge	(62,100)	(62,100)
Closing net book amount	$ 436,497	$ 436,497
	==========	==========
At 30 June 2016		
Cost	830,628	830,628
Accumulated depreciation	(394,131)	(394,131)
Net book amount	$ 436,497	$ 436,497
	===========	===========

(a) The depreciation policy adopted in respect of the above is set out in Note 2 (j).

(b) The following amounts have been recognised in the statement of profit or loss and other comprehensive income:

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Rental income	57,595	37,560
Direct operating expenses arising from investment properties	21,120	5,061

19 INTANGIBLE ASSETS

	Computer systems $	Total $
At 1 January 2015		
Opening net book amount	-	-
Additions	412,833	412,833
Disposals	-	-
Amortisation charge	(118,251)	(118,251)
Closing net book amount	$ 294,582	$ 294,582
At 30 June 2016		
Cost	412,833	412,833
Accumulated amortisation	(118,251)	(118,251)
Net book amount	$ 294,582	$ 294,582

The amortisation policy adopted in respect of the above is set out in Note 2 (k).

20 TAXATION

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Income tax is brought to account using the liability method of tax effect accounting.		
(a) Operating profit before income tax	2,337,207	1,819,989
Prima facie income tax charge on the operating profit at 25%	584,302	454,997
Tax effect of non-deductible expenditure:		
Grant exempt income	(42,781)	(49,063)
Income tax expense	541,521	405,934
Temporary differences -deferred tax	(129,741)	103,333
	411,780	509,267
Add: opening current tax liability	539,165	550,250
Less tax paid	(846,504)	(520,352)
Current tax liability	$ 104,441	$ 539,165
(b) **Income tax expense comprises:**		
Current tax expense	411,780	509,267
Deferred tax expense - net	129,741	(103,333)
Income tax expense	$ 541,521	$ 405,934

20 TAXATION - CONTINUED

(c) **Deferred tax asset**

(i) Deferred tax asset comprises the net effect of the following (amounts recognised in profit or loss):

	30 June 2016 $	31 December 2014 $
Allowance for loan losses	453,293	576,153
Other provisions	48,963	44,854
Unearned revenue	142,698	153,688
	$ 644,954	$ 774,695

(ii) The movement in deferred tax asset is as follows:

	30 June 2016 $	31 December 2014 $
Balance at beginning of period	774,695	671,362
(Charged)/ Credited to statement profit or loss and other comprehensive income	(129,741)	103,333
Balance at end of period	$ 644,954	$ 774,695

(d) **Deferred tax liability**

(i) The balance comprises temporary differences attributable to:

	30 June 2016	31 December 2014
Depreciation	$ 1,094,779	$ 1,094,779

(ii) The movement in deferred tax liability is as follows:

	30 June 2016	31 December 2014
Balance at beginning of period	1,094,779	1,094,779
(Charged)/ Credited to statement profit or loss and other comprehensive income	-	-
Balance at end of period	$ 1,094,779	$ 1,094,779

21 OTHER LIABILITIES

	30 June 2016 $	31 December 2014 $
Accrued interest	798,468	635,480
Provisions for annual leave and staff bonus	77,620	96,577
Deferred income	570,791	614,751
Other creditors and accruals	3,289,997	729,860
	$ 4,736,876	$ 2,076,668

21 OTHER LIABILITIES - CONTINUED

	30 June 2016 $	31 December 2014 $
Other creditors and accruals include the following:		
Accruals and creditors	773,775	617,556
Credit holding accounts	526,527	111,254
Foreign currency purchase	1,987,632	-
Withholding tax payable	2,063	1,050
	$ 3,289,997	$ 729,860

22 BORROWINGS

		30 June 2016 $	31 December 2014 $
Comprises:			
Borrowings	(a)	3,660,574	4,100,305
Tonga Development Bank promissory notes	(b)	53,780,373	44,437,589
Tonga Development Bank bonds		-	11,001
		$ 57,440,947	$ 48,548,895

(a) Borrowings comprise the following:	Principal repayment term	Interest rate		
Government of the Kingdom of Tonga				
Asian Development Bank	1993 - 2023	3.0%	326,627	396,619
International Fund for Agriculture Development 3	1999 - 2020	3.0%	762,873	1,048,950
International Development Association	1998 - 2023	3.0%	751,169	901,409
			1,840,669	2,346,978
Other borrowings				
European Investment Bank VI	2009 - 2026	5.5%	87,262	118,899
European Union	1988 - 2019	1.5%	9,280	16,739
Private Sector Reconstruction Facility	2011 - 2025	0.0%	1,723,363	1,617,689
			1,819,905	1,753,327
			$ 3,660,574	$ 4,100,305

The Government of the Kingdom of Tonga has arranged loans and grants from the Asian Development Bank, the International Development Association and the International Fund for Agricultural Development all of which are fully drawn.

The Government of the Kingdom of Tonga has guaranteed the repayment of the fully drawn loan from the European Union. These loans together with the loans from the European Investment Bank are in various currencies.

	30 June 2016	31 December 2014
(b) Tonga Development Bank promissory notes	$ 53,780,373	$ 44,437,589

The interest rate at year end on promissory notes ranged from 1.0% per annum to 6.25% per annum. Interest is paid out on maturity and semi-annually for terms over 180 days.

23 MANAGED FUNDS

The Bank manages these funds on behalf of Government agencies and at year end the balances for the respective funds were as follows:

Other Managed Funds	Total $	Advanced to $	30 June 2016	31 December 2014
Livelihood Reactivation Project - Niuatoputapu	94,401	(159,813)	(65,412)	41,617
New Zealand Borrower Diversification Fund	287,639	77,107	364,746	240,770
ADB Microfinance Project	360,962	(271,179)	89,783	152,823
Total of Other Managed Funds	743,002	(353,885)	389,117	435,210
Government Manage Funds				
Agriculture Marketing Fund - 1%	1,148,094	(2,112,017)	(963,923)	(32,455)
Fisheries Development & Export Fund - 1%	50,000	(14,461)	35,539	-
Tourism Loan Fund - 1%	480,000	(335,604)	144,396	(15,254)
Manufacturing Fund - 1%	322,940	(260,222)	62,718	83,313
Student Loan Scheme Fund - 1%	1,688,630	(1,229,387)	459,243	(92,432)
Agriculture Marketing & Production Fund - 4%	1,629,779	(2,293,726)	(663,947)	14,561
Fisheries Development & Export Fund - 4%	899,995	(697,404)	202,591	100,000
Tourism Loan Fund - 4%	301,204	(498,039)	(196,835)	200,000
Manufacturing Fund - 4%	170,000	(197,047)	(27,047)	-
Development of Livestock - 4%	230,000	(99,887)	130,113	(6,111)
Development of Forestry - 4%	-	(400,000)	(400,000)	-
Constructions - 4%	1,400,000	(597,864)	802,136	-
Retailer & Wholesaler Fund - 4%	380,000	(306,661)	73,339	46,722
Other Priority Sectors Funds - 4%	60,000	(18,357)	41,643	100,000
Overseas medical cover - 4%	60,000	(44,248)	15,752	-
Total of Government Managed Funds	8,820,642	(9,104,924)	(284,282)	398,344
Total Managed Funds	9,563,644	(9,458,809)	104,835	833,554

Percentage noted above represent the interest rate at which managed funds are on lent.

24 CAPITAL

(a) Authorised	$
At 1 January 2014 - 1,400,000 ordinary shares @ $10 each	14,000,000
Transactions during the year	-
At 31 December 2014 - 1,400,000 ordinary shares @ $10 each	$ 14,000,000
Increase during the period - 600,000 ordinary shares @ $10 each	6,000,000
At 30 June 2016 - 2,000,000 ordinary shares @ $10 each	$ 20,000,000
	===========

Based on the TDB Articles of Association adopted on 13th October 2014, authorised capital of the Bank has increased to $20,000,000 divided into 2,000,000 ordinary shares each of $10.

24 CAPITAL - CONTINUED

(b) Issued and fully paid

	30 June 2016 $	31 December 2014 $
1,400,000 ordinary shares of $10 each	14,000,000	14,000,000
	=========	=========

25 RELATED PARTY TRANSACTIONS

(a) Directors

(i) The following persons were directors of the Bank at any time during this period and up to the date of this report:

- Lord Matoto (Chairman)
- Paula Taumoepeau
- Leta Havea Kami
- Lepaola Vaea

(ii) Directors' fees and emoluments and key management compensation during the period/ year were:

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Directors' fees and retirement benefit	155,732	72,130
Management salaries and other short term employee benefits	570,536	205,127
Total	$ 726,268	$ 277,257
	=========	=========

(iii) There were no transactions with related parties in terms of loans and advances to directors or director related entities during the 18 months ended 30 June 2016 (Year ended 31 December 2014: Nil).

25 RELATED PARTY TRANSACTIONS - Continued

(b) Shareholder

In the normal course of its operations, the Bank enters into transactions with the shareholder, the Government of the Kingdom of Tonga. These transactions include guarantee and financing transactions which are carried out on normal trading terms. The Government of the Kingdom of Tonga owns 100% of the shares in the Bank.

(i) Borrowings

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Interest paid/payable on borrowings	70,405	78,015
Repayments of borrowings during the period	195,343	337,535
Borrowings from the Government of the Kingdom of Tonga are disclosed in note 22(a)	1,840,669	2,346,978
The Government purchased TDB bonds and promissory notes during the period and the balances at period end are as follows:		
TDB promissory notes	10,692,119	10,574,746
Interest paid/payable on TDB bonds and promissory notes	2,610,155	83,440

Interest payable on the bonds and promissory notes range from 2% to 3% per annum.

(ii) Term deposits

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Interest received/receivable on Government of Tonga Local Development Bonds	272,244	196,253
Government of Tonga Local Development Bonds at year end - refer note 12.	6,108,000	3,298,000

26 COMMITMENTS AND CONTINGENT LIABILITY

	30 June 2016 $	31 December 2014 $
(a) Capital commitment	-	-
(b) Contingent liability	-	-
(c) Operating lease commitments	$ 188,600	$ 223,840
	=========	===========

(i) The Bank has leases over various leasehold properties in the Kingdom for a maximum term of 50 years. The minimum operating lease payments at balance sheet date are as follows:

	30 June 2016 $	31 December 2014 $
Not later than one year	8,320	13,420
Later than one year but not later than five years	33,280	47,680
Later than five years	147,000	162,740
	$ 188,600	$ 223,840
	=========	===========

(ii) The Bank has entered into lease agreements to rent out its various properties for terms ranging from one to five years. The minimum lease payments receivable at balance sheet date are as follows:

	30 June 2016 $	31 December 2014 $
Not later than one year	32,551	70,879
Later than one year but not later than five years	43,377	32,143
Later than five years	8,423	19,213
	$ 84,350	$ 122,235
	=========	===========

27 FINANCING ARRANGEMENTS

	30 June 2016 $	31 December 2014 $
Arrangements with Bank of South Pacific (formerly Westpac Bank of Tonga) are as follows:		
(i) Documentary letter of credit limit secured by letter of negative pledge	500,000	500,000
(ii) Forward exchange contract limit	1,000,000	1,000,000
	$ 1,500,000	$ 1,500,000
	=========	===========

28 DIVIDENDS

	30 June 2016 $	31 December 2014 $
(a) The directors declared a dividend of 60% of net profit for the year ended 31 December 2014. This amounted to $848,433 or $0.60 per issued share.		848,433
(b) The directors declared a dividend based on 65% of net profit after tax for the eighteen months ended 30 June 2016. This amounted to $1,167,196 or $0.83 per issued share of which $1,000,000 interim dividend has been paid to the shareholder as at 30 June 2016.	167,196	

29 EARNINGS PER SHARE

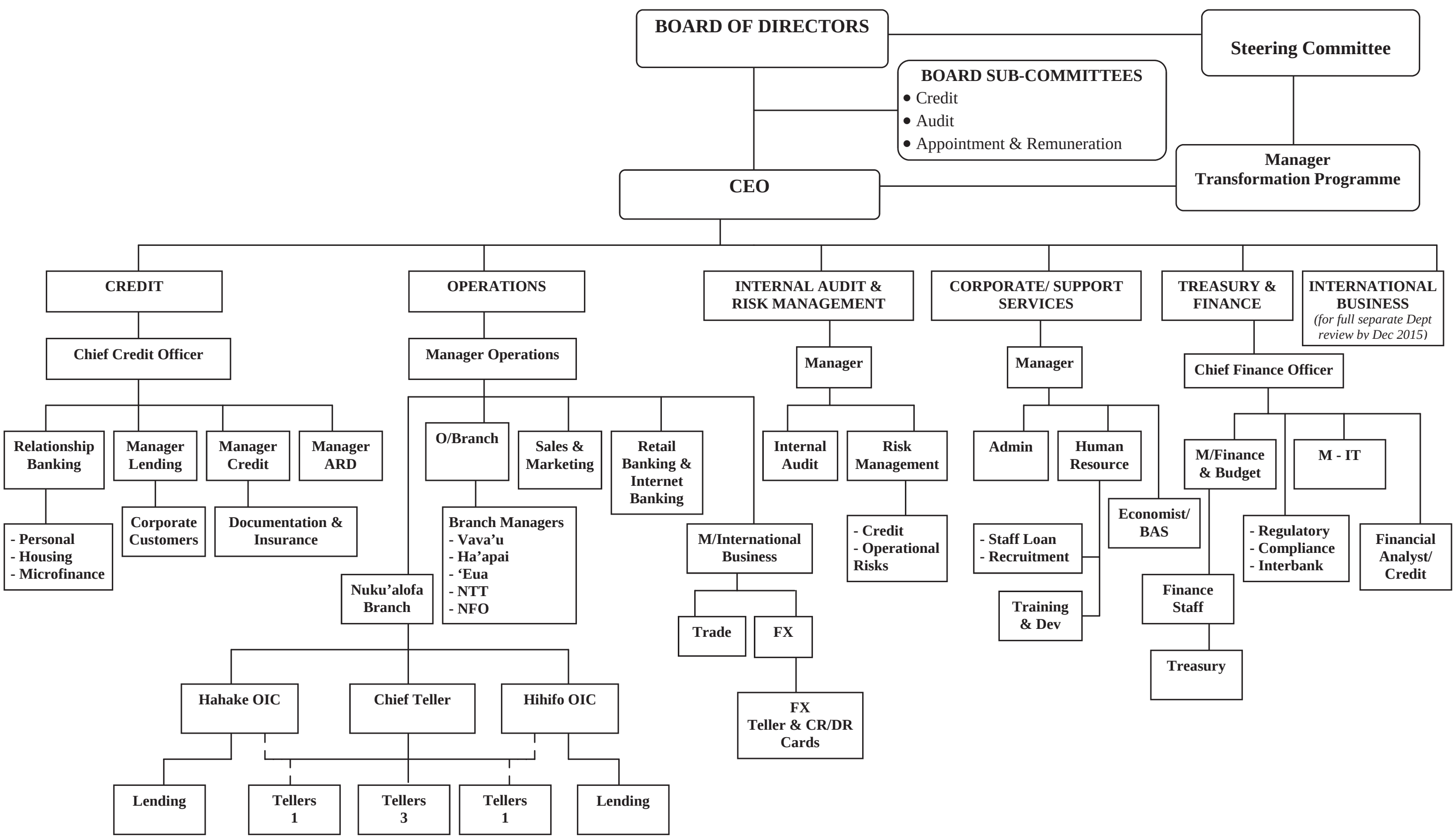
	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Net profit after tax	1,795,686	1,414,055
Number of issued shares	1,400,000	1,400,000
Earnings per share	$ 1.28	$ 1.01
	==========	===========

30 RETURN ON EQUITY

	18 months ended 30 June 2016 $	Year ended 31 December 2014 $
Net profit after tax	1,795,686	1,414,055
Shareholder's equity	20,916,393	20,287,903
Return on equity	8.59%	6.97%
	==========	==========

Approved Organisation Structure February 2015
By TDB Board of Directors on 20 Jan 2015

ANNEX 1



SENIOR EXECUTIVES

Managing Director & CEO	Mrs Leta Kami (appointed 02 September 2013)
Deputy Managing Directors	
• Transformation	Mrs Seini Movete
• Finance	Mr Hasiloni Fungavai
• Credit & Risk	Mr Sitino Maka

HEAD OFFICE

Managers

• Manager Operations	Mrs Lata Kava
• Lending- Tongatapu	Mrs ‘Elisapesi Fineanganofo
• Loans District 1 & 2	Mr Saia Talau
• Manager International	Mr Tevita Tu’inauvai
• Asset Recovery	Mr Samisoni Masila
• Credit and Operations Support	Mr Folaufisi Vaea
• Finance & Budgeting	Mrs ‘Ofeina Filimoehala
• Information Services	Mr Siokatame Havili Movete
• System Operations	Mrs Silia Tupou
• Human Resource	Mrs Siosina Paongo
• Administration	Mrs Vika. T. Vea
• Senior Economist	Mrs Piula Tangataevaha
• Senior Internal Auditor	Mr Samiu Fifita

BRANCH OFFICES

Managers

• Vava’u Branch	Mr ‘Eliki ‘Ofa
• Ha’apai Branch	Mr Viliami Fifita
• ‘Eua Branch	Mrs Lesieli Hala’ufia
• Niuatoputapu Branch	Mrs Milika Tolungamaka
• Niuafo’ou Branch	Mr Senituli Koloi
• Hahake District Office	Mr Tau’atevalu Mafi
• Hihifo District Office	Mr Mosese Fifita