

# Tonga Development Bank

*Your Partner in Development*



## Annual Report 2007

“SERVING TONGA FOR 30 YEARS”



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## SHAREHOLDER

Government of Tonga



## **VISION & MISSION STATEMENT**

### **VISION STATEMENT**

To be recognized as Tonga's best provider of development finance which employs prudent banking principles, meets customer needs, demonstrates integrity and operates profitably.

### **MISSION STATEMENT**

Committed to promoting Tonga's economic and social advancement by providing high quality and responsive development banking services while operating professionally as a profitable and financially sound development financing institution.


## **CHAIRMAN OF THE BOARD**

Hon. Minister for Public Enterprises & Information  
Ministry of Public Enterprises & Information  
NUKU'ALOFA

Dear Sir

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 31 December 2007, as required under the Tonga Development Bank Act, 1977 Section 10 (4).

Yours faithfully



'Aisake Valu Eke  
CHAIRMAN OF THE BOARD

## Board of Directors as at 31 December 2007



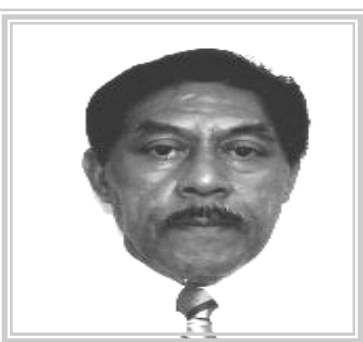
**MR. 'AISAKE VALU EKE (Alternate : Mr Paulo Kautoke)**

'Aisake Eke is the Secretary for Finance. Mr Eke has been the Chairman of the Bank Board since October 2004.



**MR. LENNIE NIIT (Alternate : Mr Viliami Fakava)**

Commercial Fisherman and has been a director of the Bank since September 2006.



**MR. SEBASTIAN MAFI (Alternate : Mr Mana Latu)**

Business man and has been a director of the Bank since December 1999.



**HON PAUL KARALUS (Alternate : Mr Minoru Nishi)**

Commercial Farmer and business man who has been a director of the Bank since January 2003. Hon Karalus, Minister for Transport, was appointed as Deputy Chairman of the Bank Board of Directors since September 2006.



**MR. SIMIONE SEFANAIA**

Managing Director of the Bank since 2nd October 2006.

## CHAIRMAN'S REPORT 2007



Mr 'Aisake Valu Eke - Chairman of the Board

With great pleasure I am pleased to report on the Tonga Development Bank's results for the year ended 31st December 2007 after it's 30th year of operation in Tonga.

The Bank reported a Net Profit after tax of \$1.52 million in 2007 as compared to \$1.69 million in 2006. The decrease was due mainly to a substantial increase in provisioning to T\$4.8 million from the 2006 figure.

The quality of the Bank's assets were well maintained. The Profitability of the Bank was largely affected by the continued failure of the squash industry which resulted in a substantial increase in specific provisioning for 2007. General provisions was also increase due to portfolio growth.

The Bank has continued to maintain its position in provision of credit to the people of Tonga around quality service and a strong customer service. The Bank also continue it's investment in technology as well as it's effort to improve operational efficiency, staff morale and customer satisfaction.

The Bank commits to obtain a sound return on shareholder's investment while at the same time trying to ensuring that quality of its lending portfolio are well maintained.

The Bank continues to maintain a good relationship with the National Reserve Bank and its shareholder, the Government of Tonga. The Bank believes that the direction as seen from the Government in its reform policies with commitment to improve transparency, accountability and good governance will continue to create an environment in which business can develop, Invest and grow. There are challenges that needs to be addressed and cooperation required from relevant sectors of the economy.

We are committed to enhancing good governance and has continued to maintain strong compliance with the requirements of the regulations and related Legislations and that of the National Reserve Bank and the Government as well as operational changes to cater for the compliance requirements.

The Bank has been committed and continued to:

- Build market leadership in our key markets through effective and efficient delivery of its products and services.
- Maintain sound risk and capital management disciplines.
- Maintain a strong investment in technology which helps support and improve operational efficiency, productivity, customer satisfaction and staff morale.
- Continue investment in staff development and training of its staff in order to achieve its various corporate objectives.
- Strengthen the Bank's capital and balance sheet by maintaining quality assets and implementing appropriate risk management techniques to ensure we meet our stakeholders' expectations.

I acknowledge the commitment and hard work by the Bank's management and staff towards attainment of this year's results. The Bank looks forward to your continued loyalty and dedication in future.

I would also like to thank the Board of Directors for continued provision of strategic direction towards achieving the Bank's goals and objectives for the year 2007. I thank our customers for their continuing support and trust in the Bank and its services provided.

A handwritten signature in dark ink, appearing to be 'Aisake Valu Eke', written over a horizontal line.

**'AisakeValu Eke  
Chairman of the Board**

## MANAGING DIRECTOR'S REVIEW



The performance of the Tonga Development Bank in 2007 was greatly affected by the challenging economic developments. This resulted in the performance in some areas being below expectations. Outcome has been made possible through the continued commitment and spirit of the Bank's Management and staff who remained dedicated to our goals through out the year. We have remained focused on our role and this strategy enabled the Bank to consolidate its effort towards delivering financial solutions to our loyal customer base whilst at the same time being alert to opportunities for development during the year.

Key performance Indicators	2007 %	2006 %	2005 %	2004 %
Net Interest Income to average total assets	6.2	6.9	6.0	6.4
Non Interest income to average total assets	4.8	4.1	5.0	5.5
Operating Costs to income	69.5	68.4	53.9	48.1
Return on equity	6.1	7.1	10.5	12.2
Return on Average Earning Assets	2.8	3.3	4.0	4.4
Income per employee	\$80,183	\$75,301	\$67,363	\$64,792

### Overview of Financial Performance

(All figures are in Tongan Pa'anga)

The after tax profit was \$1,517,459 for the twelve months ended 31 December 2007 compared to \$1,690,422 for the year to 31 December 2006. The Major contributing factors to this result were:

- Net interest income decreased by 1.8% percent to \$3,872,788. Interest Income increased by 4.8% whereas Interest expenses increased by 18%.
- Non interest income increased by 20.8% percent to \$2,859,213. The increase was due largely to an increase in lending and other fees.
- Non interest expenses (excluding bad debts) increased by 3% percent to \$3,952,500. This was mainly due to increased utility and input costs resulting from a continuing devaluation of the Tongan Pa'anga, increasing oil prices. There was also an increase in staff costs due to salary adjustments as a result of 10% COLA paid out late in 2007.

### Loan Portfolio

The total loan portfolio recorded positive growth of 12.8 % to \$49.1 million at year-end 2007 as compared to 6% increase in 2006. This results reflect the lower level of repayment of squash loans for the year.

Provisions for loan losses were above expectations because of the continued poor performance of the squash industry. The general provisions increase from 2.1M in 2006 to 2.4M in 2007 while specific provision increase from 2.3M to 2.4M. This was the major contributor to the reduction in profitability for 2007.

Adequate provisioning levels were maintained to cover future losses. All problem accounts, which show the signs of being high-risk exposures, are specifically provisioned during the year.

	2007 \$	2006 \$
Specific Provision	2,444,799	2,298,700
General	2,366,491	2,076,340

Loan recoveries and some write backs from provisions also contributed to the level of profitability for 2007.

### Approvals

The level of approvals increased by 20% to \$17.4 million in 2007 compared to 32% reduction to 14.5 million in 2006.

Approval Position by Sector	2007	2006
Housing and Personal Loan	37%	40%
Industries and Business	35%	18%
Agriculture and Fisheries	23%	20%
Staff Loan	3%	6%
Squash Loan	2%	16%

The low lending to squash in 2007 reflected the challenges faced by the Industry. A couple big business loans contributed to the attainment of the lending budget last year.

Root crop continues to be the major contribution to total agricultural loan approvals during the year. Lack of an alternative crop and continuing reliance on semi-subsistence agriculture is still a future challenge in Agricultural developments

## MANAGING DIRECTOR'S REVIEW

### Outer Island Development

Loans to Outer Island amounted to \$4.1 million contributing 23 percent in amount and 42 percent of accounts to the total loan approvals for the year. This was a significant increase from the trend in 2006.

Approvals for outer islands were mostly in the agriculture sector (e.g. cropping and agriculture processing of kava ) and for Women's Development handicraft projects.

### Women in Development

The Bank's total lending to Women's Development projects since 2000 totaled to 5,960 loans with a total value of \$15.5 million. In the year 2007, 405 loans were approved at \$1.2 million.

Lending in this area included women groups, individuals that have projects for producing Tongan handicrafts (final products) and cultivation of source plants such as mulberry and pandanus and community development projects such as funding kitchen etc.

### Arrears

The arrears ratio was recorded at 7.53% in year end 2007 as compared to a target of 5%. At the end of the year we achieved a ratio of 89.7% to 10.3% "Good Bank/Bad Bank" as compared to a target of 90% : 10%.

The internal training on arrears management practices, appropriate assessment of new proposals and a continuous effort to improve both arrears and loan portfolio management had been ongoing during the year.

### Credit Risk Management

The quality of the loan portfolio has continued to improve in 2007 due to ongoing Credit Risk Management.

The loan credit risk rating system has continued to provide a valuable tool in assessing the overall quality of the loan portfolio. Assessment and reviews are conducted from a number of risk management practices to ensure appropriateness for the prevailing economic environment.

Credit approval process has continued to be centralized which contributed significantly to maintaining a consistently high standard in our loan portfolio. Limiting credit approval authority to a selected number of officers has ensured uniformity in underlying standards / credit decisions and compliance with credit policy.

### Insurance

Sufficient insurance coverage of all security assets with the Bank's interest noted has continued to play a key role in maintaining quality of loan portfolio. Life insurance cover are often required and assigned to the Bank for borrowers with exposures over \$40,000.00.

The Loan Protection Insurance scheme which have been taken with Colonial Insurance in Fiji since 2002 has continued to provide cover for all lending to individuals' loans up to \$35,000.00 (excluding arrears) and below the age of 70. The annual premium has increased to 1.707% of the loan. Several loans have been repaid through this source for borrowers who have passed away.

### Funding

Internally generated funds from loan repayments has continued to be the Bank's main funding source. We also continue to raise funds locally through the Promissory Notes at competitive interest rates. When there is tight liquidity in the system, this source can have an adverse impact on the cost of funds. Cost of funds has increased significantly in 2007. This was due largely to our raising \$4 million to cover large loans.

Savings Bank has continued to provide a significant source of funding in 2007 especially after the redundancies of the government civil servants in June 2006.

A credit line from the EIB which was approved towards the end of 2005 is yet to be disbursed due to lack of eligible projects. This credit line is expected to start being utilized during 2008.

### Staff

The number of our full time staff increased during the year by 3 to 114. Staff who resign or retire are not automatically replaced but the relative job role is reviewed for possibly restructured before any external recruitment be justified.

### Staff Training

Staff training and development of our staff has continued to be our priority to improve skills on professional delivery of our products and services. An annual training schedule for the year was implemented to assist achieving staff operational objectives and strengthen their various competencies.

In 2007, an annual budget of TOP\$90,000 was allocated for staff training compared to TOP\$85,000 in 2006. These training included training by local trainers, training by staff, training for managers and supervisors conducted by a training consultant from New Zealand and three overseas training and attachment in New Zealand.

### Staff Retirement Fund

The Bank's continues its Retirement Fund Scheme which has operated since 1<sup>st</sup> January 1990. The actuarial reviews of the Fund and its rules are carried out every three years with the next review be after the audit of the 2007 Accounts.

The Fund's total assets as at 31<sup>st</sup> December 2007 was recorded at \$3.8 million with investment in Bank's term deposits and other investments totaling to \$3.4 million.

### Customer Service

The Bank continue its Customer Service Standards which were introduced in 2005 and a Customer Care program was commissioned in 2006 to support our on going commitment to quality customer service.

Staff Quarterly Awards which continued in 2007 included a Best Customer Service Award for the quarter and an overall award for the year. The front line staff has continued to take up the customer service awards such as the cashiers at Head Office and Hahake District Office.



## MANAGING DIRECTOR'S REVIEW

### **Customer Service (Cont'd)**

The Bank's customer complaints process has continued to provide important feedback from customers who bring in their complaints on specific matters which require immediate attention. These also provide opportunities to improve our levels of customer service.

### **Premises**

All Bank's properties have continued to be maintained and upgraded during the year. Major upgrade were carried out for the 'Eua Office Building and residence and also the Niuafo'ou Office and residence.

The expected useful lives of the Bank's properties and residences other than the those at the two Niuafo'ou were reviewed in 2007. The Office Buildings were reviewed at 35 year and residential properties at 25 year.

### **Computer Upgrade**

The Bank's computer system has continued to be enhanced since its major upgrade in November 2004. During the year the audit issues raised by the external auditors were fully resolved. The computer systems installed at our Niuafo'ou and Niuaoputapu Branches continued to be enhanced in 2007.

### **Future Direction**

The Bank has continued to remain well positioned to make a strong contribution to the development of the people and businesses in Tonga through credit provision and provision of investment opportunity for the people of Tonga.

Our vision as to be recognized as Tonga's best provider of development finance which employs prudent banking principles, meet customer needs, demonstrates integrity and operates profitably has continued to be our focus for the year.

We continued to improve our customer service so as to foster our good relationship and ensuring we are adding value to their business and personal aspirations of our customers.

The capability of our staff to deliver quality performance will continue to be effectively addressed.

### **Acknowledgement**

The Bank's staff continues to be a highly committed team and are proud of the Bank's heritage and dedicated to it's customers needs and strategy. It is indeed a privilege leading the Tonga Development Bank team in 2007.

The support received by the Bank from the Ministry of Finance, Ministry of Public Enterprises & Information and other related Government Ministries during the year 2007 are acknowledged. The Government, as shareholder, has given invaluable support to the Bank in fulfilling its objective in 2007.

The hard work and dedication of the Bank's management team and all its staff in attaining the level of profitability for 2007 is also acknowledged.

I also acknowledge the ongoing support and loyalty of all our valued customers and their trust given to the Bank during 2007. The Bank can assure you all that we do care about your businesses and goals. Your trust, specially the ongoing repayment of loans has helped take us ever closer to achieving our mission as Tonga's best provider of Development Banking services.

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 the year.

Malo 'aupito



Simione Sefanaia  
Managing Director

## FIVE YEAR SUMMARY

<b>Profit &amp; Loss TOP \$000'S</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Movement 2006/2007</b>
<b>Interest Income</b>	5,258	5,535	5,516	5,991	6,282	+4.9%
<b>Interest Expense</b>	1,839	2,048	2,119	2,045	2,409	+17.8%
<b>Net Interest Income</b>	3,419	3,487	3,397	3,946	3,873	-1.9%
<b>Fees &amp; commission income</b>	2,050	2,158	2,377	2,175	2,695	23.9%
<b>Other Operating Income</b>	196	212	190	192	164	-14.6%
<b>Losses on loans &amp; advances</b>	696	327	(31)	901	816	-9.4%
<b>Bad Debts</b>	24	32	22	30	52	+73%
<b>Income Tax: Credit (Expense)</b>	(60)	(822)	(642)	(304)	(535)	+76%
<b>Operating Profit after tax</b>	2,423	2,216	2,105	1,690	1,517	-10.2%
<b>Earnings per share</b>	2.30	2.10	2.00	1.61	1.44	-10.6%
<b>Balance Sheet TOP \$000'S</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Movement 2006/07</b>
<b>Average assets</b>	49,647	54,705	56,826	57,492	62,631	+8.9%
<b>Total Assets</b>	50,721	58,688	54,963	60,022	65,239	+8.7%
<b>Gross Loans</b>	46,164	38,646	41,252	43,472	49,064	+12.9%
<b>Saving Deposits</b>	1,342	2,583	3,251	4,647	4,757	+2.4%
<b>Shareholder's equity</b>	16,942	18,230	19,989	23,978	24,888	+3.8%
<b>Performance Ratios</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>Movement 2006/ 07</b>
<b>Return on Assets</b>	4.9%	4.1%	3.7%	2.9%	2.4%	-17.2%
<b>Return on Equity</b>	14.3%	12.2%	10.5%	7.1%	6.1%	-14.1%
<b>Operating Costs to Total Income</b>	59.3%	48.1%	53.9%	68.4%	69.5%	+1.6%
<b>Operating Income to Average Portfolio</b>	18.3%	18.6%	20.2%	19.7%	19.8%	+0.5%

## **DIRECTORS' REPORT TO THE MEMBERS**

In accordance with a resolution of the Board of Directors, the directors herewith submit the Balance Sheet at 31 December 2007, Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date and report as follows:

### **1. DIRECTORS**

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

- 'Aisake Valu Eke (Chairman)
- Hon. Paul Karalus (Deputy Chairman)
- Lennie Niit
- Sepa Mafi
- Simone Sefanaia (Managing Director)
- Paulo Kautoke (Alternate)
- Mana Latu (Alternate)
- Minoru Nishi (Alternate)
- Dr. Viliami Fakava (Alternate)

### **2. PRINCIPAL ACTIVITY**

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

During the year ended 31 December 2007 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 year ended 31 December 2007 was \$1,517,459 (2006: \$1,690,422).

### **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 dividends based on 30% of net profit after tax for the year ended 31 December 2006. This amounted to \$507,127 or \$0.48 per issued share and was paid out in May 2007. The directors also recommended that dividend based on 40% of net profit after tax be declared for the year ended 31 December 2007. This amounted to \$606,984 or \$0.58 per issued share.

### **6. RESERVES**

Directors have recommended to transfer retained earnings of \$910,475 to general reserve in respect of the year ended 31 December 2007.

### **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.

## **DIRECTORS' REPORT TO THE SHAREHOLDERS (Cont'd)**

### **8. BAD AND DOUBTFUL DEBTS**

The directors took reasonable steps before the Bank's income statement 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**

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

### **10. UNUSUAL TRANSACTIONS**

The results of the Bank's operations for the year ended 31 December 2007 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 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 the 29th day of February, 2008.**



.....  
**Simione Sefanaia**  
Managing Director



.....  
**Aisake Valu Eke**  
Chairman of the Board



**STATEMENT BY BOARD OF DIRECTORS**

**APPROVAL OF FINANCIAL STATEMENTS**


In the opinion of the Directors:

- (a) the accompanying income statement is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2007;
- (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 at 31 December 2007;
- (c) the accompanying statement of changes in equity is drawn up so as to give a true and fair view of the movement in shareholders funds for the year ended 31 December 2007; 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 year ended 31 December 2007.

**Signed in accordance with a resolution of the directors this 29th February 2008.**



.....  
**Simione Sefanaia**  
**Managing Director**



.....  
**'Aisake Valu Eke**  
**Chairman of Directors**

## APPROVAL OF FINANCIAL STATEMENTS

### INDEPENDENT AUDIT REPORT

To the shareholders of the Tonga Development Bank Limited.

#### Scope

We have audited the financial statements of the Tonga Development Bank Limited for the year ended 31 December 2007 as set out on pages 5 to 27. The Bank's directors and management are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them to the Board of Directors of the Bank.

Our audit has been conducted in accordance with Generally Accepted Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures included examination on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether in all material aspects, the financial statements are presented fairly in accordance with Generally Accepted Accounting Practice and relevant statutory requirements so as to present a view that is consistent with our understanding of the Bank's financial position, the results of its operations, changes in equity and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

#### Audit Opinion

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 which have been prepared in accordance with Generally Accepted Accounting Practice:
  - (i) are in agreement with the books of account;
  - (ii) to the best of our information and according to the explanations given to us:
    - (a) give a true and fair view of the state of affairs of the Bank as at 31 December 2007 and of the results, changes in equity and cash flows of the Bank for the year ended on that date;
    - (b) are in accordance with the provisions of the Tonga Development Bank Act 1977 and Tonga Companies Act 1995.

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

Lautoka  
29 February 2008

PricewaterhouseCoopers  
Chartered Accountants

**INCOME STATEMENT**  
**YEAR ENDED 31 DECEMBER 2007**

	Notes	2007 \$	2006 \$
Interest income	3	6,281,651	5,991,029
Interest and other borrowing expenses	3	<u>(2,408,863)</u>	<u>(2,044,959)</u>
<b>Net interest income</b>		3,872,788	3,946,070
Fees and commission income	4	2,695,484	2,175,029
Other operating income	5	<u>163,729</u>	<u>192,405</u>
<b>Net operating income</b>		6,732,001	6,313,504
Losses on loans and advances	9	(815,948)	(900,770)
Bad debts written off		(52,343)	(29,838)
Bad debts recovered/reversed		141,708	449,947
Other operating expenses	6	<u>(3,952,500)</u>	<u>(3,838,386)</u>
<b>Profit before income tax</b>		2,052,918	1,994,457
Income tax expense	14(a)	<u>(535,459)</u>	<u>(304,035)</u>
<b>Net profit</b>		<u><u>\$ 1,517,459</u></u>	<u><u>\$1,690,422</u></u>
<b>Earnings per share</b>	25	\$ 1.44	\$1.61

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

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2007**

	Notes	2007 \$	2006 \$
<b>ASSETS</b>			
Cash on hand and at bank		963,492	1,103,068
Term deposits and securities	8	7,908,502	7,630,000
Loans and advances	9	44,252,588	39,096,951
Other assets	10	281,191	446,497
Amounts receivable from shareholder	11	-	28,472
Amount receivable from NRBT	12	-	105,000
Statutory reserve deposit	12	1,817,000	1,217,000
Property, plant and equipment	13	8,532,444	9,038,047
Deferred tax asset	14(d)	1,484,300	1,357,504
<b>Total Assets</b>		<b><u>\$65,239,517</u></b>	<b><u>\$60,022,539</u></b>
<b>LIABILITIES</b>			
Savings deposits		4,756,883	4,646,804
Other liabilities	15	993,805	925,074
Amount payable to NRBT	12	500,000	-
Borrowings	16	30,800,658	27,305,255
Provision for tax		714,794	553,477
Managed funds	17	456,293	533,914
Deferred tax liability	14(e)	1,521,764	1,573,027
Provision for dividend	24	606,984	507,127
<b>Total Liabilities</b>		<b><u>40,351,181</u></b>	<b><u>36,044,678</u></b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	18	10,530,190	10,530,190
Asset revaluation reserve		4,433,460	4,433,460
General reserve		9,924,686	9,014,211
<b>Total Shareholders' Equity</b>		<b><u>24,888,336</u></b>	<b><u>23,977,861</u></b>
<b>Total Equity and Liabilities</b>		<b><u>\$65,239,517</u></b>	<b><u>\$60,022,539</u></b>

*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 February, 2008.



.....  
Simione Sefanaia  
Managing Director



.....  
'Aisake Valu Eke  
Chairman of the Board



**STATEMENT OF CHANGES IN EQUITY  
YEAR ENDED 31 DECEMBER 2007**

	Notes	Share Capital	Asset Revaluation Reserve	Retained Earnings	General Reserve	Total
		\$	\$	\$	\$	\$
<b>Balance 31 December 2005</b>		\$10,530,190	\$1,207,079	\$421,058	\$7,830,916	\$19,989,243
Net profit for the Year		-	-	1,690,422	-	1,690,422
Revaluation surplus (net of tax)		-	3,226,381	-	-	3,226,381
Dividend 2005	24 (a)	-	-	(421,058)	-	(421,058)
Dividend 2006	24 (b)	-	-	(507,127)	-	(507,127)
Transfer to General Reserve		-	-	( 1,183,295)	1,183,295	-
<b>Balance 31 December 2006</b>		10,530,190	4,433,460	-	9,014,211	23,977,861
Net profit for end of Year		-	-	1,517,459	-	1,517,459
Dividend 2007	24 ©	-	-	(606,984)	-	(606,984)
Transfer to General Reserve		-	-	(910,475)	910,475	-
<b>Balance 31 December 2007</b>		<u>\$10,530,190</u>	<u>\$4,433,460</u>	<u>\$ -</u>	<u>\$9,924,686</u>	<u>\$24,888,336</u>

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

**CASHFLOW STATEMENT  
YEAR ENDED 31 DECEMBER 2007**

	Note	2007 \$	2006 \$
<b>Cash flows from operating activities</b>			
Interest received		6,334,655	5,949,362
Interest payment		(2,364,905)	(1,890,163)
Fees and commission received		2,672,035	2,018,130
Other income		187,236	338,430
Income tax paid		(552,201)	(571,352)
Payment to employees and suppliers		(3,283,852)	(3,175,819)
Cash flows from operating activities before changes in operating assets and liabilities		2,992,968	2,668,588
Changes in operating assets and liabilities:			
Disbursements of Loans		(19,242,634)	(21,223,263)
Repayments of loans		13,360,414	18,886,068
Decrease/(increase) in other debtors and prepayments		105,372	(126,364)
(Increase)/decrease in amounts receivable from shareholder		28,472	(11,357)
(Decrease) in other liabilities		(77,621)	(4,777)
Net cash (used in)/from operating activities		(2,833,029)	188,895
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(140,039)	(298,447)
Proceeds from sale of plant and equipment		8,638	20,947
Net decrease/(increase) in statutory deposits		5,000	(260,000)
Net decrease in Government bonds		-	1,350,000
Net cash (used in)/from investing activities		(126,401)	812,500
<b>Cash flows from financing activities</b>			
Net increase/(decrease) in TDB promissory notes		4,559,871	(121,057)
Net increase in savings deposits		110,080	1,396,196
Dividend paid		(507,127)	(421,058)
Net payments in TDB bonds		(411,740)	(1,467,125)
Repayment of borrowing		(652,728)	(569,186)
Net cash from/ (used in) financing activities		3,098,356	(1,182,230)
<b>Net increase/(decrease) in cash and cash equivalents</b>		138,926	(180,835)
Cash and cash equivalents at beginning of year		5,353,068	5,533,903
<b>Cash and cash equivalents at year end</b>	7	<u>\$5,491,994</u>	<u>\$5,353,068</u>

*The above cash flow statement should be read in conjunction with the accompanying notes.*

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements which have been prepared under Generally Accepted Accounting Principles are in accordance with the provisions of the Tonga Development Bank Act 1977 and Tonga Companies Act 1995.

The financial statements have been prepared on the basis of the historical cost convention except for land and buildings which are at directors' valuation. Unless otherwise stated the accounting policies adopted are consistent with those of the previous year.

### **(a) Depreciation**

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	5
Library	5
Machines	5
Computers	5
Vehicles	4 - 5

### **(b) Interest Expenses**

Interest expenses are recognised in the income statement for all interest bearing instruments on an accrual basis.

### **(c) Reserve Recognition**

Reserve is recognised for the major business activities as follows:

#### **(i) Interest income**

Interest income on loans is calculated on the highest daily loan balance outstanding and taken to income on an accrual basis. Interest relating to non-performing loans are not accrued and only recognised as income when received.

#### **(ii) Fees and commission income**

Fees and commissions are recognised in the income statement on an accrual basis.

#### **(iii) Lease income**

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

#### **(iv) Grants**

Grants are recognised in the income statement on a systematic and rational basis over the period necessary to match them with the related cost.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**
**(d) Income Tax**

Deferred tax assets and liabilities are recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

The principal temporary differences arise from depreciation and revaluation of property, plant and equipment, unrealised exchange gains or losses on foreign currencies and provision for loan losses and other provisions for staff.

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

Income tax payable on profits is recognised as an expense in the period in which profits arise. The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available which these losses can be utilised against.

**(e) Loans and Provision for Loan Impairment**

All loans and advances are recognised when cash is advanced to the borrowers.

An allowance for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loans. The provision for loan losses has been estimated after an analysis of individual loan balances to determine a specific provision and is based amongst other factors upon credit ratings of the borrower, value of security, conduct of account and past experiences.

A general provision is made based on past experience of the inherent risk in the portfolio. The general provision is based on a calculation of around 5% to 10% on those loans for which no specific provision has been raised.

When a loan is uncollectible, it is written off against the related provision for impairment; subsequent recoveries are credited in the income statement as bad debt recovered.

If the amount of the impairment subsequently decreases due to an event occurring after the writedown, the release of provision is credited as a reduction of the provision for loan losses.

**(f) Investments**

Investments are stated at cost. Provision for diminution in the value of investment is made where in the directors' opinion there is a permanent diminution in the value of the investments.

**(g) Translation of Foreign Currencies**

All foreign currency transactions are brought to account at the rate of exchange at the date of the transactions. At balance date, amounts payable to and by the Bank in foreign currencies are translated to Tongan Pa'anga at rates of exchange current at balance sheet date. Exchange gains and losses whether realised or unrealised, for which exchange risk cover is not provided by the Government of the Kingdom of Tonga, are brought to account in determining the profit or loss for the year.



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**
**(h) Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

**(i) Cash and Cash Equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with commercial banks and term deposits.

**(j) Employee 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.

**(k) 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.

**(l) Dividends**

Provision is made for the amount of any dividend declared, proposed and recommended by the directors on or before the end of the financial year but not distributed at balance date.

**(m) Operating Leases**

Where the Bank is the lessee, the lease rentals on operating leases are recognised in the income statement over the term of the lease.

Assets partially leased out under operating leases are included in property, plant and equipment in the balance sheet.

**(n) Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Bank prior to the end of financial year which are unpaid. The amounts are unsecured.

**(o) Comparatives**

The comparative figures where necessary, have been reclassified or restated to conform with changes in presentation or accounting policies in the current year.

**(p) Currency of presentation**

All amounts are expressed in Tongan Pa'anga.

## 2. FINANCIAL RISK MANAGEMENT

### (a) Credit Risk

The Bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. 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, industry segments and the Bank's capital. Such risks are monitored on a regular basis and subject to a quarterly or an annual review. Limits on the level of credit risk by product, industry sector or sub sector are approved by the Board of Directors.

Exposure to credit risk is managed through regular review and analysis of borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral securities.

The concentration of risk by industry sectors within the loan portfolio at year end is as follows:

	2007 \$	%	2006 \$	%
Industry sector:				
Agriculture	18,377,883	37.5	17,545,287	40.4
Industry and Business	10,900,881	22.2	7,501,452	17.2
Housing and Personal	16,885,871	34.4	15,729,030	36.2
Staff	2,899,243	5.9	2,696,222	6.2
	<u>\$49,063,878</u>	<u>100.0</u>	<u>\$43,471,991</u>	<u>100.0</u>

### (b) Currency Risk

The Bank takes on exposure due to 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:

	2007 \$	2006 \$
<b>Liabilities</b>		
Borrowings – foreign	353,095	536,490

### (c) 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.

## 2. FINANCIAL RISK MANAGEMENT (cont'd)

### (d) Liquidity Risk

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 below analyses assets and liabilities into relevant maturity groupings based on there remaining period at balance sheet date to the contractual maturity date.

#### **Maturities of assets and liabilities**

<b>As at 31 Dec 2007</b>	<b>Up to 1 months \$</b>	<b>1 – 3 month \$</b>	<b>3 – 12 months \$</b>	<b>1 – 5 Years \$</b>	<b>Over 5 Years \$</b>	<b>No specific maturity \$</b>	<b>Total \$</b>
<b>Assets</b>							
Cash on hand and cash at bank	963,492	-	-	-	-	-	963,492
Term deposits and Securities	711,725	1,816,777	3,980,000	1,400,000	-	-	7,908,502
Loans and advances	4,743,606	4,715,949	13,437,299	13,849,428	7,506,306	-	44,252,588
Statutory reserve Deposit	-	-	-	-	-	1,817,000	1,817,000
Property, plant and equipment	-	-	-	-	-	8,532,444	8,532,444
Other assets	-	93,302	187,889	1,484,300	-	-	1,765,491
<b>Total assets</b>	<b>6,418,823</b>	<b>6,626,028</b>	<b>17,605,188</b>	<b>16,733,728</b>	<b>7,506,306</b>	<b>10,349,444</b>	<b>65,239,517</b>
<b>Liabilities</b>							
Savings deposit	4,756,883	-	-	-	-	-	4,756,883
Borrowings	674,225	3,328,633	10,970,592	12,712,652	3,114,556	-	30,800,658
Other liabilities	500,000	1,600,789	1,171,087	1,521,764	-	-	4,793,640
<b>Total liabilities</b>	<b>5,931,108</b>	<b>4,929,422</b>	<b>12,141,679</b>	<b>14,234,416</b>	<b>3,114,556</b>	<b>-</b>	<b>40,351,181</b>
<b>Net liquidity gap</b>	<b>\$487,715</b>	<b>\$1,696,606</b>	<b>\$5,463,509</b>	<b>\$2,499,312</b>	<b>\$4,391,750</b>	<b>\$10,349,444</b>	<b>\$24,888,336</b>
<b>As at 31 December, 2006</b>	<b>Up to 1 month \$</b>	<b>1 - 3 months \$</b>	<b>3 - 12 months \$</b>	<b>1 – 5 years \$</b>	<b>Over 5 years \$</b>	<b>No specific maturity \$</b>	<b>Total \$</b>
<b>Total assets</b>	7,778,006	8,146,837	7,319,812	19,709,377	6,813,460	10,255,047	60,022,539
<b>Total liabilities</b>	6,081,400	4,893,922	9,737,281	11,582,544	3,749,531	-	36,044,678
<b>Net liquidity gap</b>	<b>\$1,696,606</b>	<b>\$3,252,915</b>	<b>\$(2,417,469)</b>	<b>\$8,126,833</b>	<b>\$3,063,929</b>	<b>\$10,255,047</b>	<b>\$23,977,861</b>

## **2. FINANCIAL RISK MANAGEMENT (Cont'd)**

### **(e) 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 \$3,380,000 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 value as they are repayable on demand.

#### **(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.

### **(f) Fiduciary Activities**

The Bank provides custody, administration, investment management and advisory services to the Tonga Development Bank Retirement Fund scheme. Those assets that are held in a fiduciary capacity are not included in these financial statements.



**3. NET INTEREST INCOME**

	2007 \$	2006 \$
<b>Interest income</b>		
Loans and advances	5,518,826	5,336,867
Term deposits and securities	<u>762,825</u>	<u>654,162</u>
	<u>\$6,281,651</u>	<u>\$5,991,029</u>
<b>Interest and other borrowing expenses</b>		
Borrowings	245,838	226,231
TDB promissory notes	1,931,837	1,522,479
TDB bonds	91,989	169,471
Savings deposits	135,771	120,667
Bank overdraft	<u>3,428</u>	<u>6,111</u>
	<u>\$2,408,863</u>	<u>\$2,044,959</u>

Borrowings cost comprises foreign exchange loss of \$18,156 (2006: \$Nil)

**4. FEES AND COMMISSION INCOME**

	2007 \$	2006 \$
Service fees	2,208,304	1,837,164
Commissions	<u>487,180</u>	<u>337,865</u>
	<u>\$2,695,484</u>	<u>\$2,175,029</u>

**5. OTHER OPERATING INCOME**

	2007 \$	2006 \$
Rent	71,203	77,113
Gain on sale of plant and equipment	6,872	10,863
Other	<u>85,654</u>	<u>104,429</u>
	<u>\$163,729</u>	<u>\$192,405</u>

**6. OTHER OPERATING EXPENSES**

	2007 \$	2006 \$
Staff costs (refer below)	1,973,684	1,906,753
Administrative expenses	450,723	518,221
Auditor's remuneration - audit	25,753	28,849
Depreciation	643,874	583,640
Premises	410,584	295,895
Travel	198,550	191,506
Insurance loss	19,099	21,668
Others	230,233	291,854
	<u>\$3,952,500</u>	<u>\$3,838,386</u>

Staff costs comprise:

Wages and salaries and other staff costs	1,803,784	1,742,560
Retirement fund	169,900	164,193
	<u>\$1,973,684</u>	<u>\$1,906,753</u>

The average number of persons employed by the Bank during the year 2007 was 113 (2006: 111).

In 1990 the Bank established a retirement fund for all its permanent employees. The Bank made annual contributions to the fund equal to 12% of annual salaries until 30 September 2002 and from 1 October 2002 the contribution was reduced to 10.50% of annual salaries. There was an actuarial review of the retirement fund in 2005 and the Board approved an increase in contributions to 11% effective retrospectively as from 1 January 2005 and 11.5% from 1 January 2006.

**7. CASH AND CASH EQUIVALENTS**

	2007 \$	2006 \$
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:		
Cash on hand and at bank	963,492	1,103,068
Term deposits (refer Note 8)	4,528,502	4,250,000
	<u>\$5,491,994</u>	<u>\$5,353,068</u>

**8. TERM DEPOSITS AND SECURITIES**

	2007 \$	2006 \$
Australia and New Zealand Banking Corporation	-	1,000,000
Westpac Bank of Tonga	4,528,502	3,250,000
Government of Tonga Local Development Bond	3,380,000	3,380,000
	<u>\$7,908,502</u>	<u>\$7,630,000</u>

The year end interest rate receivable on term deposits range from 9.25% to 9.75% (2006: 5.75% to 8.00%) per annum and the interest rate for the Government of Tonga Local Development Bond range from 6.50% to 8.00% per annum. The interest is receivable on maturity for term deposits and annually after a year from date of issue for the Government of Tonga Local Development Bond.

**9. LOANS AND ADVANCES**

	2007 \$	2006 \$
Gross loans and advances	49,063,878	43,471,991
Less : Impairment losses on loans and advances	<u>( 4,811,290)</u>	<u>(4,375,040)</u>
Net loans	<u>\$44,252,588</u>	<u>\$39,096,951</u>
Loans and advances approved but not yet disbursed Amounted to:	<u>\$ 538,788</u>	<u>\$ 677,142</u>

**Allowance for losses on loans and advances**

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

Balance at beginning of the year	4,375,040	4,011,880
Provision for loan impairment	1,244,701	1,148,360
Provisions written back	( 428,753)	(247,590)
Loans written off during the year	<u>(379,698)</u>	<u>537,610)</u>
Balance at end of year	<u>\$ 4,811,290</u>	<u>\$4,375,040</u>

Composition of allowance for losses on loans and advances:

Specific provision	2,444,799	2,298,700
General provision	<u>2,366,491</u>	<u>2,076,340</u>
	<u>\$ 4,811,290</u>	<u>\$4,375,040</u>

The losses on loans and advances as shown in the income  
statement is arrived as follows:

Provision for loan impairment	1,244,701	1,148,360
Provisions written back	<u>(428,753)</u>	<u>(247,590)</u>
	<u>\$815,948</u>	<u>\$900,770</u>

**Non accrual loans and advances**

Non accrual loans and advances	3,239,401	1,435,815
Less: specific provision for impairment	<u>(1,539,495)</u>	<u>(411,200)</u>
	<u>\$1,699,906</u>	<u>\$1,024,615</u>

Loans to directors and director related entities are disclosed in note 19 (a) (iii).

**10. OTHER ASSETS**

	2007 \$	2006 \$
Prepayment	70,721	153,296
Accrued interest	193,630	246,634
Other assets	16,840	46,567
	<u>\$281,191</u>	<u>\$446,497</u>

**11. AMOUNTS RECEIVABLE FROM SHAREHOLDER**

	2007 \$	2006 \$
Comprises the following:		
Claims for EIB V	<u>\$ -</u>	<u>\$ 28,472</u>

The exchange losses incurred on the European Investment Bank Loan V for 2007 are not recoverable from the Government of the Kingdom of Tonga.

**12. STATUTORY RESERVE DEPOSIT**

	2007 \$	2006 \$
National Reserve Bank of Tonga (NRBT)	<u>\$1,817,000</u>	<u>\$1,217,000</u>

The Statutory Reserve Deposit with National Reserve Bank of Tonga (NRBT) is not available for use in the Bank's day to day operations.

	2007 \$	2006 \$
Amounts (payable to)/receivable from NRBT	<u>\$(500,000)</u>	<u>\$105,000</u>

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

**13. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold Land and buildings \$	Fixtures, fittings & equipment \$	Motor vehicles \$	Computers \$	Total \$
Opening net book amount	7,988,599	172,236	190,804	86,408	9,038,047
Additions	-	43,869	215	95,955	140,039
Disposals	-	-	(1,768)	-	(1,768)
Depreciation charge	(238,602)	(69,312)	(81,909)	(254,051)	(643,874)
Closing net book amount	<u>\$7,749,997</u>	<u>\$146,793</u>	<u>\$107,342</u>	<u>\$528,312</u>	<u>\$8,532,444</u>
<b>At 31 December 2007</b>					
Cost	1,163,206	828,957	505,046	1,752,090	4,249,299
Revaluation	<u>6,885,499</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,885,499</u>
	8,048,705	828,957	505,046	1,752,090	11,134,798
Accumulated depreciation	<u>(298,708)</u>	<u>(682,164)</u>	<u>(397,704)</u>	<u>(1,223,778)</u>	<u>(2,602,354)</u>
Net book amount	<u>\$7,749,997</u>	<u>\$146,793</u>	<u>\$107,342</u>	<u>\$528,312</u>	<u>\$8,532,444</u>
<b>At 31 December 2006</b>					
Cost	1,163,206	785,088	530,444	1,841,498	4,320,236
Revaluation-1995	3,875,678	-	-	-	3,875,678
Revaluation-2006	<u>3,009,821</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,009,821</u>
	8,048,705	785,088	530,444	1,841,498	11,205,735
Accumulated depreciation	<u>(60,106)</u>	<u>(612,852)</u>	<u>(339,640)</u>	<u>(1,155,090)</u>	<u>(2,167,688)</u>
Net book amount	<u>\$ 7,988,599</u>	<u>\$172,236</u>	<u>\$190,804</u>	<u>\$686,408</u>	<u>9,038,047</u>

The leasehold properties were revalued during 2006 by Jaimi Associates, independent valuer and adopted by the Board in September 2006. These values were brought into account at 31 December 2006.

**14. TAXATION**

	2007 \$	2006 \$
Income tax is brought to account using the liability method of tax effect accounting.		
(a) Operating profit before income tax	<u>\$ 2,052,918</u>	<u>\$ 1,994,457</u>
Prima facie income tax charge on the operating profit at graduated rates to 30%	600,875	583,337
Tax effect of non deductible expenditure:		
Sundry expenses	1,126	2,298
Grants and exempt income	(73,470)	(125,741)
Tax effect of prior year adjustment	8,204	(155,843)
Tax effect of over provision - prior year	<u>(1,276)</u>	<u>(16)</u>
Income tax expense	<u>\$535,459</u>	<u>\$304,035</u>
(b) Income tax expense comprises:		
Current tax expense	714,794	553,477
Prior year adjustment	8,204	(155,843)
Over provision – prior year	(1,276)	(16)
Deferred tax expense	<u>(186,263)</u>	<u>(93,563)</u>
Income tax expense	<u>\$535,459</u>	<u>\$304,035</u>
(c) Amounts recognized directly in equity		
Net deferred tax – debited directly to equity	<u>\$ -</u>	<u>\$1,382,735</u>
(d) <b>Deferred tax asset</b>		
(i) Deferred tax asset comprises the net effect of the following (amounts recognised in profit or loss):		
Allowance for loan losses	1,428,387	1,297,512
Other provisions	20,793	21,776
Unrealised exchange loss	<u>35,120</u>	<u>38,216</u>
	<u>\$1,484,300</u>	<u>\$1,357,504</u>
(ii) The movement in deferred tax asset is as follows:		
Balance at 1 January 2006	1,357,504	1,264,196
Income statement credit	<u>126,796</u>	<u>93,308</u>
	<u>\$1,484,300</u>	<u>\$1,357,504</u>

**14. TAXATION (cont'd)**

	2007 \$	2006 \$
(e) <b>Deferred tax liability</b>		
(i) The balance comprises temporary differences attributable to:		
Depreciation	<u>\$1,521,764</u>	<u>\$1,573,027</u>
(ii) The movement in deferred tax liability is as follows:		
Opening balance	1,573,027	346,405
Charged to equity	-	1,382,735
Credit to income statement	<u>(51,263)</u>	<u>(156,113)</u>
	<u>\$1,521,764</u>	<u>\$1,573,027</u>

**15. OTHER LIABILITIES**

	2007 \$	2006 \$
Accrued interest	702,707	658,749
Provisions for annual leave and staff bonus	69,311	72,587
Other creditors and accruals	<u>221,787</u>	<u>193,738</u>
	<u>\$ 993,805</u>	<u>\$925,074</u>

**16. BORROWINGS**

	Notes	2007 \$	2006 \$
Comprises:			
Borrowings	(a)	5,787,845	6,440,573
Tonga Development Bank promissory notes	(b)	24,081,744	19,521,873
Tonga Development Bank bonds	(c)	<u>931,069</u>	<u>1,342,809</u>
		<u>\$30,800,658</u>	<u>\$27,305,255</u>



**16. BORROWINGS (Cont'd)**

			2007 \$	2006 \$
(a) Borrowings comprise the following:	Principal repayment term	Interest rate		
<b>Government of the Kingdom of Tonga</b>				
Asian Development Bank	1993 – 2023	3.00%	723,245	769,906
International Fund for Agriculture Development 2	1993 – 2013	3.00%	725,028	856,826
International Fund for Agriculture Development 3	1999 – 2020	3.00%	2,383,977	2,574,695
International Development Association	1998 – 2023	3.00%	<u>1,602,500</u>	<u>1,702,656</u>
			<u>5,434,750</u>	<u>5,904,083</u>
<b>Other borrowings</b>				
European Union	1988 – 2019	1.50%	49,911	54,480
Agence Francaise Development	2000 – 2009	5.00%	<u>303,184</u>	<u>482,010</u>
			<u>353,095</u>	<u>536,490</u>
			<u><u>\$5,787,845</u></u>	<u><u>\$6,440,573</u></u>

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.

**16. BORROWINGS (Cont'd)**

	2007 \$	2006 \$
(b) Tonga Development Bank promissory notes	<u>\$24,081,744</u>	<u>\$19,521,873</u>

The interest rate at year end on promissory notes ranged from 5.75% per annum to 8.00% per annum. Interest is paid out on maturity and semi-annually for terms over 180 days.

	2007 \$	2006 \$
(c) Tonga Development Bank bonds	<u>\$931,069</u>	<u>\$1,342,809</u>

The interest rate at year end on bonds ranged from 6% per annum to 7.75% per annum. Interest is payable semi-annually on 31 August and 28 February each year. There are Government Guarantees on repayment of principal and interest payable on bonds issued under this Prospectus pursuant to the Public Finance Management Act.

**17. MANAGED FUNDS**

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

	Total Funds \$	Advance to Projects \$	2007 \$	2006 \$
UNCDF Fisheries Development Fund	251,578	-	251,578	351,578
New Zealand Borrower Diversification Fund	318,283	113,568	204,715	182,336
	<u>\$569,861</u>	<u>\$113,568</u>	<u>\$456,293</u>	<u>\$533,914</u>

There was a payment of \$100,000 to Ministry of Fisheries in 2007 for Waka Fishing Boat Repair.

**18. CAPITAL**

	2007 \$	2006 \$
(a) Authorised		
1,400,000 ordinary shares of \$10 each	<u>\$14,000,000</u>	<u>\$14,000,000</u>
(b) Issued and fully paid		
1,053,019 ordinary shares of \$10 each	<u>\$10,530,190</u>	<u>\$10,530,190</u>

**19. RELATED PARTY TRANSACTIONS**
**(a) Directors**

(i) The directors of Tonga Development Bank Limited during the year were:

- 'Aisake Valu Eke (Chairman)
- Hon. Paul Karalus (Deputy Chairman)
- Lennie Niit
- Sepa Mafi
- Simione Sefanaia (Managing Director)
- Paulo Kautoke (Alternate)
- Mana Latu (Alternate)
- Minoru Nishi (Alternate)
- Dr. Viliami Fakava (Alternate)

(ii) Directors' fees and emoluments during the year were:

	2007 \$	2006 \$
Directors' fees and retirement benefit	52,092	78,374
Management's salaries & allowances	46,500	62,000
Total	<u>\$98,592</u>	<u>\$140,374</u>
	2007 \$	2006 \$

(iii) Transactions with related parties comprise of:

Loans and advances to directors or director-related entities

Balance at beginning of the year	454,843	589,986
Loans advanced during the year	1,806,900	16,000
Loan and interest repayments during the year	(174,200)	(210,414)
Interest and costs	152,459	59,271
Balance at end of the year	<u>\$2,240,002</u>	<u>\$454,843</u>

The above transactions are on normal commercial terms and conditions.

**19. RELATED PARTY TRANSACTIONS (Cont'd)****(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**

	2007 \$	2006 \$
Interest paid/payable on borrowings	201,398	282,432
Repayments of borrowings during the year	639,135	373,973
Borrowings from the Government of the Kingdom of Tonga are disclosed in note 16 (a)	5,434,750	5,904,083
The Government purchased TDB bonds and promissory notes during the year and the balances at year end are as follows:		
TDB promissory notes	4,469,336	4,444,000
Interest paid/payable on TDB bonds and promissory notes	171,734	288,735

Interest payable on the bonds and promissory notes range from 6.75% to 7.75% per annum.

**(ii) Term deposits**

	2007 \$	2006 \$
Interest received/receivable on Government of Tonga Local Development Bonds	356,185	454,074
Balance of Government of Tonga Local Development Bonds at year end - refer note 8.	3,380,000	3,380,000

**(iii) Loans and advances**

	2007 \$	2006 \$
The Government has provided guarantees for the borrowings of certain borrowers to the Bank. At year end the total outstanding loans under the guarantees amount to:	8,662,309	8,400,317

**20. COMMITMENTS AND CONTINGENT LIABILITY**

	2007 \$	2006 \$
(a) Capital commitment	\$ Nil	\$ Nil
(b) Contingent liability	\$ Nil	\$ 44,027
(c) Operating lease commitments		

(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:

	2007 \$	2006 \$
Not later than one year	8,620	8,620
Later than one year but not later than five years	34,480	34,480
Later than five years	<u>229,980</u>	<u>29,600</u>
	<u>\$273,080</u>	<u>\$272,700</u>

(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:

	2007 \$	2006 \$
Not later than one year	61,552	69,267
Later than one year but not later than five years	<u>138,018</u>	<u>91,187</u>
	<u>\$199,570</u>	<u>\$160,454</u>

**21. GENERAL**

The Bank was established in the Kingdom of Tonga by the Tonga Development Bank Act 1977, is incorporated under the Companies Act 1995 and operates solely in the Kingdom in the development banking business.

**Registered Office**

Tonga Development Bank  
Fatafehi Road  
Nuku'alofa  
Tonga

**22. FINANCING ARRANGEMENTS**

	2007 \$	2006 \$
Arrangements with Westpac Bank of Tonga are as follows:		
(i) Documentary letter of credit limit secured by letter of negative pledge <sup>5</sup>	500,000	500,000
(ii) Forward exchange contract limit	<u>1,000,000</u>	<u>1,000,000</u>
	<u>\$1,500,000</u>	<u>\$1,500,000</u>

An EIB credit line was signed on 15 December 2005 for a financing facility of EUR 4 million. This initial available credit and a further EUR 2 million are available to the bank. The draw down of the facility is expected in 2008 and final draw down is expected in October 2008.

**23. SEGMENT REPORTING**

The Bank operates solely in the Kingdom of Tonga and the basis of reporting reflects the Bank's business in the Kingdom.

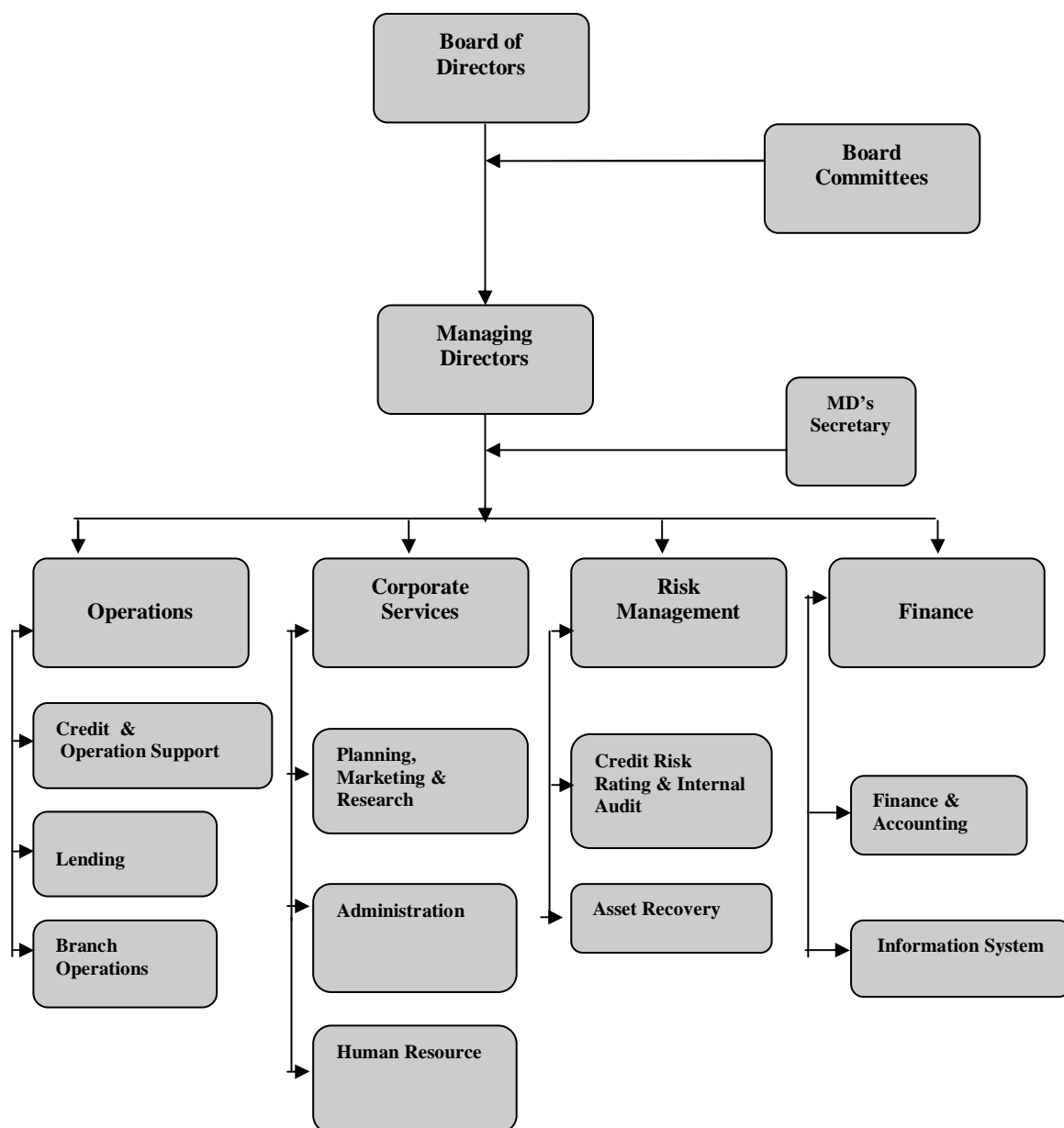
**24. DIVIDENDS**

	2007 \$	2006 \$
(a) Dividends proposed for 2005 (0.40 per issued per share capital) approved by the directors on 24 February 2006. Paid in June	\$ -	\$ 421,058
(b) The Directors have proposed a final dividend of 30% of net profit after tax in respect of the year ended 31 December 2006. This amounted to \$507,127 or \$0.48 per issued share and was paid in May 2007.	\$ -	\$ 507,127
(c) The directors have proposed a dividend of 40% of net profit after tax in respect of the year ended 31 December 2007. This amounted to \$ 606,984 or \$0.58 per issued share.	\$ 606,984	\$ -

**25. EARNINGS PER SHARE**

	2007 \$	2006 \$
Net profit after tax	\$1,517,459	\$1,690,422
Number of issued shares	1,053,019	1,053,019
Earnings per share	<u>\$ 1.44</u>	<u>\$ 1.61</u>

## TDB CORPORATE STRUCTURE



## **SENIOR EXECUTIVES**

### **Managing Director**

Mr Simione Sefanaia

### **Deputy Managing Directors**

Operations

Mrs Leta Havea Kami

Finance

Mr Hasiloni Fungavai

Manager Risk Management

Mr John Bath

## **HEAD OFFICE**

### **Managers**

Lending- Tongatapu

Mrs Seini Movete

Loans District 1 & 2

Mr Sitino Maka

Asset Recovery

Mr 'Aisea Petelo (Replaced by Mr. Samisoni Masila)

Credit and Operations Support

Mrs Lata Kava

Corporate Services

Mr 'Etiken Samani

Budgeting and Finance

Mrs Finelanu'atoutai Tu'ipulotu

Accounting Support

Mrs Pelinita Faletau

Information Services

Mr Siokatame Havili Movete

System Operations

Mrs Silia Tupou

Human Resource

Mrs Lu'isa Manuofetoa

Administration

Ms Vika. T. Taufa

## **BRANCH OFFICES**

### **Manager**

Vava'u Branch

Mr Fuka'eiki Kupu

Ha'apai Office

Mrs 'Elisapesi Fineanganofa

Eua Office

Mr. Tokotaha Fonua

Niutopotapu Office

Mrs Mafi Lutui

Niuafo'ou Office

Mr Kolokesa Paunga

Hahake Office

Mr Folaufisi Vaea