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 31 December 2011, as required under the Tonga Development Bank Act, 1977 Section 10 (7) and the Public Enterprises Act 2002 Section 20 (1).

Respectfully

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Pousima Afeaki
Chairman

CONTENTS

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BACKGROUND

Tonga Development Bank was established on 1st September 1977 under the Tonga Development Bank Act 1977.

The Bank is fully owned by the Government of Tonga.

The Bank's main function is to promote Tonga's economic and social advancement by providing financial and advisory assistance to the people and enterprises operating or about to operate in Tonga.

In addition to development loan activities, the Bank also extends its service into Investment facilities, Savings Bank, Domestic Money Transfer, Business Advisory Services and accommodating other selected commercial activities including Personal and Housing Loans.

A Board of 5 Directors oversees the policy management of the Bank. This includes a Managing Director appointed by the Government who is responsible for recommending and implementing strategies and policies and overseeing day to day management of the business.

VISION

"To be recognized as Tonga's best Provider of development finance with selected commercial activities which employs prudent banking principles to meet customers needs, demonstrates integrity and operates profitability"

MISSION

"To be committed to promoting Tonga's economic and social advancement by providing high quality and responsive development banking and other selected commercial services while operating professionally as a profitable and financially sound development financing institution"

BOARD OF DIRECTORS AS AT DECEMBER 2011

MR POUSIMA AFEAKI
Commercial farmer and has been a Director of the Bank since March 2009 and appointed Chairman of the Board since November 2010.

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

MR LENNIE NIIT
Retired commercial fisherman and now business man. Mr Niit has been a Director of the Bank since September 2006.

MR MINORU NISHI JR
Commercial farmer and has been a Director of the Bank since November 2010 and resigned in November 2011.

MR SIMIONE SEFANAIA
Managing Director of the Bank since October 2006.

CHAIRMAN'S REPORT 2011

I am pleased to report the results of the Tonga Development Bank for its 34th year of operation in Tonga.

Despite the continuing international recession and a depressed national economy, the Tonga Development Bank has yet again delivered positive financial results. A net profit after tax of T$1.712 million was recorded for the year end December 2011, a much improved result over the T$1.425 million net profit after tax in 2010.

Over the 2011 year, the Bank increased its lending portfolio by 1.82% from $39.930 million to $40.659 million. This included increased lending to farmers, in particular, to farmers growing squash and watermelon for export to Japan, Korea and New Zealand. The Bank actively supports export-development and plans to increase lending to farmers in 2012.

In terms of Return on Equity (ROE), the statutory objective for Public Enterprises is 10%. The Bank's ROE for 2011 was 9.39%, a significant increase over the 2010 ROE of 8.2%.

These positive 2011 results were achieved by diligent risk management combined with constructive lending and debt-recovery activities. The Bank aims to meet or surpass these results in the 2012 year.

Banking system liquidity in Tonga continued to be in surplus reaching over T$100 million in 2011. This reduced deposit interest rates resulting in very low rates offered for depositors. Against this background, the Bank continued to focus on operational efficiency, staff development and providing superior service and assistance to customers.

Superior customer service and assistance during 2011 included repeated periods of reduced loan-repayments for all loan-customers. The Bank will continue to work hard to ensure customer satisfaction and to grow with its customers.

The quality of the Bank's assets was well maintained. There has been a significant reduction in bad debts charged for 2011. This was due largely to the good work undertaken in managing potential problem accounts in a timely and constructive manner. The level of non-performing loans was reduced by nearly 50% between 2010 and 2011.

The Bank's profitability was affected by various factors including the following:

- Slower disbursement of undrawn funds over the year resulting in lower interest income on loans than budgeted;
- Surplus liquidity in the banking system reducing deposit rates thereby adversely affecting interest income on term deposits;
- Lower net provisioning in 2011 due mainly to effective recovery work as well as the refinancing of one large non-performing loan;
- Vigorous control of costs and expenses;
- Non-performing loans with 0% interest resulting in reduced interest income.

The Bank continues to maintain a strong and open relationship with the regulator – the National Reserve Bank of Tonga (NRBT), and also with the Bank's shareholder, the Government of Tonga.

The Bank acknowledges the ongoing and effective management of the banking industry in Tonga by the NRBT, ensuring stability in the financial system during this period. The Bank is pleased with the consultative approach taken by the NRBT in working together with the Association of the Banks in Tonga to manage banking system liquidity.

The Bank is happy with the reform policies of the Government and its commitment to improve transparency, accountability and good governance. This should create an environment in which businesses, in particular, small and medium-sized businesses can start and develop more easily.

As part of the reform policies, the Government and the Bank are working to refine the future direction of the Bank. The Government and the Bank are being assisted by the International Finance Corporation, an arm of the World Bank in assessing bank's future direction.

For agricultural exports, the Bank has been applying a simple policy since 2010 – loans to good farmers who supply reliable exporters. During 2011, the Bank doubled loans to farmers for squash and watermelon from 2010. Exports of squash to Japan and Korea doubled in 2011. Exports of watermelons to New Zealand in 2011 increased by 55%. The farmers have repaid their loans and are already taking out loans for the 2012 season. The Bank is committed to increasing loans to farmers using the simple policy.

The Police investigation of the June 2009 robbery remains unresolved and is an ongoing concern to the Bank. The Bank has offered a standing reward of T$20,000 for information leading to conviction, so far without success.

Our commitment to extending our lending to disadvantaged groups and to effectively address developmental needs in the rural areas continued in the year 2011. Tonga Development Bank received another special award from the Association of Development Banks in Asia and the Pacific in 2011 in recognition of its efforts in successfully advancing economic and social development through innovative financing schemes that benefit the poor and disadvantaged groups in the country.

We continue to support our people's involvement in a diverse range of activities within the community and sponsorship of many organization's events that promote health, education, sports and community development.

The Board of Directors and Management are confident that the Bank will continue to realize its business plan and strategies. The Shareholder will continue to obtain a sound return on its investment. The Bank will continue to effectively manage its balance sheet, maintain high quality loan asset portfolio and implement appropriate risk management techniques whilst improving customer service and efficiency of our operations.

The Bank will remain focussed on pursuing sustainable and quality earnings growth. At the same time, we will encourage and actively seek loan applications which advance the development of Tonga and its people.

I am proud to acknowledge the effort and commitment by the Bank's Management team and staff in achieving the results for 2011.

My gratitude and thanks to the Board of Directors for their valuable contributions in the provision of strategic direction towards achieving the Bank's Goals and Objectives for the year.

I would also like to thank the Government as representative of the people of Tonga who own the Bank, for its continuing interest and support to the Bank.

Last but foremost, my gratitude to our Customers for their ongoing support to the Bank. We are expanding the range of products provided by the Bank and we will keep improving our service to customers. We are committed to helping our customers develop and grow – as our customers grow, the Bank will also grow.

Malo fau, faka'apa'apa atu

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Pousima Afeaki

CHAIRMAN OF THE BOARD

MANAGING DIRECTOR'S REVIEW

The Tonga Development Bank continues to deliver a positive result for its shareholder during 2011 despite the economic downturn experienced in both the global and local scene during the year.

This positive outcome had been achieved through the continued commitment of the Bank's Management and staff who remained dedicated and focused on our developmental role as well as other key sectors in order to improve our profitability. This together with our conscious effort to control expenses has enabled the Bank to continue to enhance its value while focusing on effective customer service. The Bank is always alert to potential opportunities for development.

1. KEY HIGHLIGHTS OF THE YEAR:

- The TDB achieved a Return on Equity (ROE) of 9.39% as compared to a target of 7.5% for 2011. The ROE for 2010 was 8.2%. The target set by the Ministry of Public Enterprises is at least 10%.
- In 2011, Tonga Development Bank won a special award from the Association of Development Finance in Asia and the Pacific (ADFIAP) for recognition of its effort in successfully advancing economic and social development through innovative financing schemes that benefit poor and disadvantaged groups in the country. This is the second year that the Bank received this award. The first time was in 2010.
- The Bank continued to promote and implement training programs to advance the skills, leadership, management and team development of our staff.
- Continued strong recovery process enabled bad debt expenses to be maintained at low levels.
- Continued loyalty to our customer base through difficult and challenging times. During the reporting period, we offered 50% reduction in loan repayments for 3 months in June 2011 and for four months commencing in November 2011.
- The old Ultracs server machine that was used as a standby server at the Bank's Hahake District Office broke down during the year. This will be replaced in 2012.
- The Bank continue to use the Skype Communication channel to improve cost effectiveness and efficiency of our communication with our Outer Island Branches and overseas business partners.
- The robbery which occurred in June 2009 remains unsolved. This is an ongoing concern. We had tightened security measures by installation of high-tech security cameras at our Head Office and our Vava'u Branch Office in 2010. We had also offered a reward of T$20,000 in late 2011 for information leading to conviction. However by end of the year there was no progress reported from the Ministry of Police with regards to the investigation.

2. OVERVIEW OF THE FINANCIAL PERFORMANCE

(All figures are in Tongan Pa'anga)

The net profit after tax was $1,712,350 for the twelve months ending 31 December 2011 which is above the $1,425,949 recorded for the year to 31 December 2010. The major contributing factors to this result were:

- Net Interest income increased from T$2,886,660 in 2010 to T$3,126,920 in 2011. This is an increase of T$240,260 (8.3%).
- The surplus liquidity in the banking system resulted in the substantial reduction in deposit interest rates which in turn contributed to the lower increase in net income.
- The fees and commissions (non interest) income reduced from T$2,706,612 in 2010 to T$2,451,806 in 2011. This is a reduction of T$254,806 (9%).
- The net operating income reduced from T$5,866,057 in 2010 to T$5,829,786 in 2011. This is a reduction of T$36,271 (1%).
- Other operating expenses decrease slightly from T$3,784,667 in 2010 to T$3,733,672 in 2011. This is a decrease of T$51,005 (1.35%).
- Bad and Doubtful Debt expense was reduced from T$206,799 in 2010 to a credit of T$55,644 in 2011.
- The cost/income ratio projected for 2011 was 70.0% as compared to actual figure of 72.2%.
- The decrease in Director's fees & retirement benefit as indicated in page 51 of the financials is due to directors resignation.
- The increase in Management salaries and other short term employ ment benefits was due to the recruitment of another senior staff to replace the technical advisor.

3. KEY HIGHLIGHTS OF THE YEAR:

	2011 %	2010 %	2009 %
Net Interest Income to average Total Assets	5.3	5.2	5.4
Non Interest Income to average Total Assets	4.9	5.7	6.1
Operating Cost to Income	72.2	72.7	70.9
Return on Equity	9.4	8.2	9.4
Return on Average earning Assets	3.5	3.1	3.2

4. DOMESTIC BANKING ENVIROMENT

In Tonga there are three commercial banks that are wholly or partially foreign owned (ie: Westpac Bank of Tonga, ANZ Bank and MBf Bank). TDB is the only development bank in Tonga and is 100% Tongan owned.

A summary of the TDB share in the domestic banking industry with regards to gross lending, gross deposits and lending by sector is presented in the following table. Note the TDB improvement over the past 3 years.

A) Gross Lending	**Dec 2009**	**Dec 2010**	**Dec 2011**
Gross Lending (T$'millon)			
Commercial Banks	287.3	268.6	227.2
TDB	36.5	39.9	40.9
TOTAL	323.8	308.5	268.1
TDB Market Share	11.3%	12.9%	15.2%
B) Gross Deposits			
Gross Deposits (T$'millon)			
Commercial Banks	286.6	299.6	299.2
TDB	30.1	36.7	37.4
TOTAL	316.0	335.9	336.6
TDB Market Share	9.5%	10.7%	11.1%

C) Lending Sector Share

The Bank's percentage share in the lending sectors is as follows:

	Dec 2009	**Dec 2010**	**Dec 2011(Oct)**
Agriculture			
Commerical Banks	61.5%	64.5%	56.4%
TDB	38.5%	35.5%	43.6%
Industry and Business			
Commerical Banks	89.1%	91%	94.6%
TDB	10.9%	9.0%	5.4%

Housing & Personal	Dec 2009	Dec 2010	Dec 2011(Oct)
Commercial Banks	85.8%	85.1%	84.6%
TDB	14.2%	14.9%	15.4%
TOTAL			
Commercial Banks	88.6%	86.7%	85.3%
TDB	11.4%	13.3%	14.7%

5. LENDING SECTORS

A.) Lending Products

The lending budget and actual for 2011 according to the main sectors are as follows:

Main Sectors	Budget 2011 T$000's	Actual 2011 T$000's	% Share of 2011
Agriculture (including fisheries)	3,667	2,299	13.0%
Squash	500	700	4.0%
Industry and Business	5,400	6,070	34.0%
Domestic (Housing & Personal)	7,400	7,681	44.0%
Staff	500	823	5.0%
TOTAL	**17,467**	**17,643**	**100%**

One major loan account for agriculture and three for Industry and Business contributed substantially to the amount approved in 2011.

B) Loan Portfolio

Although opportunities for further lending during the year were limited the bank has been able to grow its loan portfolio by 1.8% from T$39.9 million in 2010 to $40.6 million at year end 2011. The projected loan portfolio for the end of 2011 was T$41 million. The 50% reductions in the loan repayments offered by the Bank in June 2011 for 3 months and again in November 2011 for 4 months also contributed to this result.

The total percentage portfolio distribution by sector is as follows:

- Agriculture 12%
- Industry and Business 29%
- Housing and Personal 51%
- Staff 8%

The Housing and Personal Loans remained the dominant sector of the Bank's portfolio. The demand for lending from the productive sectors is very limited, Therefore the Bank had to increase lending to the Housing & Personal sector in order to improve profitability.

C) Approval

The level of approval increased slightly from $16.9 million in 2010 to $17.6 million at year end 2011. The total loan approval by major sector is as follows:

- Agriculture T$2.3 million
- Squash T$0.8 million
- Industry and Business T$6.1 million
- Housing and Personal T$7.6 million
- Staff T$0.8 million

TOTAL T$17.6 million

There is still a need to increase lending to the productive sectors as a basis for improving economic development.

D) Agriculture/Fisheries Sector

The growth in the agriculture sector did not increase as expected despite the completion of the fumigation chamber, effective operation of the HTFA and the completion of the processing facility. This was due mainly to the lack of appropriate marketing infrastructure and the need to overcome certain regulatory requirements.

a) Squash

The 2011 squash season recorded an increase in grower participation as well as increased lending from about T$0.5 million in 2010 to T$0.7 million in 2011. The bank will continue to assist the development of the squash industry in future due to availability of export markets in Japan and South Korea.

b) General Crops

The completion of the fumigation chamber contributed to increase in lending for growing watermelons.

Root crop has continued to be the major contributor to total agricultural lending during the year. However lack of alternative crop and continuing reliance on semi-subsistence agriculture is still a challenge in Agricultural developments.

c) Women in Development

The Bank's total lending to women's development projects recorded an increase of 67% from T$0.6 million in 2010 to $1 million in 2011.

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 and catering projects etc.

Part of the Bank's lending for Women's development has been taken over by the South Pacific Business and Development Microfinance Limited. The Tonga Development Bank continued to lend money to this Company in 2011 to on lend to women's groups.

d) Fishery

As expected, there has been no increase in lending to this sector in 2011. TDB continued to monitoring performance in this sector.

e) Irrigation

There was no loan for irrigation in 2011. There is a need to develop the market for farmers produce first before farmers invest in irrigation.

E) Micro Lending Product

In 2011 we continued with our special Micro Lending Product introduced in 2009. This product was introduced to encourage people with minimal security assets but have potentials to participate in development to have access to finance. The interest rate and fees charged were lower than normal lending products. A special component requiring savings was also built into the product. Potential borrowers are properly educated and provided with financial skills before they draw down on the loan. However the result was very disappointing. The default rate was high. By mid 2011 the bank decided to hold further lending under this category while the product was reviewed and existing debts were being recovered.

F) Outer Island Lending

Lending at Outer Islands amounted to T$4.0 million contributing 23 percent in amount and 46 percent of total number of loan accounts approved for the year. There was very little variation from 2010.

G) Industry & Business

The total level of lending in 2011 was enhanced by three larger projects. Opportunities for lending in the commercial sector have been very limited. We continue to receive enquiries for taking over of business customers' debts from commercial bank but most of these businesses are over committed. The TDB only consider proposals that are within our lending policy guidelines and are considered to be viable.

H) Housing & Personal

The Housing and Personal lending covers about 51% of the total portfolio in 2011. We are lending to this sector due to lack of demand from the productive sectors as well as the desire to be profitable and improve return to the shareholder's equity.

I) Staff Loans

Total Staff loan as at end of 2011 was about 8% of the total portfolio. Total approval for 2011 of T$826K was higher than the budget of T$500K.

6. PERFORMANCE TARGETS AND MEASURES

A) Credit Risk Management

We continued to apply prudent credit risk management principle 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.

Centralized credit approval process continued to be a significant factor in ensuring maintenance of the high standard of the loan portfolio in 2011. The system of limiting credit approval authority to a selected number of officers has seen ongoing uniformity in underwriting standards/credit decisions, and close compliance with credit policy.

This contributed significantly to maintaining quality and consistency in our loan portfolio.

B) Liquid Asset Ratio

The Reserve Bank continues to impose a Liquid Asset Ratio (LAR) of 5% to ensure that sufficient liquidity is available in the system. The TDB's LAR as at end December 2011 was 15%. The NRBT required reserve ratio increased from 5% to 10% commencing January 2011.

C) Return on Equity

The TDB achieved a Return on Equity (ROE) of 9.39% as compared to a target of 7.5% for 2011. The ROE for 2010 was 8.2% and the target set by the Ministry for Public Enterprises is at least 10%.

D) Arrears

The arrears ratio was recorded at 2.4% at year end 2011 as compared to a target of 4.5%. This is a substantial decrease from an arrears ratio of 4.8% at year end 2010. The main reason for the decrease was the refinancing of a large account in arrears as well as effective monitoring of arrears accounts.

The target for the number of accounts in arrears for 2011 was 570 while the actual number of account in arrears was 582. This is 18% of the total number of accounts and higher than the 14% projected for 2011.

E) Good Bank: Bad Bank

In terms of Good vs Bad Bank we achieved a ratio of 93.9% to 6.1% in 2011. The target for 2011 was 90%: 10%.

F) Provision

Management actively sought to maintain adequate provisioning levels to cover existing and future losses. All problem accounts, which showed the signs of being high risk exposures, were specifically provisioned. The level of specific provisions raised in 2011 was very high at T$1.15 million. However the write back of specific provisions during the same period was T$1.01 million. This reflects the good work undertaken in managing potential problem accounts and in a timely manner.

We were conscious of the International Financial Reporting System (IFRS) requirements for provisioning and we have continued to focus our strategy on making sure that quality of loans and security assets are maintained.

G) RECOVERY OF BAD DEBTS

All bad debts written off for book keeping purposes were regularly reviewed for recovery prospects and followed up. Bad debts considered irrecoverable were continued to be reviewed for complete write off and removed from ledger. The Bank continues to receive income from such recoveries and in 2011 the total recovery was T$223,215 as compared to T$169,785 in 2010.

7) FUNDING

To finance the budget and in particular the bank's lending, the following are the main sources of funds for 2011:-

	Budget 2011 T$000's	Actual 2011 T$000's
Loan repayment	12,336	18,873
Increase in paid-up capital	-	-
PSRF	814	755
Net Cash Flow from Operating Activities	1,570	2,300
Net TDB Promissory Notes	5,000	2,597
Net Savings Deposits	200	820
Cash at beginning of the year	8,300	6,217
Total	**$28,200**	**$31,562**

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 50% of the funding required.

Term deposit through promissory notes is another source of funding.

Savings accounts provide an increasing source of funding. In 2011 the total available fund from savings was T$6.315 million.

Net income from the Bank's operating activities provided the funds for capital development which amounted to T$5.830million in 2011 (2010: $5.866million) .

8) REVOLVING FUNDS

About T$0.304 million in managed funds is held on behalf of the New Zealand Government. The NZ fund is available for lending for Women's development and also development in the rural areas. This fund operates on a revolving basis. The total loan portfolio as at end of 2011 was T$168.2K

Another revolving fund managed by TDB is the Niuatoputapu Reactivation Loan (NRP) T$94.4K which is available for lending to the people of Niuatoputapu to help with their recovery program. Lending interest rate is 4.5% p.a. The total loan portfolio as at end of December 2011 was T$61K

9) NET INTEREST MARGIN

The Bank reviews its Net Interest Margin (NIM) quarterly. This includes matching of the average Lending interest rates with average interest cost of funds. As at end December 2011 the net interest margin was 5.20%. This margin results in TDB achieving a Net Profit after Tax of T$1.71 million and a Return on Equity of 9.39%.

10) HUMAN RESOURCE MANAGEMENT

A) Staff

Full time staff number had reduced from 102 in 2010 to 94 at end of December 2011. The number of staff in December 2009 was 112. During the past years staff numbers continued to be reduced. This reflects the continued increase in productivity now being achieved in all areas of the Bank's operation.

Staff members who resign or retire 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 salary expenses for 2011 was projected to be T$2,051,301. However actual figure as at end December 2011 was T$1,834,826.

B) Staff Training

The Bank's commitment to the development of our staff and provision of appropriate tools continued to be a high priority. During the year, numerous in-house training on lending, customer service, compliance and computer applications were provided internally by Managers and our Information System's staff.

We continue to encouragement staff to pursue formal training leading to higher qualification. On the job training and coaching continued to be an important part of staff development. In 2011 all TDB staff apart from Senior Management participated in various levels of skills and Management training.

The following Management training was carried out in 2011 by a training consultant from New Zealand.

1. Management Leadership Training
2. Executive Management Training

C) Staff Retirement Fund

The Bank continued to maintain its Retirement Fund Scheme which has operated since 1st January 1990.

The Fund's total assets as at 31st December 2011 was recorded at $4.2 million.

The retirement fund scheme was reviewed in 2011 based on financial figures at end December 2010. It was concluded that the fund has been well maintained and sufficient to fulfill its current obligations. For future projected obligations it was recommended that the TDB contribution be increased to 18% up to December 2013. However the Bank approved an initial increase to 14% and to be reviewed later in 2012.

D) Customer Service

The Bank continued to implement its customer surveys to identify shortfalls in this area. We also continued to enhance our good relationship and seeking to maintain and improve our customer service level and add value to the business and personal aspirations of our valued customers.

Customer complaints process continued in 2011. It provided customer feedback on specific matters which required immediate attention.

E) Quarterly Awards

Staff Quarterly Awards continued in 2011 aiming to reward as well as improve staff morale and their effectiveness in performance of Customer Service. There is an Employee of the Quarter and Customer Service award which are awarded quarterly. In addition there is a Staff award for special duties performed during the year.

11) MONEY TRANSFER

The Bank continues to operate its local money transfer. In addition we launched with Digicel the local money transfer using the mobile phone. We continued to work together with one company in New Zealand (Money MoveIT) to facilitate international money transfer via the internet with TDB to be agent for the receipt and distribution. This has not been finalized.

12) INFORMATION SYSTEM

The overall technology delivery and services in 2011 were satisfactory. The performances were focused on maximizing benefits in terms of productivity gains and process improvements for the bank's operation.

13) INSURANCE

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

The Loan Protection Cover Insurance scheme (LPCI) with the Federal Pacific Insurance Ltd in 2011, provides cover for all lending to individuals' loans up to $35,000.00 (excluding arrears), and below the age of 70. This LPCI covers the balance of the debt if the borrower dies.

Several loans have been repaid through this source.

14) PREMISES

All Bank's properties have continued to be maintained and upgraded during the year with expected useful lives of 35 years for office buildings and 25 years for residential buildings.

15) BUSINESS ADVISORY SERVICES (BAS)

The BAS unit carries out an important supportive role to the Lending structure. It provides training and one to one assistance for all those requiring assistance and is not restricted to TDB clients. The same service is also provided to Lending Staff .
We had a Peace Corp volunteer based in Head Office and her service ended in November 2011.

16) DIVIDEND

The Bank paid a dividend to Government of T$712K in 2011. This is 50% of the bank's Net Profit After Tax for 2010.

17) GOVERNMENT POLICY OBLIGATIONS

The Government is currently subsidizing the branch operations in the two Niuas. In 2011 the government paid T$75K for Niuafo'ou and T$75K for Niuatoputapu.

18) FUTURE DIRECTION

The Tonga Development Bank had continued to perform well in 2011. The bank is well positioned to continue its success and resultant strong contribution to our customers through credit provision and provision of investment opportunity for the people of Tonga.

The bank continued to consolidate its function as a Development Bank and include selected commercial activities.

We have been assessing options for the bank to take on more commercial products.

We were looking at the operations of Kiwi Bank in NZ with the possibility of working together with this bank as a commercial partner.

We worked together with Digicel to enable customers to transfer money locally using the mobile phone network. This will be reviewed early next year.

We continued to reduce our costs but at the same time the income is also decreasing due mainly to low approvals early in the year as well as low deposit rate due to high liquidity.

We continue to develop our Savings product. In 2011 we moved into compulsory saving of 10% of the amount of micro loans. Primarily to provide some sort of security for the loan and at the same time increase our savings portfolio. Also provide cheaper source of funding.

For our customers, our focus will be to continue to improve our customer service so as to foster our good relationship and ensure we are adding value to the business and personal aspirations of our customers.

We will continue to focus on the capability of our staff to deliver quality performance.

We will also be looking to continue to assess and adopt suitable products and services that enhance our new income stream and meet customer needs.

An issue that remains to be resolved is the Study into the future direction of the Bank. The Bank had worked together with the International Finance Corporation (IFC) an arm of the World Bank to put together a Terms of Reference for a Market Assessment Study.

The result of such a study will indicate the potentials opportunities for the Bank.

Acknowledgement

I would like to acknowledge the continued high level of commitment and dedication given by the management team and the rest of the staff resulting in the achievement of the level of profitability in 2011. It is indeed a privilege leading the Tonga Development Bank team in 2011.

I acknowledge the ongoing support received by the Bank from the Ministry of Finance and National Planning, Ministry of Public Enterprises and other related Government Ministries during the year 2011. The Government, as shareholder, has given invaluable support to the Bank in fulfilling its objectives in 2011.

Ongoing support and loyalty of all our customers and their trust given to the Bank during 2011 are also acknowledged. The Bank can assure you all that we do care about your business and goals. We will continue to provide the relevant services required by our customers as we continue to achieve our mission as best provider of Development Banking services in Tonga.

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.

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 the year.

Malo 'Aupito

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Simione Sefanaia
Managing Director

FIVE YEARS SUMMARY

Profit & Loss TOP $'000s	2007 Restated	2008 IFRS Adoption	2009	2010	2011	Movement 2010/2011
Interest Income	6,282	6,082	5,399	4,632	4,537	-2.1%
Interest Expense	2,409	2,524	2,214	1,744	1,410	-19.2%
Net Interest Income	3,873	3,557	3,185	2,888	3,127	+8.3%
Fees & commission income	2,265	2,604	3,013	2,707	2,452	-9.4%
Other Operating Income	164	199	360	272	251	-7.7%
Losses on loans & advances	816	1,009	576	361	133	-63.2%
Bad Debts	52	45	49	16	34	+112.5%
Income Tax Expense	406	333	437	389	439	+12.9%
Operating Profit after tax	1,216	951	1,570	1,426	1,712	+20.1%
Earnings per share	1.15	0.90	1.49	1.35	1.63	+20.7%

Balance Sheet TOP $'000s	2007 Restated	2008 IFRS Adoption	2009	2010	2011	Movement 2010/11
Average assets	62,481	63,987	58,632	55,520	59,422	+7.0%
Total Assets	64,933	63,037	54,227	57,202	61,642	+7.8%
Gross Loans	48,633	47,984	36,011	39,930	40,660	+1.8%
Saving Deposits	4,757	4,403	4,740	5,495	6,315	+14.9%
Shareholder's equity	24,587	25,063	16,670	17,383	18,239	+4.9%

Performance Ratios	2007 Restated	2008 IFRS Adoption	2009	2010	2011	Movement 2010/11
Return on Assets	1.9%	1.5%	2.9%	2.5%	2.9%	+0.4%
Return on Equity	5.0%	3.8%	9.4%	8.2%	9.4%	+1.2%
Operating Costs to Total Income	73.0%	74.7%	70.9%	72.7%	72.2%	-0.5%
Operating Income to Average Portfolio	19.9%	18.4%	20.9%	27.4%	19.5%	-7.9%

Directors' Report for the year ended 31 December 2011

In accordance with a resolution of the Board of Directors, the directors herewith submit the Balance Sheet as at 31 December 2011, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows 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 period and up to the date of this report:

Pousima Afeaki (Chairman)
Lennie Niit
Paula Taumoepeau
Simione Sefanaia (Managing Director)
Minoru Nishi JR (up to November 2011)

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 year ended 31 December 2011 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 2011 was $ 1,712,350 (2010: $1,425,949).

4. PROVISIONS

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

5. DIVIDENDS

The directors declared a dividend based on 50% of net profit after tax for the year ended 31 December 2010. This amounted to $712,974 or $0.68 per issued share. The shareholder provided assistance to a number of squash growers by approving an offset of their loan balances against the 2010 dividend. The assistance amounted to $175,234 (December 2009:$Nil) and the balance of $537,740 was paid on 29 June 2011.

The directors also declared a dividend based on 50% of net profit after tax for the year ended 31 December 2011. This amounted to $856,175 or $0.81 per issued share.

6. RESERVES

The directors recommend that no amounts be transferred to reserves in respect of the year ended 31 December 2011.

7. BASIS OF ACCOUNTING

The directors believe the basis of 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 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

Since the end of the year, 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 the state of affairs of the Bank.

10. UNUSUAL TRANSACTIONS

The results of the Bank's operations for the year ended 31 December 2011 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 16th day of March 2012.

…………………………….	…………………………….
Simione Sefanaia	**Pousima Afeaki**
Managing Director	**Chairman of the Board**

Statement by Directors for the year ended 31 December 2011

In the opinion of the Directors:

(a) the accompanying statement of comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 31 December 2011;

(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 31 December 2011;

(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 year ended 31 December 2011; 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 2011.

Signed in accordance with a resolution of the directors this 16th day of March 2012.

…………………………….	…………………………….
Simione Sefanaia	**Pousima Afeaki**
Managing Director	**Chairman of the Board**

pwc

Independent Auditor's Report

To the Shareholder of Tonga Development Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Tonga Development Bank (the 'Bank'). The financial statements comprise the balance sheet of the Bank as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 7 to 44.

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, and Tonga Development Bank Act, 1977 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors and management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers, Level 8 Civic Tower, 272 Victoria Parade, Suva, Fiji Islands
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Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year 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 informa tion and according to the explanations given to us give the information required by the Tonga Development Bank Act, 1977 and the Tonga Companies Act, 1995 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 purposes 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.

16 March 2012

PricewaterhouseCoopers

Lautoka, Fiji

PricewaterhouseCoopers
Chartered Accountants

Statement of Comprehensive Income for the year ended 31 December 2011

	Notes	2011 $	2010 $
Continuing operations			
Interest income	6	4,536,988	4,632,005
Interest and other borrowing expenses	6	(1,410,068)	(1,744,345)
Net interest income		3,126,920	2,887,660
Fees and commission income	7	2,451,806	2,706,612
Other operating income	8	251,060	271,785
Net operating income		5,829,786	5,866,057
Losses on loans and advances	14	(133,343)	(360,672)
Non-lending loss	9	-	(60,000)
Bad debts written off		(34,228)	(15,908)
Bad debts recovered/reversed		223,215	169,785
Other operating expenses	10	(3,733,672)	(3,784,677)
Profit before income tax		2,151,758	1,814,585
Income tax expense	20	(439,408)	(388,636)
Profit for the year from continuing operations		**$1,712,350**	**$1,425,949**
Other comprehensive income		-	-
Total comprehensive income for the year		**$1,712,350**	**$1,425,949**
Earnings per share	29	$1.63	$1.35

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

Balance Sheet - As at 31 December 2011

	Notes	2011 $	2010 $
ASSETS			
Cash on hand and at Bank	11	1,923,033	1,217,542
Investment securities – held to maturity	13	10,576,689	8,854,000
Loans and advances	14	38,997,388	36,712,472
Other assets	15	528,710	593,410
Amounts receivable from shareholder	16	-	7,689
Amounts receivable from NRBT	17	78,000	-
Statutory reserve deposit	17	1,746,000	1,082,000
Property, plant and equipment	18	6,602,198	6,830,317
Investment property	19	621,811	950,912
Deferred tax asset	20	568,271	953,920
Total Assets		$61,642,100	$57,202,262
LIABILITIES			
Savings deposits		6,314,963	5,495,398
Other liabilities	21	1,228,512	1,420,716
Amount payable to NRBT	17	-	31,000
Borrowings	22	33,657,980	30,797,062
Current tax liability	20	60,559	365,656
Managed funds	23	169,004	49,158
Deferred tax liability	20	1,116,075	1,122,875
Dividends payable	28	856,175	537,740
Total Liabilities		43,403,268	39,819,605
SHAREHOLDERS' EQUITY			
Share capital	24	10,530,190	10,530,190
Retained earnings		7,708,642	6,852,467
Total Shareholders' Equity		18,238,832	17,382,657
Total Equity and Liabilities		$61,642,100	$57,202,262

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

Signed in accordance with a resolution of the directors this 16th day of March 2012.

....

Simione Sefanaia
Managing Director

Pousima Afeaki
Chairman of the Board

Statement of Changes in Equity - Year ended 31 December 2011

	Notes	Share Capital	Retained Earnings	Total
		$	$	$
Balance 31 December 2009		10,530,190	6,139,492	16,669,682
Comprehensive income for the year		-	1,425,949	1,425,949
Transactions with owners - Dividends	28	-	(712,974)	(712,974)
Balance 31 December 2010	30	$10,530,190	$6,852,467	$17,382,657
Comprehensive income for the year		-	1,712,350	1,712,350
Transactions with owners – dividends	28	-	(856,175)	(856,175)
Balance 31 December 2011	30	$10,530,190	$7,708,642	$18,238,832

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

Statement of Cash Flows - Year ended 31 December 2011

	Notes	2011 $	2010 $
Cash flows from operating activities			
Interest received		4,514,688	5,153,701
Interest payment		(1,440,555)	(2,305,921)
Fees and commission received		2,451,806	2,576,723
Other income		199,719	330,688
Income tax paid		(365,656)	-
Payment to employees and suppliers		(3,059,404)	(3,433,849)
Cash flows from operating activities before changes in operating assets and liabilities		2,300,598	2,321,342
Changes in operating assets and liabilities:			
Disbursements of Loans		(20,982,622)	(16,677,084)
Repayments of loans		18,873,196	13,689,276
Increase/(decrease) in other debtors and prepayments		138,342	(28,249)
Decrease in amounts receivable from shareholder		7,689	1,581
(Decrease)/increase in other liabilities		(277,844)	157,346
Net cash from/used in operating activities		59,359	(535,788)
Cash flows from investing activities			
Purchase of property, plant and equipment		(235,197)	(423,321)
Proceeds from sale of plant and equipment		234,276	20,699
Net decrease /(increase) in statutory deposits		(773,000)	(31,000)
Net decrease in Government bonds		(39,000)	400,000
Net cash from / (used in) investing activities		(812,921)	(833,622)
Cash flows from financing activities			
Net increase in TDB promissory notes		2,596,667	661,288
Net increase in savings deposits		819,565	755,696
Dividends paid		(537,740)	(784,943)
Repayment of borrowings		264,250	(392,833)
Net cash from financing activities		3,142,742	239,208
Net increase /(decrease) in cash and cash equivalents		2,389,180	(1,130,202)
Cash and cash equivalents at beginning of year		6,217,542	7,347,744
Cash and cash equivalents at year end	12	$8,606,722	$6,217,542

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

NOTE 1. GENERAL INFORMATION

Tonga Development Bank Limited (the “Bank”) provides development banking services in the Kingdom of Tonga.

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

NOTE 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 1977. 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.

(i) Standards, amendments and interpretations effective on or after 1 January 2011.

The following standards, amendments and interpretations, which became effective in 2011 are relevant to the Bank:

IAS 24 (revised), ’Related party disclosures’, issued in November 2009. It supersedes IAS 24, ’Related party disclosures’, issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

(ii) Standards, amendments and interpretations effective on or after 1 January 2011 but not currently relevant to the Bank:

IFRIC 19, ‘Extinguishing financial liabilities with equity instruments’ (effective 1 July 2010)

Amendment to IFRIC 14, ‘Pre-payments of a Minimum Funding Requirement’ (effective January 2011)

Amendments IAS 32 Financial instruments: Presentation on classification of rights issues (effective 1 February 2010)

Amendment to IFRS 1, First time adoption on financial instrument disclosures (effective 1 July 2010)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(a) Basis of preparation - continued

(iii) Standards and amendments early adopted by the Bank

The Bank has not early adopted any standards and amendments.

(iv) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the bank.

The following standards and amendments to existing standards have been published and are mandatory for the bank's accounting periods beginning on or after 1 January 2012 or later periods, but the bank has not early adopted them:

Standard/interpretation	Content	Application for financial years beginning on / after
IAS 12 Amendment	Income taxes: Deferred tax	1 January 2012
IAS 1 Amendment	Financial statement presentation regarding other comprehensive income	1 July 2012
IAS 19 Amendment	Employee benefits	1 January 2013
IAS 27 (Revised)	Separate financial statements	1 January 2013
IFRS 9 Amendment	Financial instruments: Classification and measurement	1 January 2013
IFRS 10	Consolidated financial instrument	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

(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 Managing Director and Deputy Managing Directors who makes strategic decisions.

NOTE 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 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.

NOTE 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 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. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

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 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 comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(f) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss are recognised within 'interest income' and 'interest expense' in the statement of 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 Bank 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 Bank of financial assets is impaired. A financial asset or a Bank 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 Bank of financial assets that can be reliably estimated.

NOTE 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 Bank's management for each identified portfolio. In general, the periods used vary between three 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 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 comprehensive income in impairment charge for loan losses.

(i) Property, plant and equipment

Land and buildings comprise mainly Bank offices located in the island of 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.

NOTE 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 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 other 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 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 principal annual rates in use are:

		Life
Leasehold land	-	Term of lease
Buildings - residential	-	25 – 40

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(j) Investment Property - continued

Rental income from investment property is recognised in the statement of 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.

(k) 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 Banked 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.

(l) 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 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.

(m) Cash and cash equivalents

For the purposes of the cash flow statement, 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, and short-term government securities.

(n) 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.

(o) 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(o) Employee benefits - continued

(ii) Pension obligations

The Bank has in place retirement fund scheme which was established in 1990. The Bank's contributions to the retirement fund scheme are charged to the statement of comprehensive income in the period to which the contributions relate.

(p) 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 substantially 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.

(q) 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 comprehensive income over the period of the borrowings using the effective interest method.

(r) 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 year.

(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 year that are declared before the balance sheet date are dealt with in the statement of changes in equity.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(s) 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.

(t) Comparatives

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

Note 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 credit risk management team and reported to the Board of Directors and Assets and Liabilities Committee regularly.

Note 3. FINANCIAL RISK MANAGEMENT - CONTINUED

3.1 Credit risk - continued

(a) Loans and advances

In measuring credit risk of loan 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 Banks 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.

Note 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			**Audit**	
	2011		**2010**	
	Loans and Advances	Impairment Provision	Loans and Advances	Impairment Provision
	(%)	(%)	(%)	(%)
A	6.84	-	4.51	-
B	33.78	-	23.18	-
C1	48.98	24.08	56.54	15.64
S	3.16	1.56	-	-
C2	3.17	17.16	10.70	40.01
D	3.57	45.33	3.57	25.65
E	0.50	11.87	1.50	18.70
	100.00	100.00	100.00	100.00

Note 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:

	2011		2010	
	$	%	$	%
Industry sector:				
Agriculture	5,006,880	12.31	6,150,695	15.40
Industry and Business	11,830,328	29.10	10,963,354	27.46
Housing and Personal	20,666,472	50.83	20,132,506	50.42
Staff	3,155,996	7.76	2,683,528	6.72
	$40,659,676	100.00	$39,930,083	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 part in the portfolio, are backed by collateral;
- Risk assessment review by Risk Management Manager; and
- The Bank has introduced a stringent selection process upon granting loans and advances.

Note 3. FINANCIAL RISK MANAGEMENT - CONTINUED

3.5 Loans and advances

(i) Loans and advances are summarised as follows:

As at 31 December 2011	Agriculture	Industry & business	Housing & personal	Staff	Total
	$	$	$	$	$
Neither past due nor impaired	3,135,323	9,954,850	18,265,356	3,116,022	34,471,551
Past due but not impaired	878,671	1,047,274	1,322,281	-	3,248,226
Individually impaired	992,886	828,204	1,078,835	39,974	2,939,899
Gross	5,006,880	11,830,328	20,666,472	3,155,996	40,659,676
Less: allowance for impairment	(945,735)	(291,128)	(425,425)	-	(1,662,288)
Net	$4,061,145	$11,539,200	$20,240,047	$3,155,996	$38,997,388

As at 31 December 2010	Agriculture	Industry & business	Housing & personal	Staff	Total
	$	$	$	$	$
Neither past due nor impaired	3,222,336	7,385,111	18,025,478	2,550,329	31,183,254
Past due but not impaired	894,673	599,291	955,025	7	2,448,996
Individually impaired	2,033,686	2,978,952	1,152,003	133,192	6,297,833
Gross	6,150,695	10,963,354	20,132,506	2,683,528	39,930,083
Less: allowance for impairment	(1,853,321)	(831,714)	(512,576)	(20,000)	(3,217,611)
Net	$4,297,374	$10,131,640	$19,619,930	$2,663,528	$36,712,472

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. These accounts are subject to regular monitoring by the bank.

Note 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 the loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

As at 31 December 2011	Agriculture	Industry & Business	Housing & Personal	Staff	Total
	$	$	$	$	$
Grades					
A	590,430	934,997	1,077,299	177,309	2,780,035
B	361,529	5,458,368	6,371,758	1,541,223	13,732,878
C1	2,183,364	2,268,367	10,816,299	1,397,490	16,665,520
S	-	1,293,118	-	-	1,293,118
	3,135,323	$9,954,850	$18,265,356	$3,116,022	$34,471,551

As at 31 December 2010	Agriculture	Industry & Business	Housing & Personal	Staff	Total
	$	$	$	$	$
Grades					
A	5,545	485,242	810,901	183,142	1,484,830
B	259,111	3,074,965	5,117,677	885,593	9,337,346
C1	2,957,680	3,824,904	12,096,900	1,481,594	20,361,078
S	-	-	-	-	-
	$3,188,310	$7,385,111	$18,025,478	$2,550,329	$31,183,254

(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:

As at 31 December 2011	Agriculture	Industry & Business	Housing & Personal	Staff	Total
	$	$	$	$	$
Past due up to 30 days	587,989	852,053	1,089,809	-	2,529,851
Past due 30 – 60 days	238,560	33,670	204,287	-	476,517
Past due 60 – 90 days	52,122	161,551	28,185	-	241,858
	$878,671	$1,047,274	$1,322,281	-	$3,248,226
Fair value of collateral	$2,851,331	$3,077,998	$3,473,979	-	$9,403,308

Note 3. FINANCIAL RISK MANAGEMENT - CONTINUED

3.5 Loans and advances - continued

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

As at 31 December 2010	Agriculture	Industry & business	Housing & personal	Staff	Total
	$	$	$	$	$
Past due up to 30 days	689,718	78,661	565,119	7	1,333,505
Past due 30 – 60 days	110,508	213,983	270,871	-	595,362
Past due 60 – 90 days	94,447	306,647	119,035	-	520,129
	$894,673	$599,291	$955,025	$7	$2,448,996
Fair value of collateral	$3,306,024	$966,541	$2,853,594	$17,512	$7,143,671

(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 judgment of the 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 31 December 2011					
Term loans	374,755	2,152,309	1,675,972	367,412	4,570,448
As at 31 December 2010 Term loans	1,083,518	1,930,049	1,988,937	117,371	5,119,875

(v) Repossessed collateral

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

Nature of assets	Carrying amount 2011	Audit 2010
	$	$
Land - Tax allotment	20,000	7,000
Town allotment	-	28,000
Motor Vehicle	-	77,000
Residential houses	-	223,000

Note 3. FINANCIAL RISK MANAGEMENT - CONTINUED

3.5 Loans and advances - continued

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

(vi) Loans and advance exposure by categories:

	2011 $	2010 $
Large corporate entities	6,952,573	6,793,861
SMEs	28,553,876	28,553,651
Other	5,153,227	4,582,571
	$40,659,676	$39,930,083

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 instrument 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:

	2011 $	2010 $
Liabilities		
Borrowings – foreign	$ 1,592,385	$ 858,799

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 Banking based on the remaining period at balance sheet date to the contractual maturity date.

Note 3. FINANCIAL RISK MANAGEMENT - CONTINUED

3.7 Liquidity risk

As at 31 December 2011	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	No specific maturity	Total
Assets	($)	($)	($)	($)	($)	($)	($)
Cash on hand and at Bank	1,923,033	-	-	-	-	-	1,923,033
Investment securities – held to maturity	-	2,000,000	4,798,689	3,339,000	439,000	-	10,576,689
Loans and services	3,838,558	5,355,520	10,706,075	19,097,235	-	-	38,997,388
Statutory reserve deposit	-	-	-	-	-	1,746,000	1,746,000
Property, plant and equipment	-	-	-	-	-	6,602,198	6,602,198
Investment Property	-	-	-	-	-	621,811	621,811
Other assets	176,371	101,805	328,534	568,271	-	-	1,174,981
Total Assets	5,937,962	7,457,325	15,833,298	23,004,506	439,000	8,970,009	61,642,100
Liabilities							
Saving deposits	6,314,963	-	-	-	-	-	6,314,963
Borrowings	97,758	65,899	360,449	2,027,721	2,502,613	-	5,054,440
Promissory Notes	4,423,452	4,207,028	13,683,993	6,140,171	-	-	28,454,644
TDB bonds	-	-	-	148,896	-	-	148,896
Other liabilities	468,910	1,046,293	535,892	1,276,018	42,486	60,726	3,430,325
Total Liabilities	11,305,083	5,319,220	14,580,334	9,592,806	2,545,099	60,726	43,403,268
Net Liquidity Gap	($5,367,121)	$2,138,105	$1,252,964	$13,411,700	($2,106,099)	$8,909,283	$18,238,832
As at 31 December 2010							
Total Assets	4,844,709	5,244,910	10,521,184	20,712,378	7,015,852	8,863,229	57,202,262
Total Liabilities	9,522,423	3,637,849	10,786,429	13,521,032	2,351,872	-	39,819,605
Net Liquidity Gap	($4,677,714)	$1,607,061	($265,245)	$7,191,346	$4,663,980	$8,863,229	$17,382,657

Note 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.

At 31 December 2011	No later than 1 year	1 – 5 years	Over 5 years	Total
	$	$	$	$
Loan commitments	2,730,098	-	-	2,730,098
Operating lease commitments	7,720	30,880	171,262	209,862
Capital commitments	-	-	-	-
Total	$2,737,818	$30,880	$171,262	$2,939,960
At 31 December 2010				
Loan commitments	2,102,776	-	-	2,102,776
Operating lease commitments	8,320	33,280	187,920	229,520
Capital commitments	-	-	-	-
Total	$2,111,096	$33,280	$187,920	$2,332,296

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 $3,893,000 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.

Note 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 the 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 year ended 31 December 2011 and year ended 31 December 2010. During that period, the Bank complied with all of the externally imposed capital requirements to which they are subject.

Tier 1 Capital	**2011**	**2010**
	$	$
Share capital	10,530,190	10,530,190
Retained earnings	7,708,642	6,852,467
Total	$18,238,832	$17,382,657
Risk weighted assets	$39,997,389	$36,712,472
Ratio	46.77%	47.35%

NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 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.

NOTE 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.

NOTE 6. NET INTEREST INCOME

	2011	2010
	$	$
Interest income		
Loans and advances	4,059,110	4,141,623
Term deposits and securities	477,878	490,382
	$4,536,988	$4,632,005
Interest and other borrowing expenses		
Borrowings	118,285	135,669
TDB promissory notes	1,194,972	1,538,651
TDB Bond	5,747	-
Savings deposits	87,345	66,370
Bank charges	3,719	3,655
	$1,410,068	$1,744,345

Borrowings cost comprises foreign exchange loss of $Nil (2010: exchange loss of $7,689)

Interest income accrued on impaired financial assets is $10,716 (2010:$73,344)

NOTE 7. FEES AND COMMISSION INCOME

	2011	2010
	$	$
Service fees	2,074,875	2,240,975
Commissions	376,931	465,637
	$2,451,806	$2,706,612

NOTE 8. OTHER OPERATING INCOME

	2011	2010
	$	$
Rent	68,836	81,558
Other	182,224	190,227
	$251,060	$271,785

NOTE 9.NON LENDING LOSS

No non lending losses were recorded by the Bank for the year ended 31 December 2011 (2010: $60,000).

NOTE 10. OTHER OPERATING EXPENSES

	2011	2010
	$	$
Staff costs (refer below)	1,930,862	2,029,560
Administrative expenses	583,881	583,635
Auditor's remuneration - audit fee	21,934	23,214
Depreciation - Property, plant and equipment	453,356	415,007
- Investment property	55,381	59,185
(Gain)/loss on disposal of plant and equipment	49,404	(18,136)
Premises	300,806	245,187
Travel	207,116	215,937
Insurance loss	3,003	8,960
Others	127,929	222,128
	$3,733,672	$3,784,677

Staff costs comprise:

Wages and salaries and other staff costs	1,834,826	1,931,363
Retirement fund	96,036	98,197
	$1,930,862	$2,029,560

NOTE 10. OTHER OPERATING EXPENSES - CONTINUED

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. It was resolved in an actuarial review in 2008 that Bank's contribution in respect of retirement fund scheme, be reduced from 11.5% to 6.5% effective from 1 October 2008.

NOTE 11. CASH ON HAND AND AT BANK

	2011 $	2010 $
Cash on hand	155,873	126,647
Cash at Bank	1,767,160	1,090,895
	$1,923,033	$1,217,542

NOTE 12. CASH AND CASH EQUIVALENTS

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

	2011 $	2010 $
Cash on hand and at Bank	1,923,033	1,217,542
Investment securities	6,683,689	5,000,000
	$8,606,722	$6,217,542

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

NOTE 13. INVESTMENT SECURITIES – HELD TO MATURITY

	2011 $	2010 $
Westpac Bank of Tonga	6,183,689	5,000,000
MBf Bank	500,000	-
Government of Tonga Local Development Bond	3,893,000	3,854,000
	$10,576,689	$8,854,000

The year end interest rate receivable on term deposits range from 2.9% to 6.5% (2010: 2.9% to 4.55%) per annum and the interest rate for the Government of Tonga Local Development Bond range from 4.0% to 10.0% (2010: 3.0% to 10.00%) 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.

NOTE 14. LOANS AND ADVANCES

	2011	2010
	$	$
Gross loans and advances	40,659,676	39,930,083
Less : Impairment losses on loans and advances	(1,662,288)	(3,217,611)
Net loans	38,997,388	$36,712,472
Loans and advances approved but not yet disbursed amounted to:	$2,730,098	$2,102,776

Allowance for losses on loans and advances

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

	2011	2010
Balance at beginning of the year	3,217,611	3,031,818
Provision for loan impairment	1,236,032	1,201,598
Provisions written back	(1,102,689)	(840,925)
Loans written off during the year	(1,688,666)	(174,880)
Balance at end of year	$1,662,288	$3,217,611

Composition of allowance for losses on loans and advances:

	2011	2010
Specific provision	1,146,896	2,631,372
Collective provisions	515,392	586,239
	$1,662,288	$3,217,611

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

	2011	2010
Provision for loan impairment	1,236,032	1,201,597
Provisions written back	(1,102,689)	(840,925)
	$133,343	$360,672

Non accrual loans and advances

	2011	2010
Non accrual loans and advances	1,400,359	1,891,962
Less: specific provision for impairment	(784,669)	(1,271,948)
	$615,690	$620,014

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

NOTE 14. 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

NOTE 15. OTHER ASSETS

	2011 $	2010 $
Prepayment	92,489	91,980
Accrued interest	252,328	230,028
Other assets	183,893	271,402
	$528,710	$593,410

NOTE 16. AMOUNTS RECEIVABLE FROM SHAREHOLDER

Comprises the following:

Claims for EEC	-	$7,689

NOTE 17. STATUTORY RESERVE DEPOSIT

	2011 $	2010 $
National Reserve Bank of Tonga (NRBT)	$1,746,000	$1,082,000

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 year end was 5% (2010: 5%)

	2011 $	2010 $
Amounts (payable to)/receivable from/NRBT	78,000	(31,000)

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

NOTE 18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land and buildings	Fixtures, fittings & equipment	Motor vehicles	Computers	Total
For the year ended 31 December 2011	$	$	$	$	$
Opening net book amount	6,118,305	114,186	154,493	443,333	6,830,317
Additions	42,203	23,946	90,479	78,569	235,197
Disposals	-	(7,210)	2,747	(3)	(9,960)
Depreciation charge	(184,534)	(12,702)	(70,250)	(185,870)	(453,356)
Closing Net book amount	$5,975,974	$118,220	$171,975	$336,029	$6,602,198
At 31 December 2011					
Cost	6,922,394	887,251	509,112	2,028,975	10,374,732
Accumulated depreciation	(946,420)	(769,031)	(337,137)	(1,692,946)	(3,745,534)
Net book amount	$5,975,974	$118,220	$171,975	$336,029	$6,602,198
For the year ended 31 December 2010					
Opening net book amount	6,293,273	115,680	65,017	350,596	6,824,566
Additions	6,708	39,089	119,644	257,880	423,321
Disposals (net amount)	-	(52)	-	(2,511)	(2,563)
Depreciation charge	(181,676)	(40,531)	(30,168)	(162,632)	(415,007)
Closing net book amount	$6,118,305	$114,186	$154,493	$443,333	$6,830,317
At 31 December 2010					
Cost	6,880,191	930,124	597,957	1,963,663	10,371,935
Accumulated depreciation	(761,886)	(815,938)	(443,464)	(1,520,330)	(3,541,618)
Net book amount	$6,118,305	$114,186	$154,493	$443,333	$6,830,317

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

NOTE 19. INVESTMENT PROPERTY

	Land & Building $	Total $
For the year ended 31 December 2011		
Opening net book amount	950,912	950,912
Additions	-	-
Disposals	(273,720)	(273,720)
Depreciation charge	(55,381)	(55,381)
Closing net book amount	$621,811	$621,811
At 31 December 2010		
Cost	829,248	829,248
Accumulated depreciation	(207,437)	(207,437)
Net book amount	$621,811)	$621,810
For the year ended 31 December 2010		
Opening net book amount	1,010,097	1,010,097
Additions	-	-
Disposals net amount)	-	-
Depreciation charge	(59,185)	(59,185)
Closing net book amount	$950,912	$950,912
At 31 December 2010		
Cost	1,187,221	1,187,221
Accumulated depreciation	(236,309)	(236,309)
Net book amount	$950,912	$950,912

(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 Comprehensive Income:

	2011 $	2010 $
Rental income	22,964	33,655
Direct operating expenses arising from investment properties	13,117	9,139

NOTE 20. TAXATION

	2011	2010
	$	$
Income tax is brought to account using the liability method of tax effect accounting.		
(a) **Operating profit before income tax**	$2,151,758	$1,814,585
Prima facie income tax charge on the operating profit at 25%	537,940	453,646
Tax effect of non deductible expenditure:		
Grants and exempt income	(65,948)	(65,010)
Tax effect of over provision - prior year	(32,584)	-
Income tax expense	$439,408	$388,636
(b) **Income tax expense comprises:**		
Current tax expense	60,559	365,656
Over provision – prior year	(32,584)	-
Deferred tax expense - net	411,433	22,980
Income tax expense	$439,408	$388,636

(c) **Deferred tax asset**

	2011	2010
(i) Deferred tax asset comprises the net effect of the following (amounts recognized in profit or loss):	$	$
Allowance for loan losses	415,572	771,816
Other provisions	52,225	44,849
Unrealised exchange loss	-	40,140
Unearned revenue	100,474	97,115
	$568,271	$953,920
(ii) The movement in deferred tax asset is as follows:		
Balance at 1 January	953,920	1,017,206
Charge to statement of comprehensive income	(385,649)	(63,286)
Balance at 31 December	$568,271	$953,920

NOTE 20. TAXATION - CONTINUED

		2011	2010
(d)	**Deferred tax liability**		
(i)	The balance comprises temporary differences attributable to:	$	$
	Depreciation	$1,116,075	$1,122,875
(ii)	The movement in deferred tax liability is as follows:		
	Balance at 1 January	1,122,875	1,163,181
	Credit to statement of comprehensive income	(6,800)	(40,306)
	Balance at 31 December	$1,116,075	$1,122,875

NOTE 21. OTHER LIABILITIES

	2011	2010
	$	$
Accrued interest	424,258	477,267
Provisions for annual leave and staff bonus	98,010	71,262
Deferred Income	401,897	388,460
Other creditors and accruals	304,347	483,727
	$1,228,512	$1,420,716

Other creditors and accruals include the following:

Accruals and creditors	299,486	469,288
Withholding tax payable	2,861	4,263
Credit holding accounts	2,000	10,176
	$304,347	$483,727

NOTE 22. BORROWINGS

	Notes	2011	2010
		$	$
Comprises:			
Borrowings	(a)	5,054,440	4,790,189
Tonga Development Bank promissory notes	(b)	28,454,644	26,006,873
Tonga Development Bank Bond		148,896	-
		$33,657,980	$30,797,062

NOTE 22. BORROWINGS - CONTINUED

(a) Borrowings comprise the following:	Principal repayment term	Interest rate	2011 $	2010 $
Government of the Kingdom of Tonga				
Asian Development Bank	1993 – 2023	3.00%	536,601	583,262
International Fund for Agriculture Development 2	1993 – 2013	3.00%	197,833	329,632
International Fund for Agriculture Development 3	1999 – 2020	3.00%	1,525,745	1,716,464
International Development Association	1998 – 2023	3.00%	1,201,876	1,302,032
			3,462,055	3,931,390
Other borrowings				
European Investment Bank VI	2009 - 2026	5.5%	174,974	191,718
European Union	1988 – 2019	1.50%	31,221	35,963
Private Sector Reconstruction Facility	2011 – 2025	0.00%	1,386,189	631,118
			1,592,384	858,799
			$5,054,440	$4,790,189

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.

	2011 $	2010 $
(b) Tonga Development Bank promissory notes	$28,454,644	$26,006,873

The interest rate at year end on promissory notes ranged from 2.45% per annum to 8.00% per annum. Interest is paid out on maturity and semi-annually for terms over 180 days.

NOTE 23. 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 Fund	Advance to	2011	2010
	$	$	$	$
Livelihood Reactivation Project - Niuatoputapu	94,401	(60,909)	33,492	10,733
New Zealand Borrower Diversification Fund	304,227	(168,715)	135,512	38,425
	$398,628	$229,624	$169,004	$49,158

NOTE 24. CAPITAL

	2011	2010
	$	$
(a) Authorised		
1,400,000 ordinary shares of $10 each	$14,000,000	$14,000,000
(b) Issued and fully paid		
1,053,019 ordinary shares of $10 each	$10,530,190	$10,530,190

NOTE 25. RELATED PARTY TRANSACTIONS

(a) Directors

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

- Pousima Afeaki (appointed Chairman 1 November 2010)
- Lennie Niit
- Paula Taumoepeau
- Simione Sefanaia (Managing Director)
- Minoru Nishi JR (up to November 2011)

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

	2011	2010
	$	$
Directors' fees and retirement benefit	69,507	113,041
Management salaries & other short term employee benefits	263,448	211,394
Total	$332,955	$324,435

NOTE 25. RELATED PARTY TRANSACTIONS - CONTINUED

(iii) Transactions with related parties comprise of:

Loans and advances to directors or director-related entities

	2011	2010
	$	$
Balance at beginning of the year	791,328	266,539
Loans advanced during the year	62,774	611,056
Loan and interest repayments during year	(38,350)	(116,723)
Interest and costs	22,281	30,456
Balance at end of the year	$838,033	$791,328

The above transactions are on normal commercial terms and conditions.

(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

	2011	2010
	$	$
Interest paid/payable on borrowings	129,389	144,405
Repayments of borrowings during the year	490,820	489,890
Borrowings from the Government of the Kingdom of Tonga are disclosed in note 22 (a)	3,462,055	3,931,390
The Government purchased TDB bonds and promissory notes during the year and the balances at year end are as follows:		
TDB promissory notes	2,627,003	2,608,100
Interest paid/payable on TDB bonds and promissory notes	221,873	154,347

Interest payable on the bonds and promissory notes range from 2.45% to 7.75% per annum.

(ii) Term deposits

	2011	2010
	$	$
Interest received/receivable on Government of Tonga Local Development Bonds	252,328	253,903
Government of Tonga Local Development Bonds at year end - refer note 13.	3,893,000	3,854,000

NOTE 26. COMMITMENTS AND CONTINGENT LIABILITY

	2011	2010
(a) Capital commitment	$ -	$ -
(b) Contingent liability	$ -	$ -
(c) Operating lease commitments	$209,862	$229,520

(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:

	2011	2010
	$	$
Not later than one year	7,720	8,320
Later than one year but not later than five years	30,880	33,280
Later than five years	171,262	187,920
	$209,862	$229,520

(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:

	2011	2010
	$	$
Not later than one year	55,850	84,627
Later than one year but not later than five years	110,187	42,097
	$166,037	$126,724

NOTE 27. FINANCING ARRANGEMENTS

	2011	2010
	$	$
Arrangements with 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

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 is available to the Bank. The draw down of the facility commenced in 2008 and final draw down was in August 2009.

NOTE 28. DIVIDENDS

	2011 $	2010 $
(a) The directors have declared a dividend of 50% of net profit after tax for the year ended 31 December 2010. This amounted to $712,974 or $0.68 per issued share. The shareholder provided assistance to a number of squash growers by approving an offset of their loan balances against the 2010 dividend. The assistance amounted to $175,234 and the balance of $537,740 was paid on 29 June 2011.	-	712,974
(b) The directors also declared a dividend of 50% of net profit after tax for the year ended 31 December 2011. This amounted to $856,175 or $0.81 per issued share.	856,175	-

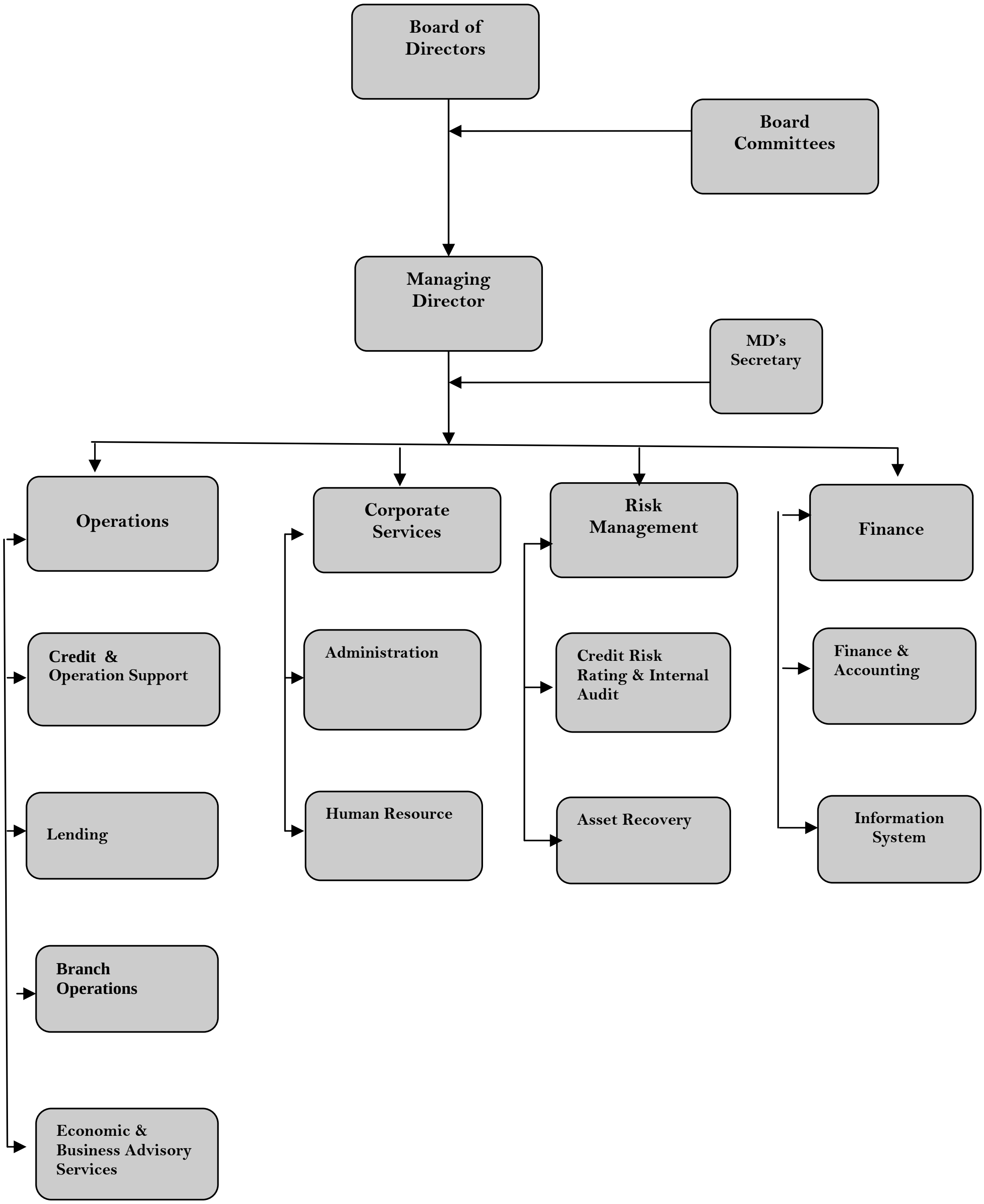
NOTE 29. EARNINGS PER SHARE

	2011 $	2010 $
Net profit after tax	1,712,350	1,425,949
Number of issued shares	1,053,019	1,053,019
Earnings per share	$1.63	$1.35

NOTE 30. RETURN ON EQUITY

	2011 $	2010 $
Net profit after tax	1,712,350	1,425,949
Shareholder's Equity	18,238,832	17,382,657
Return on Equity	9.39%	8.20%

Corporate Structure as at 31 December 2011



Senior Management Team as at 31 December 2011

SENIOR EXECUTIVES

Managing Director	Mr Simione Sefanaia	
Deputy Managing Directors		
• Operations	Mrs Leta Havea Kami	(ended August 2011)
	Mrs Seini Movete	(from September 2011)
• Finance	Mr Hasiloni Fungavai	
• Risk Management	Mr John Bath	(ended September 2011)
	Mrs Leta Havea Kami	(from September 2011

HEAD OFFICE

Managers

• Lending- Tongatapu	Mrs Seini Movete	(ended September 2011)
	Mr Sitino Maka	(from October 2011)
• Loans District 1 & 2	Mr Sitino Maka	
• Asset Recovery	Mr Samisoni Masila	
• Credit and Operations Support	Mrs Lata Kava	
• Finance and Budgeting	Mr Soane Malia Kauhalaniua	
• Information Services	Mr Siokatame Havili Movete	
• System Operations	Mrs Silia Tupou	
• Human Resource	Mrs Lu'isa Manuofetoa	
• Administration	Ms Vika. T. Taufa	

BRANCH OFFICES

Managers

• Vava'u Branch	Mrs. 'Elisapesi Fineanganofo
• Ha'apai Branch	Mr 'Eliki 'Ofa
• 'Eua Branch	Mr Kolokesa Paunga
• Niuatoputapu Branch	Mrs Mafi Hoa
• Niuafo'ou Branch	Mr Viliami Fifita