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 2012, as required under the Tonga Development Bank Act, 1977 Section 10 (7) and the Public Enterprises Act 2002 Section 20 (1).

Respectfully

Matoto

Lord Matoto
Chairman

CONTENTS

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BACKGROUND

Tonga Development Bank was established on 1st September 1977 under the Tonga Development Bank Act 1977 and incorporated under the Companies Act at the time and registered again in 2001 under the Companies Act 1995.

The TDB Act stipulates the mandate for TDB which may be summed up as promoting the social and economic development of the people and enterprises in Tonga through loans and advisory services which are provided on sound professional banking principles and ensuring such loans are repaid.

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

VISION

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

MISSION

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

BOARD OF DIRECTORS AS AT DECEMBER 2012

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

MR PAULA TAUMOEPEAU

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

MR PENISIMANI VEA

Former Managing Director of the Bank. Mr Vea has been a Director of the Bank since February 2012.

REV. DR. TEVITA KOLOA'IA HAVEA

Secretary General for the Free Wesleyan Church of Tonga. Mr Havea has been a Director of the Bank since September 2012.

MRS LETA HAVEA KAMI
Acting Managing Director of the Bank since February 2013.

CHAIRMAN'S REPORT 2012

I am pleased to report that for the year ended 31 December 2012, the Tonga Development Bank delivered positive results for its shareholder against very difficult economic conditions experienced during the year.

Tonga Development Bank reported net profit after tax of T$1.329 million as compared to T$1.712 in 2011. This is a decrease of T$0.383 million. This was due to various reasons including adjustment in respect of $195K tax liability to Tax Free Government Bonds.

This is a pleasing outcome that was achieved by rigorous risk management standards and debt recovery activities that enabled the Bank to meet its objectives and deliver this positive result.

Banking system liquidity in Tonga continued to be in surplus in 2012. 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.

The quality of the Bank's assets was well maintained despite additional bad debts charged for 2012. This was due mainly to the good work undertaken in managing potential problem accounts in a timely manner.

It has always been a focus of the Bank to continue to maintain a strong and open relationship with the regulator National Reserve Bank of Tonga (NRBT) and the Government. In August 2012 the NRBT conducted a review of risk management systems and processes at the Bank. The results were considered satisfactory with some areas noted for further enhancements.

The Bank acknowledges the ongoing and effective supervision 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 in Tonga.

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 (IFC).

The Police investigation of the June 2009 robbery remains unresolved and is an ongoing concern to the Bank. There is a standing reward of T$20,000 offered by the Bank 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 2012.

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 focused 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 2012.

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. I would also like to thank our customers for their continuing support and trust in the Bank and the services it provides.

Malo

Matoto

Lord Matoto
CHAIRMAN OF THE BOARD

MANAGING DIRECTOR'S REVIEW

The Tonga Development Bank continues to operate profitably which is another positive result for its shareholder during 2012 despite the very difficult economic conditions experienced by the Tongan economy.

The overall financial result for 2012 was satisfactory and this was made possible through the continued commitment and dedication of the Bank's Management and staff.

The Bank remained focussed on executing its key roles diligently and this enabled the Bank to consolidate its efforts towards delivering financial solutions to its customers.

1. KEY HIGHLIGHTS OF THE YEAR:

	2012	2011	2010
Net Interest Income to average Total Assets	5.7%	5.3%	5.2%
Non Interest Income to average Total Assets	4.7%	4.9%	5.7%
Operating Cost to Income	70.8%	72.2%	72.7%
Return on Equity	7.03%	9.39%	8.20%
Return on Average earning Assets	2.60%	3.47%	3.07%

2. OVERVIEW OF THE FINANCIAL PERFORMANCE

(All figures are in Tongan Pa'anga)

The net profit after tax was $1.3m for the twelve months ending 31 December 2012 compared to $1.7m for the year to 2011. The major contributing factors to this result were:

- Net Interest income increased from $3.1m in 2011 to $3.5m in 2012 which is an increase of $382K (12.2%).
- The fees and commissions (non interest) income reduced from $2.4m in 2011 to $2.2m in 2012. This is a reduction of $186K (7.6%).
- The net operating income increased from $5.8m in 2011 to $6.1m in 2012. This is an increase of $285K (4.9%).
- Other operating expenses increased from $3.7m in 2011 to $4.0m in 2012. This is an increase of $277K (7.4%).
- Bad and Doubtful Debt expense was recorded with a debit balance of $178K compared to a credit balance of $56K in 2011.
- The cost/income ratio projected for 2012 was 66.6% as com pared to actual figure of 70.8%.
- The significant increase in Staff retirement benefit as indicated under Note 9 of financials was due to pay back of the Bank's remaining liability of $287.7K in October 2012 to the Fund plus $97K paid to 3 eligible retirees.
- The Income tax expenses increased significantly from $439K in 2011 to $596K in 2012. This was mainly due to adjustment in respect of $195K tax liability due to Tax Free Government Bonds.

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 solely owned by the Government of Tonga.

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

A) Gross Lending	**2012**	**2011**	**2010**
Gross Lending (T$'million)			
Commercial Banks	203.2	227.2	268.6
TDB	42.3	40.9	39.9
TOTAL	245.5	268.1	308.5
TDB Market Share	17.2%	15.2%	12.9%
B) Gross Deposits			
Gross Deposits (T$'million)			
Commercial Banks	289.8	299.2	299.6
TDB	26.9	37.4	36.7
TOTAL	316.7	336.6	335.9
TDB Market Share	8.5%	11.1%	10.7%

C) Lending Sector Share

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

Agriculture			
Commercial Banks	40.0%	56.4%	64.5%
TDB	60.0%	43.6%	35.5%
Industry and Business			
Commercial Banks	87.9%	94.6%	91.0%
TDB	12.1%	5.4%	9.0%
Housing and Personal			
Commercial Banks	76.1%	84.6%	85.1%
TDB	23.9%	15.4%	14.9%

5. LENDING SECTORS

A) Loan Portfolio

Despite limited opportunities for further lending during the year the Bank has been able to grow its loan portfolio by 4.1% from T$40.7 million in 2011 to $42.3 million by end of 2012. The projected loan portfolio for the end of 2012 was T$42.9 million. The special package of 50% reductions in the loan repayments offered by the Bank in June 2012 for 3 months and again in November 2012 for 4 months also contributed to this result.

The Housing and Personal Loans remained the dominant sector of the Bank's portfolio with 49.58%. Followed by Industry & Business at 32.84%, Agriculture at 12.22% and Staff at 5.36%. The demand for lending from the productive sectors is very limited and increased lending to the Housing & Personal sector improved profitability.

B) Approval

The level of approval decreased significantly by $2.7m (15.3%) from $17.6m in 2011 to $14.9m at year end 2012. The total loan approval by major sector is as follows:

Agriculture	T$2.5 million
Squash	T$1.3 million
Industry and Business	T$3.2 million
Housing and Personal	T$7.3 million
Staff	T$0.6 million
TOTAL	T$14.9 million

The Bank is looking at ways to improve lending to the productive sectors as a basis for contributing to economic development.

C) Agriculture/Fisheries Sector

The agriculture sector had slightly increased by $0.2m (4%) from $5.0 million in 2011 to $5.2 million in 2012. This was not the growth we expected after the completion of the fumigation chamber, effective operation of the High Temperature Forced Air Treatment Plant (HTFA) and the completion of the processing facility. Appropriate marketing infrastructure and regulatory requirements are still required.

a) Squash

The 2012 squash season recorded an increase in grower participation as well as increased lending from about $0.7 million in 2011 to $1.3 million in 2012. The Bank continued to assist the development of the squash industry in future due to availability of export markets in Japan and South Korea. Close working relationship between the Bank, MAFFF and MCTL are still required for ongoing sustainability of the Industry.

b) General Crops

Root crops have continued to be the second major contributor to total agricultural sector during the year. In 2012, total loan of $967K recorded under root crops compared to $1.7m in 2011 which is a decrease of $749K (43.7%). Lack of other alternative crops and continuing reliance on semi-subsistence agriculture is still a challenge in agricultural developments.

c) Women in Development

In December 2012, total approval for women in development loans was $0.9 million compared to $1 million in 2011. This represented only 15.6% of the Bank's overall loans for Agriculture.

Lending in this area included women groups, individual women who 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.

Wholesale lending to the South Pacific Business Development Ltd (SPBD) offering loans up to TOP$2,000 per individual to women's group was ongoing.

d) Fishery

Total loans for fishing were recorded at $225K in 2012 compared to $171K in 2011 which is an increase of $53K (31.4%). The Bank continued to monitor performance in this sector.

e) Outer Island Lending

Lending at Outer Islands amounted to $4.3 million contributing 28.6% in amount and 45.1% of total number of loan accounts approved for the year. This was an increase from $4.0 million recorded in 2011.

f) Industry & Business

Lending to Industry and Business was $3.2 million compared to $6.1 million in 2011 which is a decrease of $2.9 million (48%). The 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 Bank only considers proposals that are within our lending policy guidelines and are considered to be viable.

g) Housing & Personal

The Housing and Personal lending covers about $20.98 million (50%) of the total portfolio in 2012. 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 on the shareholder's equity.

h) Staff Loans

Total Staff loans as at end of 2012 was $2.27 million (5.4%) of the total portfolio. Total approval for 2012 of $545K was higher than the budget of $500K.

6. PERFORMANCE TARGETS AND MEASURES

A) Credit Risk Management (CRM)

CRM is an going process aimed at maintaining and improving the quality of the Loan Portfolio.

The centralized credit approval coupled with vigorous Risk Asset Review (RAR) process has continued and this contributed significantly to maintaining quality and consistency of our 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 Bank's LAR as at end December 2012 was 12.95%. The NRBT required reserve ratio increased from 5% to 10% commenced January 2011.

C) Return on Equity

The Bank achieved a Return on Equity (ROE) of 7.0% compared to a target of 7.3% for 2012. The ROE for 2011 was 9.4% and the target set by the Ministry for Public Enterprises is at least 10%. Reduced ROE due to reduction in profitability.

D) Arrears

The arrears ratio was recorded at 2.3% at year end 2012 as compared to a target of 4.5%. This is a slight decrease from an arrears ratio of 2.4% at year end 2011.

The 2012 target for the number of accounts in arrears was 570. However, the actual number of account in arrears was 545.

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

E) Good Bank: Bad Bank

The Bank achieved Good vs Bad Bank ratio of 94.6% to 5.4% in 2012. The target for 2012 was 90%: 10%. In 2011, the Good Bank vs Bad Bank ratio was 93.9% to 6.1%.

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 2012 was $1.02 million which is lower than $1.15 million in 2011.

There was a more stringent approach given for loan provisioning in 2012 because of IFRS disclosure requirements.

General loan recoveries and some write backs from provisions also contributed to the level of profitability for 2012.

7) FUNDING

The main source of funding for the Bank's lending continued to be generated internally from loan repayments and other internal sources. This provided about 60.9% of the funding required.

Term deposit through Promissory Notes is another source of funding. Savings accounts provide an increasing source of funding. In 2012 the total available fund from savings was $6.885 million.

	Budget 2012	Actual 2012
	$000's	$000's
Loan repayment	15,908	18,873
Net Cash Flow from Operating Activities	2,076	2,629
Net TDB Promissory Notes	643	(1,866)
Net Savings Deposits	158	570
Cash at beginning of the year	10,730	8,607
Total	**$29,515**	**$28,813**

8) REVOLVING FUNDS

About T$295.3K 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 2012 was $90K.

Another revolving fund managed by the Bank is the Livelihood Reactivation Project in Niuatoputapu (LRP-NTT) $94.4K which is available for lending to the people of Niuatoputapu to help with their recovery from the tsunami disaster in 2009. Lending interest rate is 4.5% p.a. The total loan portfolio as at end of December 2012 was $22K.

9) NET INTEREST MARGIN

The Bank's Net Interest Margin (NIM) is reviewed on a quarterly basis. This includes matching of the average lending interest rates with average interest cost of funds. As at end December 2012 the net interest margin was 7.64%. This margin results in the Bank achieving a Net Profit after Tax of $1.33 million and a Return on Equity of 7.03%. There were 2 interest rate reductions in 2012 with 0.5% each.

10) HUMAN RESOURCE MANAGEMENT

A) Staff

Full time staff number was maintained at 94 in December 2012. This is the same level of staff at the end of 2011. 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 operations.

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 turnover was at the rate of 12.4% and male to female ratio was at 1 : 1.14.

Staff salary expenses for 2012 was projected to be T$1,831,000. However actual figure as at end December 2012 was T$1,643,135.

B) Staff Training

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

We continue to encourage staff to pursue formal training leading to higher qualification. On the job training and coaching continued to be an important part of staff development.

C) Staff Retirement Fund

The Bank's Retirement Fund was terminated on 31 October 2012. The Bank's remaining liability of $287,261 owing to the Fund as at 31 October 2012 was paid by the Bank to the Retirement Fund during the year, with an additional of $96,533 as compensation was paid by the Bank to 3 eligible retirees. The Bank is now contributing to the National Retirement Benefit Fund scheme (NRBF) at 5% as from 1st July 2012.

D) Customer Service

The Bank continued seeking to improve its Customer Service Standards which were introduced few years ago and a Customer Care program was commissioned to support our ongoing commitment to quality customer service.

Ongoing Staff Quarterly Award on Customer Service aimed in motivating staff to lift customer service to a professional level.

E) QUARTERLY AWARDS

Apart from Customer Service Quarterly Award, there is an award for Employee of the Quarter. This is aimed to award the best performance employee during the quarter. In addition there is a MD's award in recognition of outstanding performance or on merit during the year.

11) MONEY TRANSFER

Despite tough competition on local money transfer, the Bank continues to operate its local money transfer. In addition we also continued to operate the Digicel local money transfer using the mobile phone. We continued to work together with the NZ company, Money MoveIT to facilitate remittance from NZ and Australia. Initial development was in 2011.

12) INFORMATION SYSTEMS

A new development in 2012 was the upgrading of the Bank's Loans and Accounting System. The Software called Ultracs is widely known and used in the Oceania region's Financial Institutions such as Kiwi Bank in New Zealand, Bank of Cook Islands, Building Societies and Credit Unions in Australia and New Zealand. The move was from Ultracs 2.6 to Ultracs 4.0 which is the latest version of the software supplied and supported by the owner Ultradata Australia Pty Ltd based in Melbourne Australia. The Bank has been in partnership with Ultradata since 1995 and is looking forward for further fruitful working relationships in the years ahead.

The upgrade project was according to plan and budget thus completed successfully and went live on the 29th of October 2012. It was a like-for-like shift where existing modules were upgraded focussing on a front end application called People Relationships to further improve our customer services, staff productivity and efficiency.

The software have other modules to extend the Banks services into online business like ATM, Internet, Mobile and Text Banking, Cheque Account and others.

The challenge now and into the future is to maximise the benefit of the system upgrade, improve the capabilities of IT staff to boost the delivery of technical services to Bank staff with continuous management of IT resources.

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 Insurance Scheme (LPCI) with the Federal Pacific Insurance Ltd provides cover for all lending to individuals' loans up to $35,000.00 and below the age of 70. 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. Appropriate insurance covers were also in place.

15) BUSINESS ADVISORY SERVICES (BAS)

The Bank continued to provide free business advisory service and training for clients and one-to-one assistance to anyone requiring assistance. This service is not restricted to Bank clients. The same service is also provided to Lending Staff.

16) DIVIDEND

The Bank paid a dividend to Government of T$856K in 2012. This is 50% of the bank's Net Profit After Tax (NPAT) for 2011. The Bank also proposes to pay 50% of the Bank NPAT for 2012 equivalent of $665K Dividend.

17) GOVERNMENT POLICY OBLIGATIONS (GPO)

The Government is currently providing GPO to cover some of the costs of the Branch operations in the two Niuas. These operations have recorded losses throughout the years. We are the only Bank operating in the Niuas and also the need for TDB to take up all of the Sub Treasury functions. Government agreed that this GPO will cover some of the costs at the Niuas.

18) FUTURE DIRECTION

- IFC completed a marketing assessment study in 2012.
- Cabinet Decision No. 1011 on 23rd November 2012 approved:
  - (i) the Bank to proceed with IFC's assessment to adopt a Commercial Bank arm.
  - (ii) TDB to proceed with the feasibility study recommended by IFC in its Marketing assessment Study.
- IFC is currently;
  - (i) Preparing scope and Term of Reference (TOR) for engagement
  - (ii) Seeking IFC approval for Feasibility Study and Business Plan with costing of a Overdraft Facility, Cheque accounts, FOREX initially.
  - (iii) Timeline - to be up and running before end of 2013.

Acknowledgement

The Bank's staff continues to be a highly committed team and are proud of the Bank's heritage and dedicated to it's customer needs and strategy.

The level of profitability for 2012 has been attained through hard work and dedication of the Bank's management team and all its staff is also acknowledged

I acknowledge the ongoing support received by the Bank from the Ministry of Public Enterprises, Ministry of Finance and National Planning and other related Government Ministries during the year. The Government, as shareholder, has given invaluable support to the Bank in fulfilling its objectives in 2012.

Ongoing support and loyalty of all our Customers and their trust given to the Bank during 2012 is also acknowledged. The Bank can assure you all that we do care about your business and support your goals. Maintaining good repayment of loans has helped us in achieving our mission.

Finally I would also like to extend my gratitude and sincere thanks to the Chairman, the members of the Board of Directors and former Managing Director, Mr Simione Sefanaia for their continued support and providing strategic direction during the year.

Malo

Leta Havea Kami
Acting Managing Director

FIVE YEARS SUMMARY

Profit & Loss TOP $'000s	2008 IFRS Adoption	2009	2010	2011	2012	Movement 2011/2012
Interest Income	6,082	5,399	4,632	4,537	4,603	1.5%
Interest Expense	2,524	2,214	1,744	1,410	1,095	-22.3%
Net Interest Income	3,557	3,185	2,888	3,127	3,509	12.2%
Fees & commission income	2,604	3,013	2,707	2,452	2,266	-7.6%
Other Operating Income	199	360	272	251	339	35.1%
Losses on loans & advances	1,009	576	361	133	383	188.0%
Bad Debts	45	49	16	34	73	114.7%
Income Tax Expense	333	437	389	439	597	36.0%
Operating Profit after tax	951	1,570	1,426	1,712	1,329	-22.4%
Earnings per share	0.90	1.49	1.35	1.63	1.29	-20.9%

Balance Sheet TOP $'000s	2008 IFRS Adoption	2009	2010	2011	2012	Movement 2011/12
Average assets	63,987	58,632	55,520	59,422	61,589	3.6%
Total Assets	63,037	54,227	57,202	61,642	61,537	-0.2%
Gross Loans	47,984	36,011	39,930	40,660	42,328	4.1%
Saving Deposits	4,403	4,740	5,495	6,315	6,885	9.0%
Shareholder's equity	25,063	16,670	17,383	18,239	18,903	3.6%

Performance Ratios	2008 IFRS Adoption	2009	2010	2011	2012	Movement 2011/12
Return on Assets	1.5%	2.9%	2.5%	2.9%	2.2%	-0.7%
Return on Equity	3.8%	9.4%	8.2%	9.4%	7.0%	-2.4%
Operating Costs to Total Income	74.7%	70.9%	72.7%	72.2%	70.8%	-1.4%
Operating Income to Average Portfolio	18.4%	20.9%	27.4%	19.5%	17.4%	-2.1%

Directors' Report for the year ended 31 December 2012

In accordance with a resolution of the Board of Directors, the directors herewith submit the Balance Sheet as at 31 December 2012, 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:
Lord Matoto (Chairman) - appointed 25 February 2013
Pousima Afeaki - resigned 16 January 2013
Lennie Niit - resigned 31 August 2012
Paula Taumoepeau
Penisimani Vea - appointed 22 February 2012
Rev. Dr. Tevita Kolo'ia Havea - appointed 21 September 2012
Simione Sefanaia (Managing Director) - resigned 31 December 2012
Leta Havea Kami (Acting Managing Director) - appointed 9 February 2013

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 2012 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 2012 was $ 1,329,129 (2011: $1,712,350).

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 2011. This amounted to $856,175 or $0.81 per issued share which was paid on 29 June 2012

The directors also declared a dividend based on 50% of net profit after tax for the year ended 31 December 2012. This is amounted to $664,564 or $0.63 per issued share.

Directors' Report for the year ended 31 December 2012 (continued)

6. RESERVES

The directors recommend that no amounts be transferred to reserves in respect of the year ended 31 December 2012.

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 2012 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 14 day of March 2013.

Leta Havea Kami
Acting Managing Director

Lord Matoto
Chairman of the Board

Statement by Directors for the year ended 31 December 2012

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 2012;

(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 2012;

(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 2012; 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 2012.

Signed in accordance with a resolution of the directors this 14 day of March 2013.

Leta Havea Kami
Acting Managing Director

Lord Matoto
Chairman of the Board

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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 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' and Management's Responsibility for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Tonga Companies Act, 1995, and Tonga Development Bank Act, 1977, and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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Audit Opinion

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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 2012, 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 information and according to the explanations given to us give the information required by the Tonga Companies Act, 1995, and Tonga Development Bank Act, 1977 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.

15 MARCH 2013

Lautoka, Fiji

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

Statement of Comprehensive Income for the year ended 31 December 2012

	Notes	2012 $	2011 $
Continuing operations			
Interest income	6	4,603,992	4,536,988
Interest and other borrowing expenses	6	(1,094,944)	(1,410,068)
Net interest income		3,509,048	3,126,920
Fees and commission income	7	2,266,351	2,451,806
Other operating income	8	339,058	251,060
Net operating income		6,114,457	5,829,786
Losses on loans and advances	13	(382,770)	(133,343)
Bad debts written off		(72,590)	(34,228)
Bad debts recovered/reversed		277,378	223,215
Other operating expenses	9	(4,010,590)	(3,733,672)
Profit before income tax		1,925,885	2,151,758
Income tax expense	19	(596,756)	(439,408)
Profit for the year from continuing operations		**$1,329,129**	**$1,712,350**
Other comprehensive income		-	-
Total comprehensive income for the year		**$1,329,129**	**$1,712,350**
Earnings per share	28	$1.26	$1.63

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

Balance Sheet - As at 31 December 2012

	Notes	2012 $	2011 $
ASSETS			
Cash on hand and at Bank	10	2,057,108	1,923,033
Investment securities – held to maturity	12	8,728,491	10,576,689
Loans and advances	13	40,631,992	38,997,388
Other assets	14	547,866	528,710
Amounts receivable from shareholder	15	6,249	-
Amounts receivable from NRBT	16	-	78,000
Statutory reserve deposit	16	1,767,000	1,746,000
Property, plant and equipment	17	6,630,619	6,602,198
Investment property	18	579,948	621,811
Deferred tax asset	19	587,471	568,271
Total Assets		$61,536,744	$61,642,100
LIABILITIES			
Savings deposits		6,884,979	6,314,963
Other liabilities	20	1,499,364	1,228,512
Amount payable to NRBT	16	43,000	-
Borrowings	21	31,531,581	33,657,980
Current tax liability	19	636,484	60,559
Managed funds	22	277,829	169,004
Deferred tax liability	19	1,095,546	1,116,075
Dividends payable	27	664,564	856,175
Total Liabilities		42,633,347	43,403,268
SHAREHOLDERS' EQUITY			
Share capital	23	10,530,190	10,530,190
Retained earnings		8,373,207	7,708,642
Total Shareholders' Equity		18,903,397	18,238,830
Total Equity and Liabilities		$61,536,744	$61,642,100

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

Signed in accordance with a resolution of the directors this 14 day of March 2013.

Leta Havea Kami
Acting Managing Director

Lord Matoto
Chairman of the Board

Statement of Changes in Equity - Year ended 31 December 2012

	Notes	Share Capital	Retained Earnings	Total
		$	$	$
Balance 31 December 2010		10,530,190	6,852,467	17,382,657
Comprehensive income Profit for the year		-	1,712,350	1,712,350
Other comprehensive income		-	-	-
Total comprehensive income		-	$1,712,350	$1,712,350
Transactions with owners – Dividends declared in 2011	27	-	(856,175)	(856,175)
Total transactions with owners		-	(856,175)	(856,175)
Balance 31 December 2011	29	$10,530,190	$7,708,642	$18,238,832
Comprehensive income				
Profit for the year		-	1,329,129	1,329,129
Other comprehensive income		-	-	-
Transactions with owners				
Dividends declared in 2012	27	-	(664,564)	(664,564)
Total transactions with owners		-	(664,564)	(664,564)
Balance 31 December 2012	29	$10,530,190	$8,373,207	$18,903,397

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

Statement of Cash Flows - Year ended 31 December 2012

	Notes	2012 $	2011 $
Cash flows from operating activities			
Interest received		4,594,359	4,514,688
Interest payment		(1,221,578)	(1,440,555)
Fees and commission received		2,266,351	2,451,806
Other income		322,662	199,719
Income tax paid		(60,559)	(365,656)
Payment to employees and suppliers		(3,272,698)	(3,059,404)
Cash flows from operating activities before changes in operating assets and liabilities		2,628,537	2,300,598
Changes in operating assets and liabilities:			
Disbursements of Loans		(20,172,278)	(20,982,622)
Repayments of loans		18,468,517	18,873,196
(Increase)/decrease in other debtors and prepayments	14	(9,523)	138,342
(Increase)/decrease in amounts receivable from shareholder	15	(6,249)	7,689
Increase/(decrease) in other liabilities	20	91,854	(277,844)
Net cash from operating activities		1,000,858	59,359
Cash flows from investing activities			
Purchase of property, plant and equipment	17&18	(418,819)	(235,197)
Proceeds from sale of plant and equipment	9	16,396	234,276
Net decrease /(increase) in statutory deposits	16	100,000	(773,000)
Net increase in Government bonds	12	(505,000)	(39,000)
Net cash (used in) investing activities		(807,423)	(812,921)
Cash flows from financing activities			
Net (decrease)/increase in TDB promissory notes and bonds	21	(1,866,100)	2,596,667
Net increase in savings deposits		570,016	819,565
Dividends paid	27	(856,175)	(537,740)
(Repayments)/Disbursements of borrowings	21	(260,299)	264,250
Net cash (used in)/ generated from financing activities		(2,412,558)	3,142,742
Net (decrease)/increase in cash and cash equivalents		(2,219,123)	2,389,180
Cash and cash equivalents at beginning of year		8,606,722	6,217,542
Cash and cash equivalents at year end	11	$6,387,599	$8,606,722

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) New and amended standards adopted by the Bank

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Bank.

ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(a) Basis of preparation - continued

Standard/interpretation	Key requirements	Effective Date
Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income	The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.	1 July 2012
Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities	This amendment updates the application guidance in IAS 32 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
Amendment to IFRS 7, 'financial instruments: Disclosures', on offsetting financial assets and liabilities	This amendment reflects the joint IASB and FASB requirements to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements.	1 January 2013
IFRS 9, 'Financial instruments' - classification and measurement	This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised - cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions.	1 January 2015
IFRS 13, 'Fair value measurement	This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP.	1 January 2013

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

(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.

(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 3 months and 12 months; in exceptional cases, longer periods are warranted.

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

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

Notes to and Forming Part of the Financial Statement 31 December 2012 (continued)

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. The retirement fund was terminated on 31 October 2012 and the Bank's contributions are currently made to the National Retirement Benefit Fund.

(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**
	2012		**2011**	
	Loans and Advances	Impairment Provision	Loans and Advances	Impairment Provision
	(%)	(%)	(%)	(%)
A	8.71	-	6.84	-
B	22.25	-	33.78	-
C1	56.07	28	48.98	24.08
S	7.40	3.70	3.16	1.56
C2	2.53	25.56	3.17	17.16
D	2.19	29.61	3.57	45.33
E	0.85	13.13	0.50	11.87
	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:

	2012		2011	
	$	%	$	%
Industry sector:				
Agriculture	5,173,551	12.22	5,006,880	12.31
Industry and Business	13,900,820	32.84	11,830,328	29.10
Housing and Personal	20,985,064	49.58	20,666,472	50.83
Staff	2,268,154	5.36	3,155,996	7.76
	$42,327,589	100.00	$40,659,676	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 2012	Agriculture	Industry & business	Housing & personal	Staff	Total
	$	$	$	$	$
Neither past due nor impaired	3,692,752	7,076,572	18,325,225	2,268,154	31,362,703
Past due but not impaired	1,117,936	6,187,656	1,962,294	-	9,267,886
Individually impaired	362,863	636,592	697,545	-	1,697,000
Gross	5,173,551	13,900,820	20,985,064	2,268,154	42,327,589
Less: allowance for impairment	(713,315)	(399,448)	(582,834)	-	(1,695,597)
Net	$4,460,236	$13,501,372	$20,402,230	$2,268,154	$40,631,992)

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	$20,241,047	$3,155,996	$38,997,388

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 2012	Agriculture	Industry & Business	Housing & Personal	Staff	Total
	$	$	$	$	$
Grades					
A	485,244	472,311	802,588	246,808	2,006,951
B	254,716	1,626,203	5,883,680	1,274,824	9,039,423
C1	2,623,791	4,978,058	11,638,957	746,523	20,316,329
S	-	-	-	-	-
	$3,363,751	$7,076,572	$18,325,225	$2,268,155	$31,362,703

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

(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 2012	Agriculture	Industry & Business	Housing & Personal	Staff	Total
	$	$	$	$	$
Past due up to 30 days	837,754	5,941,925	1,556,021	-	8,335,700
Past due 30 – 60 days	225,869	211,185	256,660	-	693,714
Past due 60 – 90 days	54,313	34,546	149,613	-	238,472
	$1,117,936	$6,187,656	$1,962,294	-	$9,267,887
Fair value of collateral	$3,262,364	$6,792,787	$4,375,733	-	$14,430,884

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 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

(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 2012					
Term loans	680,895	4,074,842	1,901,166	59,166	6,716,069
As at 31 December 2011 Term loans	374,755	2,152,309	1,675,972	367,412	4,570,449

(v) Repossessed collateral

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

Nature of assets	Carrying amount 2012	Audit 2011
	$	$
Land - Tax allotment	-	20,000

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:

	2012 $	2011 $
Large corporate entities	9,917,614	6,952,573
SMEs	28,480,107	28,553,876
Other	3,929,868	5,153,227
	$42,327,589	$40,659,676

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:

	2012 $	2011 $
Liabilities		
Borrowings – foreign	$ 1,801,420	$ 1,592,385

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 2012	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	2,057,108	-	-	-	-	-	2,057,108
Investment securities – held to maturity	529,086	-	4,801,405	3,398,000	-	-	8,728,491
Loans and services	1,469,017	2,798,726	9,548,121	17,232,682	9,583,446	-	40,631,992
Statutory reserve deposit	-	-	-	-	-	1,767,000	1,767,000
Property, plant and equipment	-	-	-	-	-	6,630,619	6,630,619
Investment Property	-	-	-	-	-	579,948	579,948
Other assets	67,321	224,833	261,961	-	587,471	-	1,141,586
Total Assets	4,122,532	3,023,559	14,611,487	20,630,682	10,170,917	8,977,567	61,536,744
Liabilities							
Saving deposits	6,884,979	-	-	-	-	-	6,884,979
Borrowings	97,758	33,017	328,611	1,966,451	2,368,304	-	4,794,141
Promissory Notes	1,357,875	4,220,015	18,166,438	2,891,876	-	-	26,636,204
TDB bonds	-	-	-	101,236	-	-	101,236
Other liabilities	13,611	1,355,420	732,756	214,307	1,900,693	-	4,216,787
Total Liabilities	8,354,223	5,608,452	19,227,805	5,173,870	4,268,997	-	42,633,347
Net Liquidity Gap	($4,231,691)	($2,584,893)	($4,616,318)	$15,456,812	$5,901,920	$8,977,567	$18,903,397
As at 31 December 2011							
Total Assets	5,937,962	7,457,325	15,833,298	23,004,506	439,000	8,970,009	61,642,100
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

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 25, are summarised in the table below.

(c) Capital commitments

Capital commitments (note 25) are summarised in the table below.

At 31 December 2012	No later than 1 year	1 – 5 years	Over 5 years	Total
	$	$	$	$
Loan commitments	1,751,534	-	-	1,751,534
Operating lease commitments	7,720	30,880	165,880	204,480
Capital commitments	-	-	-	-
Total	$1,759,254	$30,880	$165,880	$1,956,014
At 31 December 2011				
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

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 $4,398,000 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 2012 and year ended 31 December 2011. During that period, the Bank complied with all of the externally imposed capital requirements to which they are subject.

Tier 1 Capital	**2012**	**2011**
	$	$
Share capital	10,530,190	10,530,190
Retained earnings	8,373,207	7,708,642
Total	$18,903,397	$18,238,832
Risk weighted assets	$40,631,992	$38,997,389
Ratio	46.52%	46.77%

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

	2012 $	2011 $
Interest income		
Loans and advances	4,189,610	4,059,110
Term deposits and securities	414,382	477,878
	$4,603,992	$4,536,988
Interest and other borrowing expenses		
Borrowings	102,868	118,285
TDB promissory notes	885,966	1,194,972
TDB Bond	5,924	5,747
Savings deposits	95,649	87,345
Bank charges	4,537	3,719
	$1,094,944	$1,410,068

Borrowings cost comprises foreign exchange loss/(gain) of $6,249 (2011: exchange loss of $Nil).

Interest income accrued on impaired financial assets is $9,730 (2011:$10,716)

NOTE 7. FEES AND COMMISSION INCOME

	2012 $	2011 $
Service fees	1,938,025	2,074,875
Commissions	328,326	376,931
	$2,266,351	$2,451,806

NOTE 8. OTHER OPERATING INCOME

	Note	2012 $	2011 $
Rent		141,924	68,836
Other		197,134	182,224
		$339,058	$251,060

NOTE 9. OTHER OPERATING EXPENSES

	2012 $	2011 $
Staff costs (refer below)	2,202,110	1,930,862
Administrative expenses	637,659	583,881
Auditor's remuneration - audit fee	21,415	21,934
Depreciation - Property, plant and equipment	474,008	453,356
- Investment property	41,863	55,381
Loss on disposal of plant and equipment	-	49,404
Premises	309,262	300,806
Travel	179,639	207,116
Insurance loss	372	3,003
Others	144,262	127,929
	$4,010,590	$3,733,672

Staff costs comprise:

Wages and salaries and other staff costs	1,643,229	1,834,826
Retirement fund	558,975	96,036
	$2,202,110	$1,930,862

NOTE 9. 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. It was also resolved in an actuarial review in 2011 that the Bank's contribution in respect of retirement fund scheme be further increased to 14.0% effective from 1 January 2012. The remaining liability of $287,671 at 31 October 2012 had been paid back to the Fund and staff package of $96,533 paid to eligible retirees. The retirement fund was terminated on 31 October 2012 and the Bank's contributions are currently made at 5% commencing 1 July 2012 to the National Retirement Benefit Fund.

NOTE 10. CASH ON HAND AND AT BANK

	2012 $	2011 $
Cash on hand	191,904	155,873
Cash at Bank	1,865,204	1,767,160
	$2,057,108	$1,923,033

NOTE 11. CASH AND CASH EQUIVALENTS

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

	2012 $	2011 $
Cash on hand and at Bank	2,057,108	1,923,033
Investment securities	4,330,491	6,683,689
	$6,387,599	$8,606,722

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 12. INVESTMENT SECURITIES – HELD TO MATURITY

	2012 $	2011 $
Westpac Bank of Tonga	3,024,013	6,183,689
ANZ Bank	777,148	-
MBf Bank	529,330	500,000
Government of Tonga Local Development Bond	4,398,000	3,893,000
	$8,728,491	$10,576,689

The year end interest rate receivable on term deposits range from 2.1% to 17.15% (2011: 2.9% to 6.5%) per annum and the interest rate for the Government of Tonga Local Development Bond range from 3.2% to 10.0% (2011: 4.0% 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. Then Bank purchased and took over the TDB Retirement Fund investments at ANZ and WBOT after 31 October 2012.

NOTE 13. LOANS AND ADVANCES

	2012 $	2011 $
Gross loans and advances	42,327,589	40,659,676
Less : Impairment losses on loans and advances	(1,695,597)	(1,662,288)
Net loans	40,631,992	38,997,388
Loans and advances approved but not yet disbursed amounted to:	$1,751,534	$2,730,098

Allowance for losses on loans and advances

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

Balance at beginning of the year	1,662,288	3,217,611
Provision for loan impairment	759,184	1,236,032
Provisions written back	(376,414)	(1,102,689)
Loans written off during the year	(349,461)	(1,688,666)
Balance at end of year	$1,695,597	$1,662,288

Composition of allowance for losses on loans and advances:

Specific provision	1,018,322	1,146,896
Collective provisions	677,275	515,392
	$1,695,597	$1,662,288

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

Provision for loan impairment	759,184	1,236,032
Provisions written back	(376,414)	(1,102,689)
	$382,770	$133,343

Non accrual loans and advances

Non accrual loans and advances	1,549,889	1,400,359
Less: specific provision for impairment	(688,050)	(784,669)
	$861,839	$615,690

Loans to directors and director related entities are disclosed in note 24 (a) (iii).

NOTE 13. LOANS AND ADVANCES - CONTINUED

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

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

NOTE 14. OTHER ASSETS

		2012 $	2011 $
Prepayment		67,321	92,489
Accrued interest		261,961	252,328
Other assets	a/	218,584	183,893
		$547,866	$528,710

a/ *Major items include Control accounts $76,636; Robbery recovery $60,941; NFO WBOT Clearing a/c $32,082; Fraudulent Actions Suspense accounts $22,473; Lawyers Suspense account $23,726 and Sundries suspense accounts of $2,092*

NOTE 15. AMOUNTS RECEIVABLE FROM SHAREHOLDERS

Comprises the following:

Claims for EEC	$6,249	-

NOTE 16. STATUTORY RESERVE DEPOSIT

	2012 $	2011 $
National Reserve Bank of Tonga (NRBT)	$1,767,000	$1,746,000

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% (2011: 5%)

	2012 $	2011 $
Amounts (payable to)/receivable NRBT	(43,000)	78,000

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

NOTE 17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land and buildings	Fixtures, fittings & equipment	Motor vehicles	Computers	Total
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
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	10,347,732
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 2012					
Opening net book amount	5,975,974	118,220	171,975	336,029	6,602,198
Additions	3,632	7,511	127,233	364,053	502,429
Disposals	-	-	-	-	-
Depreciation charge	(183,568)	(32,094)	(80,302)	(178,044)	(474,008)
Closing net book amount	$5,796,038	$93,637	$218,906	$522,038	$6,630,619
At 31 December 2012					
Cost	6,926,026	894,762	566,468	2,393,028	10,780,284
Accumulated depreciation	(1,129,988)	(801,125)	(347,562)	(1,870,990)	(4,149,665)
Net book amount	$5,796,038	$93,637	$218,906	$522,038	$6,630,619

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

NOTE 18. INVESTMENT PROPERTY

	Land & Building $	Total $
At 31 December 2010		
Cost	1,187,221	1,187,221
Accumulated depreciation	(236,309)	(236,309)
Net book amount	$950,912	$950,912
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 2011		
Cost	829,248	829,248
Accumulated depreciation	(207,437)	(207,437)
Net book amount	$621,811)	$621,810
For the year ended 31 December 2012		
Opening net book amount	621,811	621,811
Additions	-	-
Disposals	-	-
Depreciation charge	(41,863)	(41,863)
Closing net book amount	$579,948	$579,948
At 31 December 2012		
Cost	829,248	829,248
Accumulated depreciation	(249,300)	(249,300)
Net book amount	$579,948	$579,948

(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:

	2012 $	2011 $
Rental income	24,107	22,964
Direct operating expenses arising from investment properties	65,615	13,117

NOTE 19. TAXATION

	2012 $	2011 $
Income tax is brought to account using the liability method of tax effect accounting.		
(a) The major components of the income tax expense are:		
Current tax:		
Current tax on profits for the year	440,659	60,559
Adjustment in respect of prior year	195,825	-
Total current tax	636,484	60,559
Deferred tax:		
Origination and reversal of temporary difference	(39,728)	378,849
Impact of change in tax rate	-	-
Total deferred tax	(39,728)	378,849
Income tax expense	$596,756	$439,408
(b) **Operating profit before income tax**	$1,925,885	$2,151,758
Prima facie income tax charge on the operating profit at 25%	481,471	537,940
Tax effect of non deductible expenditure:		
Grants and exempt income	(74,063)	(65,948)
Tax effect of over provision - prior year	189,348	(32,584)
Income tax expense	$596,756	$439,408
(c) Income tax expense comprises:		
Current tax expense	440,659	60,559
Under/(Over) provision – prior year	189,348	(32,584)
Deferred tax expense - net	(33,251)	411,433
Income tax expense	$596,756	$439,408

(d) **Deferred tax asset**

	2012 $	2011 $
(i) Deferred tax asset comprises the net effect of the following (amounts recognized in profit or loss):		
Allowance for loan losses	423,899	415,572
Other provisions	42,160	52,225
Unrealised exchange loss	-	-
Unearned revenue	121,412	100,474
	$587,471	$568,271
(ii) The movement in deferred tax asset is as follows:		
Balance at 1 January	568,271	953,920
Charge to statement of comprehensive income	19,200	(385,649)
Balance at 31 December	$587,471	$568,271

NOTE 19. TAXATION - CONTINUED

		2012	2011
(d)	**Deferred tax liability**		
(i)	The balance comprises temporary differences attributable to:	$	$
	Depreciation	$1,095,546	$1,116,075
(ii)	The movement in deferred tax liability is as follows:		
	Balance at 1 January	1,116,075	1,122,875
	Credit to statement of comprehensive income	(20,529)	(6,800)
	Balance at 31 December	$1,095,546	$1,116,075

NOTE 20. OTHER LIABILITIES

	2012	2011
	$	$
Accrued interest	297,624	424,258
Provisions for annual leave and staff bonus	62,398	98,010
Deferred Income	485,648	401,897
Other creditors and accruals	653,694	304,347
	$1,499,364	$1,228,512

Other creditors and accruals include the following:

Accruals and creditors	630,834	299,486
Withholding tax payable	20,286	2,861
Credit holding accounts	2,574	2,000
	$653,694	$304,347

NOTE 21. BORROWINGS

	Notes	2012	2011
		$	$
Comprises:			
Borrowings	(a)	4,794,141	5,054,440
Tonga Development Bank promissory notes	(b)	26,636,204	28,454,644
Tonga Development Bank Bond		101,236	148,896
		$31,531,581	$33,657,980

NOTE 21. BORROWINGS - CONTINUED

(a) Borrowings comprise the following:	Principal repayment term	Interest rate	2012 $	2011 $
Government of the Kingdom of Tonga				
Asian Development Bank	1993 – 2023	3.00%	489,940	536,601
International Fund for Agriculture Development 2	1993 – 2013	3.00%	66,034	197,833
International Fund for Agriculture Development 3	1999 – 2020	3.00%	1,335,027	1,525,745
International Development Association	1998 – 2023	3.00%	1,101,720	1,201,876
			2,992,721	3,462,055
Other borrowings				
European Investment Bank VI	2009 - 2026	5.5%	157,292	174,974
European Union	1988 – 2019	1.50%	26,439	31,221
Private Sector Reconstruction Facility	2011 – 2025	0.00%	1,617,689	1,386,189
			1,801,420	1,592,384
			$4,794,141	$5,054,440

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.

	2012 $	2011 $
(b) Tonga Development Bank promissory notes	$26,636,204	$28,454,644

The interest rate at year end on promissory notes ranged from 2.0% per annum to 8.0% per annum. Interest is paid out on maturity and semi-annually for terms over 180 days.

NOTE 22. 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	2012	2011
	$	$	$	$
Livelihood Reactivation Project - Niuatoputapu	94,401	(22,317)	72,084	33,492
New Zealand Borrower Diversification Fund	295,262	(89,517)	205,745	135,512
	$389,663	($111,834)	$277,829	$169,004

NOTE 23. CAPITAL

	2012	2011
	$	$
(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 24. RELATED PARTY TRANSACTIONS

(a) Directors

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

- Lord Matoto (Chairman) - appointed 25 February 2013
- Pousima Afeaki—resigned 16 January 2013
- Lennie Niit - resigned 31 August 2012
- Paula Taumoepeau
- Penisimani Vea (appointed 22 February 2012)
- Rev. Dr. Tevita Koloa'ia Havea (appointed 21 September 2012)
- Simione Sefanaia (Managing Director) - resigned 31 December 2012
- Leta Havea Kami (Acting Managing Director) - appointed 9 February 2013

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

	2012	2011
	$	$
Directors' fees and retirement benefit	90,213	69,507
Management salaries & other short term employee benefits	249,058	263,448
Total	$339,271	$332,955

NOTE 24. RELATED PARTY TRANSACTIONS - CONTINUED

(iii) Transactions with related parties comprise of:

Loans and advances to directors or director-related entities

	2012	2011
	$	$
Balance at beginning of the year	838,033	791,328
Loan balance related to a retired Director	(589,255)	-
Loans advanced during the year	207,374	62,774
Loan and interest repayments during year	(441,206)	(38,350)
Interest and costs	30,997	22,281
Balance at end of the year	$45,943	$838,033

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

	2012	2011
	$	$
Interest paid/payable on borrowings	114,449	129,389
Repayments of borrowings during the year	619,465	490,820
Borrowings from the Government of the Kingdom of Tonga are disclosed in note 21 (a)	2,992,721	3,462,055
The Government purchased TDB bonds and promissory notes during the year and the balances at year end are as follows:		
TDB promissory notes	3,072,053	2,627,003
Interest paid/payable on TDB bonds and promissory notes	67,769	221,873

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

(ii) Term deposits

	2012	2011
	$	$
Interest received/receivable on Government of Tonga Local Development Bonds	296,253	252,328
Government of Tonga Local Development Bonds at year end (Refer note 12.)	4,398,000	3,893,000

Notes to and Forming Part of the Financial Statement 31 December 2012 (continued)

NOTE 25. COMMITMENTS AND CONTINGENT LIABILITY

		2012	2011
(a)	Capital commitment	$ -	$ -
(b)	Contingent liability	$ -	$ -

Tonga Development Bank's Retirement Fund was terminated on 31 October 2012. The remaining liability of the Bank of $287,261 owing to the Fund as at 31 October 2012 was paid by the Bank to the Retirement Fund during the year, with an additional $96,533 as compensation was paid by the Bank to 3 eligible retirees. However, 2 members applied for a Judicial Review and legal proceedings have been brought against the Board and Trustees of Tonga Development Bank Retirement Fund in relation to the termination and the distribution of the Fund. The Directors believe that the Judicial Review will not have a significant impact to the financial statements of Tonga Development Bank in the year 2012.

(c)	Operating lease commitments	$204,480	$209,862

(i) The Bank has leases over various leasehold properties in the Kingdom for a maximum term of 56 years. The minimum operating lease payments at balance sheet date are as follows:

	2012	2011
	$	$
Not later than one year	7,720	7,720
Later than one year but not later than five years	30,880	30,880
Later than five years	165,880	171,262
	$204,480	$209,862

(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:

	2012	2011
	$	$
Not later than one year	172,056	55,850
Later than one year but not later than five years	433,287	110,187
Later than five years	33,624	-
	$638,967	$166,037

NOTE 26. FINANCING ARRANGEMENTS

	2012	2011
	$	$
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

AnEIB 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 27. DIVIDENDS

	2012 $	2011 $
(a) The directors have 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
(b) The directors also declared a dividend of 50% of net profit after tax for the year ended 31 December 2012. This amounted to $664,564 or $0.63 per issued share.	664,564	-

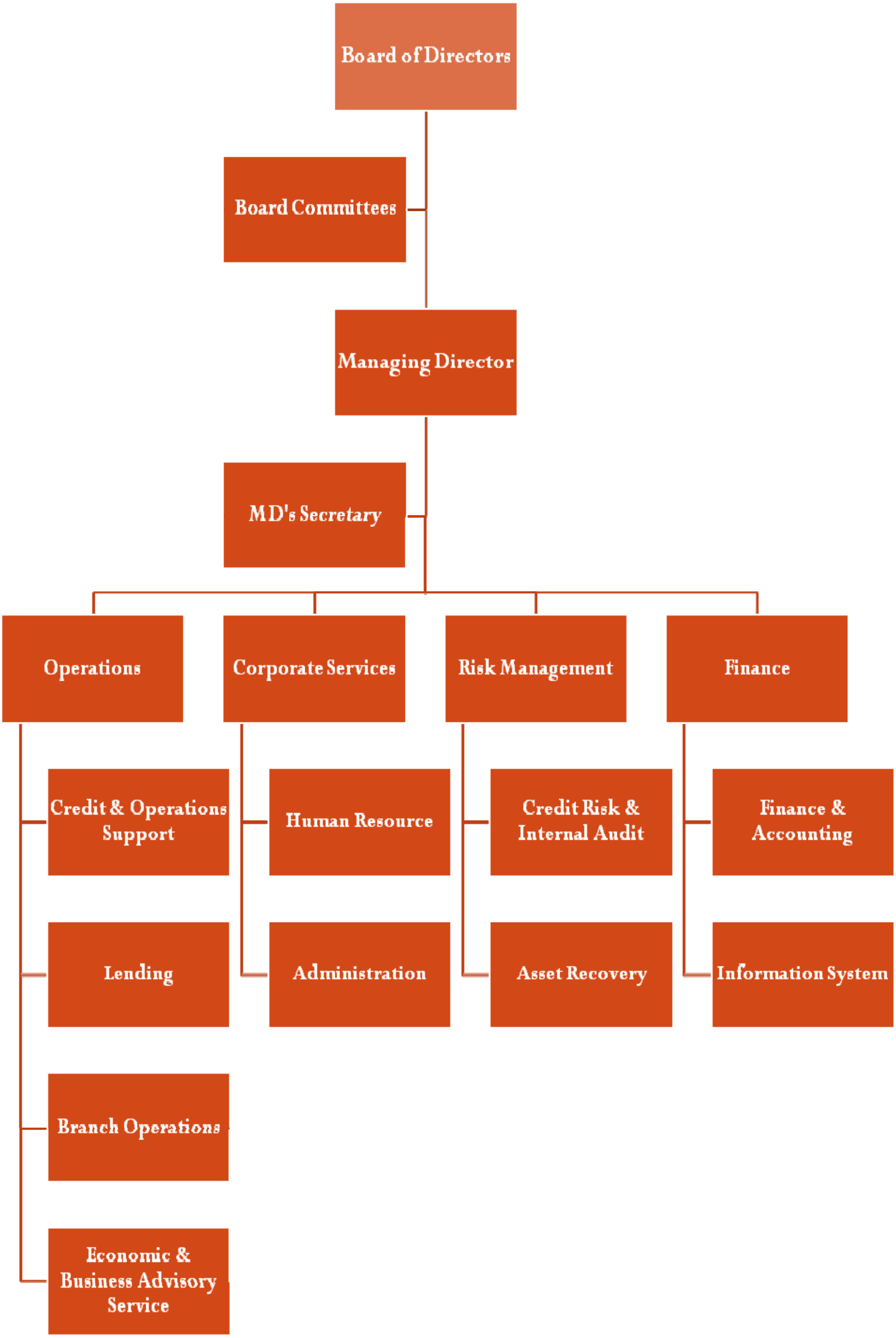
NOTE 28. EARNINGS PER SHARE

	2012 $	2011 $
Net profit after tax	1,329,129	1,712,350
Number of issued shares	1,053,019	1,053,019
Earnings per share	$1.26	$1.63

NOTE 29. RETURN ON EQUITY

	2012 $	2011 $
Net profit after tax	1,329,129	1,712,350
Shareholder's Equity	18,903,397	18,238,832
Return on Equity	7.03%	9.39%

Corporate Structure as at 31 December 2012



Senior Management Team as at 31 December 2012

SENIOR EXECUTIVES

Managing Director	Mr Simione Sefanaia (ended 31 December 2012)
Deputy Managing Directors	
• Operations	Mrs Seini Movete
• Finance	Mr Hasiloni Fungavai
• Risk Management	Mrs Leta Havea Kami

HEAD OFFICE

Managers	
• Lending- Tongatapu	Mr Sitino Maka
• Loans District 1 & 2	Mrs ‘Elisapesi Fineanganofo
• 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	Mrs Vika. T. Vea

BRANCH OFFICES

Managers	
• Vava’u Branch	Mr. Sosaia Talau
• Ha’apai Branch	Mr ‘Eliki ‘Ofa
• ‘Eua Branch	Mr Tau’atevalu Mafi
• Niuatoputapu Branch	Mrs Lavinia Ika
• Niuafo’ou Branch	Mr Viliami Fifita
• Hahake District Office	Mrs ‘Atelaite Moala Fifita