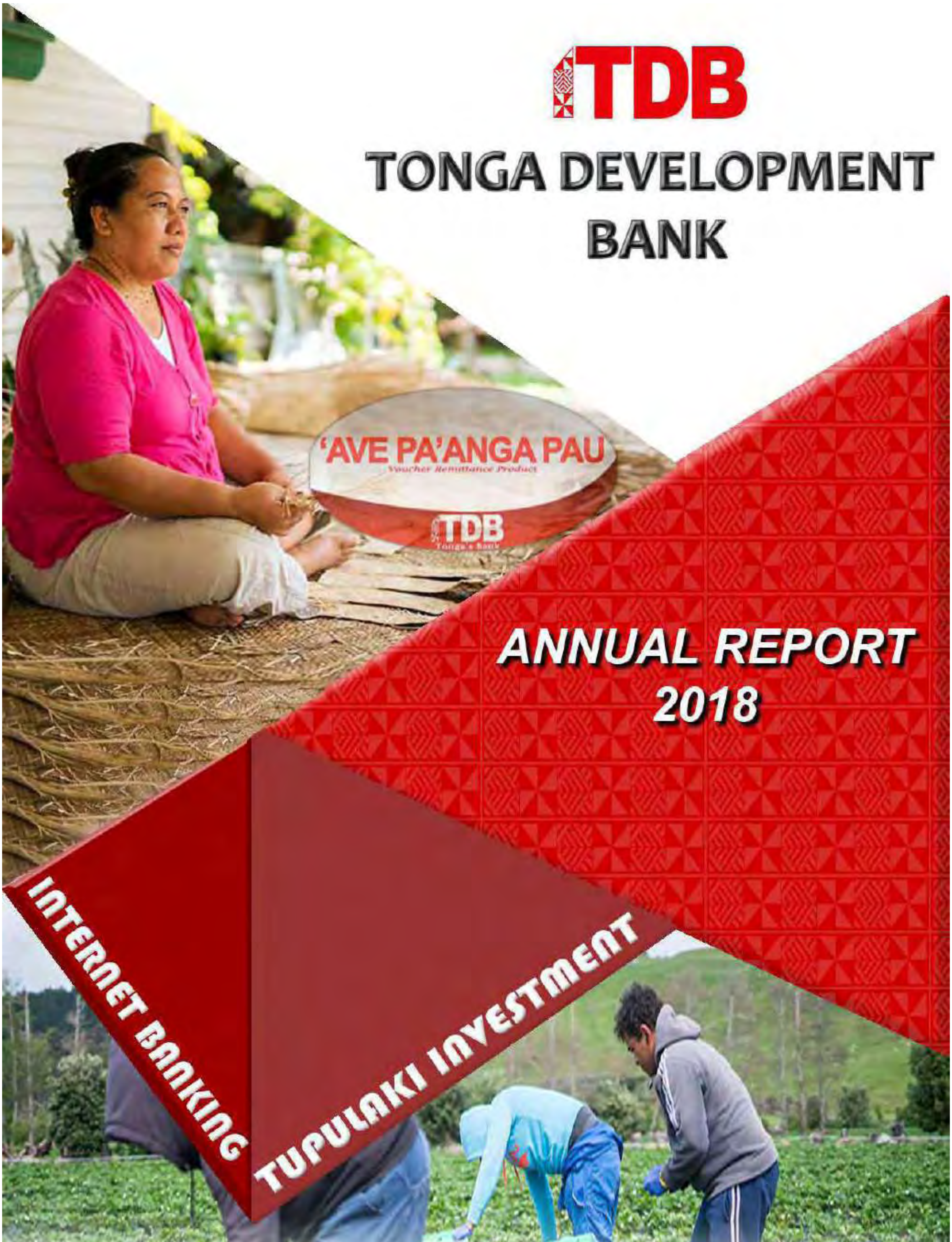
TDB

TONGA DEVELOPMENT BANK



ANNUAL REPORT 2018

29th September 2018

Hon. Minister for Finance & National Planning
Ministry of Finance & National Planning
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 for the financial year 30 June 2018, as required under the Tonga Development Bank Act, 2014 Section 18 (6) and the Public Enterprises Act 2002 Section 20 (1).

Respectfully

....
Lord Matoto
Chairman

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BACKGROUND

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

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

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

VISION AND MISSION STATEMENT

OUR VISION

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

OUR MISSION

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

OUR VALUES

1. *Providing helpful, friendly & efficient service;*
2. *Being actively identified & involved in our community;*
3. *Teamwork & co-operation;*
4. *Ensuring integrity in all our dealings;*
5. *A continually learning organisation.*

BOARD OF DIRECTORS

LORD MATOTO

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

MR PAULA TAUMOEPEAU

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

MR OBEY NIU SAMATE

Highly experienced commercial banker and was appointed in September 2017.

MRS LETA HAVEA-KAMI

She was appointed in September 2013 as Managing Director & CEO.

MANAGEMENT TEAM AS AT 30 JUNE 2018

SENIOR EXECUTIVES

Managing Director & CEO	Mrs Leta Kami
• Chief Credit Officer	Mrs Seini Movete
• Chief Finance Officer	Mrs Loi Mateiwai

HEAD OFFICE

Managers

• Operations	Mrs Lata Kava
• Lending- Tongatapu	Mrs ‘Elisapesi Fineanganofo
• Loans District 1 & 2	Mr Saia Talau
• International Business	Mr Tevita Tu’inauvai
• Asset Recovery	Mr Samisoni Masila
• Credit	Mr Folaufisi Vaea (deceased 03/02/2018)
	Mr Saia Talau (appointed 26/03/2018)
• Finance & Budgeting	Mrs ‘Ofeina Filimoehala(resigned 13/04/2018)
• Information Services	Mr Siokatame Havili Movete
• ‘Ave Pa’anga Pau	Mrs Silia Tupou
• Human Resource	Mrs Siosina Paongo
• Administration	Mrs Mele Fonua
• Senior Economist	Mrs Piula Tangataevaha
• Senior Internal Auditor	Mr Samiu Fifita

BRANCH OFFICES

Managers

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

CHAIRMAN'S REPORT

"The Bank has weathered many storms in its history and with the positive growth forecasted, the Board is firmly of the view that it is well-positioned for greater success in the future."

It is with great pleasure and a privilege that I present the annual report for the year ended 30th June 2018. We are committed to the successful transformation of the Bank to commercial banking and are focused on increasing value creation. The Board is committed to leading the organisation to fulfill its role in the economic, financial and social development of the people and the Kingdom of Tonga.

In recent years, the Bank has faced many challenges in the business environment but it has shown the ability to adapt to the changes in the environment and continue to grow its business, expand and improve products, satisfy customer needs and providing required returns to the shareholders.

Operation Highlights
TDB has completed another milestone performance reflecting its team's ability and commitment. Growth is noted in savings and deposits as well in lending.

Our own unique Tongan online voucher remittance product, 'Ave Pa'anga Pau, launched in February 2017, has now become a separate unit with its own management team. Moreover, we are pleased to contribute to the Government's vision of keeping remittance costs low and benefitting RSE workers and Tongan communities in New Zealand. The foreign currency generated is kept in New Zealand to assist importers and those who make payments in New Zealand currency.

Net Profit After Tax increased as a result of increased revenue and cost controls, finishing the year strongly at $2.4m compared to $1.4m in 2017. The major contributors to the revenue were interest income, service fees, net foreign exchange fees and tight controls on expenses.

The Bank embraces a very strong financial position recording total assets of $145.06m compared to $131.5m in 2017. The equity continues to grow with an increase of 9% compared to 2017, reaching $27.2m at year end. No dividend is declared as a result of regulatory requirements until the breach in the single borrower limit is remedied.

With monitoring oversight of TDB being removed by Government from Ministry of Public Enterprises to Ministry of Finance and National Planning to be effective from 1st July 2017, an amendment bill had to be drafted to ensure the Bank's legislative framework aligns with such a change including capital and administrative restructuring within the Bank, covering:

(a) Expansion of services of the Bank into commercial banking;
(b) Internal restructuring within the Bank; and
(c) Sale of some of the unsubscribed shares in the Bank to local provident funds.

The Board of Directors and Bank Management adhere to a high level of corporate governance and believe that such level of governance is essential for attaining excellent sustainable long-term performance and the desired value creation. These governance standards are built into the Articles of Association to bind the directors and management with prudent responsibilities and measurable performance. The quality of the Board of Directors and overall performance of the Bank will continue to depend on vigorous stewardship by the shareholders in the appointment of Directors.

Future Outlook
The Bank has weathered many storms in its history and with the positive growth forecasted in the year ahead, the Board is firmly of the view that it is well-positioned for greater success in the future, with clear strategies in place under the direction of good leadership.

The Board and the management are set to work together to ensure finalisation of the capital restructure and roll out of products in ATMs and cards to fulfil the Bank's ability to deliver full commercial banking services with the aim of further strengthening its financial performance. Meantime, continued staff training, effective marketing of new products and customer services, upgrade and improvements will strengthen the Bank's core functions and ensure proper on-going attention. The Bank's internal policies and work processes are continually reviewed and updated in full compliance with both statutory and regulatory requirements receiving proper and continuing attention.

Productivity and efficiency are important aspects of the Bank's performance which are driven and emphasized by the quality of human resources management practices which are vital to the transformation of the Bank and its growth. Also, the Bank encourages staff continuing education and its recruitment practices and human resources policies will ensure quality staffing with relevant tertiary qualifications and work experience.

To stimulate economic activity, the Government requires the Bank to manage its Government Development Loan (GDL) funds which is provided to the public on terms stipulated by the Government at low interest and no fees. However, with the Bank going commercial and GDL directly competing with some of the Bank's loan products, it has been challenging to administer such a programme on inadequate management fees which are not always paid on time. After four years, we are hoping that Government will review the GDL to ensure its objectives are met as the implementation agreement for this service between the Bank and the Government ends in August 2020.

As a good citizen of the Kingdom, the Bank has supported and is continuing to support a diverse-range of activities within the community which promote health, education, sports, community activities and charitable purposes. The Bank has granted a number of scholarships to local vocational training institutions to promote knowledge; skills based training and economic development in the country.

Acknowledgement

I would like to take this opportunity to acknowledge, on behalf of the Board of Tonga Development Bank, the continuing support received from the Governor of the National Reserve Bank of Tonga and his team, and the Minister of Finance, Hon. Dr. Pohiva Tu'i'onetoa and staff of the Ministry of Finance, and CEOs and staff of other Government Ministries, the Governors of Vava'u and Ha'apai and Government Representatives and their staff in the outer islands. The Bank's Board of Directors is fully appreciative of the hard work and effort made by the CEO, Managers and staff of the Bank during this financial year. I am grateful to my fellow directors for their valuable contributions, support, expertise and maintaining the best interests of the Bank. We are grateful to the shareholders, stakeholders and customers of the Bank for their continuing support and business.

Lastly and importantly, it is our pleasure to serve the needs of our customers and continually look for ways of doing business better.

Malo 'aupito

Lord Matoto
Chairman

CEO'S REPORT

"Keeping things simple in delivery of our products, services and processes is an integral part to achieving customer service excellence, dynamic team work, sustainable long term growth and lasting positive impact on our country's economic development throughout the Bank's extensive branch network."

It is a pleasure to release the annual report for another exciting year of strong performance and I am sincerely grateful to the Almighty God for His never ending directions throughout.

We faced a lot of challenges, worked hard, and focused on the deliverables expected of us. Being the only 'Tonga's Bank' the expectation to perform better carrying the Kingdom's banner is high. In this, we are proud to say that we have not let down the vision since it was first set up by His Majesty King Taufa'ahau Tupou IV in 1977. As we move into commercial banking arena, we continue to carry his vision in driving social and economic development of the Kingdom.

The increasing expectations to position the Bank well in the market, deliver the right products and services, up skill and train staff to complete the much indeed transformation was achieved successfully. We value the loyalty of our customers and we try to provide the right products and services for them. We value our greatest asset – Our People. We endeavour to create a conducive work environment where they can showcase their capability, bring out their best with one vision to achieve and maintain Bank values.

The Bank was the first bank to open its doors to customers after the devastation by Tropical Cyclone (TC) Gita in February 2018. We responded well by providing moratorium as well as a Reconstruction Loan Package to those who were affected. I am thankful to the staff for being the unified team in ensuring that the deliverances were made despite huge challenges within the first 24hrs after the TC Gita. Malo 'aupito TDB Team.

As the only Bank with extensive branch network throughout the Kingdom, we are always part of the community. We have continued to give back to the community over the years through donations to sports, charitable organizations and scholarships to technical schools and tertiary Institutions.

The Bank's commercial transformation programme in 2015-2017 continues with electronic banking products, ATM and cards to be implemented soon.

Performances

Overall, gross loan and advances portfolio was at $64.2m in 30th June 2018, reflecting a 5% growth. More importantly the shareholders equity has grown from $24.843m in 2017 to $27.249m as at 30th June 2018. Shareholders' equity was only $0.329m in 1977 within 41 years the shareholder value has increased by $26.919m.

The Bank remains confident and focused on it's ability to strategically expand its business interests to deliver services consistently and adding value throughout its extensive branch network locally successfully. Whilst we want to compete and offer attractive products to the public, we are also restricted in lending by certain prudential requirements by the regulator and legislation. Our current capital base restructure is in progress to enable the Bank to meet the needs of larger customers and be more competitive in the market. We are working with our regulators and potential investors to address this issue and is expected to be finalised by end of September 2018.

YEAR IN REVIEW

Lending Sector

a. TDB Portfolio Growth

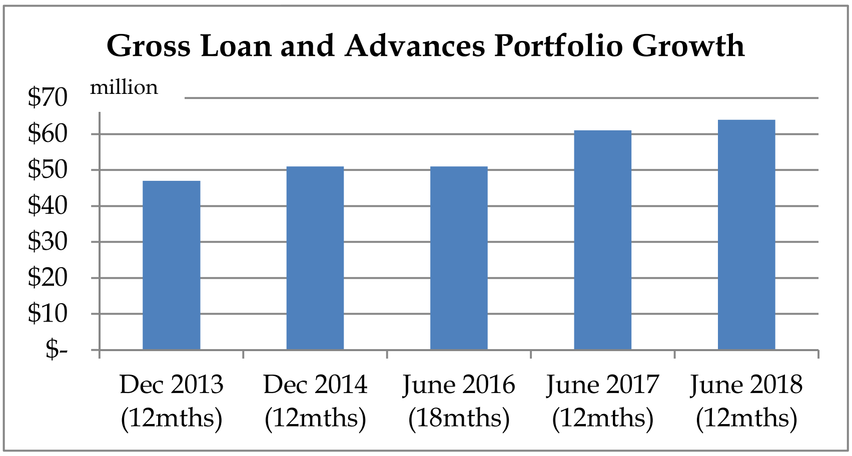
The Bank's gross loan portfolio has increased by $3.085m (5 %) from $61.13m in 2017 to $64.22m in 2018. The overall portfolio consists of Agriculture Sector $6.16m in 2018 (increased by 16% from $5.19m in 2017), Industry & Business $34.5m (increased by 7% from $21.09m in 2017), Housing & Personal $20.56m (decreased by 5% from $21.09m in 2017) and Staff loan $2.93m (increased by 5% from $2.77m in 2017).

The overall growth in the loans portfolio over the last 12 months was somewhat stifled by the continued lending to Agriculture/Fisheries and Industries & Business sectors by the Government through its low cost Government Development Loans (GDL) offered at 1% and 4% with no fees and managed by the Bank.

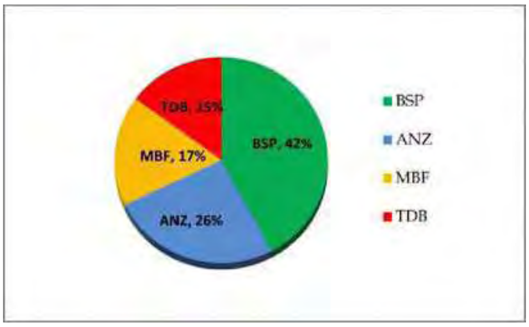
However, there is room for growth in these sectors but we need to improve marketing, client visitation programme and service delivery in order to increase lending.

Lending to the Housing & Personal sector has decreased as it is a highly competitive sector in which all commercial banks participate and including the Retirement Fund Board for their members (i.e. civil servants) only. The GDL also affects Personal Loans for educational purposes.

CEO-TDB (left) and CEO- MFNP (right) after signing of the revised GDL Implementation Agreement, November 2017.



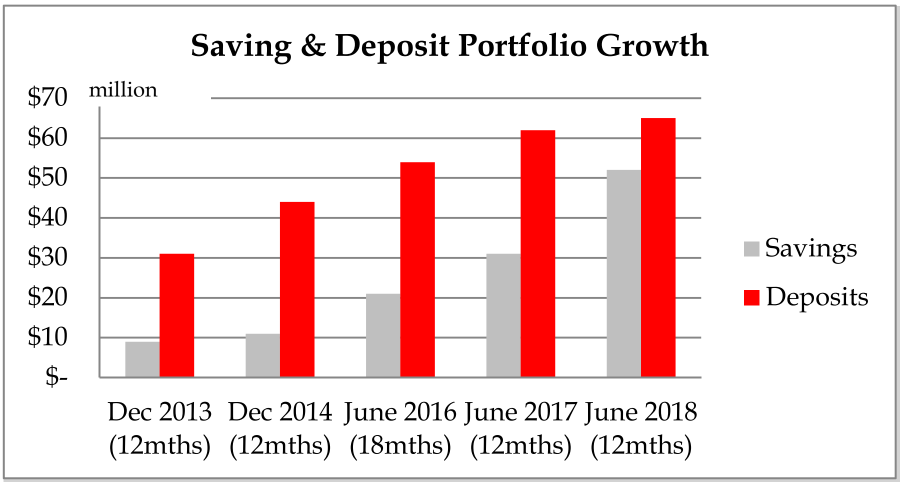
Graph below indicate TDB's Market Share in Gross Loans



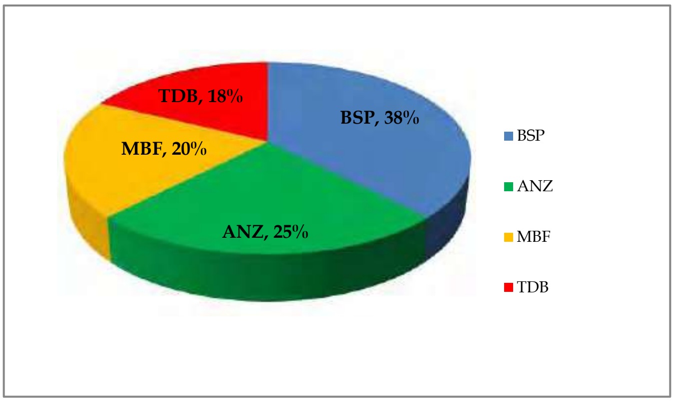
Operations and Retail Banking

a. Portfolio Growth for Branch Operations

The Operations Division oversees our front line banking services and customer service delivery standards are driven to be consistent throughout the branches including the outer-islands. The department supports the customers' needs online and in person to help match adequately through products and services and tailor each customer needs accordingly. The Bank's savings portfolio has increased by $10.92m (26%) from $30.6m in 2017 whilst the deposit portfolio increased by $2.59m (4%) from $65.45m in 2017.



Graph below indicate TDB's Market Share in Deposits



This financial year, we launched three savings products, two investments products targeting different sectors and their needs. The products aim to address each small medium enterprises and individuals and encourage savings.

b. International Business

An integral part of commercial business is our worldwide international business service which has been operating successfully since it was launched almost 2 years ago. Foreign exchange trading and dealing are additional income streams for the bank. In addition, we are retaining our business for importers by meeting their funds transfer needs.

While we are still building up this side of the business, the competition is very tough as a new entrant, but there are potential opportunities in the FX markets in future especially in packaging our loan products, cheque accounts and FX deals to meet our customers' needs.

c. Online Banking

The Online Banking product was introduced two years ago. It is enjoyed by a total of 502 internet banking customers where 383 are Personal and 119 are Business customers in Nuku'alofa and throughout our branches.

Customers have more control over their own banking on 24/7 basis wherever they have internet access.

d. 'Ave Pa'anga Pau Voucher Remittance Product (APP)

It is 16 months since this low cost and same day online remittance product was launched in February 2017 to operate along the New Zealand to Tonga corridor. When we entered the market as a new entrant, the cost of sending money averaged around 7.5%. By June 2018, the cost was down to an average of 5%. By the end of June 2018 from 1,012 registered customers with almost 670 transacting regularly. six months marketing campaign in Auckland to promote APP has proven very successful and we are working towards introducing this product to Australia in the near future.

e. Outer Islands Banking Services

In Ha'apai, our banking services include twelve (12) outer-islands which are visited regularly on a monthly basis. The Bank also covers social welfare services and banking needs of civil servants posted in the outer-islands.

The Bank is working closely with the Ministry of Police to ensure better security and safety in our service delivery on an ongoing basis.

Our Ha'apai monthly Outer Island Visits with the Government support

CEO's island visit to the Niuas. Standing with the Branch Manager Niuatoputapu and the primary school students

PERFORMANCE TARGETS AND MEASURES

a. Credit Risk Management (CRM)

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

The loan grading system continued to be a valuable tool in assessing the overall health of the loan portfolio during the year. Regular review of all respective portfolios at each branch is done independently with an overall 99% credit risk rating performance target to be achieved.

b. Liquid Asset Ratio

The Reserve Bank continues to impose a threshold Liquid Asset Ratio (LAR) of 18% to ensure that sufficient liquidity is available in the system. The Bank's LAR as at end of June 2018 was 48.89% a growth of 13% from 42.50% in the previous year.

c. Arrears

The arrears ratio was recorded at 2.19% at year ended 30 June 2018 as compared to target of 4.5%. It is a reduction of arrears ratio 10% in 30 June 2017 due to the settlement of the major loan during the financial year ended 30 June 2018. The actual number of account in arrears was 431 at year end 30 June 2018 which was an increase from 275 at year ended 30 June 2017.

d. Funding

The Bank's lending is funded mainly from the domestic market which provides 87% of the funding requirements

e. Net Interest Margin and Net Operating Margin

The Bank monitors it's Net Interest Margin (NIM) and Net Operating Margin on quarterly basis. In June 2018, the NIM was set at 2.57% from 2.74% in 2017 whilst the Net Operating Margin was set at 7.38% in June 2018 from 2.80% in 2017

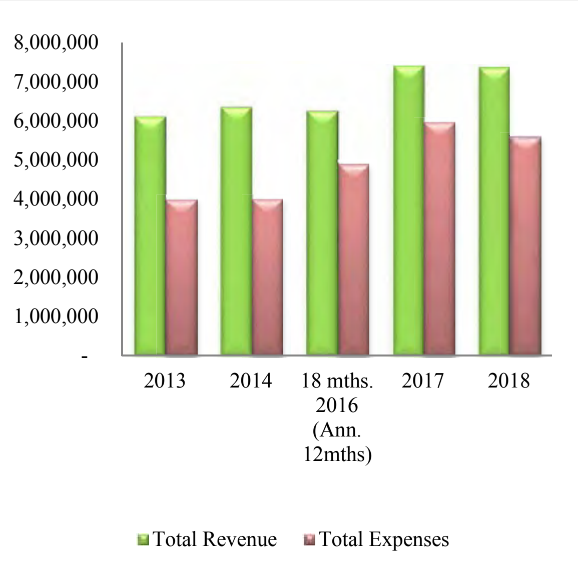
FINANCIAL PERFORMANCE

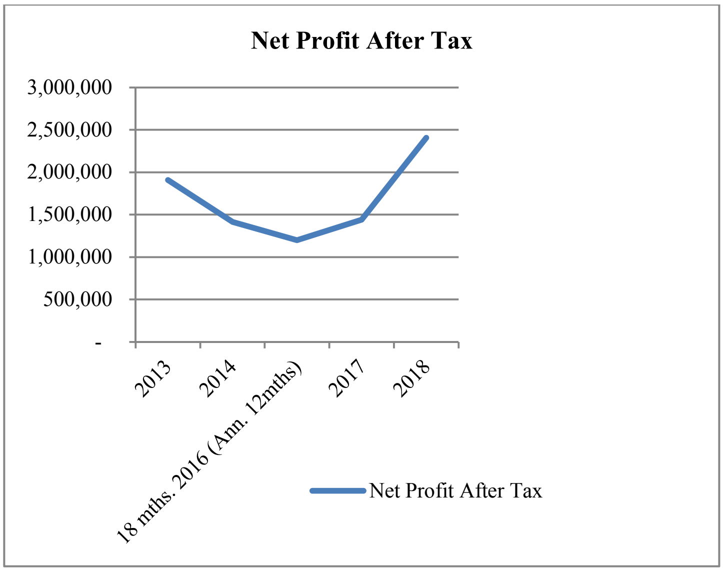
(All figures are in Tongan Pa'anga)

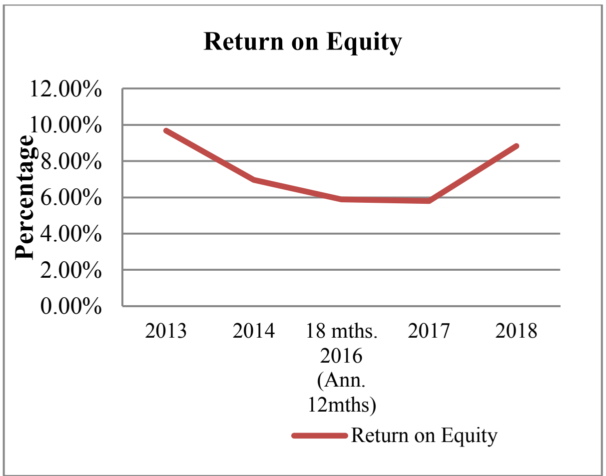
Tonga Development Bank recorded net operating revenue of $7.378m. We recorded a net profit before tax at $2.202m for the year ended 30th June 2018, compared to $1.298m in June 2017. At the same time, we are managing the GDL loan facility carefully since it competes with the Bank's products. As at 30th June 2018, the total revolving funds lent to the public reached $26m with more than 1,000 account holders in different development sectors.

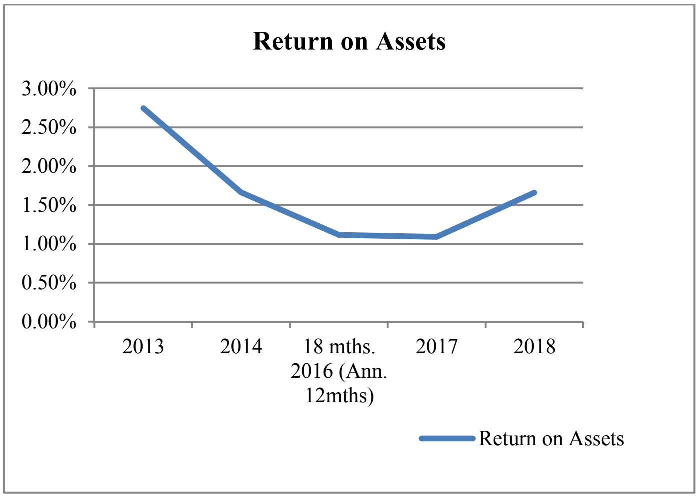
	2013	2014	18 mths. 2016 (Ann. 12mths)	2017	2018
	$	$	$	$	$
Total Revenue	6,127,343	6,368,496	6,270,512	7,426,778	7,378,236
Net Profit After Tax	1,907,535	1,414,055	1,197,124	1,440,664	2,406,371
Total Assets	69,406,509	85,140,268	107,371,040	132,214,371	145,063,902
Total Liabilities	49,684,228	64,852,365	86,454,647	107,370,779	117,813,939
Retained Earnings	9,192,091	6,287,903	6,916,393	8,357,057	10,763,428
Total Shareholder's Equity	19,722,281	20,287,903	20,317,831	24,843,592	27,249,963
Earnings Per Share	$ 1.81	$ 1.01	$ 0.86	$ 1.03	1.72
Dividend Per Share	0.78	0.61	0.83	-	-
			18 mths. 2016 (Ann. 12mths)		
Profitability Measures	2013	2014		2017	2018
Return on Assets	2.75%	1.66%	1.11%	1.09%	1.66%
Return on Equity	9.67%	6.97%	5.89%	5.80%	8.83%
Profit Margin	31.13%	22.20%	19.09%	19.40%	32.61%
Liquidity Measures					
Current Ratio	1.40	1.31	1.24	1.23	1.23
Quick Ratio	1.15	1.70	1.08	1.42	1.42
Financial Measures					
Debt Ratio	0.72	0.76	0.81	0.81	0.81
Debt/Equity Ratio	2.52	3.20	4.26	4.32	4.32

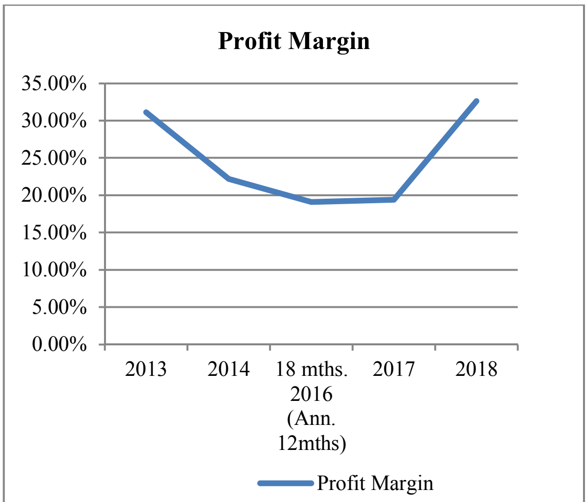
FINANCIAL TRENDS











The Capital Restructure currently in progress due to Single Borrower Limit is expected to be completed in September 2018; no dividends will be paid out until the requirement is fulfilled.

There has been a significant improvement in performance and is expected to remain constant in the future.

PEOPLE
Out of a total of 146 staff, there are 119 employed full time and 27 employed on a casual basis. We provide ongoing training and encourage further education and scholarships to encourage staff to obtain higher skills and to broaden and keep current their knowledge.

Our people are the most important assets in our business. They support the organization and enable achievement of the end results. Staff turnover remains low at 8.16% at the end of June. The average age of staff is 36 years and the average years of service in the Bank are about 11 years.

Staff are given opportunity and practical training with other commercial banks and relevant institutions on an ongoing basis. In-house training on products and services were conducted to equip the staff with the skills and knowledge to deliver service standards required. Relevant training will continue to be done on an ongoing basis to create a product knowledge based culture within the organization.

FUTURE OUTLOOK
The 2019 financial year looks promising and TDB is determined to rise above past and current year challenges and provide better financial services to its customers and stakeholders. Plans are underway to the implementation of Nuku'alofa Branch, simplification of the processes to assist customers with timely response and improved services.

We remain focused on what we plan to do and confident of improving our growth in creating value as we move to the year ahead.

APPRECIATION
I am sincerely grateful to the Chairman and Board of Directors for all the valuable advice and strategic direction helping Management to navigate successfully through the transformation phase and capital restructuring during the year. Moreover, I am blessed to have a committed management team and dedicated staff working together to achieve the very good results this year.

I am indebted to our loyal customers who have placed their trust and belief in the Bank providing the customer base to make our successful transformation to commercial possible. We are encouraged by your feedback and support to become a better business partner fulfilling mutual needs. With God's help, we have faith to strive for higher achievements in the coming years.

Malo

Leta Havea Kami
Chief Executive Officer

FIVE YEARS SUMMARY

Profit & Loss TOP $'000s	2013	2014	June 2016 (18months)	2017	2018	Movement 2017/2018
Interest Income	4,511	4,706	7,186	5,065	5,622	9.91%
Interest Expense	1,189	1,473	2,979	2,421	2,710	10.66%
Net Interest Income	3,322	3,233	4,207	2,643	2,912	9.24%
Fees & commission income	2,362	2,556	3,694	2,410	2,654	9.19%
Other Operating Income	443	580	1,504	1,615	1,858	13.08%
Losses on loans & advances	389	694	(188)	229	360	36.39%
Bad Debts	4	31	32	56	71	21.13%
Income Tax Expense	(270)	(406)	(542)	142	203	30.05%
Net Profit after tax	1,638	1,414	1,796	1,441	2,406	40.11%
Earnings per share	1.56	1.01	1.28	1.03	1.72	40.12%
Balance Sheet TOP $'000s	**2013**	**2014**	**June 2016 (18months)**	**2017**	**2018**	**Movement 2017/2018**
Total Assets	69,407	85,140	107,371	132,214	145,064	9%
Loans and Advances	47,329	51,379	50,881	59,174	62,624	6%
Saving Deposits	9,246	10,888	20,855	30,607	41,530	26%
Shareholder's Equity	19,722	20,288	20,916	24,843	27,250	9%
Performance Ratios	**2013**	**2014**	**June 2016 (18months)**	**2017**	**2018**	**Movement 2017/2018**
Return on Assets	2.75%	1.66%	1.67%	1.09%	1.66%	34.29%
Return on Equity	8.30%	6.97%	8.59%	5.80%	8.83%	34.31%

TONGA DEVELOPMENT BANK

FINANCIAL STATEMENTS
YEAR END 30 JUNE 2018

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DIRECTORS' REPORT

In accordance with a resolution of the Board of Directors, the directors herewith submit the balance sheet as at 30 June 2018, statement of profit or loss and other 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)
- Paula Taumoepeau
- Leta Havea Kami
- Reverend Obey Samate

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 30 June 2018 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 30 June 2018 was $2,406,371 (2017: $1,440,664).

4. PROVISIONS

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

5. DIVIDENDS

No dividend was declared for the year ended 30 June 2018. (2017: $Nil).

DIRECTORS' REPORT – CONTINUED

6. RESERVES

The directors recommend that no amount to be transferred to reserves in respect of year ended 30 June 2018.

7. BASIS OF ACCOUNTING

The directors believe the basis of the preparation of financial statements is appropriate and the Bank will be able to continue in operation for at least 12 months from the date of this report. Accordingly the directors believe the classification and carrying amounts of assets and liabilities as stated in these financial statements to be appropriate.

8. BAD AND DOUBTFUL DEBTS

The directors took reasonable steps before the Bank's statement of profit or loss and other comprehensive income and balance sheet were made out to ascertain that all known bad debts were written off and adequate provision was made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amount written off for bad debts, or the amount of the provision for doubtful debts, inadequate to any substantial extent.

9. EVENTS SUBSEQUENT TO BALANCE DATE

The Bank had amended its Articles of Association last year to increase its authorised capital as part of a capital restructuring exercise. The Bank had identified potential investors and are in the process of finalising various agreements with the parties. In addition, retained earnings amounting to $8million will be capitalised through the issue of shares to the existing shareholder and as part of this capital restructure, $6.9million of Promissory Notes is expected to be converted to equity.

The intent of this exercise is to increase the Bank's capital base to be more competitive in the market, enhance portfolio growth and also cover the issue of the single borrower limit.

10. UNUSUAL OR SIGNIFICANT TRANSACTIONS

The results of the Bank's operations for the year ended 30 June 2018 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. The Bank however had breached the 25% single borrower limit under regulatory requirements in 2016 under one (1) year Government guarantee from March 2017. This guarantee period has been extended for another 6 month, up to September 2018.

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 31st day of August 2018.

Leta Havea Kami
Chief Executive Officer

Lord Matoto
Chairman of the Board

STATEMENT BY DIRECTORS

In the opinion of the directors:

(a) the accompanying statement of profit or loss and other comprehensive income is drawn up so as to give a true and fair view of the results of the Bank for the year ended 30 June 2018;

(b) the accompanying balance sheet is drawn up so as to give a true and fair view of the state of affairs of the Bank as at 30 June 2018;

(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 30 June 2018; 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 30 June 2018.

Leta Havea Kami
Chief Executive Officer

Lord Matoto
Chairman of the Board

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Independent Auditor's Report

To the Shareholder of Tonga Development Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Tonga Development Bank Limited (the 'Bank'), which comprise the balance sheet as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 30 June 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the ethical requirements of the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants (IESBA Code) that are relevant to our audit of the financial statements in Tonga, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of Directors and management for the financial statements

Directors and management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and with the requirements of the Tonga Companies Act, 1995 and the Tonga Development Bank Act, 2014, and for such internal control as the directors and management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors and management are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors and management either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors and management are responsible for overseeing the Bank's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors and management.

- Conclude on the appropriateness of the directors and managements use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors and management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

pwc

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of the Tonga Companies Act 1995, 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 the Tonga Development Bank Act, 2014, in the manner so required.

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

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

31 August 2018
Suva, Fiji

TONGA DEVELOPMENT BANK

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME YEAR ENDED 30 JUNE 2018

	Notes	2018 $	2017 $
Interest income	6	5,621,896	5,065,071
Interest and other borrowing expenses	6	(2,710,349)	(2,421,537)
Net interest income		2,911,547	2,643,534
Fees and commission income	7	2,653,777	2,410,715
Other operating income	8	1,857,912	1,615,568
Fair value (loss)/gains on investment property	18	(45,000)	756,961
Net operating income		7,378,236	7,426,778
Losses on loans and advances	13	360,389	(229,888)
Bad debts written off		(16,478)	(56,287)
Bad debts recovered/reversed		87,957	142,529
Other operating expenses	9	(5,607,361)	(5,984,565)
Profit before income tax		2,202,743	1,298,567
Income tax benefit	20	203,628	142,097
Profit for the year from continuing operations		2,406,371	1,440,664
Other comprehensive income		-	2,486,535
Total comprehensive income for the year		$ 2,406,371	$ 3,927,199
Earnings per share	27	$ 1.72	$ 1.03

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

TONGA DEVELOPMENT BANK

BALANCE SHEET
AS AT 30 JUNE 2018

	Notes	2018 $	2017 $
ASSETS			
Cash on hand and at bank	10	50,847,142	47,283,807
Due from other financial institutions		347,862	521,914
Investment securities – held to maturity	12	9,230,609	7,588,757
Loans and advances	13	62,624,356	59,174,531
Other assets	14	768,791	1,215,627
Amounts receivable from shareholder	15	452,994	445,386
Statutory reserve deposit	16	10,645,000	4,645,000
Property, plant and equipment	17	9,395,378	9,784,803
Investment property	18	155,000	200,000
Intangible assets	19	-	-
Deferred tax asset	20(c)	596,770	694,995
Total assets		$ 145,063,902	$ 131,554,820
LIABILITIES			
Savings deposits		41,530,313	30,607,057
Other liabilities	21	2,186,061	2,396,524
Amount payable to NRBT	16	843,000	111,000
Borrowings	22	68,042,219	65,456,440
Current tax liability	20(a)	423,047	337,637
Managed funds	23	4,789,299	7,107,575
Deferred tax liability	20(d)	-	694,995
Total liabilities		117,813,939	106,711,228
SHAREHOLDERS' EQUITY			
Share capital	24(b)	14,000,000	14,000,000
Retained earnings		10,763,428	8,357,057
Asset revaluation reserve	24(c)	2,486,535	2,486,535
Total shareholders' equity		27,249,963	24,843,592
Total equity and liabilities		$ 145,063,902	$ 131,554,820

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

Leta Havea Kami
Chief Executive Officer

Lord Matoto
Chairman of the Board

TONGA DEVELOPMENT BANK

STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 June 2018

	Notes	Share Capital	Retained Earnings	Asset Revaluation Reserve	Total
		$	$	$	$
Balance at 1 July 2016		$ 14,000,000	$ 6,916,393	-	$ 20,916,393
Comprehensive income					
Profit for the year ended 30 June 2017		-	1,440,664	-	1,440,664
Revaluation surplus	24(c)	-	-	2,486,535	2,486,535
Other comprehensive income		-	-	-	-
Total comprehensive income		-	1,440,664	2,486,535	3,927,199
Transactions with owners					
Share issued from retained earnings		-	-	-	-
Dividends declared in 2017		-	-	-	-
Balance at 30 June 2017		$ 14,000,000	$ 8,357,057	$ 2,486,535	$ 24,843,592
Dividends declared in 2018		-	-	-	-
Comprehensive Income					
Profit for the year ended 30 June 2018		-	2,406,371	-	2,406,371
Balance at 30 June 2018		$ 14,000,000	$10,763,428	$ 2,486,535	$ 27,249,963

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

TONGA DEVELOPMENT BANK

STATEMENT OF CASH FLOWS
YEAR ENDED 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Interest received		5,620,277	5,066,849
Interest payment		(2,901,960)	(2,231,180)
Fees and commission received		2,653,777	2,410,715
Other income		1,857,912	1,615,568
Income tax paid	20(a)	(307,732)	(74,538)
Payment to employees and suppliers		(4,954,668)	(4,846,776)
Cash flows from operating activities before changes in operating assets and liabilities		1,967,606	1,940,638
Changes in operating assets and liabilities:			
Disbursements of loans		(41,367,233)	(23,623,620)
Repayments of loans		36,030,999	20,338,725
Decrease in other debtors and prepayments		448,455	67,194
(Increase) in amounts receivable from shareholder		(7,608)	(1,093,991)
Incease/(Decrease) in other liabilities		100,603	(1,996,342)
Net cash (used in)/ generated from operating activities		(2,827,178)	(4,367,396)
Cash flows from investing activities			
Purchase of property, plant and equipment	17, 18	(382,723)	(284,073)
Net (increase) in investment securities		(1,641,852)	(61,455)
Net (increase) in statutory deposits	16	(5,268,000)	(876,000)
Net (decrease) in government bonds	12	-	249,000
Net cash (used) in investing activities		(7,292,575)	(972,528)
Cash flows from financing activities			
Net increase in TDB promissory notes		2,585,780	8,378,152
Net increase in savings deposits		10,923,256	9,751,974
Dividends paid		-	(167,196)
Repayment of borrowings		-	(362,659)
Net cash generated from financing activities		13,509,036	17,600,271
Net increase in cash and cash equivalents		3,389,283	12,260,347
Cash and cash equivalents at beginning of year		47,805,721	35,545,374
Cash and cash equivalents at end of year	11	$ 51,195,004	$ 47,805,721
		===========	===========

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

1 GENERAL INFORMATION

Tonga Development Bank Limited (the "Bank") provides commercial and some development banking services in the Kingdom of Tonga.

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

The financial statements 30 June 2018 were approved for issue by the Directors on 31 August 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and requirements of the Tonga Companies Act 1995 and Tonga Development Bank Act 2014. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and fair value measurement of certain classes of property, plant and equipment and investment property. 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 period beginning on or after 1 July 2017 that would be expected to have a material impact on the Bank.

(ii) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(a) Basis of preparation - continued

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

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

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

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

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

(b) Segment Reporting

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

For segment analysis, refer note 5.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

(ii) Transactions and balances

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

(d) Financial assets

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

(i) Loans and receivables

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

(ii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank’s management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(d) Financial assets - continued

(iii) Available-for-sale financial assets

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

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

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

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

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

(e) Offsetting financial instruments

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(f) Interest income and expense

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

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

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

(g) Fee and commission income

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

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

(h) Impairment of financial assets

Assets carried at amortised cost

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(h) Impairment of financial assets - continued

Assets carried at amortised cost - continued

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

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

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

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

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

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

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

(i) Property, plant and equipment

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(i) Property, plant and equipment - continued

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

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

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

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

Change in accounting policy

During the year ended June 2017, the measurement basis had changed for the class of assets under leasehold land and buildings from cost method to revaluation method. These are now recognised at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for leasehold land and buildings. A revaluation surplus is credited to asset revaluation reserves in shareholders' equity. All other property, plant and equipment is recognised at historical cost less depreciation. All valuation of properties is done every 3-5years. This is due to leisurely market environment.

(j) Investment property

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

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment property is stated at fair value, based on periodic valuations by external independent valuers which reflect market conditions at the reporting date. Valuations are performed by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. Gains or losses arising from changes in the fair value of investment property are included in the statement of profit or loss and other comprehensive income in the year in which they arise.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(j) Investment property – continued

Investment property is derecognised either when they have been disposed of, or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss and other comprehensive income in the year of retirement or disposal. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment.

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

(k) Intangible assets

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

(l) Impairment of non-financial asset

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

(m) Leases

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(n) Cash and cash equivalents

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

(o) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

(p) Employee benefits

(i) Employee leave entitlements

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

(ii) Pension obligations

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

(q) Deferred income tax

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

(r) Borrowings

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

(s) Share capital

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

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

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

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

(t) Reserves

The asset revaluation reserve records increments and decrements on revaluation of leasehold land and buildings.

(u) Earnings per share

Basic earnings/loss per share is determined by dividing the profit after tax by the weighted average number of ordinary shares outstanding during the financial period

(v) 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.

(w) Comparatives

Current year results are for the year ended 30 June 2018, while the comparative is for the year ended 30 June 2017.

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

(x) Rounding

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

3 FINANCIAL RISK MANAGEMENT

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

(a) Loans and advances

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

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

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

3 FINANCIAL RISK MANAGEMENT – CONTINUED

3.1 Credit risk - continued

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	Substandard and doubtful customers whose loans have been classified non-accrual and partial loss of interest and fee is expected, doubt about ability to service the debt; realisable value of security is insufficient to cover principal and interest, breach of repayment arrangements and accounts in arrears over 6 months.
E	Loss of principal and interest is expected, accounts under legal action and accounts may be written off if no improvements over 12 months.

3.2 Risk limit control and mitigation policies

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

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

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

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 FINANCIAL RISK MANAGEMENT – CONTINUED

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

	2018		2017	
	Loans and Advances (%)	Impairment Provision (%)	Loans and Advances (%)	Impairment Provision (%)
A	14.80	-	13.54	-
B	19.40	-	18.99	-
C1	62.50	56.28	61.28	36.03
S	-	-	-	-
C2	2.09	8.75	4.92	36.78
D	0.85	18.90	0.81	12.58
E	0.36	16.07	0.46	14.61
	100.00	100.00	100.00	100.00

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 FINANCIAL RISK MANAGEMENT – CONTINUED

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

	2018 $	%	2017 $	%
Industry sector:				
Agriculture	6,161,572	9.60	5,187,617	8.49
Industry and Business	34,560,190	53.81	32,084,507	52.48
Housing and Personal	20,566,238	32.02	21,092,630	34.50
Staff	2,933,560	4.57	2,771,206	4.53
	$ 64,221,560	100.00	$ 61,135,960	100.00

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

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

3.5 Loans and advances

(i) Loans and advances are summarised as follows:

As at 30 June 2018	Agriculture $	Industry & Business $	Housing & personal $	Staff $	Total $
Neither past due nor impaired	5,652,212	31,366,772	19,108,543	2,924,572	59,052,099
Past due but not impaired	977,195	2,595,971	751,301	70,057	4,394,524
Individually impaired	325,170	220,478	220,304	8,985	774,937
Gross	6,954,577	34,183,221	20,080,148	3,003,614	64,221,560
Less: allowance for impairment	(420,084)	(568,996)	(577,269)	(30,855)	(1,597,204)
Net	$ 6,534,493	$33,614,225	$19,502,879	$ 2,972,759	$ 62,624,356

As at 30 June 2017	Agriculture $	Industry & Business $	Housing & personal $	Staff $	Total $
Neither past due nor impaired	4,685,696	29,867,966	20,033,247	2,762,572	57,349,481
Past due but not impaired	180,634	1,963,175	866,515	-	3,010,324
Individually impaired	321,287	253,366	192,868	8,634	776,155
Gross	5,187,617	32,084,507	21,092,630	2,771,206	61,135,960
Less: allowance for impairment	(358,303)	(1,023,264)	(548,266)	(31,596)	(1,961,429)
Net	$ 4,829,314	$31,061,243	$20,544,364	$ 2,739,610	$ 59,174,531

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

3 FINANCIAL RISK MANAGEMENT – CONTINUED

3.5 Loans and advances – continued

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

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

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2018					
Grades					
A	63,210	7,428,771	1,706,698	305,702	9,504,381
B	435,999	5,158,573	5,340,970	1,525,472	12,461,014
C1	5,153,003	18,779,428	12,060,875	1,093,398	37,086,704
S	-	-	-	-	-
	$ 5,652,212	$ 31,366,772	$ 19,108,543	$ 2,924,572	$ 59,052,099

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2017					
Grades					
A	156,726	5,908,822	1,847,308	364,447	8,277,303
B	264,244	4,820,909	5,190,067	1,335,297	11,610,517
C1	4,264,726	19,138,235	12,995,872	1,062,828	37,461,661
S	-	-	-	-	-
	$ 4,685,696	$ 29,867,966	$ 20,033,247	$ 2,762,572	$ 57,349,481

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

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

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2018					
Past due up to 30 days	690,370	2,025,208	715,768	70,057	3,501,403
Past due 30 – 60 days	27,547	449,517	4,183	-	481,247
Past due 60 – 90 days	259,278	121,246	31,350	-	411,874
	$ 977,195	2,595,971	751,301	70,057	4,394,524
Fair value of collateral	$ 2,101,664	$ 7,841,918	$ 2,221,621	$ 303,000	$ 12,468,203

3 FINANCIAL RISK MANAGEMENT – CONTINUED

3.5 Loans and advances – continued

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

	Agriculture Business	Industry & personal	Housing &	Staff	Total
	$	$	$	$	$
As at 30 June 2017					
Past due up to 30 days	162,278	1,957,469	736,382	-	2,856,129
Past due 30 – 60 days	118	5,706	19,081	-	24,905
Past due 60 – 90 days	18,238	-	111,052	-	129,290
	$ 180,634	$ 1,963,175	$ 866,515	$ -	$ 3,010,324
Fair value of collateral	$ 5,786,751	$ 8,794,458	$ 1,877,405	-	$16,458,614

(iv) Loans and advances renegotiated

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

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

	Agriculture	Industry & Business	Housing & personal	Staff	Total
	$	$	$	$	$
As at 30 June 2018					
Term loans	1,897,367	15,134,015	4,769,719	1,290,954	23,092,055
As at 30 June 2017					
Term loans	1,538,430	10,982,065	3,597,676	333,288	16,451,459

(v) Repossessed collateral

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

Nature of assets	Carrying amount	
	2018	2017
	$	$
Land - tax allotment	1,935,223	2,489,490

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

3 FINANCIAL RISK MANAGEMENT – CONTINUED

3.5 Loans and advances - continued

(vi) Loans and advance exposure by categories:

	2018 $	2017 $
Large corporate entities	29,074,135	28,412,188
SMEs	28,067,060	27,283,633
Other	7,080,365	5,440,139
	$ 64,221,560	$ 61,135,960

3.6 Market risk

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

3.6.1 Foreign exchange risk

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

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

	2018 $	2017 $
Assets		
Due from other financial institutions	$ 347,862	$ 521,914
Liabilities		
Borrowings – foreign	$ 1,955,357	$ 1,794,775

3.6.2 Interest rate risk

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

3.7 Liquidity risk

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

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

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

3 FINANCIAL RISK MANAGEMENT – CONTINUED

3.7 Liquidity risk - continued

As at 30 June 2018	Up to 1 month $	2 - 3 months $	4 - 12 months $	2 - 5 years $	Over 5 years $	No specific maturity $	Total $
Assets							
Cash on hand and at bank	50,847,142	-	-	-	-	-	50,847,142
Due from other financial institutions	347,862	-	-	-	-	-	347,862
Investment securities- held to maturity	703,472	-	2,079,137	-	6,448,000	-	9,230,609
Loans and advances	3,370,621	5,311,884	16,169,507	18,052,422	19,719,922	-	62,624,356
Statutory reserve deposit	-	-	-	-	-	10,645,000	10,645,000
Property, plant and equipment	-	-	-	-	-	9,395,378	9,395,378
Investment property	-	-	-	-	-	155,000	155,000
Other assets	1,208,689	13,096	-	-	596,770	-	1,818,555
Total assets	56,477,786	5,324,980	18,248,644	18,052,422	26,764,692	20,195,738	145,063,902
Liabilities							
Saving deposits	41,530,313	-	-	-	-	-	41,530,313
Borrowings	145,437	44,347	300,622	1,257,144	1,373,411	-	3,120,961
Promissory notes	486,096	2,984,799	2,816,947	56,289,777	2,343,639	-	64,921,258
Other liabilities	651,583	758,174	470,615	-	-	6,361,035	8,241,407
Total liabilities	42,813,429	3,787,320	3,588,184	57,546,921	3,717,050	6,361,035	117,813,939
Net liquidity gap	$ 13,664,357	$ 1,537,660	$ 14,660,460	($ 39,494,499)	$ 23,047,642	$ 13,834,343	$ 27,249,963
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As at 30 June 2017							
Total Assets	55,635,447	4,868,055	16,797,057	38,927,692	694,995	14,631,574	131,554,820
Total Liabilities	32,936,880	6,764,574	16,306,761	30,610,846	20,092,167	-	106,711,228
Net Liquidity Gap	$ 22,698,567	($ 1,896,519)	$ 490,296	$ 8,316,846	($ 19,397,172)	$ 14,631,574	$ 24,843,592
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3 FINANCIAL RISK MANAGEMENT – CONTINUED

3.8 Off-balance sheet items

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

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

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

	No later than 1 year	1 – 5 years	Over 5 years	Total
	$	$	$	$
At 30 June 2018				
Loan commitments	9,184,529	-	-	9,184,529
Operating lease commitments	7,720	30,880	119,560	158,160
Capital commitments	1,191,500	-	-	1,191,500
Total	$10,383,749	$ 30,880	$ 119,560	$10,534,189
At 30 June 2017				
Loan commitments	6,264,460	-	-	6,264,460
Operating lease commitments	8,320	33,280	138,673	180,273
Capital commitments	1,312,000	-	-	1,312,000
Total	$ 7,584,780	$ 33,280	$ 138,673	$ 7,756,733

3.9 Fair value of financial assets and liabilities

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

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

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

(ii) Investment securities
Investment securities comprise interest bearing bonds which are being held to maturity. The fair value of the investment securities of $6,448,000 (2017: $5,859,000) is based on the indicative pricing using the prevailing interest rates.

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

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

3 FINANCIAL RISK MANAGEMENT – CONTINUED

3.9 Fair value of financial assets and liabilities – continued

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

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

3.10 Capital management

The Bank's objectives when managing capital are:

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

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

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

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 30 June 2018 and for the year ended 30 June 2017. During that period, the Bank complied with all of the externally imposed capital requirements.

Tier 1 Capital	2018 $	2017 $
Share capital	14,000,000	14,000,000
Retained earnings	10,763,428	8,357,057
Total	$ 24,763,428	$ 22,357,057
Risk weighted assets	$ 62,624,356	$ 59,174,531
Ratio	39.54%	37.78%

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Impairment losses on loans and advances

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

Property valuations

Leasehold land and buildings held under investment property and property, plant and building had been revalued during the last financial year. The market values have been arrived at on the basis of the valuations carried out by Landcare Solutions Limited, independent valuers not related to the Bank. The valuers have appropriate qualifications and experience in the valuation of properties in Tonga. The valuation was arrived at by reference to finding recent comparable transactions for sale of similar property. A limitation in performing the valuation was inconsistency in identifying true market value since there was limited information for the land market, and non-existence of the town planning zoning.

5 SEGMENT ANALYSIS

Industry segment

The Bank operates predominantly in the financial services industry.

Geographical segment

The Bank only operates in Tonga and is the one geographical area for reporting purposes.

6 NET INTEREST INCOME

	2018 $	2017 $
Interest income		
Loans and advances	5,383,537	4,811,116
Term deposits and securities	238,359	253,955
	$ 5,621,896	$ 5,065,071
	==========	===========
Interest and other borrowing expenses		
Borrowings	53,156	53,877
TDB promissory notes	2,364,996	2,104,155
Savings deposits	291,600	245,990
Bank charges	597	17,515
	$ 2,710,349	$ 2,421,537
	==========	===========

7 FEES AND COMMISSION INCOME

	Notes	2018 $	2017 $
Service fees		2,493,120	2,227,790
Commissions		160,657	182,925
		$ 2,653,777	$ 2,410,715

8 OTHER OPERATING INCOME

	Notes	2018 $	2017 $
Rent		93,017	127,905
Net foreign exchange fees and earnings		1,013,085	656,188
Other	(a)	751,810	831,475
		$ 1,857,912	$ 1,615,568

(a) Other operating income includes the following:

	2018	2017
Cost of operations and government policy obligations	187,660	459,000
Government development loan managed fees	459,978	286,058
Other income	87,957	76,122
Gain on sale of property, plant & equipment	16,215	10,295
	$ 751,810	$ 831,475

9 OTHER OPERATING EXPENSES

	Notes	2018 $	2017 $
Staff costs	(a)	2,806,509	2,946,406
Administrative expenses		1,173,458	1,094,472
Amortisation expense		-	294,582
Auditor's remuneration – audit fee		28,750	26,370
Depreciation - Property, plant and equipment		772,148	675,628
- Investment property		-	41,353
Premises		270,075	365,828
Travel		175,059	209,992
Others	(b)	381,362	329,934
		$ 5,607,361	$ 5,984,565

(a) Staff costs comprise:

	2018	2017
Wages, salaries and other staff costs	2,634,245	2,733,160
Retirement fund contributions	172,264	213,246
	$ 2,806,509	$ 2,946,406

(b) Others include:

	2018	2017
Staff training	33,532	52,063
Bad debts	50,632	80,000
Director fees	133,495	148,196
Others	163,703	49,675
	$ 381,362	$ 329,934

9 OTHER OPERATING EXPENSES – CONTINUED

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

10 CASH ON HAND AND AT BANK

	2018 $	2017 $
Cash on hand	(392,523)	2,295,281
Cash at bank	51,239,665	44,988,526
	$ 50,847,142	$ 47,283,807

11 CASH AND CASH EQUIVALENTS

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

	2018 $	2017 $
Cash on hand and at bank	(98,336)	2,746,861
Exchange settlement account - NRBT	50,945,478	44,536,946
Due from other financial institutions	347,862	521,914
	$ 51,195,004	$ 47,805,721

Balances with the National Reserve Bank of Tonga (NRBT) are not available for use in the Bank's day-to-day operations. Cash on hand and balances with the NRBT are non-interest-bearing. Other money-market placements are floating-rate assets.

12 INVESTMENT SECURITIES – HELD TO MATURITY

	2018 $	2017 $
BSP Bank	1,579,419	574,830
ANZ Bank	499,718	451,455
MBF Bank	703,472	703,472
Government of Tonga Local Development Bonds	6,448,000	5,859,000
	$ 9,230,609	$ 7,588,757

The year ended 30 June 2018 interest rate receivable on term deposits range from 1.0% to 5.0% (2017: 1.0% to 6.5%per annum) and the interest rate for the Government of Tonga Local Development Bond range from 3.0% to 4.0% (2017: 3.0% to 4.0% per annum).

Interest is receivable on maturity of term deposits and annually for the Government of Tonga Local Development Bonds.

13 LOANS AND ADVANCES

	2018 $	2017 $
Gross loans and advances	64,221,560	61,135,960
Less: Allowance for losses on loans and advances	(1,597,204)	(1,961,429)
Net loans	$ 62,624,356	$ 59,174,531
Loans and advances approved but not yet disbursed amounted to	$ 9,184,529	$ 6,264,460

Allowance for losses on loans and advances:

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

	2018	2017
Balance at beginning of the year	1,961,429	1,813,170
Provision for loan impairment	233,170	270,150
Provisions written back	(593,559)	(40,262)
Loans written off during the year	(3,836)	(81,629)
Balance at end of year	$ 1,597,204	$ 1,961,429

Composition of allowance for losses on loans and advances:

	2018	2017
Specific provisions	382,382	843,671
Collective provisions	1,214,822	1,117,758
	$ 1,597,204	$ 1,961,429

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

	2018	2017
Provision for loan impairment	233,170	270,150
Provisions written back	(593,559)	(40,262)
	(360,389)	$ 229,888

Non-accrual loans and advances

	2018	2017
Non-accrual loans and advances	3,806,932	3,452,632
Less: specific provision for impairment	(868,340)	(819,397)
	$ 2,938,592	$ 2,633,235

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

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

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

14 OTHER ASSETS

	2018 $	2017 $
Prepayments	513,250	805,980
Accrued interests	-	103,301
Other assets	255,541	306,346
	$ 768,791	$ 1,215,627

15 AMOUNTS RECEIVABLE FROM SHAREHOLDER

	2018 $	2017 $
Amounts receivable from shareholder:		
GDL Managed Funds fees	51,838	-
Claims for EEC	5,153	18,799
Interest receivable on Tonga Forest Product Limited loan	942,694	942,694
PPSA & mortgage fees – Government Development Loan	27,457	6,738
Managed fund LPCI	134,814	136,706
Amounts payable to shareholder:		
Government GDL Interest	(436,626)	(483,168)
NTT & NFO Government Expenditure Advance	(248,931)	(157,328)
PPSA fee accounts	(15,507)	(12,029)
LPCI Premium	(7,898)	(7,026)
Net amount	$ 452,994	$ 445,386

16 STATUTORY RESERVE DEPOSIT

	2018	2017
National Reserve Bank of Tonga (NRBT)	$ 10,645,000	$ 4,645,000

The SRD rate was increased to 10% in this financial year (2017: 5%).

	2018	2017
Amounts payable to NRBT	($ 843,000)	($ 111,000)

Shortfalls in the SRD at year end are booked as payable to NRBT and are settled in the subsequent month.

17 PROPERTY, PLANT AND EQUIPMENT

	Leasehold Land and Buildings $	Fixtures, fittings and equipment $	Motor vehicles $	Computers $	Total $
For the year ended 30 June 2017					
Opening net book amount	5,786,662	147,693	120,874	683,525	6,738,754
Additions	12,988	47,405	-	223,680	284,073
Revaluation surplus	2,486,535	-	-	-	2,486,535
Transfer from investment property at fair value	950,000	-	-	-	950,000
Transfers from investment property	-	2,105	-	-	2,105
Transfers	(82,588)	81,552	-	-	(1,036)
Disposals	-	-	-	-	-
Depreciation charge	(218,597)	(72,449)	(59,032)	(325,550)	(675,628)
Closing net book amount	$ 8,935,000	$ 206,306	$ 61,842	$ 581,655	$ 9,784,803
At 30 June 2017					
Cost or fair value	8,935,000	1,211,370	653,334	2,854,354	13,654,058
Accumulated depreciation	-	(1,005,064)	(591,492)	(2,272,699)	(3,869,255)
Net book amount	$ 8,935,000	$ 206,306	$ 61,842	$ 581,655	$ 9,784,803
For the year ended 30 June 2018					
Opening net book amount	8,935,000	206,306	61,842	581,655	9,784,803
Additions	100,215	11,343	108,210	162,955	382,723
Depreciation charge	(447,639)	(31,857)	(50,652)	(242,000)	(772,148)
Closing net book amount	$ 8,587,576	$ 185,792	$ 119,400	$ 502,610	$ 9,395,378
At 30 June 2018					
Cost or fair value	9,035,215	1,222,713	663,544	3,017,309	13,938,781
Accumulated depreciation	(447,639)	(1,036,921)	(544,144)	(2,514,699)	(4,543,403)
Net book amount	$ 8,587,576	$ 185,792	$ 119,400	$ 502,610	$ 9,395,378

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

18 INVESTMENT PROPERTY

	Land and Building $	Total $
For the year ended 30 June 2017		
Opening net book amount	436,497	436,497
Additions	-	-
Disposals	-	-
Fair value gains on revaluation	756,961	756,961
Depreciation charge	(41,353)	(41,353)
Transfer to property, plant and equipment	(952,105)	(952,105)
Closing net book amount	$ 200,000	$ 200,000
For the year ended 30 June 2018		
Opening net book amount	200,000	200,000
Fair value loss on revaluation	(45,000)	(45,000)
Closing net book amount	$ 155,000	$ 155,000
At 30 June 2018		
Fair value	$ 155,000	$ 155,000

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

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

	2018 $	2017 $
Rental income	93,017	12,741
Direct operating expenses arising from investment properties	21,512	30,996
Fair value (loss)/gains on investment property	(45,000)	756,961

19 INTANGIBLE ASSETS

	Computer Systems $	Total $
At 30 June 2017		
Opening net book amount	294,582	294,582
Additions	-	-
Disposals	-	-
Amortisation charge	(294,582)	(294,582)
Closing net book amount	$ -	$ -
At 30 June 2017		
Cost	294,582	294,582
Accumulated amortisation	(294,582)	(294,582)
Net book amount	$ -	$ -
At 30 June 2018		
Opening net book amount	-	-
Additions	-	-
Disposals	-	-
Amortisation charge	(-)	(-)
Closing net book amount	$ -	$ -
At 30 June 2018		
Cost	-	-
Accumulated amortisation	(-)	(-)
Net book amount	$ -	$ -

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

20 TAXATION

	2018 $	2017 $
Income tax is brought to account using the liability method of tax effect accounting.		
(a) Operating profit before income tax	2,202,743	1,298,567
Prima facie income tax charge on the operating profit at 25%	550,686	324,642
Tax effect of non-deductible expenditure:		
Grant exempt income	(59,319)	(66,955)
Deferred tax liability reversal	(694,995)	(399,784)
Income tax benefit	(203,628)	(142,097)
Temporary differences –deferred tax	596,770	449,831
	393,142	307,734
Add: opening current tax liability	337,637	104,441
Less tax paid	(307,732)	(74,538)
Current tax liability	$ 423,047	$ 337,637

20 TAXATION – CONTINUED

	2018 $	2017 $
(b) **Income tax benefit comprises:**		
Current tax expense	393,142	307,734
Deferred tax liability reversal	(694,995)	(399,784)
Deferred tax asset	98,225	(50,047)
Income tax benefit	($ 203,628)	($ 142,097)

(c) **Deferred tax asset**

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

	2018 $	2017 $
Allowance for loan losses	399,302	490,357
Other provisions	58,169	67,164
Unearned revenue	139,299	137,474
	$ 596,770	$ 694,995

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

	2018	2017
Balance at beginning of financial year	694,995	644,948
(Charged)/ credited to statement profit or loss and other comprehensive income	(98,225)	50,047
Balance at end of financial year	$ 596,770	$ 694,995

(d) **Deferred tax liability**

	2018	2017
(i) The balance comprises temporary differences attributable to:		
Property plant and equipment	$ -	$ 694,995
(ii) The movement in deferred tax liability is as follows:		
Balance at beginning of financial year	694,995	1,094,779
Deferred tax liability reversal	(694,995)	(399,784)
Balance at end of financial year	$ -	$ 694,995

20 TAXATION – CONTINUED

The Bank had been booking deferred tax liabilities arising from differences in accounting and tax depreciation up until the 2014 financial year. For the 2014 financial year, the Bank had requested the Ministry of Revenue and Customs (MRC) for the use of one fixed asset register for tax and accounting purposes. The MRC approved this request and the Bank has since then lodged tax returns using the accounting depreciation for financial years 2014 and onwards, which has been assessed and approved by the MRC.

During the last financial year, management and directors have assessed that deferred tax liabilities which has been carried forward in the financial statements is no longer valid given that there are no differences arising from depreciation for tax purposes. As such, the Bank has reversed the deferred tax liabilities in the current financial year.

21 OTHER LIABILITIES

	2018 $	2017 $
Accrued interest	823,250	608,111
Provisions for annual leave and staff bonus	119,455	125,185
Deferred income	557,195	549,895
Other creditors and accruals	686,161	1,113,333
	$ 2,186,061	$ 2,396,524

22 BORROWINGS

		2018 $	2017 $
Comprises:			
Borrowings	(a)	3,120,961	3,297,915
Tonga Development Bank Promissory notes	(b)	64,921,258	62,158,525
Tonga Development Bank bonds		-	-
		$68,042,219	$ 65,456,440

22 BORROWINGS – CONTINUED

(a) Borrowings comprise the following:
(b)

	Principal repayment term	Interest rate	2018 $	2017 $
Government of the Kingdom of Tonga				
Asian Development Bank	1993 – 2023	3.0%	233,305	279,966
International Fund for Agriculture Development 3	1999 – 2020	3.0%	381,435	572,155
International Development Association	1998 – 2023	3.0%	550,864	651,019
			1,165,604	1,503,140
Other borrowings				
European Investment Bank VI	2009 – 2026	5.5%	40,357	64,637
European Union	1988 – 2019	1.5%	-	6,775
Private Sector Reconstruction Facility	2011 – 2025	0.0%	1,915,000	1,723,363
			1,955,357	1,794,775
			$ 3,120,961	$ 3,297,915

The Government of the Kingdom of Tonga had 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.

	2018	2017
(b) Tonga Development Bank promissory notes	$ 64,921,258	$ 62,158,525

The interest rate on promissory notes ranges from 1.0% to 6.25% per annum. Interest is payable on maturity and semi-annually for terms over 180 days.

23 MANAGED FUNDS

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

	Total Funds $	Advance to Projects $	June 2018 $	2017 $
Other Managed Fund				
Livelihood Reactivation Project - Niuatoputapu	94,401	(130,105)	(35,704)	(157,320)
New Zealand Borrower Diversification Fund	287,639	(294,534)	(6,895)	(16,958)
ADB Microfinance Revolving Fund	397,160	(315,927)	81,233	138,993
Total of Other Managed Funds	779,200	(740,566)	38,634	(35,285)
Government Development Loan				
Agriculture Marketing fund-1%	1,000,000	(737,059)	262,941	950,797
Fisheries Development & Export Fund -1%	300,000	(266,045)	33,955	75,799
Tourism Loan Fund -1%	500,000	(153,027)	346,973	308,350
Manufacturing Fund -1%	250,000	(252,555)	(2,555)	211,988
Student Loan Scheme Fund -1%	1,000,000	(667,668)	332,332	1,020,733
Agriculture Marketing & Production Fund -4%	4,500,000	(3,696,067)	803,933	2,062,222
Fisheries Development & Export Fund -4%	750,000	(1,379,620)	(629,620)	450,958
Tourism Loan Fund -4%	900,000	(507,329)	392,671	201,127
Manufacturing Fund -4%	250,000	(129,275)	120,725	225,313
Development of Livestock -4%	400,000	(157,618)	242,382	153,640
Development of Forestry -4%	500,000	(12,809)	487,191	903
Construction -4%	1,000,000	(208,012)	791,988	946,540
Retailer & Wholesaler Fund -4%	500,000	(390,285)	109,715	169,665
Other Priority Sector Funds-4%	-	(5,062)	(5,062)	49,109
Student Loan Scheme Fund- 4%	1,000,000	(554,064)	445,936	85,102
Overseas Medical Cover -4%	100,000	(7,710)	92,290	46,584
Micro Loans Women - 4%	500,000	(165,017)	334,983	184,030
Micro Loans Youth -4%	500,000	-	500,000	-
Livestock -1%	100,000	(10,113)	89,887	-
Total of Government Development Loan	$14,050,000	($9,299,336)	$4,750,665	$7,142,860
Total Managed Fund	$14,829,200	($10,039,902)	$4,789,299	$7,107,575

The Government Development Loan (GDL) percentages noted above, represent the interest rate, at which the funds are on-lent.

24 CAPITAL

(a) Authorised

	2018 $	2017 $
At 1 July – 2,000,000 ordinary shares @ $10 each	50,000,000	20,000,000
Increased - 3,000,000 @ $10 each	-	30,000,000
At 30 June – 5,000,000 ordinary shares @ $10 each	50,000,000	50,000,000

The authorised capital of the Bank was increased to $50,000,000 divided into 5,000,000 ordinary shares each of $10 on 31 March 2017.

(b) Issued and fully paid

	2018 $	2017 $
1,400,000 ordinary shares of $10 each	$ 14,000,000	$ 14,000,000

(c) Asset revaluation reserve

	2018 $	2017 $
Balance at beginning of financial year	2,486,535	-
Revaluation surplus for the year	-	2,486,535
Balance at end of financial year	$ 2,486,535	$ 2,486,535

25 RELATED PARTY TRANSACTIONS

(a) Directors

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

- Lord Matoto (Chairman)
- Paula Taumoepeau
- Leta Havea Kami
- Reverend Obey Samate

25 RELATED PARTY TRANSACTIONS – Continued

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

	2018 $	2017 $
Directors' fees and retirement benefit	133,495	148,196
Management salaries and other short term employee benefits	204,685	379,966
Total	$ 338,180	$ 528,162

(iii) There were no transactions with related parties in terms of loans and advances to directors or director related entities during the year ended 30 June 2018 (2017: $Nil).

(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

	2018 $	2017 $
Interest paid/payable on borrowings	53,156	53,894
Repayments of borrowings during the period	337,535	337,529
Borrowings from the Government of the Kingdom of Tonga are disclosed in note 22(a)	1,165,604	1,503,140
The Government purchased TDB bonds and promissory notes during the period and the balances at period end are as follows:		
TDB promissory notes	11,273,871	11,185,427
Interest paid/payable on TDB bonds and promissory notes	412,099	490,852

Interest payable on the bonds and promissory notes range from 2% to 4% per annum.

(ii) Term deposits

	2018 $	2017 $
Government of Tonga Local Development Bonds at year end - refer note 12.	6,448,000	5,859,000
Interest received/receivable on Government of Tonga Local Development Bonds	237,276	252,595

(iii) The shareholder has provided a guarantee on behalf of the bank to the National Reserve Bank of Tonga for breach in the single borrower limit. Refer note 30.

26 COMMITMENTS AND CONTINGENT LIABILITY

	2018 $	2017 $
(a) Capital commitment	$ 1,191,500	$ 1,312,000
(b) Contingent liability	-	-
(c) Operating lease commitments	$ 158,160	$ 180,273

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

	2018 $	2017 $
Not later than one year	7,720	8,320
Later than one year but not later than five years	30,880	33,280
Later than five years	119,560	138,673
	$ 158,160	$ 180,273

(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:

	2018 $	2017 $
Not later than one year	12,888	26,773
Later than one year but not later than five years	15,215	8,073
Later than five years	-	-
	$ 28,103	$ 34,846

27 EARNINGS PER SHARE

	2018 $	2017 $
Net profit after tax	2,406,371	1,440,664
Number of issued shares	1,400,000	1,400,000
Earnings per share	$ 1.72	$ 1.03

28 RETURN ON EQUITY

	2018 $	2017 $
Net profit after tax	2,406,371	1,440,664
Shareholder's equity	27,249,963	24,843,592
Return on equity	8.83%	5.80%

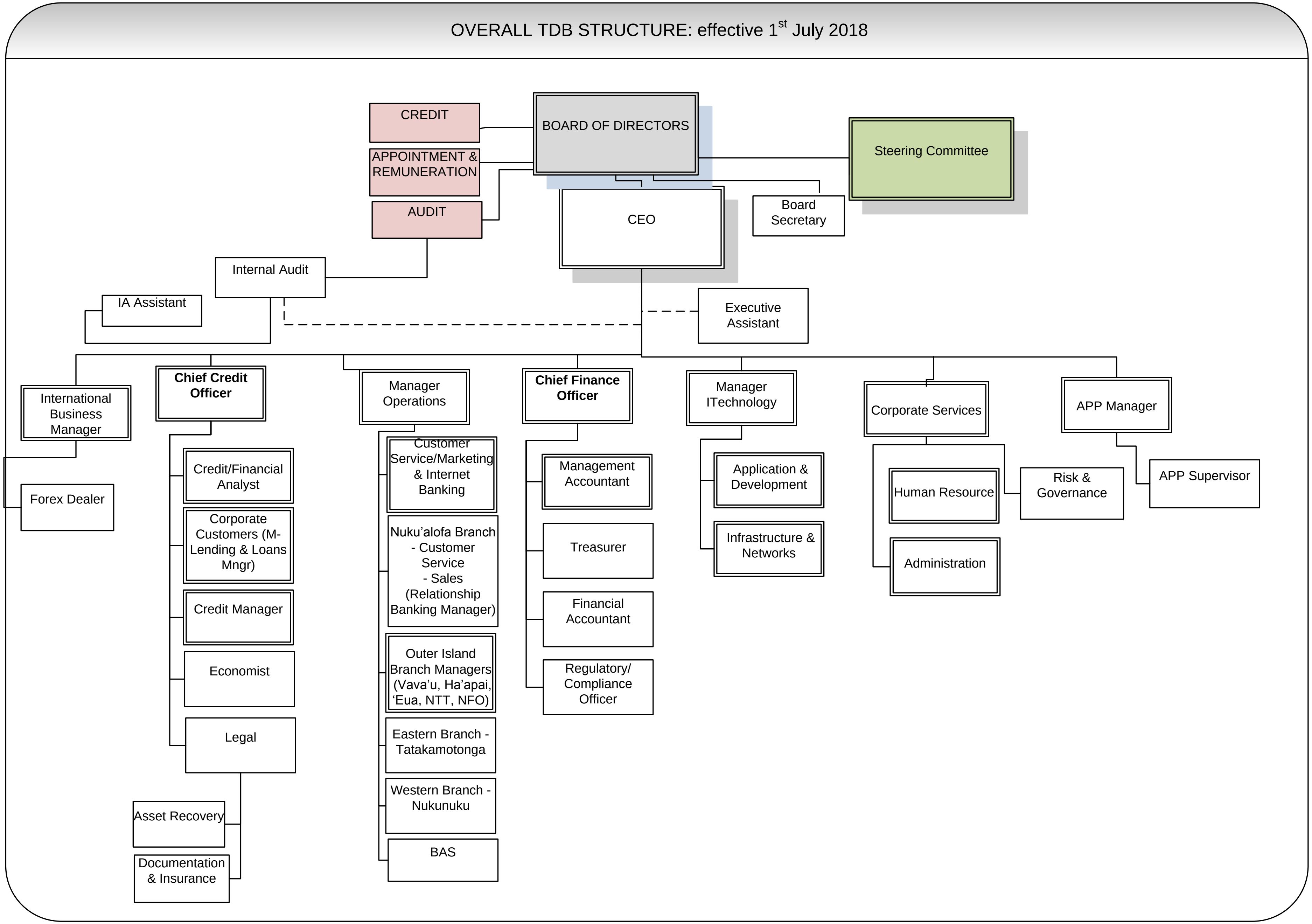
29 BREACH IN SINGLE BORROWER LIMIT

In 2016, the Bank had approved a loan which was in excess of 25% of its capital base and therefore constituted a breach in the Single Borrower Limit (SBL) under Prudential Statement 10 on Large Exposures. The Bank's shareholder has provided a guarantee to the regulator, the National Reserve Bank of Tonga, for a period of 1 year from the date of the breach to cover excess of the loan over the Bank's single borrower limit. The Government has extended the guarantee period for another six (6) months ending 30 September 2018.

30 SUBSEQUENT EVENTS

The Bank had amended its Articles of Association last year to increase its authorised capital as part of a capital restructuring exercise. The Bank had identified potential investors and are in the process of finalising various agreements with the parties. In addition, retained earnings amounting to $8million will be capitalised through the issue of shares to the existing shareholder and as part of this capital restructure, $6.9million of Promissory Notes is expected to be converted to equity.

The intent of this exercise is to increase the Bank's capital base to be more competitive in the market, enhance portfolio growth and also cover the issue of the single borrower limit.


OVERALL TDB STRUCTURE: effective 1st July 2018
CREDIT
APPOINTMENT & REMUNERATION
AUDIT
BOARD OF DIRECTORS
Steering Committee
CEO
Board Secretary
Internal Audit
IA Assistant
Executive Assistant
International Business Manager
Forex Dealer
Chief Credit Officer
Credit/Financial Analyst
Corporate Customers (M-Lending & Loans Mngr)
Credit Manager
Economist
Legal
Asset Recovery
Documentation & Insurance
Manager Operations
Customer Service/Marketing & Internet Banking
Nuku'alofa Branch - Customer Service - Sales (Relationship Banking Manager)
Outer Island Branch Managers (Vava'u, Ha'apai, 'Eua, NTT, NFO)
Eastern Branch - Tatakamotonga
Western Branch - Nukunuku
BAS
Chief Finance Officer
Management Accountant
Treasurer
Financial Accountant
Regulatory/ Compliance Officer
Manager ITechnology
Application & Development
Infrastructure & Networks
Corporate Services
Human Resource
Administration
Risk & Governance
APP Manager
APP Supervisor