

National Reserve Bank of Tonga

BUSINESS PLAN FORMAT AND INFORMATION REQUIREMENTS

Form 4

(Applicant's business must be "banking business" as per the National Reserve Bank of Tonga Act and only involve in permitted financial activities outlined in Section 27 of the Financial Institutions Act)

BUSINESS PLAN

Format and Information Requirements

A. Identifying Information

- 1. Name and Location. State the name and provide a description of the location of the bank, including the locations of any planned branches or other office facilities.
- 2. Organizational Structure. Describe and provide a diagram of the bank's organizational structure including any parent company and all subsidiaries and affiliated entities of the bank. Describe and provide a diagram of any subsidiaries and affiliated entities of significant shareholders (shareholders who will own directly or indirectly ten percent (10%) or more of the outstanding shares of stock of the bank), directors or senior offices of the bank.
- **3. Summary.** Briefly describe how the organizing group came together, and indicate the reasons for submission of the application for a banking license.

B. Market Analysis

- **1. Market.** Identify the markets currently served and those proposed to be served by the bank, including proposed branch or other office facilities.
- **2.** Characteristics. Describe the target market demographic and economic characteristics. Include any anticipated changes in the market, factors influencing such changes, and possible effects on the bank.
- **3.** Competition. Identify and describe the competition (include all other financial services providers, i.e., banks, credit cooperative societies, micro-lenders, brokerage companies, insurance companies, etc.) located within the target markets of the proposed bank including any branches or other office facilities contemplated.

C. Business Strategy and Objectives

- 1. Market Area. Identify the market areas from which the bank generates or expects to generate approximately seventy-five percent (75%) of its business. Describe any changes that may occur as a result of the proposed transaction. Include information on any significant competing financial services providers.
- **2.** Services. List and briefly describe the services to be offered. Distinguish among depository services, credit services, and other services. Identify and describe any proposed new services which the applicant will be offering which are not currently available from existing financial services providers.
- **3. Assumptions.** Describe the objectives and strategies for servicing the identified target markets. List assumptions, including at a minimum: market growth rates, anticipated competition, interest rates, costs of funds,

overhead, asset mix, return on assets, dividend payments, and capital ratios (leverage capital and risk-based).

- **4. Asset/Liability Management.** Discuss the reasons for the proposed asset/liability mix and actions that will be taken to reduce funding and interest rate risks.
- **5. Annual Audit.** Discuss what provisions have been made for independent, annual, external audit services including the name of the proposed external auditor.

D. Leadership and Management

- **1. Structure.** Describe the management organization structure of the bank, and indicate any anticipated changes.
- 2. Ownership and Management. List the names, home addresses, and nationality of all current/proposed authorized representatives, significant shareholders, directors and managers of the bank. Indicate the number and percentage of shares each individual or group is expected to own or control directly and indirectly.
- **3.** Managers. Describe the responsibilities of each manager, including those managers responsible for major functional areas of the bank, including but not limited to lending and credit administration, operations and internal controls, investments and asset-liability management, treasury and foreign exchange (currency) and each branch or other office facility manager.
- **4. Qualifications.** Discuss the qualifications of the proposed directors and managers showing the nature and extent of experience each possesses.
- **5.** Compensation. Provide a list of the proposed fees, salaries and other forms of compensation (including benefits) for each director and manager.
- 6. Agreements. Describe any agreement (e.g., data processing, loan processing, etc.) the bank intends to make to obtain services of others. Provide the names of proposed service providers and relationship(s), if any, to authorized representatives, significant shareholders, directors or manager of the bank.
- 7. Lease Agreements. Describe any lease agreement the bank intends to enter into with any organizer, significant shareholders, director or manager of the bank or with any company controlled by an organizer, significant shareholder, director or manager of the bank either directly or indirectly. Provide: (i) a copy of the proposed lease agreement; (ii) information showing market rate comparisons of terms and rates; (iii) and the names of any organizer(s), significant shareholder(s), director(s) or manager(s) who are involved.

E. Capitalization

1. Capital. Describe the bank's current/proposed capital structure. For a new banking license, state the initial proposed capitalization and justify the amount proposed given minimum capitalization requirements outlined in Section 12(2) of the Financial Institution Act 2004 and minimum risk-

based capital requirements prescribed by the NRBT, and market factors, strategies and expenses. Additional capital may be required by the NRBT on a case-by-case basis.

- 2. Capital Plan. Describe any plans for raising capital and for financing growth over the first/next three (3) years. Detail any expenses to be paid from the initial capital offering or which will be capitalized and amortized over a future period. For purposes of comply with minimum capital requirements, the NRBT will deduct from capital the unamortized portion of any such capitalized expense.
- **3. Debt.** Describe any debt (current or proposed, for capitalization or acquisition) by any individual or entity that will own or control, directly or indirectly ten percent (10%) or more of the equity or of any class of shares with voting rights of the bank. Describe any anticipated dividends, fees or salaries that will be paid by the bank, directly or indirectly, to service the debt.

F. Pro Form Statements

Detailed pro forma balance sheet and income and expense statements must be submitted. Statements must show asset, liability and capital projections for three years. Sample pro forma statements are provided in Attachment 2, "Business Plan Checklist".

Attachment 2 – BUSINESS PLAN CHECK LIST

I.	Identifying Information:
	A.1. Name of proposed bank.
	2. Location of main office of proposed bank.
	3. Locations of branches or other office facilities proposed.
	B. 1. Name and address of parent company, if applicable.
	2. Name and addressed of subsidiaries, if applicable.
	3. Name and addresses of affiliates, if applicable.
	C. 1. Name and address of subsidiaries of authorized representatives, principal
	shareholders, directors and managers, if applicable.
	2. Name and address of affiliates of authorized representatives, significant shareholders, directors and managers, if applicable.
	D. 1. Explanation of genesis of the proposed transaction.
	2. Reasons for new banking license, change of significant ownership interest, issuance of capital debt instruments, etc.
II.	Market Analysis:
	A. 1. Definition of target market areas.
	B. 1. Supporting market research, such as area demographics and economics.
	2. Identification of major factors affecting the selected market areas.
	3. Analysis of selected market areas' needs.
	C. 1. Identification and analysis of competition within selected market areas.
III.	Business Strategy and Objectives:
	A. Targeted market areas can reasonable produce seventy-five percent (75%) of the business in light of the bank's resources and targeted customer base.
	B. Services to be provided are listed and adequately described.
	C. 1. Strategies are consistent with stated objectives.
	2. Profitability expectations and assumptions are reasonable.
	D. 1. Pro Forma statements are accurately prepared with major assumptions adequately disclosed, and are consistent with strategies to capture and support market share.
	2. Strategic objectives, pro forma statements, and market plans are consistent.
	3. Estimates of operating results are reasonable and supported.
	4. Planning assumptions are realistic given the local.
	E. The asset/liability mix is adequately discussed. The bank has procedures to address funding and interest rate risks.
	F. External independent audit program will be provided for the first three (3) years of operations.
IV.	Leadership and Management:
	A. Organizational structure of the proposed bank is adequately described.
	B. Duties and responsibilities of all managers/functional areas of the bank are adequately detailed.
	C. Names, addresses and nationality of all authorized representatives, principal shareholders, directors and managers are disclosed as applicable.

- ____ D. Proposed directors and managers are qualified given the services to be provided and targeted market areas.
 - E. Fees, salaries, and other forms of compensation for directors and managers are disclosed.
 - F. Leasing transactions or service agreements involving authorized representatives, principal shareholders, directors and managers or related interests thereof, are fully disclosed.
- V. Capitalization:
 - A. 1. Initial capitalization complies with minimum statutory requirement and is adequately supported given targeted market areas, strategies, and projected organizational expenses.
 - 2. For applications for new banking licenses, proposed capitalization is adequate for at least the first three (3) years of operation. For other applications, plans to maintain capital in accordance with minimum requirements are adequately detailed and reasonable.
 - B. Plans to raise capital, both for start-up and subsequent growth, are formulated and are reasonable.
 - C. Current and proposed debt is disclosed. The debt service does not adversely affect the bank. Individuals involved in the application possess sufficient resources to service the debt without support (dividend payments or other fees) from the bank or demonstrate that reliance placed on earnings of the bank does not endanger the safety and soundness or the capital adequacy of the bank.
- VI. Pro forma Statements
 - A. Detailed pro forma balance sheets and income and expense statement show asset, liability and capital projections for a minimum of three (3) years.
 - B. At a minimum, the information shown in the schedules on the following pages must be provided for a business plan to be acceptable. Additional data should be included, as necessary, to explain important elements of the planned asset and liability mix (for example, the loan and deposit schedules might be expanded). Average annual balances, rather than year-end estimates, should be used in preparing pro forma balance sheet projections. In addition, the assumptions used in the preparation of the pro forma statements (such as interest rate assumptions, loan yields, and cost of funds, etc) are to be provided.

Pro forma Statements – Balance Sheet (000s TOP and equivalent)

			Year 1			Year 2		Year 3			
			Foreign			Foreign			Foreign		
Assets:		TOP	Currencies	Total	TOP	Currencies	Total	ТОР	Currencies	Total	
Cash											
Due from E	Banks										
Debt Secur	rities										
Loans											
Provisions	for Bad Loans										
Fixed Asse	ets										
Repossess	ed Assets										
Other Asse	ets										
	Total Assets										
Liabilities:											
Deposits											
Due to Ban	nks										
Borrowing	s										
Other Liab											
	Total Liabilities										
Capital:											
Issued & Fi	ully Paid-In										
Paid-In Pre											
Retained E	Earnings				1						
Income (Lo					1						
Other (Spe											
	Total Capital										
	Total Capital & Liabilities										

Pro forma Statements – Balance Sheet Details

				Year 1			Year 2		Year 3			
				Foreign			Foreign			Foreign		
Due from B	ue from Banks Detail		TOP	Currencies	Total	TOP	Currencies	Total	TOP	Currencies	Total	
Domes	tic Banks											
Banks A	broad											
	Related											
	Unrelate	d										
Loan Detail												
Reside	nts											
	Resident	ial RE Secured Loans										
	Commeri	ical (Business) Loans										
	Instalme	nt (Consumer) Loans										
	Other Loa	ans (Describe)										
Non-Re	sidents											
	Resident	ial RE Secured Loans										
	Commeri	ical (Business) Loans										
	Instalme	nt (Consumer) Loans										
		ans (Describe)										
Less Pro	ovisions fo	or Loan Losses ()									[
		Net Loans										

Pro forma Statements – Balance Sheet Details (continued)

Deposit Detail		Year 1				Year 2		Year 3			
			Foreign			Foreign			Foreign		
Demand Deposits:		TOP	Currencies	Total	ТОР	Currencies	Total	ТОР	Currencies	Total	
Residents											
Tonga (Government										
Tonga I	Public Enterprises										
	uals / Consumers										
	usiness/P-ships										
Other (describe)										
Non-Residents											
Individ	uals / Consumers										
Corp/B	usiness/P-ships										
Other (describe)										
	Total Demand Deposits		<u> </u>								
Savings Deposits:											
Residents											
Tonga (Government										
Tonga I	Public Enterprises										
Individ	uals / Consumers										
Corp/B	usiness/P-ships										
Other (describe)										
Non-Residents											
Individ	uals / Consumers										
	usiness/P-ships										
Other (describe)										
	Total Savings Deposits										

Pro forma Statements – Balance Sheet Details (continued)

Time Depo	Fime Deposits:		Year 1				Year 2		Year 3		
				Foreign			Foreign			Foreign	
Reside	ents		TOP	Currencies	Total	TOP	Currencies	Total	TOP	Currencies	Total
	Tonga G	overnment									
	Tonga Pu	ublic Enterprises									
	Individu	als / Consumers									
	Corp/Bu	siness/P-ships									
	Other (d	escribe)									
Non-Re	esidents										
	Individu	als / Consumers									
	Corp/Business/P-ships										
	Other (describe)										
		Total Time Deposits									

Pro forma Statements – Income & Statement

				Year 1			Year 2			Year 3	
				Foreign			Foreign			Foreign	
Interest Inco	ome:		TOP	Currencies	Total	ТОР	Currencies	Total	TOP	Currencies	Total
Loans											
Deposti	s Due from Banks										
Securitie	es (incl dividends)										
Other (p	provide details)										
		Sub-total									
Interest Exp	ense:										
Interest	Paid on Deposits										
Interest	Paid to Banks										
Other (p	provide details)										
		Sub-total									
Net Interest	t Income										
Provisions f	or Loan Losses										
Non-Interes	st Income:										
Fees & C	Commissions - Loan	S									
Fees & C	Charge - Deposits										
Fees - O	ther (provide detai	ls)									
Other (p	provide details)										
		Sub-total									
Non-Interes	st Expense:										
Salaries	& Benefits										
	Directos & Officers	5									
	Employees										
Fixed As	sset Expense										
Other (p	provide details)										
		Sub-total									
Net Income	- Before Taxes										
Less: Applic	able Income Taxes										
Net Income	- After Taxes										

Pro forma Statements – Income & Statement (Continued)

			Year 1			Year 2		Year 3			
			Foreign			Foreign			Foreign		
Capital Funds:		TOP	Currencies	Total	ТОР	Currencies	Total	TOP	Currencies	Tota	
Beginning Capita	l Funds										
Capitalised Expen	nses										
Net Operating In	come (Loss)										
Other Increase (D	Decrease) ¹										
Less: Dividends											
	Ending Capital Funds										
Provisions for Loan Lo	osses										
Beginning Balanc	e										
Gross Loan Losses	s (Write-offs)										
Recoveries											
Net Losses (Reco	veries)										
Other Increase (D	Decrease) ¹										
	Ending Balance										
/liscellaneous:											
Number of Execu	tive Officers										
Number of Emplo	oyees										
Yield on Total Loa	ans %										
Yield on Total Inv	estments %										
Average Assets											
Average Earning	Assets										
Net Interest Mar	gin %										
Return on Averag	e Assets %										