



## APPLICATION TO NATIONAL RESERVE BANK OF TONGA FOR LICENCE OF MICROFINANCE INSTITUTIONS UNDER THE MICROFINANCE ACT 2018

The Microfinance Institutions Act 2018 gives the National Reserve Bank of Tonga the authority to license, regulate and supervise microfinance institutions. The following guideline is to assist prospective applicants to apply for a license as required under section 5 of the Microfinance Act 2018, herein refer to as the "Act".

Microfinance Institutions under Section 2 of the Act includes organisations using owner's equity, loan capital and savings to provide small and simple microfinance services such as taking deposits, offering any loan, advance, domestic money transfer services, grant or any guarantee or any other credit extended in cash or in-kind with or without security or guarantee and insurance to members.

**In considering an application for a Microfinance Institution's license, the National Reserve Bank of Tonga must be satisfied that the stability of the financial system is maintained and:**

- a. that all the requirements of the existing laws and regulations to engage in the business of a microfinance institution have been complied with;
- b. that the public interest and economic conditions, both general and local, justify the authorisation;
- c. that the amount of capital, the financing, organisation, direction and administration, as well as the integrity and responsibility of the organisers and administrators reasonably assure the safety of the interests which the public may entrust to them and that the needs and convenience of the community it intends to serve are met;
- d. that the microfinance institution is financially sound and will be in a position to meet its liabilities;
- e. that the affairs of the microfinance institution are not being, and likely to be, conducted in a manner detrimental to the interests of its customers, present or future; and
- f. that the establishment of an operating account in its name with a bank licenced under the Financial Institutions (Amendment) Act 2014.

### **Important information applicants should read before completing this form**

It is important that applicants provide accurate and complete information, and disclose all relevant facts where appropriate before signing the declaration at the end of the application form. Where information provided in this form changes materially prior to a license being formally granted or declined, applicants must notify the Bank immediately.

### **Purpose of this form**

This form must be completed and submitted together with a covering letter ('Letter of Intent') addressed to the Governor of the NRBT. The letter must be on the official letterhead of the applicant company signed by the Board of Directors or an authorised representative<sup>1</sup>. The form provides the basis for information that applicants need to provide to the Bank when applying for a license to operate as a Microfinance Institution.

### **Completing the form**

Applicants should answer the questions and provide the required information where appropriate, using the spaces in the application form and to note on the form which supplementary documents contain the information required. Both electronic and hard copies of the application are acceptable.

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<sup>1</sup> The authority of the authorized representative must be evidenced by a notarized copy of the minutes of the board of directors authorizing the person to sign/submit the Application. The authorized representative can be a director or the proposed Chief Executive Officer/General Manager.

All questions in the application form should be answered. If an applicant believes that a question, or an information requirement, does not apply to them they should mark 'not applicable'. If an applicant does not provide the information requested, or leaves a question blank, the Bank will treat the application as incomplete. This will increase the time taken to assess the application.

Applicants may also submit other relevant materials which may support the application (e.g. board papers, briefing for new staff, external review reports).

### **Microfinance license Application Fee**

Pursuant to section 5(1) of the Microfinance Institutions Act, one of the license application requirements prescribed by the National Reserve Bank of Tonga is a license application fee of \$400.00 which is non-refundable. Please address bank cheque payable to '*The National Reserve Bank of Tonga*'. This is to be submitted with the completed license application form.

### **Duration of reviewing of a Microfinance Institutions license application form**

Pursuant to section 5(3) of the Act, a completed Microfinance Institutions license application form will then be reviewed within 90 days and may, at the Reserve Bank's discretion grant a license with or without conditions or inform the applicant of its refusal to grant a license. The application will be considered complete if all the required documents have been submitted and the application fee has been paid. The NRBT will inform the applicant in writing that the application received is complete and the commencement of the 90 days for the NRBT to review of the application. In the event of refusal, the Reserve Bank shall furnish the grounds upon which such refusal is based.

### **Confidentiality**

All Information supplied or disclosed to, or obtained by the Bank during the process of considering the application will be treated as confidential under section 19 of the National Reserve Bank of Tonga (Amendment) Act 2014.

### **Requirements:**

1. Minimum paid up capital requirement: \$100,000 as per section 12(1) of the Act;
2. A copy of the approval from the Ministry of Trade and Economic Development if non-resident shareholding is involved.

### **Applicable requirements if application is successful:**

3. Written certificate of compliance with conditions of licence to be signed by the Board of the microfinance institution;
4. Insurance policies on fixed assets, and employee theft and fraud;
5. A certified copy of contract to lease of premises if premises are to be leased;
6. A first-day Balance Sheet after the authority to operate has been issued;
7. Copies of board-approved policies and procedure (to the extent not previously provided by the applicant) covering the following key areas: loans, deposit and investments, liquidity risk management, interest rate risk, market risk, operational risk, and business continuity planning (declining balance calculation and interest compounded monthly, must include provisions for credit information bureau);
8. Any other requirements as Reserve Bank may see fit to be obtained from the applicant;
9. Loan agreement form;
10. All licensed microfinance institutions are to inform the NRBT of any changes to the licensing requirements by the end of November every year. The continuance of the microfinance institution's license would be subject to assessment of compliance with the conditions of license;
11. Annual Licence Fee is \$200 to be paid on the anniversary of the date of its license being granted.

The requirements for setting up a microfinance institution can be found on the National Reserve Bank of Tonga website:

[http://www.reservebank.to/data/documents/forms/NRBT\\_MicrofinanceApplication\\_Jul19.pdf](http://www.reservebank.to/data/documents/forms/NRBT_MicrofinanceApplication_Jul19.pdf)

A copy of the Microfinance Institutions Act 2018 can be found on:

[http://www.reservebank.to/data/documents/legals/legislation/NRBT\\_MicrofinanceInstitutionsAct\\_2018\\_ENG.pdf](http://www.reservebank.to/data/documents/legals/legislation/NRBT_MicrofinanceInstitutionsAct_2018_ENG.pdf)

Should you need any information or assistance, please contact National Reserve Bank of Tonga. The contact details are as follows:

Attention: Financial Institutions – Non Banks

Email - [nrbt@reservebank.to](mailto:nrbt@reservebank.to)

Telephone - (676) 24-057

Website - [www.reservebank.to](http://www.reservebank.to)

# 1. APPLICANT PROFILE

1.1 Name of the Applicant (Name of the business as registered with the Ministry of Trade and Economic Development)

1.2 Physical address of applicant's office/branch

1.3 Applicant's postal address of applicant's office/branch

1.4 Contact Person and Telephone Number

1.5 Email address of contact person

1.6 A description of the applicant's current business or, where relevant, any proposed business must be provided, including:

- proposed date for commencement of operations (if applicable);
- proposed future business strategy;
- evidence of adequate internal control procedures;
- risk profile of business and any expected changes;
- target funding market (including any split between retail and wholesale funding);  
\*(please attach description & documents of reference)
- Intention to take members deposits (if yes, please advise account(s) details on where funds will be distributed to members or is currently invested)
- Confirm details on how the interest rate repayment will be calculated using the required "declining balance calculation method with interest to be compounded on a monthly basis" pursuant to the said definition in section 27(4) of the Act.

1.7 Indicate type of proposed Microfinance activities to be offered

- Micro-deposits
- Micro-credit
- Micro insurance
- Inter-island money transfer
- Other (please elaborate)

1.8 Does the applicant carry out, or propose to carry out, any activity or business outside the definition of "Microfinance" in section 2 of the Act?

➤ Yes / No

If "Yes", describe the nature and extent of those other activities or business and their proportion of the applicant's overall business.

(Please attach description & documents of reference)

1.9.

a. What is the location of incorporation?

b. Where is its head office located & principal place of business?

## 2. FINANCIAL INFORMATION

**Why is this information required?** Applicants will need to meet applicable prudential standards, including those relating to capital ratios, liquidity and related party loans.

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### Financial Projections

- 2.1 The applicant must submit financial projections, proposed sources of funds, demonstrating how it expects to meet the capital ratio, liquidity and related party loan requirements of the microfinance institution over the next 3 years.
- 2.2 The applicant must disclose the key assumptions (e.g. rate of non-performing loans, reinvestment rates, new deposits, capital injections / reductions) on which its financial projections are based. Where the applicant has evidence to back up any of the assumptions used in the financial spreadsheet, the applicant should provide this evidence to the Bank. Examples of evidence could include such things as comparisons to existing and previous performance, or reports from independent reviewers. Where projections differ significantly from previous performance the Bank would expect the rationale for these variations to be made clear.
- 2.3 The applicant must submit details of any cases where it had defaulted on timely repayment of loan, deposits and interest payments.

### Other Information to be submitted

- 2.4 Where available, the applicant should provide certified copies of annual audited financial statements covering the last three financial years, including details of capital distributions and capital reductions. (please attach description & documents of reference)
- 2.5 If the applicant has a current credit rating, a copy of its latest credit rating assessment must be provided. (please attach description & documents)
- 2.6 Unless already provided under 2.2, the applicant should provide the Bank with information about any external financial support (e.g. from a shareholder or parent) that it expects to be able to rely upon in events of financial stress. (please attach description & documents)

- 2.7 Does the applicant have any liabilities (including contingent liabilities under arrangements such as guarantees) that have not been included in the 'Financial Projection Spreadsheet'?

➤ Yes / No

- 2.8 If Q2.7 was answered "yes", the applicant must provide a description of these liabilities. (please attach description & documents of reference)

2.9 Number of initial or current workforce: \_\_\_\_\_

2.10 Name and Address of Bankers:

2.11 Name and Address of Auditors:

### 3. APPLICANT OWNERSHIP STRUCTURE

**Why is this information required?** Information provided in this section helps the Bank to understand who owns the applicant and the relationships that the applicant has with other individuals or entities. Owners of the applicant can play a key role in establishing the applicant's business strategy and making key decisions about funding and relationships with other related businesses. The information will enable the Bank to assess whether the applicant's ownership, and its incorporation and ownership structure, is appropriate having regard to the size and nature of its business.

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3.1 The applicant must provide details of the incorporation and ownership structure of the applicant.

This needs to:

- a) include all *associated persons* and members of the applicant's *borrowing group* (if appropriate), clearly showing which entities are part of the *borrowing group*; and, unless already included,
- b) include any person who has the ability, directly or indirectly, to appoint 25% or more of the members of the applicant's governing body, or has a direct or indirect qualifying interest in 20% or more of the voting securities issued or allotted by the applicant.  
(please attach description & documents of reference)

## 4. RISK MANAGEMENT

**Why is this information required?** This information will demonstrate how the applicant will manage risks in order to assess that the entity will continue to meet its legal requirements on an ongoing basis.

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4.1 The applicant must provide a copy of its risk management policy such as Loan Policies and Documents & Investment Policies etc.  
(please attach description & documents of reference).

4.2 If relevant, on what date was the risk management policy last submitted to the applicant's Board of Directors for approval?

4.3 The applicant should explain why any quantitative liquidity requirement included in a Board's constitution is appropriate for their business and, if relevant, the *borrowing group* it is part of.  
(please attach description & documents of reference )



## 5. GOVERNANCE

**Why is this information required?** This information will help the Bank to assess whether the applicant meets the governance requirements of the Act under Section 14, as well as assessing the skills and experience of its *governing body* and how it monitors business risks. Some of this information may also be relevant for the consideration of *suitability notices* provided by *directors*.

### 5.1 PARTICULARS OF DIRECTORS and SENIOR MANAGEMENT<sup>2</sup> – complete one form for each director and senior management

1.	Name:		
2.	Address:		
3.	List of previous positions held starting with most recent (to be aligned with CV provided on this particular director):		
4.	Percentage of shareholding in the company, if any:		
5.	Directorship in other companies, if applicable:		
	<b>Criteria: Directors or Senior Management;</b>	<b>Yes/No</b> <i>(if yes pls move on and provide further comments on the next column.)</i>	<b>Comments</b>
6.	has acted in a financial institution in Tonga or elsewhere which had its license revoked or which has been wound up by a court;		
7.	has been sentenced by a court in any country for an offence involving dishonesty;		
8.	is or becomes bankrupt or enters into a scheme of arrangement with his creditors;		

<sup>2</sup> Senior Management includes the Chief Executive/General Manager, senior officer(s) outside Tonga with responsibilities of overseeing the Tongan operations, managers reporting directly to the Chief Executive/General Manager or directly to offshore managers/executives.

9.	has been disqualified or suspended from practicing a profession on grounds of personal misconduct;		
10.	does not possess sufficient financial competence and expertise		
11.	is an officer or employee of another moneylending business unless both entities are commonly owned;		
12.	the person does not meet the criteria for a fit and proper person as prescribed by the Reserve Bank; or		
13.	falls under such other criterion as may be established by the Reserve Bank in a directive, or other acts or decisions.		

Attach the following documents:

1. Curriculum vitae of the directors and senior management (*This should provide details of the individual's experience and relevant qualifications, including current and previous positions of employment and directorships*)
2. Police records of the directors and senior management
3. Commitment letters of the directors and General Manager or CEO to serve in the respective positions
4. Directors' written undertaking in company's letterhead that they will secure any obligations and liabilities to be incurred in the conduct of the business

5.2 The applicant should explain the governance structure of the proposed/existing microfinance institution, including relevant governance committees and relevant reporting line to a parent, a head or a regional office (where appropriate).  
(please attach description & documents of reference)

5.3 Unless already included as part of the information provided in response to 3.1, the applicant must provide the Bank with details of certain related parties of the applicant. This information should explain the nature of the relationship and the dates on which the entity was a related party.  
(please attach description & documents of reference)

5.4 Does the applicant have in place a system to identify suitability concerns of directors and senior officers on an ongoing basis?

➤ Yes / No

5.5 If Q5.4 was answered "yes", the applicant should provide a description of this system.  
(please attach description & documents of reference)

5.6 Does the applicant have a system in place to ensure that the governance requirements are met on an ongoing basis?

➤ Yes / No

5.7 If Q5.6 was answered "yes", the applicant should provide a description of this system.

(please attach description & documents of reference)

## 6. MONEY LAUNDERING AND PROCEEDS OF CRIME ACT 2010

**Why is this information required?** The Bank must have regard to whether the applicant will be able to comply with the Anti-Money Laundering and Countering Financing of Terrorism regulations (AML/CFT regulation) on an ongoing basis.

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6.1 Has the applicant established an AML/CFT policy that meets the requirements of the National Reserve Bank of Tonga's Money Laundering and Proceeds of Crime Act 2010?

➤ Yes / No

If yes, please attach in the submission

6.2 Has the applicant appointed an AML/CFT compliance officer (to conduct the compliance check with the AML requirements)?

➤ Yes / No

6.3 If Q 6.2 was answered "yes", please provide the details of the appointed AML/CFT compliance officer.

## 7. APPLICANT COMPLIANCE HISTORY

**Why is this information required?** The Bank needs to understand the applicant's ability and willingness to comply with relevant legislation, and the steps it takes to address any failings.

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7.1 Has the applicant acknowledged a breach of, or been proven to have breached, any legislation arising out of the applicant's participation in financial markets whether in Tonga or in another jurisdiction? This includes any breaches of the National Reserve Bank Amendment Act 2014, Financial Institutions Amendment Act 2014, and Foreign Exchange Control Act 2018 or other comparable overseas law.

➤ Yes/ No

7.2 Has the applicant been the subject of any formal warning, caution or censure issued by a regulatory authority whether in Tonga or overseas?

➤ Yes / No

7.3 If the applicant has answered "yes" to questions 7.1 or 7.2, the applicant must provide further information about the matter that led to the breach / action. This should include a description of:

- \* how the matter arose, and any legal obligation breached;
- \* any adverse finding or penalty imposed on the applicant;
- \* the length of time over which the matter occurred; and
- \* how the matter was dealt with and any remedial actions taken.

*(please attach description and documents of reference if any)*

7.4 Is the applicant currently aware of any particular matters or circumstances relating to its business that may cause it to fail to comply with the Microfinance Act 2018?

➤ Yes / No

If "YES", the applicant should provide a written explanation. *(Please attach description & documents of reference)*

7.5 Is the applicant currently aware of ALL requirements in the Microfinance Institutions Act 2018 and be willing to comply with these said requirements unless waived by the Reserve Bank.

➤ Yes / No

If "NO", the applicant should provide a written explanation. *(Please attach description & documents of reference)*

## 8. Checklist

Please submit the completed and signed application form with the following documents: -

- a. Completed form signed by the authorised representative for the application;
- b. Directors' resolution of appointing an authorised personnel to submit the application on behalf of the proposed microfinance institution.
- c. The prescribed licensing fee of TOP\$400 – Please make cheque payable to '*National Reserve Bank of Tonga*';
- d. Evidence of the minimum paid up capital requirement of \$100,000;
- e. A copy of approval from the Ministry of Trade and Economic Development if non-resident shareholding is involved;
- f. Proposed future business strategy, evidence internal control procedures, risk profile of business, target funding market, details on how interest rate repayment will be calculated using the required "declining balance calculation method with interest to be compounded on a monthly basis";
- g. Financial projections and proposed sources of fund for the next 3 years;
- h. Details of any cases where it had defaulted on timely repayment of loan, deposits, and interest payments;
- i. Certified copies of annual audited/ unaudited financial statements submitted to the Ministry of Revenue and Custom for tax purposes covering the last three financial years, including details of capital distributions and capital reductions (if applicant is an existing microfinance);
- j. Copy of its latest credit rating assessment (if any);
- k. Description of the applicant's liabilities (if any);
- l. Details of the details of the incorporation and ownership structure of the applicant;
- m. Copy of its risk management policy;
- n. Completed fit and proper forms for all directors and senior managers to be in charge of management of the business, CVs, police records and a certified copy of the applicant's directors and senior manager's ID (either a passport or driver's license);
- o. Commitment letters of the directors and General Manager or CEO to serve in the respective positions;
- p. Directors' written undertaking in company's letterhead that they will secure any obligations and liabilities to be incurred in the conduct of the business;
- q. AML/CFT policy (if any);
- r. Submission of any other documents in support of the application, as may be requested, must be referenced or sequenced appropriately;
- s. Certified copy of the certificate of Incorporation;

The following information is confidential and will not be shared with any third parties unless required by law or with your written consent.

## 9. DECLARATION

This declaration must be signed by the persons responsible for making this application on behalf of the applicant. As a minimum the declaration must be signed by *two directors or an authorised personnel (must submit a directors' resolution to show this authorization)* of the applicant.

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As directors of the applicant, I confirm that:

- \* The information provided in this application form and in the accompanying documents is true and correct to the best of my knowledge and belief. I have taken reasonable steps to confirm that this information is true and correct;
- \* We understand that the Reserve Bank may make further enquiries and seek further information as, and from whoever, it sees fit to verify the information provided;
- \* We understand that the Reserve Bank may require the applicant to provide further information or documents at any time after the application has been submitted and before a licence has been granted;
- \* We understand that any material changes to the information provided in this application form, or in the accompanying documents, prior to a licensing decision being made must be communicated to the Reserve Bank;
- \* We understand that it is a criminal offence to make any statement or application, or supply any document or thing, to the Reserve Bank knowing that it is false or misleading in a material respect;
- \* We certify that the capital to be invested in the proposed bank is not from proceeds of crime.

<p>Director/Authorised Representative (Name):</p> <hr/> <p>Signature:</p> <hr/> <p>Date:</p> <hr/>	<p>Director (Name):</p> <hr/> <p>Signature:</p> <hr/> <p>Date:</p> <hr/>
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