

**AUDIT REPORT
TO THE READERS OF THE
SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

Unqualified opinion

In our opinion, proper accounting records have been kept by the Company, so far as it appears from our examination of those records, and the accompanying financial statements, which have been prepared in accordance with generally accepted accounting practises, give a true and fair view of the state of affairs of the Company's financial position as at 31 December 2013 and the Company's financial results of operations and cashflow for the year then ended.

We conclude that the financial statements together with notes thereon have been drawn up in conformity with the Disclosure Guidelines for financial reporting by microfinance institutions in all material respects.

The audit was completed on 24 March 2014, and is the date at which our opinion is expressed.

The basis of the opinion is explained below.

Basis of Opinion

We carried out the audit in accordance with the International Auditing Standards. We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error. Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, an assessment of accounting policies and significant accounting estimates made by management, and evaluation of the overall financial statement presentation. We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We believe we have obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing the financial statements in accordance with international accounting standards. The financial statements must give a true and fair view of the Company's financial results of operations and cash flows for the year ended 31 December 2013.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you.



Jennifer Tupou, CA
JK Chartered Accountants
Nuku'alofa, Tonga



South Pacific Business Development
Microfinance Ltd.

Financial Statements

For the Period Ending 31 December 2013

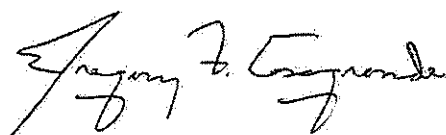
South Pacific Business Development Microfinance Ltd.
Taufa'ahau Road, Kolofu'ou, P.O. Box 21, Nuku'alofa, Kingdom of Tonga
Tel. No. (676) 27087 and 8440400

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

BALANCE SHEET

As of 31 December 2013

ASSETS			
Current Assets	<i>Note</i>	2013	2012
Cash on Hand and in Bank	5	199,223	(289,781)
Loan Portfolio Outstanding	6	3,564,238	3,389,070
Receivables	7	17,449	23,906
Short-Term Investments	8	361,070	380,476
Total Current Assets		4,141,980	3,503,671
Fixed Assets			
Fixed Assets	9	313,820	329,718
Less: Accumulated Depreciation		165,898	159,329
Net Fixed Assets		147,922	170,389
Other Assets	10	11,398	8,562
TOTAL ASSETS		4,301,300	3,682,622
LIABILITIES			
Current Liabilities			
Clients' Savings deposits	11	448,558	408,193
Accounts Payable	12	33,076	29,476
Taxes Payable	19	133,945	131,012
Accrued Interest Payable	15	8,705	10,370
Commercial Loans - Current	13	212,593	177,336
Soft Loans - Current	14	588,803	975,098
Dividend Payable	17	200,000	-
Life Insurance Reserve		23,844	16,539
Total Current Liabilities		1,649,524	1,748,024
Long-term Liabilities			
Commercial Loans - Non Current	13	1,126,259	392,645
Soft Loans - Non Current	14	382,955	517,362
Total Long term Liabilities		1,509,214	910,007
TOTAL LIABILITIES		3,158,738	2,658,031
EQUITY			
Owner's equity	16	528,233	528,233
Retained Earnings		496,358	243,047
Less Dividend		(200,000)	-
Excess of Income and Expenditure, current period		317,971	253,311
TOTAL EQUITY		1,142,562	1,024,591
TOTAL LIABILITIES AND EQUITY		4,301,300	3,682,622



Date: 24 March 2014

Gregory F. Casagrande
Chairman/ President

BT

These financial statements are to be read in conjunction with the accompanying notes and accounts.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
INCOME STATEMENT
For the period 1 January to 31 December 2013

Financial Income	<i>Note</i>	2013	2012
Interest on Loans		1,678,107	1,377,886
Development Fee		136,845	124,114
Loan Insurance Fee		68,423	62,243
Life Insurance Fee		77,870	77,759
Interest earned on Bank Accounts & Term Deposits		2,259	4,707
Other operating revenues		60,543	42,803
Total Financial Income		2,024,047	1,689,511
Financial Expenses			
Interest and fees on borrowed funds		174,881	183,911
Foreign Exchange Loss/(Gain)		76,603	(28,731)
Interest on Client Saving		6,627	6,515
Loan Insurance Loss		10,079	10,036
Life Insurance Loss		26,308	27,171
Total Financial Expenses		294,498	198,902
NET FINANCIAL INCOME		1,729,549	1,490,609
Loan Loss Provision	6	4,050	43,353
NET FINANCIAL MARGIN		1,725,499	1,447,256
Operating Expenses			
Computer Support System		7,510	2,401
Conference & Meetings		14,825	6,687
Depreciation	9	47,788	61,993
Electricity and Water		14,844	10,427
Fees and Bank Charges		12,391	32,007
Insurance		12,538	9,625
Management Fees		272,836	188,797
Membership Fees and Subscription		522	441
Office Expenses		20,345	20,658
Postage, Telephone and Communications		19,926	15,184
Printing and Office Stationeries		33,454	37,711
Professional Services		22,566	9,845
Public Relations and Advertisements		2,532	3,157
Rentals		64,400	40,800
Repairs and Maintenance		21,082	19,742
Salaries and Benefits		485,942	385,240
Staff Training and Development		30,789	15,512
Transportation, Fuel, Oil		50,674	45,487
Travel		82,288	92,893
Board of Directors Fees		4,000	4,000
SPBD Award day		33,928	25,128
Staff Retreat 2013		10,078	2,094
Financial Diaries Expenses	20	21,915	66,154
Planet Rating Expenses		13,802	-
Total Operating Expenses		1,300,976	1,095,980

These financial statements are to be read in conjunction with the accompanying notes to accounts.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
INCOME STATEMENT
For the period 1 January to 31 December 2013

Non-Operating Income/Expenses:		
Grants & Donations	2,800	-
Other non-operating income	2,566	-
	<u>5,366</u>	<u>-</u>
NET OPERATING INCOME BEFORE TAXES & DONATIONS	429,889	351,276
Income Tax	19	(97,965)
NET INCOME	<u>317,971</u>	<u>253,311</u>

These financial statements are to be read in conjunction with the accompanying notes to accounts.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
CASH FLOW STATEMENT
For the period 1 January to 31 December 2013

	2013	2012
Cash flows from operating activities		
<i>Cash was provided from:</i>		
Receipts from Customers	1,790,923	960,962
Receipts from Other Revenue	65,909	42,803
Total Receipts	1,856,832	1,003,765
<i>Cash was disbursed to:</i>		
Payments to suppliers	1,161,571	836,065
Labour Costs	485,942	385,240
Taxes Payable	2,933	44,348
Total Payments	1,650,446	1,265,653
Net cash inflows from operating activities	206,386	(261,888)
Investing Activities		
Disposal/(Acquisition) of property, plant and equipment	(25,321)	(120,886)
Short Term Investments	19,406	2,868
Net cashflows used in investing activities	(5,915)	(118,018)
Financing Activities		
Client Saving Deposits	40,364	73,433
Equity	-	173,609
Soft Loans	(520,701)	83,213
Commercial Loans	768,870	(260,534)
Net cashflows from financing activities	288,533	69,721
Net increase/(decrease) in cash and cash equivalents	489,004	(310,185)
Cash and cash equivalents at the beginning of the year	(289,781)	20,403
Cash and cash equivalents at the end of the year	199,223	(289,781)

These financial statements are to be read in conjunction with the accompanying notes to accounts.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
STATEMENT OF CASH FLOW
For the period 1 January to 31 December 2013

Reconciliation of Net Income with Cash from Operating Activities

	2013	2012
Net Income after Tax	317,971	253,311
Adjustment for Non-Cash Items:		
Depreciation	47,788	61,993
Loan Loss Provision	4,050	43,353
(Increase)/Decrease in Operating Assets:		
Gross Loan Portfolio	(179,218)	(668,338)
Receivables	6,457	(16,880)
Other Assets	(2,836)	623
Increase/(Decrease) in Operating Liabilities:		
Accounts Payable	3,600	17,780
Taxes Payable	2,933	44,348
Accrued Interest Payable	(1,665)	5,752
Life Insurance Reserve	7,305	(3,829)
Net Cash Flow from Operating Activities	206,386	(261,888)

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2013

1. GENERAL INFORMATION

South Pacific Business Development Microfinance Ltd. (or SPBD) is a privately owned microenterprise development organization with a mission to provide financial services to economically disadvantaged people particularly women who cannot access savings and loan products from traditional banks. SPBD provides unemployed and low income women entrepreneurs with financial services, training, ongoing guidance and motivation to help them start or grow micro-businesses so that they can improve their lives and that of their families. It was incorporated under the Companies Act 1995 on July 7, 2009 and licensed by the Ministry of Commerce, Tourism and Labour to provide financial services. SPBD have four office branches operating in the Kingdom of Tonga: Nuku'alofa, Tongatapu; Neiafu, Vava'u; Pangai, Ha'apai; and Mu'a, 'Eua.

2. MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of income statement and balance sheet on a historical cost basis are followed.

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with generally accepted accounting practices represented by International Financial Reporting Standards.

The Financial Statements comply with the Disclosure Guidelines for financial reporting of Microfinance Institutions.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Currency

All amounts are expressed in Tongan Pa'anga (TOP) currency.

b. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and balances held with banks but exclude short term deposits.

c. Investments

Investments are classified as held to maturity. These investments are with fixed or determinable payments and fixed maturity in which SPBD has the positive intent and ability to hold the investment till maturity. Investments in bank deposits are initially measured at fair value plus transaction costs.

d. Depreciation

Fixed assets are depreciated on a straight-line basis. The following associated depreciation rates of major classes of fixed assets are used and are in accordance with the rates prescribed in the Tonga Income Tax 2007:

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

d. Depreciation continued

Office Equipment	12.5%
Computers and Peripherals	25.0%
Software and Electronics System	25.0%
Furniture and Fittings	12.5%
Leasehold Improvements	5.0%
Used Motor Vehicles	25.0%

e. Revenue

Revenues are presented as Financial Income in the income statement which is comprised of income generated from providing financial services to its target clientele. The main sources of financial income are:

- i. Interest Income - Interest income from loan portfolio and term deposits is recognized using a cash-based method where they are recognised at the time they are received.
- ii. Development Fee – SPBD charges a fee of 2% of principal loan amount to be used to cover the cost of training the clients, loan evaluation and monitoring. This fee is deducted from the loan proceeds.
- iii. Loan Insurance – This fee is 1% of the loan principal to cover the risk in the event of death of the client. A member’s loan obligations to SPBD will be eliminated upon the death of that member. The loan insurance fee is deducted from the loan proceeds.
- iv. Life Insurance – SPBD offers a Life Micro-insurance Product to help the families of SPBD members to reduce the burden of bereavement and funeral expenses when the member dies. When an SPBD member dies during the period of the loan, her beneficiaries will receive a fixed payment of between 1,000 to 5,000 Pa’anga. The life insurance fee is deducted from the loan proceeds.

Size of Benefit Pa’anga	Insurance Fee in Pa’anga	
Minimum 1,000	15	Compulsory for all members
2,000	35	Voluntary
3,000	55	Voluntary
4,000	75	Voluntary
5,000	95	Voluntary

- v. Savings Fees – A TOP\$1.00 fee is charged by SPBD to its member when they withdraw from their savings account and are recognised in the period in which they are received.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

f. Grants

SPBD records all grants and donations in the income statement in the period they are received. It is recorded after the net operating income. Grants and Donations for the period:

2013	2012
2,800	-

g. Expenses

Expenses are recorded on an accrual basis.

h. Leases

SPBD leases the premises from which it conducts its business under an operating lease.

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, are recognized in the determination of the net income of the company as rentals paid.

i. Borrowing Costs

All borrowing costs are expensed.

j. Financial Instruments

Financial instruments are recognized in the balance sheet when SPBD becomes a party to a financial contract. These include cash balances, borrowings, related-party advances, receivables and payables. All financial instruments are initially recorded at cost and subsequently carried at the balance outstanding at the balance date.

k. Income Tax

Income tax is accounted for using the taxes payable method. The corporate income tax rate is 25%.

l. Tonga Consumption Tax

Provision of financial services is exempted from Consumption Tax by the order of the Commissioner of the Revenue Services Department with the consent of the Privy Council.

m. Foreign Currencies

Transactions in foreign currency have been converted into Tongan Pa'anga (TOP) amount at rates ruling at the particular balance sheet date. The source for exchange rates are the published rates of either Westpac Bank (Tonga) Ltd or ANZ Bank (Tonga) Ltd using the average of the buying and selling rates. Exchange differences should be taken to the income statement as foreign exchange gain or loss.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

m. Foreign Currencies continued

	2013	2012
Exchange rate used at balance sheet date (TOP/USD)	0.5400	0.5639
Exchange Rate used at balance sheet date (TOP/NZD)	0.6500	0.6785

n. Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost.

o. Borrowings

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

p. Employee entitlements

Short term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date and sick leave.

Long term employee entitlements

There are no long term employee entitlements.

q. Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

r. Change in Accounting Estimate

There have been no changes to accounting policies during the financial year.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

5. CASH ON HAND AND IN BANK

	<u>Cash on Hand</u>	<u>2013</u>	<u>2012</u>
Undeposited Collections		2,807	85
Cash for Loan Disbursement		-	-
Petty Cash Imprest		1,100	1,265
Saving Reserve Imprest		15,000	9,639
SUB_TOTAL		18,907	10,989
	<u>Cash in Bank</u>		
ANZ Bank Account 165-3787		(85,883)	(360,072)
ANZ Dollar Account 165-3890		36,199	502
Westpac Bank Account 2000732848		207,273	21,012
Westpac Bank Account 2000921573		-	37,788
TDB- Ha'apai Bank Account 149464 S1		11,689	-
TDB- 'Eua Bank Account 149464 S1		11,038	-
SUB_TOTAL		180,315	(300,770)
TOTAL		199,223	(289,781)

6. LOAN PORTFOLIO

	<u>Loans Receivable:</u>	<u>2013</u>	<u>2012</u>
Opening Balance		3,460,117	2,791,779
Total Loan Disbursement		6,971,784	6,485,241
Less: Total Principal Loan Repayments		6,792,566	5,816,902
Gross Loan Portfolio		3,639,335	3,460,117
Less: Loan Loss Reserve		75,097	71,047
Net Loan Portfolio		3,564,238	3,389,070

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

6. LOAN PORTFOLIO continued

GROSS LOAN PORTFOLIO

	<u>2013</u>	<u>2012</u>
Opening Balance (Nuku'alofa)	2,869,125	2,469,253
Plus: 2013 Loan Disbursement	5,607,084	5,470,734
Less: 2013 Loan Repayments	5,337,480	5,070,862
Gross Loan Portfolio (Nuku'alofa)	3,138,729	2,869,125
Opening Balance (Vava'u)	512,014	322,526
Plus: 2013 Loan Disbursement	840,150	891,464
Less: 2013 Loan Repayments	1,091,840	701,976
Gross Loan Portfolio (Vava'u)	260,324	512,014
Opening Balance (Ha'apai)	78,978	-
Plus: 2013 Loan Disbursement	446,850	123,042
Less: 2013 Loan Repayments	341,351	44,064
Gross Loan Portfolio (Ha'apai)	184,477	78,978
Opening Balance ('Eua)	-	-
Plus: 2013 Loan Disbursement	77,700	-
Less: 2013 Loan Repayments	21,895	-
Gross Loan Portfolio ('Eua)	55,805	-
SPBD Gross Loan Portfolio	3,639,335	3,460,117

There has been a significant reduction in the loan portfolios of Vava'u. The reduction is consistent with the decrease in total number of Vava'u members by 127 members from prior year. Fewer new members entered the SPBD program compared to the prior year.

There are several factors that have contributed to this decline. The completion of first loan cycle resulted in higher dropout from the SPBD program in a number of the Vava'u villages largely due to mis-fit between the current SPBD product and women who joined the program for the first time. Interruptions in domestic air travel to Vava'u led to many businesses closing down which resulted in SPBD members who either directly or indirectly depended on the tourism trade faced financial hardships. As a coping mechanism some members chose to move down to Tongatapu or overseas in search of funds to support their families and did not re-join the program. Some members had proven to be problem clients and the centres refused to allow them another loan. In centres where there had been problem clients other members did not re-join the program because they did not want to be responsible for the group and centre guarantees.

During the same time period TDB actively marketed their new Micro loan product in Vava'u. Many clients expressed a preference for this product because it did not require attending centre meetings and at the time of disbursement clients received the full amount of the loan no fees were deducted.

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SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

6. LOAN PORTFOLIO continued

No. of Loans Outstanding

	2013	2012
SPBD Group Loan Product	4,146	4,230

Portfolio Quality Measurement

SPBD's main measure of loan delinquency is an aged portfolio-at-risk (PAR) ratio. Loans are separated into classes depending on the number of days they are in arrears. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio. Loans are considered in arrears if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, then to any instalment of principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid.

Loan Loss Provisioning and Loan Loss Reserve

Some loans in the portfolio will be uncollectible due to failure of individual members and/or the group/centre guarantee despite SPBD's best efforts. The purpose of loan loss provisioning is to set aside adequate funds or loan loss reserve to cover for potential losses. The loan loss reserve is to be reviewed quarterly and determined by applying predicted loss percentages to aged loans grouped by weeks in arrears.

The following schedule is to be used from the loan portfolio aging report to set the reserve:

Number of weeks in arrears	Percentage of outstanding principal required to be charged as loan loss provision
1 week to 4 weeks in arrears	5%
5 weeks to 8 weeks in arrears	10%
9 weeks to 12 weeks in arrears	25%
13 weeks to 16 weeks in arrears	50%
17 weeks to 20 weeks in arrears	75%
21 + weeks in arrears	100%

Loan Write-off

The purpose of loan write-offs is to remove loans in arrears from SPBD's balance sheet, where there is significant doubt of any material loan payment recovery.

Any loan in arrears exceeding 26 weeks will be short-listed for potential write-off. Write-off decision will be made on a case-by-case basis by the Chairman/President upon review of the recommendations of the General Manager.

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SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

6. LOAN PORTFOLIO continued

Renegotiated Loans

Under exceptional circumstances, management may renegotiate loans—either refinancing the entire loan (issuing a new loan to pay off an existing one) or rescheduling repayment terms for clients who have suffered catastrophic events and who appear willing and able to repay their loans under longer-term agreements. Every renegotiation of a loan must be approved by the Chairman/President. Renegotiated loans are tracked separately because they have a higher risk profile than loans that have not been renegotiated.

Portfolio Quality	Outstanding Loan Balance	Portfolio at Risk	Loan Loss Reserve Rate	Loan Loss Reserve Amount
Current	3,635,431	0%	2%	72,709
1 to 4 weeks in arrears	1,596	0%	5%	80
21 + weeks in arrears	2,308	0%	100%	2,308
Total	3,639,335	0%		75,097

The Board of Directors approved in a special resolution to have a general provision of 2% of the loan portfolio.

Movement in Loan Loss Reserve	2013	2012
Loan Loss Reserve, January 1	71,047	27,694
Loan Loss Provision for the year	4,050	43,353
Loan Loss Reserve, December 31	75,097	71,047

7. RECEIVABLES

	<u>2013</u>	<u>2012</u>
Advance to Officers and Staff	-	100
Other Receivables	1,954	12,008
Prepaid Expenses	15,495	11,798
Total Receivables	<u>17,449</u>	<u>23,906</u>

8. SHORT-TERM INVESTMENTS

	<u>2013</u>	<u>2012</u>
Term Deposit Westpac Bank	203,197	201,184
Term Deposit ANZ Bank	157,873	179,293
Total	<u>361,070</u>	<u>380,476</u>

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

9. FIXED ASSETS

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	50,974	20,815	6,335	30,159
Computer Equipment and Peripherals	40,491	23,547	9,325	16,944
Motor Vehicles	150,090	85,047	21,458	65,043
Office Equipment	34,611	10,836	3,364	23,775
Software and Electronics System	33,418	21,417	7,305	12,001
Leasehold Improvements	4,236	4,236	-	-
2013 TOTAL	313,820	165,898	47,788	147,922
2012 TOTAL	329,718	159,329	61,993	170,389

10. OTHER ASSETS

	<u>2013</u>	<u>2012</u>
Stocks of Passbooks	1,434	562
Stocks of Receipt Books	993	-
Stocks of Secretary Books	402	-
Stocks of CM Books	569	-
Rental Bond - Head Office	8,000	8,000
Total	11,398	8,562

11. CLIENTS SAVINGS DEPOSITS

SPBD promotes good management of household finances by members and a household with a sufficient savings is assured of having cash when an unforeseen event occurs.

SPBD actively encourages its members to develop a regular habit of savings. All members are required to open a savings account and deposit an initial amount of TOP 10. This must be performed prior to any 1st Cycle loan disbursement occurring.

All members also face a compulsory savings requirement. The compulsory savings requirement is 2.5% of the loan amount and deducted from the loan proceeds. The compulsory savings amount cannot be withdrawn while the loan is outstanding. Only when a loan is fully repaid can a member withdraw the compulsory savings.

Members are also encouraged to make voluntary deposits during centre meetings or at the SPBD office. These voluntary deposits can be withdrawn at any time when needed by the member.

All clients' savings are deposited in a segregated bank account at Westpac Bank. SPBD is not a regulated financial institution and does not use clients' savings for onward lending. The number of savings accounts as of the end of the financial year is:

	<u>2013</u>	<u>2012</u>
No. of Saving Accounts	7,007	6,195
Clients Saving Balances	448,558	408,193

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SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

12. ACCOUNTS PAYABLE

	<u>2013</u>	<u>2012</u>
Accounts Payable	23,930	14,180
Employees Entitlement	9,146	15,296
Total	33,076	29,476

13. COMMERCIAL LOANS

	<u>2013</u>	<u>2012</u>
Tonga Development Bank	542,034	388,493
Cresud	796,818	181,488
Total	1,338,852	569,981
Commercial Loan - Current	212,593	177,336
Commercial Loan - Non-Current	1,126,259	392,645
Total	1,338,852	569,981

Tonga Development Bank

The fluctuating credit facility with Tonga Development Bank is secured by a charge of 120% of the loan portfolio of SPBD or 480,000 facility amount.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
10-05-13	TOP	600,000	9%	31-12-19	388,493	211,507	57,966	-	542,034	31,554
TOTAL					388,493	211,507	57,966	-	542,034	31,554

Cresud

Cresud Loan is secured by Guarantees from Microdreams for 40% or USD150,000 and MCC Servire for 60% or USD75,000. It is also secured by a USD25,000 term deposit at a local commercial Bank in Tonga.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
05-10-13	USD	400,000	9.5%	31-03-14	181,488	796,818	178,118	3,370	796,818	21,358
TOTAL					181,488	796,818	178,118	3,370	796,818	21,358

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SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

14. SOFT LOANS

	<u>2013</u>	<u>2012</u>
Microdreams Foundation	215,027	266,468
Jasmine Charitable Trust	-	400,000
Deutsche Bank	294,859	312,295
Good Return	28,789	45,778
Microlumbia Fund	35,270	35,467
Whole Planet Foundation	397,814	255,116
SPBD Microfinance Holdings	-	177,336
Total	971,759	1,492,460
Soft Loans - Current	588,803	975,098
Soft Loans - Long Term	382,955	517,362
Total	971,759	1,492,460

a. MicroDreams Foundation

The loans with Microdreams Foundation are unsecured. There are no deposits tied to these loans and no guarantee was obtained to secure them.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
01-09-09	TOP	162,887	7%	31-08-14	162,887	-	50,000	-	112,887	11,402
01-12-11	NZD	70,000	7%	15-12-14	103,581	-	-	1,441	102,140	7,433
TOTAL					266,468	-	50,000	1,441	215,027	18,835

b. Jasmine Charitable Trust

The loan with Jasmine Charitable Trust has been settled and repaid in full.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
15-10-09	TOP	1,000,000	5%	31-12-13	400,000	0	400,000	0	0	11,070
TOTAL					400,000	0	400,000	0	0	11,070

c. Deutsche Bank

The loans with Deutsche Bank are unsecured. There are no deposits tied to these loans and no guarantee was obtained to secure them.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
15-10-09	USD	100,000	5%	28-02-14	177,336	-	-	14,833	162,503	9,116
02-12-11	USD	75,000	5%	28-02-14	133,002	-	-	646	132,356	6,837
TOTAL					310,338	-	-	15,479	294,859	15,953

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SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

14. SOFT LOANS continued

d. Good Return

The loan with Good Return is unsecured. There are no deposits tied to this loan and no guarantee was obtained to secure it.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
01-04-11	TOP	53,698	0%	On Going	45,778	20,006	36,995	-	28,789	-
TOTAL					45,778	20,006	36,995	-	28,789	-

e. Microlumbia Fund

The loan with Microlumbia is unsecured. There are no deposits tied to this loan and no guarantee was obtained to secure it.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
26-03-12	USD	20,000	8%	29-07-14	35,467	36,153	34,996	1,355	35,270	1,400
TOTAL					35,467	36,153	34,996	1,355	35,270	1,400

f. Whole Planet Foundation

The loan with Whole Planet Foundation is unsecured. There are no deposits tied to this loan and no guarantee was obtained to secure it.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
07-11-12	USD	143,860	0	28-11-19	255,116	154,714	-	12,016	397,814	-
TOTAL					255,116	154,714	-	12,016	397,814	-

g. SPBD Microfinance Holding

The loan with SPBD Microfinance Holding has been settled and repaid in full.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-12 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-13 (Top\$)	Interest Repayment (TOP\$)
27-11-12	USD	100,000	2.50%	28-02-13	177,336	-	175,131	2,205	-	4,378
TOTAL					177,336	-	175,131	2,205	-	4,378

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
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15. ACCRUED INTEREST

	<u>2013</u>	<u>2012</u>
Accrued Interest Payable		
Microdreams Foundation	1,013	1,131
Deutsche Bank	1,415	1,879
Cresud	6,145	5,177
Microcolumbia Fund	132	705
SPBD Holding	-	1,478
Total	<u>8,705</u>	<u>10,370</u>

16. OWNER'S EQUITY

SPBD Microfinance Holdings (Singapore) Pte Limited:

	<u>2013</u>	<u>2012</u>
Opening Balance	528,233	354,624
Equity Injection	-	173,609
Closing Balance 31 Dec	<u>528,233</u>	<u>528,233</u>

17. DIVIDEND PAYABLE

The Board of Directors, at its meeting dated 9th May 2013, passed a resolution approving a dividend payment of \$200,000 for the financial year ended 31 December 2013.

18. RELATED PARTY TRANSACTIONS

Borrower	Balance	Term	Status
Staff	\$30,007	12 months	Current

The above balance of \$30,007 for Related Party Transactions is included in the balance of \$3,639,335 for Loan Receivables in note 6 above.

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SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2013

19. TAXATION

a. Income Tax

Income tax payable is 25% of Net Operating Income for the financial period.

Operating Income as per Financials	429,889
<i>Add: Non deductible expenses</i>	
Life Insurance Provision	26,308
Loan Insurance Loss	10,079
Loan Loss Provision	4,050
Unrealised Forex Loss 2013	76,603
	<u>117,039</u>
<i>Less: Deductible expenses</i>	
Life Insurance 2012	27,171
Forex 2012	28,731
Loan Loss Provision 2012	43,353
	<u>99,255</u>
Taxable Income	447,672
Income Tax Payable	<u><u>111,918</u></u>
b. Tax Payable	
Income Tax Payable	111,918
Withholding Tax Payable	22,027
Total	<u><u>133,945</u></u>

20. NON FINANCIAL SERVICES

Financial Diaries Program

In 2012 the executive management decided to develop and pilot a project to increase financial literacy for SPBD clients.

Initial development of the project began in February 2012. That stage of development included information gathering, needs analysis and identification of a training partner to help implement the pilot. It also included the development of the training and supporting training manual/program for SPBD Center Managers and clients. Roll out of the pilot began in July 2012 with one pilot centre per Centre Manager. An additional two centres were added in Tongatapu and one in Ha'apai during the third quarter.

At the beginning of 2013 the project began to be rolled out across the entire SPBD Tonga network in Tongatapu, Vava'u, Ha'apai and in 'Eua in the last quarter and also the seven other outer islands we have a presence in.

SPBD charges no fees for the training to clients.

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SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
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FOR THE YEAR ENDING 31 DECEMBER 2013

21. CAPITAL COMMITMENTS

There were no capital commitments for the year ended 31 December 2013.

22. OPERATING LEASE COMMITMENTS

Except for the month- by- month rental obligations of SPBD business premises, there are no other operating lease commitments for the year ended 31 December 2013.

23. CONTINGENT LIABILITY

There is no contingent liability for the year ended 31 December 2013.

24. SUBSEQUENT EVENT

On January 11, 2014 the island group of Ha'apai was damaged by Cyclone Ian, a category 5 hurricane. Over 900 homes were destroyed and there was severe damage or loss of crops, animals and businesses. An initial survey of SPBD clients identified 70 women had lost their homes and another 130 had sustained severe damage to either their homes or businesses.

The SPBD Ha'apai Office suffered severe damage. Located on the third floor of the Peter Vi building and facing into the hurricane winds, all windows were blown out, furniture tossed and broken, the computer damaged and documents lost. The building was structurally unsafe to return to and SPBD had to secure alternative office space. Estimated cost of loss is \$5,000 TOP.

In the immediate aftermath SPBD suspended loan repayments in Ha'apai until February 17th, 2014 resulting in a temporary increase in PAR. We provided emergency relief kits and created a Recovery Loan program. Funding the Recovery Loan Program will require a maximum of \$370,000 TOP of new financing. That funding is a combination of grants, new loans to SPBD and requested early disbursement of next tranche from Whole Planet Foundation.