



South Pacific Business Development  
Microfinance Ltd.

Financial Statements

For the year ended 31 December 2014

**AUDIT REPORT  
TO THE READERS OF THE  
SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LIMITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2014**

**Unqualified opinion**

In our opinion, proper accounting records have been kept by South Pacific Business Development Microfinance Limited (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 2014 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 02 April 2015, 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.

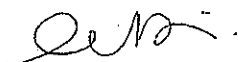
The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial 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 generally accepted accounting principles. 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 2014.

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.**

**BALANCE SHEET**  
As at 31 December 2014

<b>ASSETS</b>			
<b>Current Assets</b>	<i>Note</i>	<b>2014</b>	<b>2013</b>
Cash on Hand and in Bank	5	374,097	285,106
Loan Portfolio Outstanding	6	4,151,328	3,564,238
Receivables	7	17,603	17,449
Short-Term Investments	8	350,789	361,070
<b>Total Current Assets</b>		<b>4,893,817</b>	<b>4,227,863</b>
<b>Property, Plant &amp; Equipment</b>			
Property, plant and equipment	9	386,358	313,820
Less: Accumulated Depreciation		(222,284)	(165,898)
<b>Net Fixed Assets</b>		<b>164,074</b>	<b>147,922</b>
<b>Other Assets</b>	10	10,449	11,398
<b>TOTAL ASSETS</b>		<b>5,068,340</b>	<b>4,387,183</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Cash at Bank - Overdraft	5	356,237	85,883
Life Insurance Reserve		15,086	23,842
Grant Funds Received		54,373	-
Clients' Savings deposits	11	547,547	448,558
Accounts Payable	12	28,970	33,076
Commercial Loans - Current	13	448,425	212,593
Soft Loans - Current	14	170,290	588,803
Accrued Interest Payable	15	37,296	8,705
Dividend Payable	17	-	200,000
Taxes Payable	19	144,940	133,945
<b>Total Current Liabilities</b>		<b>1,803,164</b>	<b>1,735,405</b>
<b>Non Current Liabilities</b>			
Commercial Loans - Non Current	13	825,039	1,126,259
Soft Loans - Non Current	14	1,137,983	382,956
<b>Total Non Current Liabilities</b>		<b>1,963,022</b>	<b>1,509,215</b>
<b>TOTAL LIABILITIES</b>		<b>3,766,186</b>	<b>3,244,620</b>
<b>EQUITY</b>			
Owner's equity	16	528,233	528,233
Retained Earnings		614,330	496,358
Less Dividend		(200,000)	(200,000)
Net Income current period		359,591	317,972
<b>TOTAL EQUITY</b>		<b>1,302,154</b>	<b>1,142,563</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>5,068,340</b>	<b>4,387,183</b>

  
**Gregory F. Casagrande**  
 Chairman/ President

Date: 2 April 2015

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 year ended 31 December 2014**

<b>Financial Income</b>	<i>Note</i>	<b>2014</b>	<b>2013</b>
Interest on Loans		1,783,166	1,678,107
Development Fee		145,250	136,845
Loan Insurance Fee		78,160	68,423
Life Insurance Fee		91,876	77,870
Interest earned on Bank Accounts & Term Deposits		2,343	2,259
Other operating revenues		30,900	60,543
<b>Total Financial Income</b>		<b>2,131,695</b>	<b>2,024,047</b>
<b>Financial Expenses</b>			
Interest and fees on borrowed funds		220,530	174,881
Foreign Exchange Loss/(Gain)		136,885	76,603
Interest on Client Saving		8,627	6,627
Loan Insurance Loss		22,557	10,079
Life Insurance Loss		31,243	26,308
<b>Total Financial Expenses</b>		<b>419,842</b>	<b>294,498</b>
<b>NET FINANCIAL INCOME</b>		<b>1,711,853</b>	<b>1,729,549</b>
Loan Loss Provision	6	12,649	4,050
<b>NET FINANCIAL MARGIN</b>		<b>1,699,204</b>	<b>1,725,499</b>
<b>Operating Expenses</b>			
Computer Support System		11,137	7,510
Conference & Meetings		15,181	14,825
Depreciation	9	56,386	47,788
Electricity and Water		15,379	14,844
Fees and Bank Charges		70,713	12,391
Insurance		8,857	12,538
Management Fees		307,448	272,836
Membership Fees and Subscription		411	522
Office Expenses		19,504	20,345
Postage, Telephone and Communications		25,488	19,926
Printing and Office Stationeries		48,326	33,454
Professional Services		10,834	22,566
Public Relations and Advertisements		949	2,532
Office Lease		68,700	64,400
Repairs and Maintenance		12,123	21,082
Salaries and Benefits		519,580	485,942
Staff Training and Development		18,446	30,789
Transportation, Fuel, Oil		41,560	50,674
Travel Local		32,763	37,497
Travel Overseas		41,549	44,791
Board of Directors Fees		4,000	4,000
SPBD Award day		45,575	33,928
Staff Retreat 2014		9,320	10,078
Financial Diaries Expenses	20	3,949	21,915
Planet Rating Expenses		-	13,802
<b>Total Operating Expenses</b>		<b>1,388,178</b>	<b>1,300,975</b>

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 year ended 31 December 2014**

<b>Non-Operating Income/(Expenses):</b>	<i>Note</i>	<b>2014</b>	<b>2013</b>
Grants & Donations		154,097	2,800
Ha'apai Relief		(50,439)	-
Other non-operating income		62,343	2,566
<b>NET INCOME</b>		<u>166,001</u>	<u>5,366</u>
<b>NET OPERATING INCOME BEFORE TAXES</b>		<b>477,027</b>	<b>429,890</b>
Income Tax	19	(117,436)	(111,918)
<b>NET INCOME AFTER TAX</b>		<u>359,591</u>	<u>317,972</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 year ended 31 December 2014**

<b>Cash flows from operating activities</b>	<i>Note</i>	<b>2014</b>	<b>2013</b>
<b><i>Cash was provided from:</i></b>			
Receipts from Customers		1,272,392	1,790,923
Receipts from Other Revenue		272,213	65,909
Total Receipts		1,544,605	1,856,832
<b><i>Cash was disbursed to:</i></b>			
Payments to suppliers		1,277,338	1,161,571
Labour Costs		519,580	485,942
Taxes Payable		36,909	2,933
Total Payments		1,833,827	1,650,446
<b>Net cash inflows from operating activities</b>		<b>(289,222)</b>	<b>206,386</b>
<b>Investing Activities</b>			
Acquisition of property, plant and equipment		(72,538)	(25,321)
Short Term Investments		10,282	19,406
<b>Net cashflows used in investing activities</b>		<b>(62,256)</b>	<b>(5,915)</b>
<b>Financing Activities</b>			
Client Saving Deposits		98,989	40,364
Soft Loans		336,514	(520,701)
Commercial Loans		(65,388)	768,870
Dividend Paid		(200,000)	-
<b>Net cashflows from financing activities</b>		<b>170,115</b>	<b>288,533</b>
Net increase/(decrease) in cash and cash equivalents		(181,363)	489,004
Cash and cash equivalents at the beginning of the year		199,223	(289,781)
<b>Cash and cash equivalents at the end of the year</b>		<b>17,860</b>	<b>199,223</b>

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 2014**

**Reconciliation of Net Income with Cash from Operating Activities**

	<b>2014</b>	<b>2013</b>
Net Income after Tax	359,591	317,972
Adjustments for Non-Cash Items		
Depreciation	56,386	47,788
Loan Loss Provision	12,649	4,050
<b>(Increase)/Decrease in Operating Assets:</b>		
Gross Loan Portfolio	(599,740)	(179,218)
Receivables	(154)	6,457
Other Assets	949	(2,836)
<b>Increase/(Decrease) in Operating liabilities:</b>		
Accounts Payable	(204,106)	3,600
Taxes Payable	10,995	2,933
Accrued Interest Payable	28,591	(1,665)
Life Insurance Reserve	(8,756)	7,305
Grant Funds Received	54,373	-
<b>Net Cash from Operating Activities</b>	<b>(289,222)</b>	<b>206,386</b>

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

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2014*

**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 2014**

**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 2014*

**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:

	<b>2014</b>	<b>2013</b>
	154,097	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 2014*

**Foreign Currencies continued**

	<b>2014</b>	<b>2013</b>
Exchange rate used at balance sheet date (TOP/USD)	0.5109	0.5400
Exchange Rate used at balance sheet date (TOP/NZD)	0.6444	0.6500

**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 2014**

**5. CASH ON HAND AND IN BANK**

	<u><i>Cash on Hand</i></u>	<b>2014</b>	<b>2013</b>
Undeposited Collections		15,519	2,807
Petty Cash Imprest		1,400	1,100
Saving Reserve Imprest		40,000	15,000
<b>SUB_TOTAL</b>		<b>56,919</b>	<b>18,907</b>
	<u><i>Cash in Bank</i></u>		
ANZ Dollar Account 165-3890		449	36,199
Westpac Bank Account 2000732848		271,167	207,273
TDB- Ha'apai Bank Account 149464 S1		20,714	11,689
TDB- 'Eua Bank Account 149464 S1		24,848	11,038
<b>SUB_TOTAL</b>		<b>317,178</b>	<b>266,199</b>
	<u><i>Bank Overdraft</i></u>		
ANZ Bank Account 165-3787		(356,237)	(85,883)
<b>TOTAL</b>		<b>17,860</b>	<b>199,223</b>

**6. LOAN PORTFOLIO**

	<u><i>Loans Receivables</i></u>	<b>2014</b>	<b>2013</b>
Opening Balance		3,639,335	3,460,117
Total Loan Disbursement		7,931,685	6,971,784
Less: Total Principal Loan Repayments		(7,331,946)	(6,792,566)
<b>Gross Loan Portfolio</b>		<b>4,239,074</b>	<b>3,639,335</b>
Less: Loan Loss Reserve		(87,746)	(75,097)
<b>Net Loan Portfolio</b>		<b>4,151,328</b>	<b>3,564,238</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2014**

**6. LOAN PORTFOLIO continued**

**GROSS LOAN PORTFOLIO**

	<u>2014</u>	<u>2013</u>
<b>Opening Balance (Nuku'alofa)</b>	3,138,729	2,869,125
Plus: 2014 Loan Disbursement	5,965,067	5,607,084
Less: 2014 Loan Repayments	(5,770,342)	(5,337,480)
<b>Gross Loan Portfolio (Nuku'alofa)</b>	<b>3,333,454</b>	<b>3,138,729</b>
<b>Opening Balance (Vava'u)</b>	260,324	512,014
Plus: 2014 Loan Disbursement	1,000,902	840,150
Less: 2014 Loan Repayments	(930,557)	(1,091,840)
<b>Gross Loan Portfolio (Vava'u)</b>	<b>330,669</b>	<b>260,324</b>
<b>Opening Balance (Ha'apai)</b>	184,477	78,978
Plus: 2014 Loan Disbursement	548,165	446,850
Less: 2014 Loan Repayments	(312,085)	(341,351)
<b>Gross Loan Portfolio (Ha'apai)</b>	<b>420,557</b>	<b>184,477</b>
<b>Opening Balance ('Eua)</b>	55,805	-
Plus: 2014 Loan Disbursement	417,550	77,700
Less: 2014 Loan Repayments	(318,961)	(21,895)
<b>Gross Loan Portfolio ('Eua)</b>	<b>154,394</b>	<b>55,805</b>
<b>SPBD Gross Loan Portfolio</b>	<b>4,239,074</b>	<b>3,639,335</b>

**No. of Loans Outstanding**

	<u>2014</u>	<u>2013</u>
SPBD Group Loan Product	4,457	4,146

**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, and 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.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2014**

**6. LOAN PORTFOLIO continued**

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.

***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	4,235,475	0%	2%	84,709
1 to 4 weeks in arrears	592	0%	5%	30
21 + weeks in arrears	3,007	0%	100%	3,007
<b>Total</b>	<b>4,239,074</b>	<b>0%</b>		<b>87,746</b>

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	2014	2013
Loan Loss Reserve, January 1	75,097	71,047
Loan Loss Provision for the year	12,649	4,050
<b>Loan Loss Reserve, December 31</b>	<b>87,746</b>	<b>75,097</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2014**

**7. RECEIVABLES**

	<u>2014</u>	<u>2013</u>
Other Receivables	13,897	1,954
Prepaid Expenses	3,706	15,495
<b>Total Receivables</b>	<b>17,603</b>	<b>17,449</b>

**8. SHORT-TERM INVESTMENTS**

	<u>2014</u>	<u>2013</u>
Term Deposit Westpac Bank	203,989	203,197
Term Deposit ANZ Bank	146,800	157,873
<b>Total</b>	<b>350,789</b>	<b>361,070</b>

**9. FIXED ASSETS**

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	54,864	27,561	6,746	27,303
Computer Equipment and Peripherals	51,545	33,500	9,953	18,045
Motor Vehicles	198,359	115,052	30,005	83,307
Office Equipment	39,666	15,710	4,874	23,956
Software and Electronics System	33,418	26,114	4,697	7,304
Leasehold Improvements	8,506	4,347	111	4,159
<b>2014 TOTAL</b>	<b>386,358</b>	<b>222,284</b>	<b>56,386</b>	<b>164,074</b>
<b>2013 TOTAL</b>	<b>313,820</b>	<b>165,898</b>	<b>47,788</b>	<b>147,922</b>

**10. OTHER ASSETS**

	<u>2014</u>	<u>2013</u>
Stocks of Passbooks	221	1,434
Stocks of Receipt Books	310	993
Stocks of Secretary Books	1,131	402
Stocks of CM Books	787	569
Rental Bond - Head Office	8,000	8,000
<b>Total</b>	<b>10,449</b>	<b>11,398</b>

**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 1<sup>st</sup> Cycle loan disbursement occurring.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
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**11. CLIENTS SAVINGS DEPOSITS continued**

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>2014</u>	<u>2013</u>
No. of Saving Accounts	8,035	7,007
Clients Saving Balances	547,547	448,558

**12. ACCOUNTS PAYABLE**

	<u>2014</u>	<u>2013</u>
Accounts Payable	14,710	23,930
Employees Entitlement	14,260	9,146
<b>Total</b>	<b>28,970</b>	<b>33,076</b>

**13. COMMERCIAL LOANS**

	<u>2014</u>	<u>2013</u>
Tonga Development Bank	466,587	542,034
Cresud	782,932	796,818
Westpac	23,945	-
<b>Total</b>	<b>1,273,464</b>	<b>1,338,852</b>
Commercial Loan - Current	448,425	212,593
Commercial Loan - Non-Current	825,039	1,126,259
<b>Total</b>	<b>1,273,464</b>	<b>1,338,852</b>

**a) Tonga Development Bank**

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
10-05-13	TOP	600,000	9.0%	31-12-19	542,034	-	75,447	-	466,587	43,893
<b>TOTAL</b>					<b>542,034</b>	<b>-</b>	<b>75,447</b>	<b>-</b>	<b>466,587</b>	<b>43,893</b>



**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
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**13. COMMERCIAL LOANS continued**

**b) Cresud**

Cresud Loan is secured by Guarantees from MicroDreams for 40% or USD150,000 and MCC Service 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 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
5-10-13	USD	400,000	9.5%	31-03-14	796,818	-	92,030	78,144	782,932	30,877
<b>TOTAL</b>					<b>796,818</b>	<b>-</b>	<b>92,030</b>	<b>78,144</b>	<b>782,932</b>	<b>30,877</b>

**c) Westpac Bank of Tonga**

Westpac loan is secured by the 3 vehicles purchased with loan Fund i.e. Honda CRV 1997/10, CC: 1970, Petrol, 5 doors, silver, CHASIS NUMBER RDI-1506985, Honda CRV-1992/2, CC: 1970, Petrol, 5 seats, 5 doors, God, 4 wheel drive, CHASIS NUMBER RDI-5202239 and Mitsubishi Pajero Lo 1999, automatic, CC: 1990, petrol, 5 seats, 5 doors, Blue, 4 wheel drive, CHASISI NUMBER H76W00040147.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
08-07-14	TOP	30,000	9.65%	01-07-16	-	30,767	6,822	-	23,945	1,248
<b>TOTAL</b>					<b>-</b>	<b>30,767</b>	<b>6,822</b>	<b>-</b>	<b>23,945</b>	<b>1,248</b>

**14. SOFT LOANS**

	<u>2014</u>	<u>2013</u>
Microdreams Foundation	362,108	215,027
Deutsche Bank	-	294,859
Good Return	33,882	28,789
Microcolumbia Fund	-	35,270
Whole Planet Foundation	520,817	397,814
Respons-Ability	391,466	-
<b>Total</b>	<b>1,308,273</b>	<b>971,759</b>
Soft Loans - Current	170,290	588,803
Soft Loans - Long Term	1,137,983	382,956
<b>Total</b>	<b>1,308,273</b>	<b>971,759</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**14. SOFT LOANS continued**

**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 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
01-09-09	TOP	162,887	7.0%	31-08-14	112,887	-	112,887	-	-	5,207
01-12-11	NZD	70,000	7.0%	15-12-14	102,140	-	105,688	3,548	-	6,841
01-03-10	USD	50,000	5.0%	31-03-17	-	89,831	-	10,348	100,179	3,166
04-11-14	USD	75,000	6.5%	28-02-15	-	141,190	-	3,762	144,952	-
19-11-14	USD	60,000	6.5%	31-12-18	-	113,186	-	3,791	116,977	-
<b>TOTAL</b>					<b>215,027</b>	<b>-</b>	<b>218,575</b>	<b>21,449</b>	<b>362,108</b>	<b>15,214</b>

**b. 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 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
15-10-09	USD	100,000	5.0%	28-02-14	162,503	-	186,881	24,378	-	2,985
02-12-11	USD	75,000	5.0%	28-02-14	132,356	-	140,161	7,805	-	2,239
<b>TOTAL</b>					<b>294,859</b>	<b>-</b>	<b>327,042</b>	<b>32,183</b>	<b>-</b>	<b>5,224</b>

**c. 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 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
01-04-11	TOP	53,698	0%	On Going	28,789	24,923	19,830	-	33,882	-
<b>TOTAL</b>					<b>28,789</b>	<b>24,923</b>	<b>19,830</b>	<b>-</b>	<b>33,882</b>	<b>-</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
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**14. SOFT LOANS continued**

**d. 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 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
26-03-12	USD	20,000	8.0%	29-07-14	35,270	-	34,802	468	-	1,487
<b>TOTAL</b>					<b>35,270</b>	<b>-</b>	<b>34,802</b>	<b>468</b>	<b>-</b>	<b>1,487</b>

**e. 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 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
07-11-12	TOP	243,115	0	28-11-19	243,115	-	-	-	243,115	-
28-11-13	TOP	154,699	0	28-11-19	154,699	-	-	-	154,699	-
14-04-14	TOP	123,003	0	01-04-20	-	123,003	-	-	123,003	-
<b>TOTAL</b>					<b>397,814</b>	<b>123,003</b>	<b>-</b>	<b>-</b>	<b>520,817</b>	<b>-</b>

**f. ResponsAbility**

The loan with ResponsAbility is in a form of a promissory note between Issuer: SPBD Microfinance Ltd and Note Holder: responsAbility Global Microfinance Fund.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-13 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-14 (TOP\$)	Interest Repayment (TOP\$)
28-07-14	USD	200,000	8.5%	28-07-16	-	356,761	-	34,705	391,466	-
<b>TOTAL</b>					<b>-</b>	<b>356,761</b>	<b>-</b>	<b>34,705</b>	<b>391,466</b>	<b>-</b>

**15. ACCRUED INTEREST**

	<u>2014</u>	<u>2013</u>
<b>Accrued Interest Payable</b>		
Microdreams Foundation	3,677	1,013
Deutsche Bank	-	1,415
Cresud	19,167	6,145
Microcolumbia Fund	-	132
Respons-Ability	14,453	-
<b>Total</b>	<b>37,296</b>	<b>8,705</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
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**16. OWNER'S EQUITY**

SPBD Microfinance Holdings (Singapore) Pte Limited:

	<u>2014</u>	<u>2013</u>
Opening Balance	528,233	528,233
Equity Injection	-	-
<b>Closing Balance 31 Dec</b>	<u>528,233</u>	<u>528,233</u>

**17. DIVIDEND PAYABLE**

The Board of Directors, at its meeting dated 9<sup>th</sup> May 2013, passed a resolution approving a dividend payment of \$200,000 for the financial year ended 31 December 2013 and 2014.

**18. RELATED PARTY TRANSACTIONS**

<b>Borrower</b>	<b>Balance</b>	<b>Term</b>	<b>Status</b>
Staff	\$32,874	12 months	Current

The above balance of \$32,874 for Related Party Transactions is included in the balance of \$4,239,074 for Loan Receivables in note 6 above.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**19. TAXATION**

**a. Income Tax**

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

<b>Operating Income as per Financials</b>		477,027
<i>Add: Non deductible expenses</i>		
Unrealised Forex Loss	136,885	
Life Insurance Provision	31,243	
Loan Insurance Loss	22,557	
Loan Loss Provision	12,649	
		<u>203,334</u>
<i>Less: Deductible expenses/Non deductible income</i>		
Life Insurance 2013	26,308	
Forex 2013	76,603	
Loan Loss Provision 2013	4,050	
Grant Funding - Ha'apai Cyclone Relief	103,658	
		<u>210,619</u>
<b>Taxable Income</b>		<b>469,742</b>
<b>Income Tax Payable</b>		<u><b>117,436</b></u>
<b>b. Tax Payable</b>		
Income Tax Payable		117,436
Withholding Tax Payable		27,504
<b>Total</b>		<u><b>144,940</b></u>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2014*

**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 Centre 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.

**21. CAPITAL COMMITMENTS**

There were no capital commitments for the year ended 31 December 2014.

**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 2014.

**23. CONTINGENT LIABILITY**

There is no contingent liability for the year ended 31 December 2014.

**24. 2014 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 has 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 17<sup>th</sup>, 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 early disbursement of next tranche from Whole Planet Foundation.