SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)

FINANCIAL STATEMENTS

FOR THE PERIOD 26 JULY 2010
[DATE OF INCORPORATION] TO 31 DECEMBER 2010

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DIRECTORS' REPORT

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of the company as at 31 December 2010, the related statement of comprehensive income, statement of changes in equity and statement of cash flow for the period then ended on that date and report as follows:

Directors

The names of the directors in office at the date of this report are:

Gregory F Casagrande
Peter Lowing

Principal Activities

The company commenced commercial business operations in October 2010.

The principal activity of the company during the period was to provide financial assistance to economically disadvantaged people particularly women who cannot easily access savings and loan products from traditional banks.

There were no significant changes in the nature of this activity during the financial period.

Results

The loss after income tax for the period was $365,163.

Dividends

The directors recommend that no amounts be paid by way of dividends for the period ended 31 December 2010.

Reserves

It is proposed that no amounts be transferred to reserves within the meaning of the Seventh Schedule of the Companies Act, 1983.

Going Concern Basis of Accounting

The financial statements have been prepared on a going concern basis on the understanding that sufficient funds will be obtained from future operations and in the short term, if need be, from the founder of the company, to enable the company to meet its obligations as and when they fall due.

Value of Assets

Prior to the completion of the company's financial statements, the directors took reasonable steps to ascertain whether any assets were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the company. Where necessary, these assets have been written down or adequate allowance has been made to bring the values of such assets to an amount that they might be expected to realise.

As at the date of this report, the directors are not aware of any circumstances, which would render the values attributed to assets in the company's financial statements misleading.

DIRECTORS' REPORT [CONT'D]

Unusual Transactions

In the opinion of the directors, the results of the operations of the company during the financial period were not substantially affected by any item, transaction or event of a material unusual nature, nor has there arisen between the end of the financial period and the date of this report any item, transaction or event of a material unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the company in the current financial period.

Events Subsequent to Balance Date

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Other Circumstances

As at the date of this report:

(i) no charge on the assets of the company has been given since the end of the financial period to secure the liabilities of any other person;

(ii) no contingent liabilities have arisen since the end of the financial period for which the company could become liable; and

(iii) no contingent liabilities or other liabilities of the company has become or is likely to become enforceable within the period of twelve months after the end of the financial period which, in the opinion of the directors, will or may substantially affect the ability of the company to meet its obligations as and when they fall due.

As at the date of this report, the directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the company's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the company misleading or inappropriate.

Directors' Benefits

No director has received or become entitled to receive a benefit (other than those disclosed in the financial statements) by reason of a contract made by the company or by a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 31 day of August 2011.

....
Director
Gregory F. Casagrande

....
Director

STATEMENT BY DIRECTORS

In accordance with a resolution of the board of directors of South Pacific Business Development Microfinance (Fiji) (Ltd), we state that in the opinion of the directors:

[i] the accompanying statement of comprehensive income of the company is drawn up so as to give a true and fair view of the results of the company for the period ended 31 December 2010;

[ii] the accompanying statement of changes in equity of the company is drawn up so as to give a true and fair view of the changes in equity of the company for the period ended 31 December 2010;

[iii] the accompanying statement of financial position of the company is drawn up so as to give a true and fair view of the state of affairs of the company as at 31 December 2010;

[iv] the accompanying statement of cash flow of the company is drawn up so as to give a true and fair view of the cash flows of the company for the period ended 31 December 2010;

[v] the financial statements have been prepared in accordance with International Financial Reporting Standards;

[vi] at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due; and

[vii] all related party transactions have been adequately recorded in the books of the company.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 31 day of August 2011.

.... Director

Gregory F. Casagranda

.... Director

G. LAL + CO.
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the members of South Pacific Business Development Microfinance (Fiji) (Ltd)

Report on the Financial Statements

We have audited the accompanying financial statements of South Pacific Business Development Microfinance (Fiji) (Ltd), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the period then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 7 to 31.

The statement of comprehensive income and the statement of financial position together with the notes thereon have been drawn up in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions.

Director's and Management's Responsibility for the Financial Statements

Directors and management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 1983. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the members of South Pacific Business Development Microfinance (Fiji) (Ltd)

Opinion

In our opinion:

(a) proper books of account have been kept by the company, so far as it appears from our examination of those books; and

(b) the accompanying financial statements which have been prepared in accordance with International Financial Reporting Standards; and in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions:

i) are in agreement with the books of account;

ii) to the best of our information and according to the explanations given to us:

(a) give a true and fair view of the state of affairs of the company as at 31 December 2010 and of the results, cash flows and changes in shareholders' equity of the company for the period ended on that date; and

(b) give the information required by the Companies Act, 1983 in the manner so required.

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

SUVA, FIJI
31 AUGUST 2011

G Lal & Co
CHARTERED ACCOUNTANTS

STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 26 JULY 2010 [DATE OF INCORPORATION] TO 31 DECEMBER 2010

	Notes		2010
Financial Income			
Development fee		$	8,240
Interest on loans			11,231
Loan insurance fee			10,300
Savings withdrawal fee			76
Total financial income			29,847
Financial Expenses			
Interest on borrowed funds			(4,764)
Loan insurance loss			(1,250)
Total financial expenses			(6,014)
Financial income			**23,833**
Other operating revenue	6		2,186
Total income			**26,019**
Administration and operating expenses			(391,182)
Loss before income tax	7		**(365,163)**
Income tax expense	8		-
Loss for the period			**(365,163)**
Other comprehensive income			-
Total comprehensive expense for the period		$	**(365,163)**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 31.

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD 26 JULY 2010 [DATE OF INCORPORATION] TO 31 DECEMBER 2010

	Issued Capital	Accumulated Loss	Total
	$	$	$
Issue of share capital (Refer note 16)	250,000	-	250,000
Loss for the period	-	(365,163)	(365,163)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	-	(365,163)	(365,163)
Balance as at 31 December 2010	**250,000**	**(365,163)**	**(115,163)**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 31.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes		2010
CURRENT ASSETS			
Cash on hand and at bank	9	$	146,918
Loan portfolio outstanding	10		364,874
Receivables	11		20,600
Total current assets			**532,392**
NON-CURRENT ASSETS			
Property, plant and equipment	12		174,165
Total non-current assets			**174,165**
TOTAL ASSETS			**706,557**
CURRENT LIABILITIES			
Clients' savings deposits	13		50,481
Payables	14		266,430
Total current liabilities			**316,911**
NON-CURRENT LIABILITIES			
Interest bearing borrowings	15		504,809
Total non-current liabilities			**504,809**
TOTAL LIABILITIES			**821,720**
NET LIABILITIES			**(115,163)**
SHAREHOLDERS' EQUITY			
Issued capital	16		250,000
Accumulated loss			(365,163)
TOTAL SHAREHOLDERS' EQUITY		$	**(115,163)**

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 31.

For and on behalf of the board and in accordance with a resolution of the directors.

Director
Gregory F. Casagrande

Director

STATEMENT OF CASH FLOW
FOR THE PERIOD 26 JULY 2010 [DATE OF INCORPORATION] TO 31 DECEMBER 2010

		2010 Inflows/ (Outflows)
Cash flows from operating activities		
Development fees received	$	8,240
Interest received		11,231
Loan insurance fee received		10,300
Savings withdrawal fee received		76
Loans to clients		(412,000)
Repayments from clients		47,126
Client savings deposit		50,481
Payments to suppliers and employees		(142,534)
Net cash used in operating activities		(427,080)
Cash flows from investing activities		
Payments for property, plant and equipment		(127,606)
Net cash used in investing activities		(127,606)
Cash flows from financing activities		
Proceeds from shareholder		200,000
Proceeds from term loans		501,604
Net cash provided by financing activities		701,604
Net increase in cash and cash equivalents		**146,918**
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period (Note 9(a))	$	**146,918**

The statement of cash flow is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 11 to 31.

NOTE 1. GENERAL INFORMATION

South Pacific Business Development Microfinance (Fiji) (Ltd) (SPBD) is a company incorporated and domiciled in Fiji. The address of its registered office and principal place of business is disclosed in Note 21 to the financial statements.

The principal activities of the company during the period were to provide financial assistance to economically disadvantaged people particularly women who cannot easily access savings and loan products from traditional banks.

The company commenced commercial business operations in October 2010.

NOTE 2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

Amendments issued but not yet effective

The following amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2011 or later periods, and the company has not early adopted them. No significant impact is expected to arise out of these amendments.

- IAS 24 (Amendment), Related Party Transactions (effective from 1 January 2011).
- IFRS 9 (Amendment), Financial Instruments – Classification and Measurement (effective from 1 January 2013).

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the company are stated to assist in a general understanding of these financial statements.

(a) Statement of Compliance

The financial statements of the company have been drawn up in accordance with the provisions of the Companies Act 1983 and International Financial Reporting Standards ("IFRS").

The financial statements have also been prepared to comply with the Disclosure Guidelines for financial reporting of Microfinance Institutions whereby guidelines are voluntary norms recommended by a group of international donors under the Consultative Group to Assist the Poor (CGAP) and by the members of the Social Enterprise Education and Promotion Network (SEEP).

(b) Basis of preparation

The financial statements have been prepared on the basis of historical cost convention, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of preparation (Cont'd)

In the application of IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are critical to the financial statements are disclosed in Note 4.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

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

(c) Going Concern Basis of Accounting

The financial statements have been prepared on a going concern basis on the understanding that sufficient funds will be obtained from future operations and in the short term, if need be, from the founder of the company, to enable the company to meet its obligations as and when they fall due.

(d) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Cash and cash equivalents

For the purpose of statement of cash flow, cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within interest bearing borrowings in current liabilities in the statement of financial position.

(g) Client savings deposits

Client savings deposit is recorded as current liabilities in the statement of financial position.

A savings account has to be established by client in order for consideration for loan by depositing $10. When the loan has been processed and approved, 5% of the loan amount is deducted and recorded in the client savings account as compulsory deposit. Client with a current loan balance must have a minimum deposit of 5% of the original loan amount.

Only members of SPBD - formed Centre can open a savings account with South Pacific Business Development Microfinance (Fiji) (Ltd). Notwithstanding the outstanding loan, the member is required to fully observe members' duties like attending the weekly meetings, approve and guarantee other member's loans.

There is no limit on the amount of money the clients can keep in the savings account. The minimum balance that a client can keep is $1. However, for members with current loan the minimum balance at any given time should be $10 plus 5% of the original loan amount.

The company is not a regulated financial intermediary and does not therefore use client deposits for on-lending. Members can withdraw money with prior notice or anytime for emergencies. The company provides monthly saving reports to the Reserve Bank of Fiji. The 5% loan retention can only be withdrawn by a client after the latest loan is fully paid off.

(h) Employee benefits

Wages, salaries and annual leave

Liabilities for wages and salaries expected to be settled within 12 months of the reporting date are accrued up to the reporting date. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates prevailing at that time.

Annual leave

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Defined contribution plans

Contributions to Fiji National Provident Fund or other superannuation plans are expensed when incurred.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Foreign currency translation

a) Functional and presentation currency

The company operates in Fiji and hence its financial statements are presented in Fiji dollars, which is the company's functional and presentation currency.

b) Transactions and balances

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

(j) Income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

(k) Leased Assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated so as to write off the net cost of property, plant and equipment over its expected useful life.

The principal annual rates employed are as follows:

Leasehold improvements	50% (2 years)
Furniture and fittings	20%(5 years)
Motor vehicles	33% - 50% (3 to 5 years)
Computer equipment & peripherals	33%(3 years)
Office equipment	50% (2 years)
Software & electronics system	33% (3 years)

Profits and losses on disposal of property, plant and equipment are taken into account in determining the results for the year.

(m) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

Provision is made for the company's liability to employees for annual leave on the basis of statutory or contractual requirements.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Revenue recognition

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

(i) *Interest Income from loans receivable*

In accordance with the Disclosure Guidelines for financial reporting of Microfinance Institutions, interest income from loan portfolio is recognised using a cash-based method where they are recognised at the time they are received. Hence, if the loan (with the interest) is paid before it is due, then the interest income is recognised at the time of collection, whereas if the loan (with the interest) is in arrears then no interest income is recognised.

(ii) *Development fees*

SPBD charges a fee of 2% of principal loan amount to be used to cover the cost of training clients, loan evaluation and monitoring. This fee is deducted from the loan proceeds, and are recognised in the period received.

(iii) *Loan Insurance fee*

In accordance with the Disclosure Guidelines for financial reporting of Microfinance Institutions, the company charges and with-holds 2% insurance on the principal amount plus interest on the loans issued to the clients as security in case of death of the client before full payment of their loans (applies to group loans only). The loan insurance fee is treated as income as it is not refundable to the client upon payment of the loan and is recognised in the period in which they are received.

(iv) *Savings Withdrawal fee*

A fee of $2 is charged by SPBD to its members when they withdraw from their savings accounts and are recognised in the period received.

(o) Loans Portfolio Outstanding

Loans, net of loan loss allowance, include direct financial assistance provided to economically disadvantaged people particularly women who cannot easily access savings and loan products from traditional banks.

They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for loan loss allowance.

(p) Payables

Accounts payables are recognized when the company becomes obliged to make future payments resulting from the receipt of goods and services.

(q) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments in Applying the Company's Accounting Policies

(a) Impairment of Loans

Impairment of loans balances is assessed at an individual as well as on a collective level. A general loan loss allowance is made based on the appraisal carried out at year end and in accordance with the Disclosure Guidelines for financial reporting of Microfinance Institutions.

(b) Impairment of property, plant and equipment

The company assesses whether there are any indicators of impairment of all property, plant and equipment at each reporting date. Property, plant and equipment are tested for impairment and when there are indicators that the carrying amount may not be recoverable, a reasonable allowance for impairment is made. For the period ended 31 December 2010, no allowance for impairment has been made as the company reasonably believes that no indicators for impairment exist.

NOTE 5. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, regulatory risk and interest rate risk), credit risk, liquidity risk and capital risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by management under policies approved by the board of directors. The management identifies and evaluates financial risks in close co-operation with the company's operating units. The board provides policies for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(a) Market risk

i) Foreign exchange risk

The company undertakes transactions denominated in foreign currencies: consequently, exposures to exchange rate fluctuation arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amount of the company's foreign currency denominated monetary liabilities at the end of reporting period are as follow:

US Dollar	F$	423,227

NOTE 5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) **Market Risk (Cont'd)**

ii) Foreign currency sensitivity analysis

The company is mainly exposed to the currency of USA.

The following table details the company's sensitivity to a 10% increase and decrease in Fiji dollar against the relevant US dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. If the FJD strengthens/weakens by 10% against the USD with all other variables held constant, pre- tax profit impact is as follows:

- Weaken	F$	(47,025)
- Strengthen	F$	38,475

iii) Price risk

The company does not have investments in equity securities and hence is not exposed to equity securities price risk.

iv) Regulatory risk

The company is subject to the provisions of the Microfinance Institutions (Examination and Assessment) Decree 2010 set by the regulatory authority, Reserve Bank of Fiji. Under Section 3 (1) of the Decree, the Reserve Bank may conduct examinations, onsite or otherwise, of any microfinance institution.

v) Interest rate risk

The principal risk to which lending portfolios are exposed to is the risk of the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the company. The objective of interest rate risk control is to minimize these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term.

As interest rates and yield curves change over time, the company may be exposed to a loss in earnings due to the sensitivity that arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively monitored and managed by the company.

NOTE 5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) **Credit Risk**

Credit risk is the risk of financial loss to the company if a client or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's loans to clients.

As part of its risk control procedures, an assessment of the credit quality of a new client, taking into account its financial position, past experience and other factors, is carried out prior to the credit approval. Individual credit risk limits are then set based on the assessments done. Individual risk limits are set based on the assessments done. The utilisation of credit limits is regularly monitored. Loans to clients are settled via weekly deductions.

(c) **Liquidity Risk**

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liability. Prudent and careful management of the company's liquidity position is essential in order to ensure that adequate funds are available to meet the company's ongoing financial obligations.

The company manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Fixed maturity dates						
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ Years	Total
	$	$	$	$	$	$	$
At 31 December 2010							
Client savings deposit	50,481	-	-	-	-	-	50,481
Payables	266,430	-	-	-	-	-	266,430
Bank loans	-	184,809	-	320,000	-	-	504,809
	316,911	184,809	-	320,000	-	-	821,720

NOTE 5. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Capital Risk

The company's objectives when managing capital is to safeguard its ability to continue as a going concern in order to provide consistent returns for shareholders to maintain an optimal capital structure to reduce the cost of capital and be in compliance with statutory requirements. In order to maintain the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

(i) To comply with the capital requirements set by the Reserve Bank of Fiji;

(ii) To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders; and

(iii) To maintain a strong capital base to support the development of the company's business.

Capital adequacy and the use of regulatory capital are monitored by the management of the company.

NOTE 6. OTHER OPERATING INCOME

		2010
Exchange gain – unrealized	$	2,061
Miscellaneous income		125
Total other operating income		2,186

NOTE 7. LOSS BEFORE INCOME TAX

Loss before income tax has been determined after charging the following expenses:

Auditors' remuneration for:		
- Audit fees		8,000
- Other services		4,500
Depreciation		11,176
Legal fees		36,319
Management fees		114,241
Organisational set-up costs		33,232
Rent		17,250
Salaries, wages, and TPAF		21,128
SPBD grand opening day		25,059
Overseas traveling	$	52,182

NOTE 8. INCOME TAX

a) Income Tax Expense

The prima facie tax expense on loss is reconciled to the income tax benefit as follows:

		2010
Loss before income tax	$	(365,163)
Prima facie tax thereon at 28%		(102,246)
Tax effect of:		
Non-deductible expenses		16,322
Temporary differences and tax losses not recognized as deferred tax asset, net		86,501
Temporary differences not recognized as deferred tax liability		(577)
Income tax expense		-

b) Benefit of Income Tax Losses not brought to Account

As at 31 December 2010, the company had estimated income tax losses of approximately $301,680 available to offset against future years' taxable income. The benefit of these losses of approximately $84,470 has not been brought to account, as realisation is not considered to be probable. The benefit will only be obtained if:

(i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised;

(ii) The company continues to comply with the conditions for deductibility imposed by the law; and

(iii) No changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

NOTE 9. NOTES TO THE CASH FLOW STATEMENT

a) Cash on hand and at bank

Petty cash		1,000
Savings reserve imprest		2,000
ANZ bank account		143,918
Total cash on hand and at bank	$	146,918

Cash and cash equivalents included in the cash flow statement comprise the above statement of financial position amounts.

b) Non-cash Financing Activity

During the year, payable balance to shareholder amounting to $50,000 was converted to issued and paid up capital. This transaction is not reflected in the statement of cash flow.

NOTE 10. LOANS PORTFOLIO OUTSTANDING

		2010
Total loan disbursements	$	412,000
Repayments		(47,126)
Write-offs		-
Gross loans receivable		364,874
Less: Loan loss allowance		-
Net loan receivable		364,874
Movement:		
Opening balance		-
Disbursements in 2010		412,000
Repayments in 2010		(47,126)
Write-offs - Principal		-
Closing balance	$	364,874

(a) **Loan Loss Allowance**

The company conducts loan loss provisioning every quarter to maintain an adequate reserve for doubtful loans. The reserve is determined by applying predicted loss percentages to aged loans grouped by lateness of payment. A loan becomes late as a weekly scheduled payment is missed. The company applies the following conservative predicted loss ratios.

Allowance Ratios for Group Loans

Loan Aging	Loan Loss Allowance	Loan Outstanding	Loan Loss Allowance Amount
1 week to 4 weeks late	5%	19,607	980
5 weeks to 8 weeks late	10%	-	-
9 weeks to 12 weeks late	25%	-	-
13 weeks to 16 weeks late	50%	-	-
17 weeks to 20 weeks late	75%	-	-
21 weeks or more	100%	-	-
Total Allowance as of 31 December 2010		19,607	* 980

* No loan loss allowance was recorded by the company as the amount was not considered material.

The company provides a 100% provision for loan losses for loans overdue for 21 weeks or more

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(b) **Write-Offs**

Loan Type	Number of Loans	Write off Amount	Amount as % of Loan Portfolio
Loan Insurance Losses	2	1,250	0.34%
Total	2	1,250	0.34%

Two clients died in the 2010 financial period and were written off accordingly as per Loan Insurance Loss Policy.

(c) **Loan Loss Allowance**

Loan loss allowance is increased by annual loan loss provisioning expense and decreased by loan write-offs.

No loan loss allowances were recorded during the period.

(d) **Movement in Insurance Loan Loss Reserve**

		2010
Opening balance	$	-
Loan loss expense for the period		1,250
Loans written off in the period		(1,250)
Closing balance	$	-

(e) **Porfolio Composition**

The company adopts the Grameen Bank's group solidarity lending methodology. The company's loan portfolio consists of loans to clients. Group Loans are made under the provisions of SPBD Credit Manual.

The company offers two group loan products:

(i) 52-week loan product
(ii) 17 weeks loan product

Maximum first loan sizes are $1,000 and $300, respectively. Both loan types are amortized in weekly equal instalments. Both loan types are unsecured. The first loan (regardless of loan product) should be used exclusively to expand or establish a microenterprise to be managed by the client herself. Subsequent loans can be used for any or a combination of the following purposes: business, home improvement and education of children. Loans are disbursed at the company office while loan repayments are collected at the village-based weekly meetings by the company staff. A loan must be paid off before another loan is issued to the same client.

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(e) **Porfolio Composition (Cont'd)**

Loans Disbursed during 2010 period			
Loan Type	**Number of New Loans**	**Principal Amount**	**Amount as % of Total Portfolio**
Group loans	412	412,000	100%
Total	412	412,000	100%
Average loan size at disbursement		**$1,000**	

The clients must use the first loans for starting or expanding micro-businesses. If these micro-businesses are doing well, they can then apply for housing improvement and educational loans for their subsequent borrowings. Housing improvement loans are typically used to buy concrete, timber, roofing, plumbing or electrical supplies to significantly upgrade their homes. Educational loans are typically used to pay for school fees, school uniforms and text books.

(f) **Portfolio Quality**

The company loans is staff's number one priority to keep the loan portfolio healthy. They strictly apply the credit rules and policies outlined in SPBD Credit Manual. As the company offers only unsecured loans, it relies on good client and project selection as a primary tool to ensure portfolio quality. When a client does not have a payment, the company applies the group guarantee policy and asks her group members to make a payment for that client. The principle of group guarantee is clearly communicated and explained in program training, knowledge test, loan application and loan interview; and is regularly reinforced through weekly meetings and periodic trainings.

		31 December 2010		
Loan Types	**Number of Accounts**	**Outstanding Principal Balance**	**PAR > 30 Amount $**	**PAR > 30 Days (%)**
Group Loans				
Current	390	345,267		
1-4 weeks late	22	19,607		
5-8 weeks late	-	-	-	0%
9-12 weeks late	-	-	-	0%
13-16 weeks late	-	-	-	0%
17-20 weeks late	-	-	-	0%
over 21 weeks late	-	-	-	0%
Total	412	**364,874**	-	0%

The company defines portfolio at risk (PAR) as:

= Outstanding principal amount of all loans that have one or more instalments of principal past due by 30 days/ Gross Loan Portfolio

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(f) **Portfolio Quality (Cont'd)**

A loan is considered in arrears when a due weekly payment is missed and that group guarantee does not work. The company does not have any late or penalty fees. The company' staff then follows the procedures outlined in the SPBD Credit Manual to get clients in arrears back on track as soon as possible. Parallel to these efforts, the company creates provisions to ensure that adequate reserves are maintained for potential losses as outlined under SPBD Loan Loss Provisioning and write-off policies outlined in note 10 (a) above.

NOTE 11. RECEIVABLES

		2010
Deposits	$	20,600

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Leasehold improvements – at cost		21,144
Less: accumulated depreciation		(1,762)
		19,382
Furniture and fixtures – at cost		18,495
Less: accumulated depreciation		(605)
		17,890
Office equipment – at cost		8,592
Less: accumulated depreciation		(367)
		8,225
Computer equipment and peripherals – at cost		18,004
Less: accumulated depreciation		(1,294)
		16,710
Motor vehicles – at cost		111,000
Less: accumulated depreciation		(6,472)
		104,528
Software and electronics system – at cost		8,106
Less: accumulated depreciation		(676)
		7,430
Total property, plant and equipment, net	$	174,165

NOTE 12. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period are as follows:

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer equipment and peripherals	Motor vehicles	Software and electronics system	Total
	($)	($)	($)	($)	$	$	($)
Opening balance	-	-	-	-	-	-	-
Additions	21,144	18,495	8,592	18,004	111,000	8,106	185,341
Depreciation	(1,762)	(605)	(367)	(1,294)	(6,472)	(676)	(11,176)
Closing balance	19,382	17,890	8,225	16,710	104,528	7,430	174,165

NOTE 13. CLIENT SAVINGS DEPOSITS

		2010
Number of Savings Accounts		656
Client savings balance	$	50,481

All members of SPBD are required to open a savings account and deposit an initial amount of $10. This must be deposited prior to any initial loans disbursed. When the loan has been processed and approved, 5% of the loan amount is deducted and recorded in the client savings account as compulsory deposit. Client with a current loan balance must have a minimum deposit of 5% of the original loan amount.

Only members of SPBD - formed Centre can open a savings account with South Pacific Business Development Microfinance (Fiji) (Ltd). Notwithstanding the outstanding loan, the member is required to fully observe members' duties like attending the weekly meetings, approve and guarantee other member's loans.

There is no limit on the amount of money the clients can keep in the savings account. The minimum balance that a client can keep is $1. However, for members with current loan the minimum balance at any given time should be $10 plus 5% of the original loan amount.

NOTE 14. PAYABLES

Payable to South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited (a)	163,061
Payable to Transformative Ventures LLC (a)	75,797
Other payables	2,047
FNPF payable	3,045
PAYE payable	216
Accrued interest	4,764
Accruals	17,500
Total payables	266,430

(a) South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited and Transformative Ventures LLC are shareholder related entities. Payable to shareholder related entities are for the initial start up costs, executive remuneration fees and management fees, paid by the shareholder related entities on behalf of the company.

NOTE 15. INTEREST BEARING BORROWINGS

Non-Current

Unsecured borrowings:		
MicroDreams Foundation (a)		384,809
PIF Foundation (b)		120,000
Total non-current unsecured interest bearing borrowings	$	504,809

NOTE 15. INTEREST BEARING BORROWINGS (CONT'D)

(a) During the financial period, two loans were acquired from MicroDreams Foundation to assist the company in financing its activities. The company received the following loans:

(i) Unsecured loan amounting to $200,000 on 1 November 2010 at an interest rate of 8% per annum. The interest payments will be made semi-annually beginning 30 June 2011 and will be based on the amount of principal outstanding for the prior six month period. The interest payment on 30 June 2011 will be based on the entire period since loan disbursement. The final interest payment will be due on 31 December 2014.

Principal repayments will be made in four quarterly instalments of $50,000 and will be due on 31 March 2014, 30 June 2014, 30 September 2014 and 31 December 2014. The loan is due in full on 31 December 2014.

Since the loan is unsecured, the Funder requires the following:

- the annual audited financial statements as soon as they are available.
- unaudited quarterly financial statements.
- a completed semi-annual report with data for 30 June and 31 December for each year that this loan agreement remains in effect. The Funder shall provide the company with a semi-annual report template.
- three well written SPBD-Fiji client success stories with high quality photos every six months.
- such other information regarding the company or the Loan Program as the Funder may reasonably request from time to time.

(ii) Unsecured loan amounting to USD 100,000 on 7 December 2010 at an interest rate of 6% per annum. The interest payments will be made semi-annually during 2011 and quarterly during 2012 and will be based on amount of principal outstanding for the prior period. The first interest payment will be due on 30 June 2011 and will be based on the entire period since loan disbursement. The final interest payment will be due on 31 December 2012.

Principal repayments will be made in four quarterly instalments of USD 25,000 and will be due on 31 March 2012, 30 June 2012, 30 September 2012 and 31 December 2012. The loan is due in full on 31 December 2012.

Since the loan is unsecured, the Funder requires the following:

- the annual audited financial statements as soon as they are available.
- unaudited quarterly financial statements.
- a completed semi-annual report with data for 30 June and 31 December for each year that this loan agreement remains in effect. The Funder shall provide the company with a semi-annual report template.
- three well written SPBD-Fiji client success stories with high quality photos every six months.
- such other information regarding the company or the Loan Program as the Funder may reasonably request from time to time.

NOTE 15. INTEREST BEARING BORROWINGS (CONT'D)

(b) During the financial period, a loan was acquired from PIF Foundation to assist the company in financing its activities. The company received unsecured loan amounting to $120,000 at an interest rate of 5% per annum. Interest payments must be made annually and are due on 31 December of each year. The first interest payment will be due on 31 December 2011 and will be based on 13 and half months. Interest payments will be based on the average amount of principal outstanding for the preceding twelve months.

Principal repayments will begin in the final year of the loan contract. The first principal repayment will be on 31 March 2014. The company will make four quarterly principal repayments of $30,000. The final principal payment must be made on 31 December 2014. The loan and all accrued but unpaid interest is due and payable in full on 31 December 2014.

Since the loan is unsecured, the Funder requires the annual audited financial statements, access to the President or General Manager for general discussion and such other information regarding the company or the loan program as the Funder may reasonably request from time to time.

The funder also requires the following reports within 45 days of the end of each quarter.

(i) Management report providing update on program activities, intermediate outputs and progress towards targeted outcomes.
(ii) Financial Performance Report
(iii) Other reports reasonably requested by the Funder including explanation around administrative issues, legal advice and staffing.
(iv) The parties will meet by conference call to discuss the contents of the report.

NOTE 16. SHARE CAPITAL

		2010
Authorised capital (a)		
250,000 ordinary shares of $1 each	$	250,000
Issued and paid up capital (a)		250,000

(a) The statutory formalities in respect to the increase in authorised capital from $10,000 to $250,000 are yet to be completed by the company.

Furthermore, the statutory formalities in respect to the increase issued and paid up capital are yet to be completed by the company.

NOTE 17. COMMITMENTS

a) **Capital Commitments**

Capital expenditure approved but not committed		526,182
Total capital expenditure commitments	$	526,182

Capital expenditure commitment relates to purchases of motor vehicles, computer equipments, office equipments, upgrades to MIS software and renovations and furnishings of offices.

NOTE 17. COMMITMENTS (CONT'D)

b) **Operating Lease Commitments**

Operating lease rental for building spaces used is payable as follows:

		2010
Not later than one year	$	95,000
Later than one year but not later than two years		60,000
Later than two years but not later than five years		50,000
	$	205,000

NOTE 18. CONTINGENT LIABILITIES

Contingent liabilities as at 31 December 2010 amounted to $Nil.

NOTE 19. RELATED PARTY TRANSACTIONS

(a) The names of persons who were directors of the company at any time during the period are as follows:

Gregory F Casagrande
Peter Lowing

Shareholder related entities are as follows:

1. South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited
2. Transformative Ventures LLC

During the year, related party transactions with the above entities were as follows:

1. Management fees amounting to $46,615 was payable to Transformative Ventures LLC.
2. Charges for payments made by South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited to the executives of the company amounted to $67,626.

(b) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

During the financial period, no compensation was directly paid to key management personnel.

However, management fee was paid to shareholder related entity for management services provided amounting to $46,615. Also shareholder related entity had engaged and paid to executive personnel of the company, remuneration amounting to $67,626. This amount has been disclosed as management fees in the financial statements (Refer note 19(a)).

NOTE 20. PRINCIPAL ACTIVITIES

The company commenced commercial business operations in October 2010.

The principal activities of the company during the period were to provide financial assistance to economically disadvantaged people particularly women who cannot easily access savings and loan products from traditional banks.

There were no significant changes in the nature of this activity during the financial period.

NOTE 21. COMPANY DETAILS

Company Incorporation

The company was incorporated in Fiji under the Companies Act, 1983.

Registered Office

The registered office of the company is located at:

Lowing Nandan & Associates
Suite 11,
Colonial Plaza,
PO Box 2388,
Namaka,
Nadi

Principal Place of Business

The principal place of business is located at:

Bidesi Building,
250 Waimanu Road,
Suva

NOTE 22. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on …………………… 2011.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)

ADDITIONAL FINANCIAL INFORMATION

FOR THE PERIOD 26 JULY 2010 [DATE OF INCORPORATION] TO 31 DECEMBER 2010

DISCLAIMER

The additional financial information presented on pages 32 to 33 does not form part of the statutory financial statements. The additional financial information is in accordance with the books and records of South Pacific Business Development Microfinance (Fiji) (Ltd) which has been subjected to the auditing procedures applied in our statutory audit of the company for the period ended 31 December 2010. Our statutory audit did not cover all details of the additional financial information. Accordingly, we do not express an opinion on the additional financial information and no warranty of accuracy and reliability is given.

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person (other than the company) in respect of such information.

SUVA, FIJI
31 AUGUST 2011

CHARTERED ACCOUNTANTS

ADDITIONAL INFORMATION
DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 26 JULY 2010 [DATE OF INCORPORATION] TO 31 DECEMBER 2010

		2010
Financial Income		
Development fee	$	8,240
Interest on loans		11,231
Loan insurance fee		10,300
Savings withdrawal fee		76
Total financial income		29,847
Financial Expenses		
Interest on borrowed funds		(4,764)
Loan insurance loss		(1,250)
Total financial expenses		(6,014)
Financial income		**23,833**
Other operating revenue		2,186
Total income		**26,019**
Administration and operating expenses (Page 33)		(391,182)
Loss before income tax		**(365,163)**
Income tax expense		-
Loss for the period		**(365,163)**
Other comprehensive income		-
Total comprehensive expense for the period	$	**(365,163)**

ADDITIONAL INFORMATION [CONT'D]
DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 26 JULY 2010 [DATE OF INCORPORATION] TO 31 DECEMBER 2010

		2010
Administration and Operating Expenses		
Accounting fees	$	4,500
Audit fees		8,000
Bank charges		136
Depreciation		11,176
Electricity and water		1,787
Exchange loss - unrealised		3,205
FNPF contribution		1,522
GM's Expenses		3,755
Insurance		3,178
Legal fees		36,319
Management fees		114,241
Office expenses		630
Other expenses		1,283
Organisational set-up costs		33,232
Overseas traveling		52,182
Printing and office stationeries		21,857
Postage, telephone and communication		1,039
Public relations and advertisements		762
Recruitment expense		2,048
Rent		17,250
Repairs and maintenance		10,533
Salaries and wages		7,017
Software training and maintenance costs		19,606
SPBD grand opening day		25,059
Staff benefits		2,405
Staff training and development		3,117
Transportation, fuel and oil		5,343
Total administration and operating expenses	$	391,182