



SPBD MICROFINANCE (SAMOA) LTD.

**DRAFT AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

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**SPBD MICROFINANCE (SAMOA), LTD.
STATEMENT OF THE BOARD OF DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016**

The Board of Directors (“BOD”) submits its report and the audited financial statements of SPBD Microfinance (Samoa), Ltd. (“SPBD”) for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of SPBD is to improve the quality of life of families living in poverty by providing unsecured credit, training, and on-going motivation and guidance to help them start, grow and maintain micro-businesses, build assets, as well as, finance home improvements and childhood education. Its corporate vision is to create a network of micro-enterprise development organizations in the South-Pacific and neighbouring regions to empower women through financial access and economic development to help lift themselves and their families permanently out of poverty and improve self-esteem.

SPBD also provides a comprehensive Financial Education program (FEP) to provide meaningful and practical financial education to all its clients. Currently more than 7,000 of our valued clients go through weekly financial education training. This training helps them to manage their economic life better.

RESULTS

The results of operation for the year ended 31 December 2016 are set out in the income statement. SPBD made a pre-tax profit of WST \$713,412 for the year.

THE BOARD OF DIRECTORS

The members of the BOD during the period and at the date of the report are:

- | | |
|-----------------------------|----------|
| • Gregory F Casagrande, USA | Chairman |
| • James Young , USA | Member |
| • Minh Huy Lai, France | Member |

DIVIDEND

The Directors recommend that no dividend be paid on general stock.

OTHER DISCLOSURES

The Company is a limited liability company incorporated and domiciled in Samoa. The address of its registered office is 1st Floor A1.3, NPF Plaza, Savalalo, Apia, Samoa. The postal address is PO Box 1614 and it is located at Apia, Samoa.

**SPBD MICROFINANCE (SAMOA), LTD.
STATEMENT OF THE BOARD OF DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2016**

RESPONSIBILITIES OF THE BOD IN RESPECT OF THE FINANCIAL STATEMENTS

The BOD is responsible to ensure that the financial statements are properly drawn up, so as to give a true and fair view of the financial position of SPBD as at 31 December 2016, and of the results of its operations for the period then ended. In preparing these financial statements, the BOD is required to:

- i. Adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and them apply them consistently,
- ii. Maintain adequate accounting records and an effective system of internal controls;
- iii. Prepare the financial statements on a going concern basis unless it is inappropriate to assume that SPBD will continue operation in the foreseeable future;
- iv. Set overall policies for SPBD, ratify all decisions and actions by the management that have a material effect on the operation and performance of SPBD, and ensure they have been properly reflected in the financial statements.

The BOD confirms that SPBD has complied with these requirements in preparing the financial statements.

On behalf of the Board of Directors,



Gregory F. Casagrande

Chairman

Date: 30/ March/ 2017

Independent Auditors Report To the members of SPBD Microfinance (Samoa) Ltd

We have audited the accompanying financial report of SPBD Microfinance (Samoa) Ltd, which comprises the statement of balance sheet as at 31 December 2016, the income statement, cash flows and changes in equity for the year then ended a summary of significant accounting policies and other explanatory notes.

Directors' and Management's responsibility for the Financial Report

Directors and management are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and with the requirements of the Companies Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is 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 to the Company's shareholders, as a body, in accordance with Section 138 of the Companies Act 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assumed responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

We confirm that we have no other relationship with the Company other than the audit of the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 the Directors and management, as well as evaluating the overall presentation of the financial report.

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

Auditor's Opinion

In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of these books and the financial statements have been prepared in accordance with International Financial Reporting Standards:

- 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 fair and true view of the Company's balance sheet as at 31 December, 2016 and of its income statement, changes in equity, and its cash flows for the year ended on that date and

- b. give the information required by the Companies Act 2001 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.

BDO SAMOA
Chartered Accountants



Hanalei Betham
Partner

Apia
Dated

30 March 2017

SPBD MICROFINANCE (SAMOA), LTD.
BALANCE SHEET
AS AT 31 DECEMBER 2016

| ASSETS | Notes | 31-Dec-16 WST (\$) | 31-Dec-15 WST (\$) |
|---|--------------|-------------------------------|-------------------------------|
| Cash on Hand and at Bank | 4 | 3,123,108 | 2,683,347 |
| Loans Receivables | 5 | 9,608,728 | 8,217,669 |
| Other Receivables | 6 | 80,684 | 351,209 |
| Goodwill | 7 | 979,183 | 979,183 |
| Property and Equipment | 8 | 656,990 | 304,199 |
| TOTAL ASSETS | | <u>14,448,694</u> | <u>12,535,607</u> |
| LIABILITIES | | | |
| Other Creditors and Accruals | 9 | 125,643 | 76,622 |
| Reserve for DBI | 10 | 20,000 | 15,000 |
| Reserve for SLI | 10a | 20,000 | 15,000 |
| Member Savings Deposits | 11 | 751,589 | 882,904 |
| Borrowings | 12 | 11,046,362 | 9,581,635 |
| TOTAL LIABILITIES | | <u>11,963,594</u> | <u>10,571,161</u> |
| EQUITY & RESERVES | | | |
| Paid-in-Capital | 13 | 303,972 | 303,972 |
| Retained Earnings | 14a | 2,181,128 | 1,660,474 |
| TOTAL EQUITY & RESERVES | | <u>2,485,100</u> | <u>1,964,446</u> |
| TOTAL LIABILITIES, EQUITY AND RESERVES | | <u>14,448,694</u> | <u>12,535,607</u> |

The accompanying notes form an integral part of these financial statements.

SPBD MICROFINANCE (SAMOA), LTD.
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

| | Notes | 31-Dec-16 WST (\$) | 31-Dec-15 WST (\$) |
|---|-------|-----------------------|-----------------------|
| Financial Income | | | |
| Interest Income From MF Loans | | 3,350,504 | 2,995,509 |
| Insurance on Loans | | 394,779 | 367,576 |
| Death Benefit Insurance | | 84,662 | 108,324 |
| Spouse Life Insurance | | 47,365 | 67,206 |
| Savings Fees | | 18,497 | 18,611 |
| Interest on Bank accounts and Term Deposits | | 48,865 | 33,002 |
| Loan Recoveries | 22 | 8,502 | 4,147 |
| Development Fees | 23a | 447,792 | 404,798 |
| Miscellaneous Income | | 9,646 | 15,628 |
| Financial Income Sub-Total | | 4,410,612 | 4,014,801 |
| Financial Expenditures | | | |
| Interest Expense | | 528,129 | 18,987 |
| Interest on overdraft Facilities | | 295,104 | 580,501 |
| Foreign Exchange Loss | | (19,179) | 152,263 |
| Financial Expenditures Sub-Total | | 804,054 | 751,751 |
| Net Financial income | | 3,606,558 | 3,263,049 |
| Loan Loss Provision | 15a | 86,565 | 100,458 |
| DBI Provision | 15b | 29,000 | 19,000 |
| SLI Provision | 15c | 31,000 | 20,000 |
| Net Financial margin | | 3,459,993 | 3,123,591 |
| Operating Expense | 16 | 2,753,181 | 2,605,603 |
| Net Operating Income | | 706,812 | 517,988 |
| Non operating Revenue | 17 | 6,600 | 6,400 |
| Net Profit before income Tax | | 713,412 | 524,388 |
| Less: Income Tax Expense | 19 | 192,758 | 146,213 |
| Net Profit after Income Tax Expense | | 520,654 | 378,176 |

The accompanying notes form an integral part of these financial statements

**SPBD MICROFINANCE (SAMOA), LTD.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016**

| Notes | Issued and Paid Up Capital \$ | Non-dilutive equity \$ | Retained Earnings/Losses \$ | Total \$ |
|------------------------------------|-------------------------------------|------------------------------|-----------------------------------|------------------|
| Balance at 1 January 2016 | 88,094 | 215,878 | 1,660,474 | 1,964,446 |
| Net Profit | | | 520,654 | 520,654 |
| Balance at 31 December 2016 | 88,094 | 215,878 | 2,181,128 | 2,485,100 |

**SPBD MICROFINANCE (SAMOA), LTD.
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

| | 31-Dec-16 | 31-Dec-15 |
|---|--------------------|--------------------|
| | WST (\$) | WST (\$) |
| CASHFLOW FROM OPERATING ACTIVITIES | | |
| Interest Received | 3,350,504 | 2,995,509 |
| Fees Received | 974,597 | 958,471 |
| Interest Paid on Loans | (809,740) | (580,501) |
| Cash paid to suppliers & employees | (2,751,010) | (2,506,051) |
| Other receipts | 73,613 | 22,028 |
| | <u>837,965</u> | <u>889,456</u> |
| Net cash provided by operating activities | | |
| CASHFLOW FROM INVESTING ACTIVITIES | | |
| Loans Disbursement | (15,682,523) | (13,697,245) |
| Loans Repayment | 14,202,748 | 12,378,960 |
| Payments for Property, plants & equipment | (454,036) | (6,551) |
| | <u>(1,933,810)</u> | <u>(1,324,836)</u> |
| Net cash provided by investing activities | | |
| CASHFLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from Long Term Borrowings | 3,595,630 | 3,303,076 |
| Repayments of Long Term Borrowings | (2,078,522) | (3,160,705) |
| Member Savings | 18,497 | (11,593) |
| | <u>1,535,605</u> | <u>130,778</u> |
| Net cash provided by investing activities | | |
| NET INCREASE/(DECREASE) IN CASH AND IN BANKS | <u>439,760</u> | <u>(304,602)</u> |
| OPENING CASH BALANCE/DATE OF TRANSFER | <u>2,683,347</u> | <u>2,987,949</u> |
| CLOSING BALANCE | <u>3,123,108</u> | <u>2,683,347</u> |

The statement of cash flows is to be read in conjunction with the notes to accounts

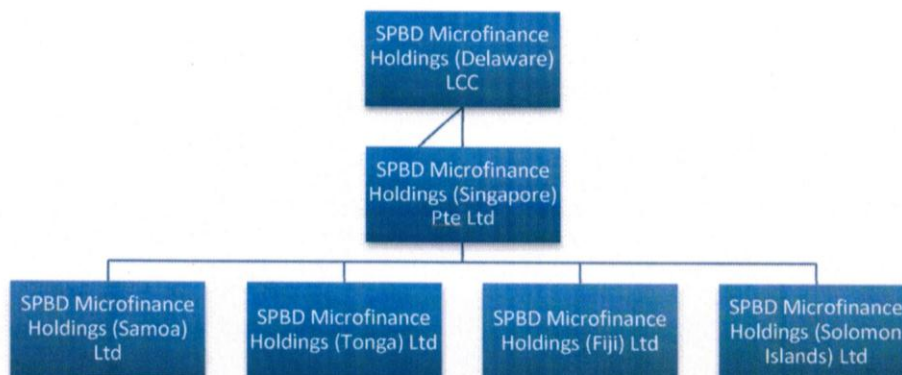
**SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

1. GENERAL INFORMATION

SPBD Microfinance (Samoa), Ltd. (“SPBD”), was incorporated under the Companies Act 2001 on the 13th day of December 2010 with the Ministry of Commerce, Industry, and Labour (MCIL) of Samoa. SPBD took over the activities, assets, and liabilities of South Pacific Business Development Foundation via purchase agreement. The aims of SPBD are to improve the quality of life of families living in poverty by providing training, unsecured credit and on-going guidance and motivation to help them start, grow and maintain income generating micro-businesses, build savings, as well as, finance home improvements and childhood education.

With the incorporation of SPBD Microfinance (Samoa) Ltd the company is under the umbrella of a Holding Company called SPBD Microfinance Holdings (Singapore) Pte Ltd incorporated in Singapore which is its ultimate parent company. This transformation formally links SPBD Microfinance Ltd (Samoa),(Tonga), (Fiji) and Solomon Islands, as sister organizations enables many efficiencies and operating improvements. Gregory F. Casagrande owns 100% of the Holding Company.

SPBD Microfinance network



SPBD Microfinance Ltd (Samoa) is regulated under Samoa’s Companies Amendment Act 2006 and is subject to the prudential requirements of the Money Laundering Act 2007, at the discretion of the Central Bank of Samoa.

To comply with money laundering prudential standards, SPBD has:

- Internal systems and checks in place, such as “Know Your Customer” (KYC) procedures, record keeping, normal onsite inspections and the current monthly reports to the Central Bank.
- A full-time compliance officer.

SPBD as a non-bank financial institution empowers its members through financial access and economic development to help improve themselves and their families permanently. SPBD is operating in Upolu, Savaii and Manono islands.

SPBD acquired the business License certificate Number 258640/68497 from the Ministry for Revenue Services, Government of Samoa to carry on the business or economic activity of financial leasing.

As at 31 December 2016, SPBD has 30 staff of whom 8 are assigned in Savaii office and 22 in the Head Office in Apia.

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

a. Basis of Preparation

These financial statements have been prepared in accordance with the requirements of the Companies Act 2001 and the *International Financial Reporting Standards (IFRS)* issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on the historical cost basis as modified by the revaluation of certain financial assets and liabilities. The principal accounting policies are stated to assist in a general understanding of these financial statements. The financial statements are prepared in Samoan Tala.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

Standards, interpretations and amendments issued but not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 July 2011 or later periods as stated, but the Group has not early adopted them. Adoption of these standards and interpretations may or may not have any significant impact on the Group's financial statements as the Group is assessing the impact of future adoption of these standards.

| | | |
|------------------|--|----------------|
| IFRS 1 Amendment | First-time adoption: Exemption for severe hyperinflation and removal of fixed dates | 1 July 2011 |
| IFRS 7 Amendment | Financial instruments: Disclosures on transfer of financial assets | 1 July 2011 |
| IAS 12 Amendment | Income taxes: Deferred tax | 1 January 2012 |
| IAS 1 Amendment | Financial statement presentation regarding other comprehensive income accounting for investment properties | 1 July 2012 |
| IFRS 9 Amendment | Financial instruments: Classification and measurement | 1 January 2013 |
| IAS 19 Amendment | Employee benefits | 1 January 2013 |
| IFRS 10 | Consolidated financial instruments | 1 January 2013 |
| IFRS 11 | Joint Arrangements | 1 January 2013 |
| IFRS 12 | Disclosures of interests in other entities | 1 January 2013 |
| IFRS 13 | Fair value measurement | 1 January 2013 |
| IAS 27 (Revised) | Separate financial statement | 1 January 2013 |
| IAS 28 (Revised) | Associates and joint ventures | 1 January 2013 |

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

b. Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency is the Samoan Tala (WST).

c. Foreign currency transactions

Transactions in foreign currencies are translated to functional currency at exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at the exchange rates ruling at the dates the fair value was determined. The following exchange rates were used to convert monetary assets and liabilities denominated in foreign currencies at year end:

| | 31-Dec-16 | 31-Dec-15 |
|---------|------------------|------------------|
| NZD/WST | 0.5404 | 0.5458 |
| USD/WST | 0.3787 | 0.3766 |
| EUR/WST | 0.3552 | 0.3388 |

d. Revenue recognition

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

Interest income

Interest income on investments, loans and advances is recognised as it accrues. Interest on impaired loans is recognised as income only when received.

Fees and charges

Fees and charges are brought to account when they are earned. Fees on impaired loans are recognised as income only when received.

Loan security fee income

SPBD charges and with-holds 2% as insurance on the principal amount on the loans approved for disbursement to the customers as security in case the customer dies before full payment of their loans. (This only applies to the group loans). This insurance is treated as an income for SPBD as it is not refundable to the customer upon payment of the loan and is recognised when the loan disbursement occurs.

Savings accounts withdrawal fees

A \$2 tala fee is charged by SPBD to its members when they withdraw from their savings account and is recognised in the period in which the fee is charged.

Premium revenue

Premium revenue on the death benefit policy in the past offered by the company was recognised in the period in which the premiums were earned during the term of the contract. In this case the premium is a one off payment paid at the time the loan is disbursed to the customer. In 2015, it was decided to recognise the one off payment premium in the year in which the payment is occurred. Provisions for death benefit insurance have been consistently accrued in the past years, thus the recognition of the premium revenue should be recognised once the premium is received.

Development Fees income

SPBD Samoa charges a Development Fee of 3% at the time of loan disbursement.

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

e. Grants

Grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Grants are recognised in profit or loss on a systematic basis over the periods in which the Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, grants whose primary condition is that the company should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

f. Loans

Loans are disclosed net of lending provisions. Term loans are carried at principal balances outstanding plus interest accrued.

The Company adopts the Grameen Bank's group solidarity lending methodology which provides credit that is individually unsecured but secured by the group guarantee policy arrangements. There are two group loan products 1) 52 week loan product and 2) 17 week loan product. The primary purposes of the loans are for establishing new or expanding of micro businesses.

In 2013, two new products have been launched which is SME (Small Medium Enterprise) and OWL (Overseas Workers Loan) program. The OWL Loan product is a 4 months product, whereas SME Loan is 52 weeks loan product. The primary purpose of OWL is to finance travel and visa costs, plus other related costs pertaining to the trip to New Zealand to undertake seasonal job under the RSE scheme. The SME Loan was designed to meet the needs of our old existing members, who continuously maintained a very good business. The Education loan product was introduced towards the end of 2014, to assist SPBD clients in financing their children's school fees.

g. Impairment of loans

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 according to the age of the outstanding payment. The age of outstanding payment is analysed in three weekly bands from one week to greater than twenty one weeks. 100% provision is automatically assessed for loans whose repayments are more than 21 weeks overdue.

When a loan is uncollectible, it is written off against the related provision for bad and doubtful loans. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the provision decreases and the decrease can be related objectively to an event occurring after the provision was recognised (such as an improvement in the debtor's credit rating), the previously recognised provision is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loan recoveries are cases of default loans which have been written off during previous year's and subsequently recovered are credited to income as bad debts recovered in the period in which the recovery is made.

h. Property and equipment

Items of equipment, furniture and motor vehicles are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

acquisition of the assets. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

The costs of the day to day servicing of the property, plant and equipment are recognized in profit and loss as incurred.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives at which depreciation is charged are as follows:

| | | |
|--------------------------|-----------|---------------|
| Computers | 2-5 years | Straight line |
| Office Equipment | 2-5 years | Straight line |
| Furniture and Fittings | 2-5 years | Straight line |
| Leasehold Improvements | 4-5 years | Straight line |
| New/ Used Motor Vehicles | 2-5 years | Straight line |

The residual value is reassessed annually. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

i. Operating leases

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.

j. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances of cash on hand and at bank including short term deposits which are subject to an insignificant risk of conversion to cash.

k. Value added goods and services tax (VAGST)

As a financial institution, the company is exempt from VAGST. The company however, is allowed to collect VAGST on rental income and claim VAGST on maintenance and other related costs of the building.

l. Income tax

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

m. Accounts payable

Accounts payables are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are recognised at cost which is the fair value of the consideration to be paid in the future for goods and services received. Given the short term nature of most payables, the carrying amounts approximate fair value.

n. Employee benefits

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

The Company contributes towards the Samoa National Provident Fund, a defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of contribution. Obligations for contributions to the defined contribution plan are recognised immediately in profit or loss.

Liabilities for annual leave is accrued and recognised in the balance sheet. Annual leave are recorded at the undiscounted amount expected to be paid for the entitlement earned.

Short term benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present obligation or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

o. Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs except for those carried at fair value through profit and loss which are measured initially at fair value. Subsequent measurements of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

The Company classifies its financial assets in the following categories; loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. After initial recognition they are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Bank's loans and receivables comprise 'Loans to customers', 'Cash on hand and at banks' and 'Term deposits'. Loans to customers are considered impaired when they are past due per Note 2(g).

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables. Financial liabilities are recognized initially at fair value, net of transactions costs incurred. They are measured subsequently at amortised cost using the effective interest method.

p. Comparatives

This is the sixth year of operation for the Company and the 2015 comparative figures have been disclosed for comparison.

3. CRITICAL ACCOUNTING ESTIMATES/JUDGEMENTS

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

4. CASH AND BANK BALANCES

| | 31-Dec-16 | 31-Dec-15 |
|---|------------------|------------------|
| | WST (\$) | WST (\$) |
| Cash on Hand | | |
| Petty Cash | 5,207 | 707 |
| Savaii Imprest | 1,500 | 1,500 |
| Upolu Imprest | 3,000 | 3,000 |
| Sub-Total | <u>9,707</u> | <u>5,207</u> |
| Bank Balances - Unrestricted | | |
| Euros | 26,639 | 33,836 |
| United States Dollars | 311,873 | 1,142 |
| Samoaan Tala | 745,611 | 512,906 |
| Sub-Total | <u>1,084,124</u> | <u>547,883</u> |
| Bank Balances - Restricted to Members Savings | | |
| Samoaan Tala Term Deposits | 299,702 | 295,575 |
| Samoaan Tala Current Account | 451,886 | 587,329 |
| Total Non-Current Assets | <u>751,589</u> | <u>882,904</u> |
| Bank Balances - Restricted for security for overdraft facilities | | |
| USD Term Deposit - (OD Facility - ANZ) | 125,758 | 126,221 |
| Samoaan Tala Term Deposit (ANZ OD Facility) | 977,012 | 950,149 |
| USD Term Deposit - (OD Facility - SCB) | 118,260 | 116,856 |
| SPBD Samoaan Tala - WESTPAC | 56,658 | 54,127 |
| Sub-Total | <u>1,277,688</u> | <u>1,247,353</u> |
| TOTAL CASH AND BANK BALANCES | <u>3,123,108</u> | <u>2,683,347</u> |

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

5. LOANS RECEIVABLE

| | 31-Dec-16 | 31-Dec-15 |
|--|-------------------------|-------------------------|
| | WST (\$) | WST (\$) |
| Total Disbursements (Accumulative Since Inception) | 106,680,062 | 90,997,539 |
| Less: Repayments (Accumulative Since Inception) | (95,948,147) | (81,743,248) |
| Written Off Loans | <u>(1,090,149)</u> | <u>(996,931)</u> |
| Gross Loan Receivable | 9,641,766 | 8,257,360 |
| Less: Loan Contingency Reserve | <u>(33,037)</u> | <u>(39,691)</u> |
| | <u>9,608,728</u> | <u>8,217,669</u> |

Types of loans

- i) 52-weeks Loan are loans granted in Samoan Tala to clients who belong to SPBD Centers. This type of loan is provided to clients at an interest rate of 24.00% for a loan cycle of 52 weeks. Principal and interest payment are made on a weekly basis. Loan amount ranges from a minimum of WST1,000 to WST8,000. New client members may borrow from WST500 to WST 1,000.
- ii) 17-weeks Loan are loans granted in Samoan Tala to clients who belong to SPBD Centers. This type of loan is provided to clients at an interest rate of 9.00% for a loan cycle of 17 weeks. Principal and interest payment are made on a weekly basis. Loan amount ranges from a minimum of WST300 to WST500.
- iii) SME Loan was launched in August 2013, and the main focus is SPBD good clients who have maintained a very good business. Loan amount ranges from \$7,500 to \$21,000 at 21% interest.
- iv) OWL is Overseas Workers Loan Program, and this new product was also launched in 2013, to assist men from Samoa who are selected to take up seasonal work in New Zealand. SPBD provides unsecured credit which ranges from \$1,500 to \$3,500 at 12% interest to seasonal workers to pay for visa fees, airfares, and all other related travel costs.
- v) The Education Loan Product was launched in September 2014, to assist SPBD clients in financing their children school fees or tuition fees. SPBD cares about the children's education, thus the reason of introducing this new loan product. Loan ranges from \$300 to \$750 at 10% for 6 months education loan, and 12 months education loan ranges from \$800 to \$1,000 at 20% interest.

Related Party Transactions (Individual SPBD Staff Loans)

| <u>Borrower</u> | <u>Balance (WST)</u> | <u>Term</u> | <u>Status</u> |
|-----------------|----------------------|----------------|---------------|
| Staff | \$209,362 | 3 to 24 months | Current |

The above balance of \$209,362 for Related Party transactions is included in the Gross loan receivable of WST 9,608,728 as at 31 December 2016.

**SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

6. OTHER RECEIVABLES

| | 31-Dec-16 | 31-Dec-15 |
|---|----------------------|-----------------------|
| | WST (\$) | WST (\$) |
| Prepaid Insurance | 24,444 | 15,808 |
| Others (Deposit/Travel Advance/Bond & Others) | 23,641 | 23,641 |
| Interest Due | 15,348 | 15,348 |
| Employee Receivable | 68,599 | 62,722 |
| Less: Employee Receivable Provisioning | (51,348) | (51,348) |
| Other Receivable - Debit Memo | - | 285,039 |
| | <u>80,684</u> | <u>351,209</u> |

7. GOODWILL

The value of SPBD foundation over and above the value of its assets resulting from the reputation established with clients, lender, the government of Samoa and other stakeholders since its inception on 18 January 2000.

8. PROPERTY AND EQUIPMENT

| | Leasehold Improvements | Furniture & Fittings | Office Equipment | Computer Equipment & Peripherals | Vehicle | Total |
|----------------------------------|---------------------------|----------------------|------------------|-------------------------------------|----------------|------------------|
| <i>GROSS CARRYING AMOUNTS</i> | | | | | | |
| Opening Balance 01 Jan 2016 | 40,428 | 55,496 | 23,762 | 126,459 | 559,852 | 805,997 |
| Additions - 2016 | | 960 | 16,978 | 18,798 | 417,300 | 454,036 |
| Balance as at 31 Dec 2016 | <u>40,428</u> | <u>56,456</u> | <u>40,740</u> | <u>145,257</u> | <u>977,152</u> | <u>1,260,032</u> |
| Accumulated Depreciation | | | | | | |
| Opening Balance 01 Jan 2016 | 22,909 | 48,447 | 26,683 | 85,473 | 318,286 | 501,798 |
| Depreciation for the year - 2016 | 8,086 | 7,281 | 1,422 | 8,167 | 76,289 | 101,245 |
| Balance as at 31 Dec 2016 | 30,995 | 55,728 | 28,106 | 93,639 | 394,575 | 603,043 |
| Net Book Value 2016 | <u>9,433</u> | <u>728</u> | <u>12,634</u> | <u>51,618</u> | <u>582,577</u> | <u>656,990</u> |

We purchased a new coloured printer, computer including server and new fleet of vehicles to replace old vehicles.

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

| | Leasehold Improvements | Furniture & Fittings | Office Equipment | Computer Equipment & Peripherals | Vehicle | Total |
|----------------------------------|---------------------------|----------------------|------------------|-------------------------------------|----------------|----------------|
| <i>GROSS CARRYING AMOUNTS</i> | | | | | | |
| Opening Balance 01 Jan 2015 | 40,428 | 55,497 | 22,963 | 120,707 | 559,851 | 799,446 |
| Additions - 2015 | | | 799 | 5,752 | - | 6,551 |
| Balance as at 31 Dec 2015 | 40,428 | 55,497 | 23,762 | 126,459 | 559,851 | 805,997 |
| Accumulated Depreciation | | | | | | |
| Opening Balance 01 Jan 2015 | 14,824 | 32,611 | 25,975 | 75,296 | 234,962 | 383,668 |
| Depreciation for the year - 2015 | 8,086 | 15,836 | 708 | 10,177 | 83,324 | 118,130 |
| Balance as at 31 Dec 2015 | 22,909 | 48,447 | 26,683 | 85,473 | 318,286 | 501,798 |
| Net Book Value 2015 | 17,519 | 7,050 | (2,922) | 40,987 | 241,565 | 304,199 |

9. OTHER CREDITORS AND ACCRUALS

| | 31-Dec-16 WST (\$) | 31-Dec-15 WST (\$) |
|-----------------------------------|-----------------------|-----------------------|
| Accrued Expenses & Other Payables | 79,098 | 107,029 |
| Income Tax Payable | 46,545 | (30,407) |
| Total | 125,643 | 76,622 |

The Income Tax Payable detail is as follow.

| | 31-Dec-16 WST (\$) | 31-Dec-15 WST (\$) |
|------------------------------------|-----------------------|-----------------------|
| Net Profit before Tax | 713,412 | 524,388 |
| Add: First Time Provisioning | 507 | 17,139 |
| Total Net Profit before Tax | 713,919 | 541,527 |
| Income Tax @27% | 192,758 | 146,212 |
| Beginning Balance 01/01/2016 | (30,407) | 115,817 |
| Expense for the year | 192,758 | 146,212 |
| Total | 162,350 | 262,029 |
| Payment made during the year | 115,805 | 292,436 |
| Balance Income Tax Payable | 46,545 | (30,407) |

Refer to note (19) for details of 2016 tax expenses.

10. RESERVE FOR DEATH BENEFIT INSURANCE

The reserve is calculated based on 2016 number of members passed away, to ensure we provision enough to cover for 2017 DBI.

| | 31 DEC 2016 WST (\$) | 31 DEC 2015 WST (\$) |
|----------------------|-------------------------|-------------------------|
| DBI Reserve | 20,000 | 15,000 |
| SLI Reserve | 20,000 | 15,000 |
| Total Reserve | 40,000 | 30,000 |

**SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

10a. RESERVE FOR SPOUSE LIFE INSURANCE

This reserve is calculated based on 2016 number of spouses passed away, to ensure we provision enough to cover for 2017 SLI.

Unearned Insurance for DBI

Unearned Insurance refers to a portion of client's insurance premium that relates to a future period. In 2015, a decision was made to recognise the full premium in the year it was received. Therefore the amount of the premium is no longer amortised, the total premium will be recognised in the Profit & Loss Statement.

| | 31 DEC 2016 | 31 DEC 2015 |
|--|--------------------|--------------------|
| | WST (\$) | WST (\$) |
| Total insurance income | 84,662 | 82,464 |
| Less: Earned insurance premiums | 84,662 | 82,464 |
| Total unearned insurance as per above | Nil | Nil |

Unearned Insurance for SLI

Unearned Insurance refers to a portion of client's insurance premium that relates to a future period. Only earned insurance shall be recognised in the Income statement, and unearned insurance to record as liability. In 2015, a decision was made to recognise the full premium in the year it was received. Therefore the amount of the premium is no longer amortised, the total premium will be recognised in the Profit & Loss Statement.

| | 31 DEC 2016 | 31 DEC 2015 |
|--|--------------------|--------------------|
| | WST (\$) | WST (\$) |
| Total insurance income | 47,365 | 47,874 |
| Less: Earned insurance premiums | 47,365 | 47,876 |
| Total unearned insurance as per above | Nil | Nil |

11. MEMBERS SAVINGS DEPOSIT

SPBD developed the micro-savings program in partnership with UNDP and WESTPAC Bank. SPBD formally launched the micro-savings program on October 7th, 2004 following a 3 months pilot-test period and required consultations with the Central Bank of Samoa. Any SPBD new member can open up a savings account with a minimum of \$10 deposit. SPBD also started its savings policy in 2007 whereby 5% loan retention (compulsory savings) goes into a member's Savings account. SPBD is not a regulated financial intermediary and does not there use client deposit for on-lending. Members can withdraw money with prior notice or anytime for emergencies. SPBD provides quarterly financial report, as well as an audited financial report to Central Bank of Samoa. The 5% retention can only be withdrawn by a member after the latest loan is paid off. SPBD deposits collected savings daily in a segregated bank account at BSP Bank.

| | 31-Dec-16 | 31-Dec-15 |
|--------------|------------------|------------------|
| | WST (\$) | WST (\$) |
| BSP Bank | 751,589 | 882,904 |
| Total | 751,589 | 882,904 |

12. BORROWINGS

| | Note | 31-Dec-16 | 31-Dec-15 |
|-----------------------------------|-------|------------------|------------------|
| | | \$ | \$ |
| <i>Unsecured soft term loans:</i> | | | |
| Kiva Micro funds | (i) | 1,752,865 | 1,015,796 |
| David Adams | (ii) | 10,562 | 10,621 |
| Whole Planet Finance | (iii) | 678,525 | 995,323 |

SPBD MICROFINANCE (SAMOA), LTD.
NOTES TO THE FINANCIAL STATEMENTS
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*Secured overdraft and local
Commercial loan facilities:*

| | | | |
|-------------------------------|-------|-------------------|------------------|
| BSP Bank | (vii) | 2,135 | 1,336 |
| ANZ Bank | (ix) | 2,133,657 | 2,768,926 |
| SCB | (x) | 297,138 | 187,730 |
| Samoa National Provident Fund | (v) | 4,810,733 | 3,429,556 |
| National Bank of Samoa | (vii) | 913,878 | 1,139,527 |
| Federal Pacific Group | (iv) | 446,869 | - |
| WESTPAC (Vehicle Lease) | (vi) | - | 32,820 |
| | | 11,046,362 | 9,581,635 |

The above borrowings are analysed as follows:

| Term Loans | Ref Nos | Security | Maturity Dates | Foreign Currencies | Interest Rate | Opening Balance 1/01/2016 | Payment Made | Funds Received | Balance 31/12/2016 | Samoa Tala Equivalent |
|--|---------|---------------|------------------------|--------------------|---------------|---------------------------|---------------------------|------------------|--------------------|-----------------------|
| KIVA Microfunds | (i) | unsecured | on-going | USD | 0% | 465,049 | 29,923 | 328,865 | 763,992 | 1,752,865 |
| David Adams | (ii) | unsecured | 31/12/2015 | USD | 0% | 4,000 | - | - | 4,000 | 10,562 |
| Whole Planet Finance | (iii) | unsecured | 19/4/17,6/4/18,18/4/18 | WST | 0% | 995,323 | 316,798 | - | 678,525 | 678,525 |
| National Provident Fund | (v) | secured (*) | 30/09/2018 | WST | 9.50% | 3,429,556 | 899,179 | 2,280,355 | 4,810,733 | 4,810,733 |
| National Bank of Samoa | (vii) | secured (**) | 31/08/2019 | WST | 14.00% | 1,139,527 | 225,649 | - | 913,878 | 913,878 |
| Total Term Loans | | | | | | | | | | 8,166,563 |
| Secured Overdraft Borrowing Facilities | | | Maturity Dates | Foreign Currencies | Interest Rate | Credit Limit | Credit Limit Not Utilised | Type of Security | Amount of Security | Credit Limit Utilised |
| WESTPAC Bank - 119731 | (viii) | secured | on-going | WST | 9.75% | 46,000 | 43,865 | Standby LOC | GBP 10,000 | 2,135 |
| ANZ Bank (Samoa) Ltd | (ix) | secured | on-going | WST | 10.50% | 3,000,000 | 866,343 | Term Deposit | STS\$1,102,770 | 2,133,657 |
| Samoa Commercial Bank | (x) | secured | on-going | WST | 10.50% | 500,000 | 202,862 | Term Deposit | USD\$40,000 | 297,138 |
| Total Secured Overdraft | | | | | | | | | | 2,432,930 |
| Vehicle Loan | Ref Nos | Collateral | Maturity Dates | Foreign Currencies | Interest Rate | Opening Balance 1/01/2016 | Payment Made | Funds Received | Balance 31/12/2016 | Samoa Tala Equivalent |
| WESTPAC (Vehicle Facility) | (vi) | secured (***) | 31/08/2016 | WST | 9.25% | 32,819 | 32,819 | - | - | - |
| Federal Pacific Group | (iv) | secured (***) | 20/12/2019 | WST | 11% | - | - | 446,869 | 446,869 | 446,869 |
| Total Secured Vehicle | | | | | | | | | | 446,869 |
| Total Borrowings as of 31 December 2016 | | | | | | | | | | 11,046,362 |

By currency

| | | |
|-----------------|-------------------|------------------|
| Currency | 31-Dec-16 | 31 Dec-15 |
| Samoa Tala | 9,282,935 | 8,555,218 |
| US Dollar | 1,763,427 | 1,026,417 |
| Total | 11,046,362 | 9,581,635 |

Additional notes to Borrowings

(*) NPF loan is secured by the assignment of Loan Portfolio maintained at 150% of outstanding loan amount.

(**) NBS loan is secured by the General Assignment of Book Debts sufficient to cover indebtedness to the bank.

(***) Vehicle loan is secured by the hypothecation of the vehicles.

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(****) KIVA Micro-funds audited outstanding balance in 2015 was USD\$465,049 as reflected in notes below. The Samoan Tala equivalent was correct, it was only the notes in US currency.

| Term Loans | Ref Nos | Maturity Dates | Foreign Currencies | Interest Rate | Opening Balance 1/01/2015 | Payment Made | Funds Received | Balance 31/12/2015 | Samoan Tala Equivalent |
|-----------------|---------|----------------|--------------------|---------------|---------------------------|--------------|----------------|--------------------|------------------------|
| KIVA Microfunds | (i) | on-going | USD | 0% | 641,524 | 219,279 | 42,804 | 465,049 | 1,015,796 |

13. EQUITY

SPBD Microfinance Holdings (Singapore) Pte Ltd, the parent company of SPBD Microfinance (Samoa) Ltd. invested ST\$88,094 in Equity into SPBD Microfinance Samoa Ltd in 2011. Donated capital from TVLLC-IFC was also received in previous years, thus increasing the total capital to \$303,972

| | 31-Dec-16 | 31-Dec-15 |
|--|-----------------------|-----------------------|
| | WST (\$) | WST (\$) |
| Equity Investment from SPBD Microfinance (Singapore) | 303,972 | 303,972 |
| Total | <u>303,972</u> | <u>303,972</u> |

14. PREFERENCE SHARES

Preference Shares was fully paid off in 2015, thus no transaction in 2016.

14a RETAINED EARNINGS

Retained Earnings as of 31 December 2016 was ST\$2,181,128.

15. LOAN LOSS PROVISIONING

a) Summary

| | 31-Dec-16 | 31-Dec-15 |
|--|----------------------|-----------------------|
| | WST (\$) | WST (\$) |
| Loan loss provision | 54,904 | 81,728 |
| Loan Insurance loss provision | 31,661 | 18,730 |
| a)Total Non Operating Expenses as per P & L | <u>86,565</u> | <u>100,458</u> |
| b) Death Benefit Insurance Provision | <u>29,000</u> | <u>19,000</u> |
| c) SLI Loan Loss Provisioning | <u>31,000</u> | <u>20,000</u> |

**SPBD MICROFINANCE (SAMOA), LTD.
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Loan Loss Provisioning

SPBD 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. SPBD applies the following conservative predicted loss ratios.

| Provisioning Ratios for Group Loans | Loan loss provision | Loan Outstanding | Loan Loss Prov. Amt. |
|--|----------------------------|-------------------------|-----------------------------|
| 1 week to 4 weeks late (<30 days) | 5% | 412,400 | 20,620 |
| 5 weeks to 8 weeks late (30 to 60 days) | 10% | 9,874 | 987 |
| 9 weeks to 12 weeks late (60 to 90) | 25% | 3,417 | 855 |
| 13 weeks to 16 weeks late (90 to 120) | 50% | | |
| 17 weeks to 20 weeks late (120 to 140) | 75% | | |
| 21 weeks or more (150 + days) | 100% | | |
| Provisioning for staff loans | 5% | 209,362 | 10,575 |
| TOTAL PROVISIONING AS OF 31 DECEMBER 2016 | | | 33,037 |

SPBD provides a 100% provision for loan losses for loans overdue for 21 weeks or more. The above calculation is the net result after 2016 writing off loans have been taken off. The total provisioning in 2016 is \$37,421, as per Loan Contingency Reserve at 31 December 2016. SPBD provides a 5% provision on Staff Loans in 2016.

b) Write-offs

| Loan Type | # of Loans | Write off WST | Amount as % of Loan Portfolio |
|--------------------------|-------------------|----------------------|--------------------------------------|
| Loan Insurance Losses | 23 | 31,661 | 0.32% |
| Loans Written Off – 2016 | 109 | 61,558 | 0.64% |
| Total | 132 | 93,219 | 0.96% |

There were 23 SPBD members passed away in 2016, and their loans were written off loan outstanding as per Loan Insurance policy.

The decision as to which loans to write off in 2016 was made taking into account the age of the outstanding loan compared to the cost effectiveness of management's own evaluation of the likelihood of recovery. Loan write-off in 2016 has been approved by the President.

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c) Movements

i) Movement in Loan Loss Insurance

Loan Loss reserve is increased by annual loan loss provisioning expense and decreased by loan write-offs

| | 2016 WST (\$) | 2015 WST (\$) |
|-------------------------------------|--------------------------|--------------------------|
| Loan Loss Reserve – January 1 | 39,691 | 16,770 |
| Plus: Additional reserve | 54,904 | 74,384 |
| Loan Loss Expense for the Year (RE) | 31,661 | 18,731 |
| Loans written off | 93,219 | 70,194 |
| Loan Loss Reserve 31 December | 33,037 | 39,691 |

ii) Movement in Insurance Loan Loss Reserve

| | 2016 WST (\$) | 2015 WST (\$) |
|--------------------------------|--------------------------|--------------------------|
| Loan Loss Reserve Jan 1, 16 | | |
| Loan Loss expense for the year | 31,661 | 18,731 |
| Loans written off | 31,661 | 18,731 |
| Insurance Loan Loss Reserve | Nil | Nil |

iii) Movement in Insurance Death Benefits Reserve

| | 31/12/2016 WST (\$) | 31/12/2015 WST (\$) |
|-------------------------|--------------------------------|--------------------------------|
| Loan Loss Reserve Jan 1 | 15,000 | 15,000 |
| DBI Additional Reserve | 29,000 | 19,000 |
| Payment made | 24,000 | 19,000 |
| DBI Reserve 2016 | 20,000 | 15,000 |

DBI Reserve is increased by quarterly provisioning expense and decreased by actual payment made to beneficiaries declared by SPBD dead members.

iv) Movement in Insurance Spouse Life Insurance Reserve

| | 31/12/2016 WST (\$) | 31/12/2015 WST (\$) |
|-------------------------|--------------------------------|--------------------------------|
| Loan Loss Reserve Jan 1 | 15,000 | 15,000 |
| DBI Additional Reserve | 31,000 | 20,000 |
| Payment made | 26,000 | 20,000 |
| DBI Reserve 2016 | 20,000 | 15,000 |

DBI Reserve is increased by quarterly provisioning expense and decreased by actual payment made to beneficiaries declared by SPBD dead members.

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16. OPERATING EXPENSE

| | 31-Dec-16 | 31-Dec-15 |
|---|------------------|------------------|
| | WST (\$) | WST (\$) |
| Accident Compensation Board | 5,654 | 5,373 |
| Bank Charges | 15,927 | 21,474 |
| Guarantee Fees | 59,133 | 50,000 |
| Communications | 139,070 | 144,279 |
| Depreciation | 101,245 | 118,130 |
| Insurance | 13,407 | 18,117 |
| National Provident Fund | 35,734 | 28,396 |
| Office Expense (including Printing) | 99,942 | 66,433 |
| Other Expenses | 47,646 | 114,334 |
| Printing & Stationeries | - | 30,319 |
| Professional Services | 821,861 | 684,909 |
| Public Relations | 52,379 | 1,140 |
| Rental Expenses | 183,598 | 182,698 |
| Repairs & Maintenance | 39,418 | 38,574 |
| Salaries and Wages | 831,712 | 860,911 |
| Taxes and Fees | 27,200 | 7,745 |
| Training | 90,306 | 8,176 |
| Transportation | 132,915 | 121,062 |
| Travel | 56,034 | 103,534 |
| Operating Expenditures Sub-Total | 2,753,181 | 2,605,603 |

17. NON OPERATING REVENUES

| | 31-Dec-16 | 31-Dec-15 |
|--|------------------|------------------|
| | WST (\$) | WST (\$) |
| Grants including donations for the Annual Award | 6,600 | 6,400 |
| Total Non Operating Revenues as per P & L | 6,600 | 6,400 |

SPBD MICROFINANCE (SAMOA), LTD.
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18. NON-OPERATING EXPENSES

There is no non-operating expenses incurred in 2016.

19. INCOME TAX EXPENSE

| | 2016 | 2015 | 2014 |
|--|-----------------------|-----------------------|-----------------------|
| | \$ | \$ | \$ |
| Profit before tax | 713,412 | 524,389 | 555,227 |
| Add: | | | |
| First time provision LLP 2010 | | | 58,690 |
| First time provision LLIP 2010 | | | 26,229 |
| First time provision DBI 2010 | | | 10,000 |
| First time provision SLI 2013 | | | 21,000 |
| Movement LLP (2014-16) | (26,823.44) | 23,037.74 | |
| Movement LILP (2014-16) | 12,930.10 | (7,498.30) | |
| Movement DBIP (2014-16) | 10,000.00 | 9,000.00 | |
| Movement SLI (2014-16) | 11,000.00 | (1,000.00) | |
| Non taxable Donations received (2011-2015) | <u>(6,600.00)</u> | <u>(6,400.00)</u> | <u>(20,571.00)</u> |
| | 507 | 17,139 | 95,348 |
| Taxable profit | <u>713,919</u> | <u>541,528</u> | <u>650,575</u> |
| Income tax 27% | 192,758 | 146,213 | 175,655 |

20. OPERATING LEASE COMMITMENTS

The minimum annual lease payments required under non-cancellable leases through to their expiry are as follows:

| | 2016 | 2015 |
|--------------------|----------------|----------------|
| | WST \$ | WST \$ |
| Less than one year | 139,794 | 198,706 |
| | <u>139,794</u> | <u>198,706</u> |

21. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: liquidity risk, market risk and credit 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.

The Company's principal financial liabilities comprise borrowings and payables. The main purpose of these financial liabilities is to raise finance for Company operations. The Company has financial assets which mainly comprise cash and cash equivalents and receivables which are directly from operations. All financial assets are classified as 'loans and receivables' and all financial liabilities are classified as 'held at amortised cost'.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

a) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet the payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient

SPBD MICROFINANCE (SAMOA), LTD.
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cash and marketable securities and the availability of funding through and adequate amount of committed credit facilities.

The Company has incurred significant amount of indebtedness and evaluates its ability to meet these obligations on an on-going basis. Based on these evaluations the Company devises strategies to manage liquidity risk including maintaining a sufficient undrawn borrowing facilities to fund liquidity needs. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of subordinated debt, bank overdraft facilities and borrowings to fund liquidity needs. The Company's liquidity management process includes:

- i) Maintaining a liquidity reserve in the form of cash and credit lines to ensure the solvency and financial flexibility at all times. For this purpose, the Company has net cash balances of \$3.12 million tala at 31 December 2016.
- ii) Managing the concentration and profile of the Company's debt maturities. Refer to the table below for summary of the financial liability maturity profile at 31 December 2016 based on contractual undiscounted payments:

| | Within 1 to 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Total |
|-----------------------------|----------------------|----------------|--------------|--------------|------------|
| Borrowings | 556,617 | 2,062,821 | 8,426,925 | | 11,046,232 |
| Creditors | | 150,469 | | | 150,469 |
| Total financial liabilities | 556,617 | 2,213,290 | 8,426,925 | | 11,196,701 |

b) Market risk

The Company takes on exposure to market risks, which is the risk that the fair value or future cash flows of financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk exposures are measured using sensitivity analysis.

i) Currency risk

Currency risk is the risk that the fair value of the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company is exposed to foreign currency risks in connection with scheduled payments in currencies that are not their functional currencies. The payments relate mainly to overseas borrowings. The Company's income statement and statement of financial position can be affected materially by movements in the exchange rates between the US dollar, the Euro and the Samoa tala. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company manages its foreign exchange risk by ensuring that net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions.

Foreign currency sensitivity

The sensitivity analysis below discloses the impact on profit before taxation and equity from changes in the exchange rates of the Tala against the US dollar and the Euro to which the Company has significant exposure.

At 31 December 2016, if the Tala has strengthened/weakened by 10% against the US dollar and the Euro with all other variables held constant, profit before taxation for the year would have been \$19,280 higher, mainly as a result of foreign exchange losses on translation of non Tala denominated borrowings. There would be no impact on other components of equity as

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the Company has no non-Tala denominated non-monetary assets classified as available for sale.

ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

The company's interest rate risk policy requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. At 31 December 2016, 0% of the interests bearing liabilities were denominated in US dollars and Euros.

c) Credit risk

Credit risk arises mainly from micro-credit loan provided to the Customers of SPBD. This can be described as potential loss arising from the failure of a counter party to perform as contractual agreement with the SPBD. The failure may result unwillingness of a counter party or decline in his/her financial condition in adverse environment. Therefore, SPBD's credit risk management activities have been designed to address all these issues.

SPBD Center Managers and the Team Leader have the proper introduction to the village chief before a new center is opened. All interested women have to undergo a 6 session training to know about SPBD and the financial services offered. Potential clients must attend all sessions and has to undergo the final test to check their understanding of the SPBD Program. All potential clients must adhere to the five point decisions that SPBD requires:

- They must be willing to start or operate a business/economic activity
- They must be willing to attend the weekly meeting
- They must be willing to pay the weekly payment
- They must be willing to form a group and
- They must abide by the group guarantee and group rules.

All loan applications must be endorsed by the Center Chief and the Center Secretary. The Center Manager evaluates the loan application and submit to their Team Leader for endorsement. The Back-office checks the completeness and validity of the application and submits the loan application to the

General Manager for approval. Once a loan has been approved a check for disbursement is prepared. During the disbursement clients are interviewed individually to check their identification, revalidate the information provided on the loan application and verify that the client fully understand the terms and condition of the loan

22. Loan Recoveries

Loan Recoveries is the total amount of payments collected from loans that have already been written off in SPBD books of account. In 2015 and 2016, SPBD was able to collect some payments from default loans and take into our Profit & Loss account.

23. Resignation Fees

No resignation fees recognised in 2016.

23a Development Fees

SPBD Samoa charges a Development Fee of 3% at the time of loan disbursement.

24. Events after statement of financial position date

There were no significant events after the statement of financial position date

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PORTFOLIO DESCRIPTION REPORT

Portfolio Composition

SPBD adopts the Grameen Bank's group solidarity lending methodology. SPBD's loan portfolio consists of two types: client loans and staff loans. Group loans are made under the provisions of SPBD Credit manual. Staff loans are made under the provisions of the employee loan program as outlined under SPBD Human Resources Policy Manual.

SPBD offers the group loan products: (1) 52-week loan product, (2) 17 weeks loan product, (3) SME loan product, (4) OWL and (5) Education loan product. Minimum first loan sizes are ST\$500 and ST\$300 respectively. All loans are amortized in weekly instalments. These loan types are unsecured except for SME loan product. 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 SPBD office while loan repayments are collected at the village based weekly meetings by SPBD staff. A loan must be paid off before another loan is issued to the same client.

Loans Disbursed during 2016

| Loan Type | # of Loans | Principal Amount | Amount as % of Total Portfolio |
|------------------------|-------------------|-------------------------|---------------------------------------|
| Micro Loans | 6,171 | 11,973,388 | 76.3% |
| SME Loans | 242 | 2,835,750 | 18.1% |
| OWL Loans | 323 | 660,500 | 4.2% |
| Higher Education Loans | 66 | 57,785 | 0.4% |
| Staff loans | 92 | 155,100 | 1.0% |
| Total | 6,894 | 15,682,523 | 100% |

Ave loan Size at disbursement

\$
2,275

Loans Disbursed during 2015

| Loan Type | # of Loans New | Principal Amount | Amount as % of Total Portfolio |
|------------------------|-----------------------|-------------------------|---------------------------------------|
| Group loans (New) | 2,171 | 2,893,000 | 21% |
| Group loans (Existing) | 4,591 | 10,665,565 | 78% |
| Staff loans | 77 | 138,680 | 1% |
| Total | 6,839 | 13,697,245 | 100% |

Ave loan Size at disbursement

\$
2,003

SPBD 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.

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PORTFOLIO QUALITY

SPBD loans are 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 SPBD only offers unsecured loans, we rely on good clients and projects selection as a primary tool to ensure portfolio quality is good. When a client does not have a payment, we apply the group guarantee policy and ask 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.

| Loan Types | # of Accounts | 31-Dec-16 | | | 31-Dec-15 | | |
|------------------------------------|---------------|-------------------------------|-----------------------|-------------------|-------------------------------|------------------|-------------------|
| | | Outstanding Principal Balance | PAR > 30 Amount WST\$ | PAR > 30 Days (%) | Outstanding Principal Balance | PAR Amount WST\$ | PAR > 30 Days (%) |
| Group Loans | | | | | | | |
| Current | 6,415 | 9,006,712 | | | 7,687,057 | | |
| 1-4 weeks late (<30 days) | 234 | 412,400 | | | 318,077 | | |
| 5-8 weeks late (30 to 60 days) | 9 | 9,874 | 9,874 | 0.10% | 27,968 | 27,968 | 0.34% |
| 9-12 weeks late (60 to 90days) | 5 | 3,417 | 3,417 | 0.04% | 9,592 | 9,592 | 0.12% |
| 13-16 weeks late (90 to 120 days) | | | | | 2,045 | 2,045 | 0.03% |
| 17-20 weeks late (120 to 140 days) | | | | | 3,490 | 3,490 | 0.04% |
| over 21 weeks late (over 150 days) | | | | | 14,953 | 14,953 | 0.19% |
| Sub-total | 6,663 | 9,432,404 | 13,291 | 0.14% | 8,063,182 | 58,048 | 0.72% |
| Staff Loans | | | | | | | |
| Current | 197 | 209,362 | | | 194,178 | | |
| over 4 weeks in arrears | | | | | | | 0% |
| Grand Total | 6,860 | 9,641,766 | 13,291 | 0.14% | 8,257,360 | 24,720 | 0.35% |

SPBD 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

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A loan is considered in arrears when a due weekly payment is missed and that group guarantee does not work. SPBD does not have any late or penalty fees. SPBD staff then follows the procedures outlined in the SPBD Credit Manual to get clients in arrears back on track as soon as possible. A significant portion of operation staff compensation is directly linked to the quality of loan portfolio under his/her management. Parallel to these efforts, SPBD 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 A above.

Loan Accounts Outstanding

The numbers of outstanding loan accounts as at the end of the financial year were as follows:

| | 31/12/2016 | 31/12/2015 |
|-------------------------------------|------------|------------|
| Number of outstanding loan accounts | 6,860 | 6,643 |

Savings Accounts

The numbers of voluntary savings accounts at the end of the financial year were as follows:

| | 31/12/2016 | 31/12/2015 |
|----------------------------|------------|------------|
| Number of savings accounts | 18,812 | 21,097 |

Interest Accrual on Late Loans

Interest on unpaid loans is accrued up until the time a write off decision is taken. Interest is then written back.