

SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED

COMPANY NUMBER: 20129967

BALANCE SHEET AND ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2014

TABLE OF CONTENTS

1	Directors' Report	Page 1
2	Auditor's Report	Page 2
3	Balance Sheet as at 31st December 2014	Page 3
4	Profit and Loss Account for the year ended 31st December 2014	Page 4
5	Statement of Cash Flows for the year ended 31st December 2014	Page 5
6	Notes To and Forming Part of the Accounts	Pages 6 - 13

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**

DIRECTORS' REPORT

Your director has the pleasure in presenting the company's balance sheet and accounts as at 31st December, 2014 together with his annual report.

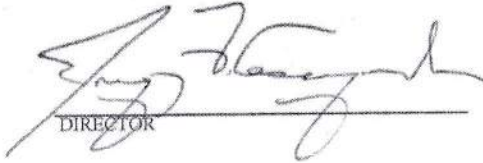
The accompanying balance sheet and accounts on pages 3 to 13 show that operations for the year ended 31st December 2014 resulted in a deficit of \$3,132,443 (2013: deficit of \$2,811,835) after charging income tax of \$8,926 (2013: \$4,629). These accounts have been prepared under the supervision of the director and in the opinion of the board are drawn up so as to exhibit a true and fair view of the state of affairs of the company as at 31st December 2014 and of its results for the year then ended.

No dividends were declared or paid during the year ended 31st December 2014 (2013: Nil).

The company is in the business of providing financial services (credit, micro-insurance and savings).

Dated at Newark, NJ, USA this *10th April 2015*

BY ORDER OF THE DIRECTOR



DIRECTOR

Morris & Sojnocki
City Centre Building
Mendana Avenue
Honiara
Solomon Islands
postal address
PO Box 70
Telephone (677) 21851
Facsimile (677) 23342

- 2 -

Independent Auditor's Report

To the Shareholders and Board of Directors of South Pacific Business Development Microfinance (Solomon Islands) Limited

We have audited the accompanying financial statements of South Pacific Business Development Microfinance (Solomon Islands) Limited which comprise the balance sheet as of 31st December 2014 and the profit and loss account and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 3 to 12.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Policies set out in Note 2 to the financial statements and with the requirements of the Companies Act 2009. 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 applicable Auditing Standards in Solomon Islands. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

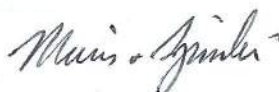
Opinion

In our opinion:

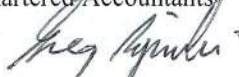
- (a) the accompanying financial statements are in agreement with the books of account kept by the company and are properly drawn up:
 - (i) so as to give a true and fair view of the financial position of the company as of 31st December 2014, and of its financial performance and its cash flows for the year then ended;
 - (ii) in accordance with the applicable regulations made under the Solomon Islands Companies Act 2009; and
 - (iii) in accordance with accounting policies set out in note 2 to the financial statements.
- (b) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit for the year ended 31st December 2014.
- (c) proper books and accounts have been kept by the company as far as it appears from the examination of those books.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to note 18 to the financial statements which details the basis for preparing the accounts on a going concern basis and notes that the company is dependent on the continuing support of its shareholders.



MORRIS & SOJNOCKI
Chartered Accountants



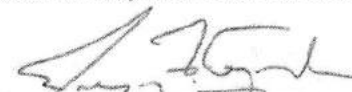
BY GREG SOJNOCKI
PARTNER

Date: 12th April 2015
Honiara

SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
BALANCE SHEET as at 31st December 2014

	Note	2014 S	2013 S
ASSETS			
Current assets			
Cash on hand and in bank	3	527,244	1,177,463
Loan portfolio outstanding	4	3,556,579	2,174,648
Receivables	5	-	4,357
Other assets	7	127,780	85,696
Income tax refundable	12(b)	-	2,871
Total current assets		<u>4,211,603</u>	<u>3,445,035</u>
Fixed assets			
Fixed assets	6	644,336	384,103
Less: Accumulated depreciation	6	181,314	85,208
Net fixed assets		<u>463,022</u>	<u>298,895</u>
TOTAL ASSETS		<u>4,674,625</u>	<u>3,743,930</u>
LIABILITIES			
Current liabilities			
Clients' savings deposits	8	1,541,961	1,125,114
Accounts payable	9	1,189,018	1,050,785
Vehicle loan-current	10 (a)	87,807	-
Soft loans -current	10 (b)	560,731	246,305
Life insurance reserve	4	27,419	12,033
Provision for income tax	12(b)	1,426	-
Total current liabilities		<u>3,408,362</u>	<u>2,434,237</u>
Non Current liabilities			
Vehicle loan- non -current	10(a)	98,567	-
Soft loans - non-current	10 (b)	7,131,422	4,140,976
Total non-current liabilities		<u>7,229,989</u>	<u>4,140,976</u>
TOTAL LIABILITIES		<u>10,638,351</u>	<u>6,575,213</u>
NET ASSETS / (LIABILITIES)		<u>(5,963,726)</u>	<u>(2,831,283)</u>
EQUITY			
Issued capital	11	1,047,425	1,047,425
Shareholders funds / (Deficit in shareholders funds)		(7,011,151)	(3,878,708)
TOTAL EQUITY / (DEFICIENCY IN EQUITY)		<u>(5,963,726)</u>	<u>(2,831,283)</u>

The balance sheet is to be read in conjunction with the notes to and forming part of the accounts set out on pages 6 to 13.


 Gregory F. Casagrande
 Director

Date:

10 / April / 2015

SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
PROFIT AND LOSS ACCOUNT for the year ended 31st December 2014

	Note	<u>2014</u>	<u>2013</u>
		\$	\$
Financial Income			
Interest on loans		1,369,947	674,828
Development fees		176,428	120,408
Loan insurance fees		88,214	60,554
Life insurance fees		78,340	40,830
Savings withdrawal fees		54,270	22,630
Other non-operating income		11,497	-
Miscellaneous income		3,268	1,655
Savings passbook issuance fees		3,200	1,150
Interest earned bank accounts		-	23
Resignation fees		-	3,690
Total Financial Income		<u>1,785,164</u>	<u>925,768</u>
Financial Expenses			
Interest and fees on borrowed funds		688,336	282,975
Foreign exchange loss		242,974	31,064
Total financial expenses		<u>931,310</u>	<u>314,039</u>
NET FINANCIAL INCOME		<u>853,854</u>	<u>611,729</u>
Loan loss provision and write-offs	4	68,668	20,090
Life insurance reserve	4	27,419	-
Other provisions & write-offs	5	20,392	-
NET FINANCIAL MARGIN		<u>737,375</u>	<u>591,639</u>
Operating Expenses			
Bank charges		6,341	6,857
Computer support system		16,747	841
Conference and meetings		11,579	623
Depreciation	6	96,106	79,946
Electricity and water		70,904	10,200
Financial Literacy training expenses		2,652	7,744
Insurance		17,072	13,449
Management fees and subscriptions		1,250	1,250
Office expenses		59,622	71,572
Postage, telephone and communications		90,891	51,192
Printing and office stationeries		88,107	79,115
Professional services		686,513	831,800
Public relations and advertisements		10,140	4,124
Rentals		561,797	373,015
Repairs and maintenance		49,361	14,366
Registration fees		27,667	16,922
Salaries and benefits		1,615,495	1,450,429
SPBD Grand Opening Day expenses		-	51,863
Tax penalties		500	188
Transportation, fuel, oil		107,873	72,131
Travel		340,275	261,218
Total operating expenses		<u>3,860,892</u>	<u>3,398,845</u>
Net surplus / (deficit) before taxation		(3,123,517)	(2,807,206)
Income tax expense	12(a)	8,926	4,629
Net surplus/ (deficit) after taxation		(3,132,443)	(2,811,835)
Shareholders funds / (Deficit in shareholders funds) at the beginning of the financial year		<u>(3,878,708)</u>	<u>(1,066,873)</u>
Shareholders funds / (Deficit in shareholders funds) at the end of the financial year		<u>(7,011,151)</u>	<u>(3,878,708)</u>

The profit and loss account is to be read in conjunction with the notes to and forming part of these accounts set out on pages 6 to 13.

SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967

STATEMENT OF CASH FLOWS for the year ended 31st December 2014

Notes	2014 S	2013 S
Cash flows from operating activities		
Net surplus / (deficit) after tax	(3,132,443)	(2,811,835)
Adjustment for non-cash items:		
Depreciation	96,106	79,946
Foreign exchange loss	242,974	31,064
Loan loss provision	80,166	20,090
(Increase) / decrease in operating assets:		
Gross loan portfolio	(1,414,286)	(2,194,738)
Gross receivables	(16,035)	11,842
Income tax refundable	-	(2,871)
Other assets	(42,084)	(29,787)
Increase / (decrease) in operating liabilities:		
Client savings deposits	416,846	1,120,614
Accounts payable	(192,008)	377,249
Accrued interest payable	330,241	(207)
Provision for income tax	4,297	-
Life insurance reserve	15,386	12,033
Net cash flows from / (used in) operating activities	<u>(3,610,840)</u>	<u>(3,386,600)</u>
Cash flows from investing activities		
Purchase of fixed assets	(260,233)	(106,648)
Net cash flows from / (used in) investing activities	<u>(260,233)</u>	<u>(106,648)</u>
Cash flows from financing activities		
Proceeds from borrowing - Soft loans	3,156,495	4,110,821
Proceeds from borrowing - Credit corporation loan	193,694	-
Repayments of borrowing - Soft loans	(121,655)	-
Repayments of borrowing - Credit corporation loan	(7,317)	-
Net cash flows from / (used in) financing activities	<u>3,221,217</u>	<u>4,110,821</u>
Net increase / (decrease) in cash and cash equivalents	(649,856)	617,573
Cash and cash equivalents at the beginning of the financial year	1,177,463	558,396
Foreign currency account translation adjustment	(363)	1,494
Cash and cash equivalents at the end of the financial year	<u>527,244</u>	<u>1,177,463</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the accounts set out on pages 6 to 13.

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2014

1. REPORTING ENTITY

South Pacific Business Development Microfinance (Solomon Islands) Limited (or SPBD) is a privately owned microenterprise development organisation with a mission to provide financial services to economically disadvantaged people, particularly women who cannot access savings and loan products from traditional banks. SPBD provides unemployed and low income women entrepreneurs with financial services, training, ongoing guidance and motivation to help them start or grow micro-businesses so that they can improve their lives and that of their families. It was incorporated under the Companies Act 2009 on 13th April 2012. Its offices are located in Mendana Avenue in the capital Honiara, Solomon Islands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounts of the company have been drawn up in accordance with the requirements of the laws of Solomon Islands, particularly the Companies Act 2009, and applicable accounting standards in Solomon Islands. They have been prepared on the basis of historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets. Except where stated, the accounting policies have been consistently applied.

Set out below is the summary of significant accounting methods adopted by the company in the preparation of the accounts.

(a) Reporting Currency

All amounts are expressed in Solomon Islands dollars (SBD)

(b) Cash and Cash Equivalents

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

(c) Depreciation

Items of fixed assets are stated at the lower of historical cost and recoverable amount and are depreciated on a straight-line basis so as to write off the cost of the assets over their estimated economic life.

The rates of the depreciation used are based on the following estimated useful lives:

Furniture and fixtures	8 years
Computer equipment and peripherals	4 years
Motor vehicles	4 years
Office equipment	8 years
Software and electronic system	4 years

Fixed assets are depreciated or amortised from the date of acquisition.

(d) Revenue

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

i. Interest Income - Interest income from loan portfolio and term deposits is recognised using the cash based method where they are recognised at the time they are received.

ii. Development Fee - SPBD charges a fee of 2% of principal loan amount to be used to cover the cost of training the clients, loan evaluation and monitoring. This fee is deducted from the loan proceeds.

iii. Loan Insurance - This fee is of the loan principal to cover the risk in the event of death of the client. A member's loan obligations to SPBD will be eliminated upon the death of that member. The loan insurance fee of 1% is deducted from the loan proceeds.

iv. Life Insurance - SPBD offers a Life Micro-insurance Product to help the families of SPBD members to reduce the burden of bereavement and funeral expenses when the member dies.

When an SPBD member dies during the period of the loan, her beneficiaries will receive a fixed payment of SBD3000. The life insurance fee is deducted from the loan proceeds and is based on the period of Loans as follows: 13 weeks- \$15; 26 weeks-\$25; 39 weeks \$35; and 52 weeks \$45.

v. Savings Fees - A fee of \$5 is charged by SPBD to its member when they withdraw from their savings account and are recognised in the period in which they are received.

SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd

(e) Expenses

Expenses are recorded on an accrual basis.

(f) Borrowing costs

All borrowing costs are expensed.

(g) Taxation

The taxes payable method is adopted. Under this method, income tax expense is based on accounting profit adjusted for permanent and timing differences between accounting profit and income chargeable to tax. The corporate income tax rate is 30%.

(h) Foreign currencies

Transactions in foreign currencies have been converted into Solomon Islands dollars (SBD) at the rate of exchange ruling at the date of the transaction. Balances denominated in foreign currencies have been converted into SBD at rates ruling at the particular balance sheet date. The source of exchange rates are the published rates of either Westpac Banking Corporation, Solomon Islands or Australia and New Zealand Banking Group, Solomon Islands using the bank selling rates. Exchange differences are taken to the income statement as foreign exchange gains or losses.

Exchange rate used at balance sheet date	(SBD/USD)	0.1290
Exchange rate used at balance sheet date	(SBD/NZD)	0.1641
Exchange rate used at balance sheet date	(SBD/AUD)	0.1573

(i) Comparative figures

The financial statements are prepared for the year end 31st December 2014 with comparative figures for the year end 31st December 2013.

(j) Creditors and other payables

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

(k) Borrowings

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

(l) Employee entitlements

Short term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured at nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date and annual leave earned to but not yet taken at balance date.

Long term employee entitlements

There are no long term employee entitlements.

(m) Provisions

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(n) Change in Accounting Policy

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

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2014**

	<u>2014</u>	<u>2013</u>
	\$	\$
3. CASH ON HAND AND IN BANK		
<i>Cash on hand</i>		
Undeposited collections	-	10,000
Petty cash imprest	10,000	10,000
Savings reserve imprest	-	16,966
SUB-TOTAL	10,000	36,966
<i>Cash in bank</i>		
Westpac Bank 2000195905	464,720	1,108,296
ANZ bank account AUD 4934797	9,593	11,784
ANZ bank account 4926628	42,931	20,417
SUB-TOTAL	517,244	1,140,497
TOTAL	527,244	1,177,463
4. LOAN PORTFOLIO		
LOAN RECEIVABLES		
Opening balance	2,174,648	-
Total loan disbursements	8,447,800	6,046,400
Less: Total principal loan repayments	6,977,111	3,851,662
Less: Loan write-offs	36,313	-
Gross Loan Portfolio	3,609,024	2,194,738
Less: Loan loss reserve	52,445	20,090
Net Loan Portfolio	3,556,579	2,174,648
GROSS LOAN PORTFOLIO		
Opening balance	2,174,648	-
Loan disbursement	8,447,800	6,046,400
Less: Loan repayments	6,977,111	3,851,662
Less: Loan write-offs	36,313	-
SPBD Gross Loan Portfolio	3,609,024	2,194,738
No. of Loans Outstanding		
SPBD Group Loan Product	1,616	1,357

Portfolio Quality Measurement

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

Loan Provisioning and Loan Loss Reserve

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

Provisioning Ratios for Group Loans	Loan Loss Provision	Loan Outstanding	Loan Loss Prov. Amt
1 week to 4 week late(<30 days)	5%	197,503	9,875
5 weeks to 8 weeks late(30 to 60 days late)	10%	26,268	2,627
9 weeks to 12 weeks late(60 to 90 days late)	25%	7,568	1,892
13 weeks to 16 weeks late(90 to 120 days late)	50%	2,330	1,165
17 weeks to 20 weeks late(120 to 150 days late)	75%	-	-
21 weeks or more(150+ days)	100%	36,886	36,886
TOTAL PROVISIONING AS OF 31 DECEMBER 2014		270,555	52,445

SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2014

4. LOAN PORTFOLIO - cont'd

Loan Write-Off

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

Any loan in arrears exceeding 26 weeks will be short-listed for potential write-off. Write-off decision will be made on a case-by-case basis by the Chairman/President upon review of the recommendations of the General Manager. The amount of write-offs for 2014 were considered and approved by the Director.

Portfolio Quality

Loan Types	31-Dec-14				31-Dec-13			
	# of Accounts	Outstanding Principal Balance	PAR Amount SBD	PAR>30 days(%)	# of Accounts	Outstanding Principal Balance	PAR Amount SBD	PAR>30 days(%)
Group Loans	1,609				1,351			
Current	1,023	3,256,529			1,173	1,930,043		
1-4 weeks late	505	241,834			159	230,361		
5-8 weeks late	12	26,268	26,268	0.73%	6	7,016	7,016	0.32%
9-12 weeks late	4	7,568	7,568	0.21%	-	-	-	-
13-16 weeks late	1	2,330	2,330	0.06%	-	-	-	-
17-20 weeks late	-	-	-	-	-	-	-	-
Over 21 weeks late	64	36,886	36,886	1.02%	13	7,870	7,870	0.36%
Sub-total	1,609	3,571,515	73,052	2.02%	1,351	2,175,289	14,886	0.68%
Staff Loans	7	37,509	-	-	6	19,449	-	-
Current	7	37,509	-	-	6	19,449	-	-
Over 4 weeks in arrear	-	-	-	-	-	-	-	-
Grand Total	1,616	3,609,024	73,052	2.02%	1,357	2,194,738	14,886	0.68%

Movement in Loan Loss Reserve

Loan reserve, 1 January
Loan loss provision expense for the year
Less: Loans written-off during the year

Loan reserve, 31 December

	2014	2013
	\$	\$
	20,090	-
	68,668	20,090
	36,313	-
	<u>52,445</u>	<u>20,090</u>

Movement in Life Insurance Reserve

Life insurance reserve, 1 January
Life insurance provision for the year
Less: Loans written-off during the year

Life insurance reserve, 31 December

	2014	2013
	12,033	-
	15,386	12,033
	-	-
	<u>27,419</u>	<u>12,033</u>

5. RECEIVABLES

Other receivables
Less: Write-offs

	2014	2013
	20,392	4,357
	20,392	-
	<u>-</u>	<u>4,357</u>

6. FIXED ASSETS

Type	Cost \$	Accumulated Depreciation \$	Depreciation for the year \$	Net Book Value \$
Furniture and fixtures	43,932	11,362	5,492	32,570
Computer equipment and peripherals	94,842	40,987	21,120	53,855
Motor vehicles	418,691	96,889	53,910	321,802
Office equipment	49,070	12,779	6,134	36,291
Software and electronic system	37,801	19,297	9,450	18,504
2014 TOTAL	<u>644,336</u>	<u>181,314</u>	<u>96,106</u>	<u>463,022</u>
2013 TOTAL	<u>384,103</u>	<u>85,208</u>	<u>79,946</u>	<u>298,895</u>

7. OTHER ASSETS

Stock - Passbooks
Stock - Receipt books
Rental bond - head office
Staff advances
Prepaid expenses

	2014	2013
	\$	\$
	9,564	10,080
	8,200	6,950
	72,540	47,540
	8,160	-
	29,316	21,126
	<u>127,780</u>	<u>85,696</u>

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2014**

8. CLIENTS' SAVINGS DEPOSITS

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

SPBD actively encourages its members to develop a regular habit of savings. All members are required to open a savings account and deposit an initial amount of SBD30. This must be performed prior to any 1st cycle loan disbursement occurring.

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

The number of savings accounts as of the end of the financial year is:

	<u>2014</u>	<u>2013</u>
<u>Number of saving accounts</u>	<u>S</u>	<u>S</u>
Clients saving balances	2930 (2013: 1901)	1,541,961
	<u>1,541,961</u>	<u>1,125,114</u>

9. ACCOUNTS PAYABLE

Accounts payable - holding company	161,978	148,194
Accounts payable - related entities	358,241	467,807
Accounts payable - other	165,124	299,255
Employee deductions payable - PAYE, NPF and Basic rates	173,434	135,529
Accrued interest payable	330,241	-
	<u>1,189,018</u>	<u>1,050,785</u>

10. BORROWINGS

10 (a) VEHICLE LOAN

Credit Corporation	186,374	-
Vehicle loan - current	87,807	-
Vehicle loan - long term	98,567	-
Total	<u>186,374</u>	<u>-</u>

The loan from Credit Corporation is secured by chattel mortgage over the vehicles. The loan attracts interest at a rate of 12% per annum and is repayable over 36 months.

10 (b) SOFT LOANS

MicroDreams Foundation	2,447,289	1,582,608
SPBD Microfinance Holdings (Singapore) Pte Ltd	5,244,864	2,804,673
Total	<u>7,692,153</u>	<u>4,387,281</u>
Soft Loans - current	560,731	246,305
Soft Loans - long term	7,131,422	4,140,976
Total	<u>7,692,153</u>	<u>4,387,281</u>

MicroDreams Foundation

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

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Amount Received (SBD)	Beginning balance 1/01/2014	Principal repayment	Foreign currency movement	Balance 31/12/2014 (SBD)	Interest repayment (SBD)	Interest payable as at 31/12/2014 (SBD)	
24-Dec-12	NZD	40,000	7.50%	30-Sep-15	1.75	123,153	246,305	121,655	(124,428)	121,877	-	31,387	
22-Jun-13	USD	100,000	9.50%	30-Jun-17	3.16	719,094	742,391	-	32,803	775,194	35,244	40,093	
4-Nov-13	USD	80,000	9.50%	31-Oct-17	2.95	583,070	593,912	-	26,343	620,155	28,196	32,078	
25-Sep-14	USD	60,000	8.50%	31-Mar-18	3.45	442,478	-	-	22,638	465,116	-	9,884	
19-Nov-14	USD	60,000	8.50%	30-Jun-18	3.57	445,434	-	-	19,513	464,947	-	4,504	
						Total	2,313,219	1,582,608	121,655	(23,231)	2,447,289	63,440	117,945

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2014

10. BORROWINGS - cont'd

10 (b) SPBD Microfinance Holdings (Singapore) Pte Ltd

The loans with SPBD Microfinance Holdings (Singapore) Pte Ltd are unsecured. There are no deposits tied to these loans and no guarantee was obtained to secure them.

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Amount Received (SBD)	Balance 1/1/2014 (SBD)	Principal repayment	Foreign currency movement	Balance 31/12/2014 (SBD)	Interest repayment (SBD)	Interest payable as at 31/12/2014 (SBD)	
18-Jan-13	SBD	980,226	9.00%	15-Jun-17	2.63	980,236	980,236	-	-	980,236	65,502	25,379	
8-Feb-13	AUD	50,000	7.00%	15-Dec-17	3.07	376,645	331,345	-	(13,481)	317,864	21,478	8,169	
8-Feb-13	USD	20,000	7.00%	15-Dec-17	3.07	144,803	148,478	-	6,561	155,039	9,920	4,916	
8-Feb-13	SBD	231,027	9.00%	15-Dec-17	3.07	231,027	231,027	-	-	231,027	15,438	5,982	
8-Apr-13	USD	50,000	8.00%	30-Jun-16	2.72	362,562	371,193	-	16,402	387,597	14,639	15,550	
15-Aug-13	USD	100,000	9.50%	31-Dec-17	3.38	719,384	742,392	-	32,802	775,194	34,956	37,132	
12-Feb-14	NZD	120,000	9.00%	1-Dec-17	2.30	712,345	-	-	18,916	731,261	19,291	38,410	
14-Feb-14	USD	40,000	9.00%	31-Dec-17	3.38	291,525	-	-	18,552	310,078	9,957	14,070	
28-May-14	USD	125,000	9.00%	31-Dec-18	2.60	903,179	-	-	65,813	968,992	-	51,855	
15-Aug-14	USD	50,000	8.00%	30-Jun-19	4.38	361,533	-	-	26,043	387,576	-	11,736	
						Total	5,077,240	2,804,673	-	171,608	5,244,864	191,182	212,290

11. ISSUED CAPITAL

SPBD Microfinance Holdings (Singapore) Pte Limited:

Opening balance

Equity injection during the year

Closing balance

	2014 S	2013 S
Opening balance	1,047,425	1,047,425
Equity injection during the year	-	-
Closing balance	1,047,425	1,047,425

12. TAXATION

(a) Income tax expense

Income tax expense is 30% of taxable income for the financial year, or 0.5% of revenue if there is a taxable loss

Net surplus/(deficit) per the profit and loss account

Add: Non deductible expenses

Depreciation for accounting purposes

Life insurance reserve

Loan loss provision

Tax penalties

Unrealised exchange loss

	(3,123,517)	(2,807,206)
	96,106	79,946
	15,386	12,033
	32,355	20,090
	500	188
	211,910	19,855
	(2,767,260)	(2,675,094)

Less: Deductible expenses

Tax loss carried forward

Depreciation for taxation purposes

Taxable income / (loss)

	3,873,545	1,119,766
	124,072	78,685
	(6,764,877)	(3,873,545)

Income tax expense - turnover tax

	8,926	4,629
--	-------	-------

(b) Provision for income tax / Income tax refundable

Provision for income tax / (Income tax refundable) at beginning of year

Add: Income tax expense

Less: Tax paid during the year

	(2,871)	-
	8,926	4,629
	(4,629)	(7,500)

Provision for income tax / (Income tax refundable) at end of year

	1,426	(2,871)
--	-------	---------

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2014

12. TAXATION- cont'd

(c) Income tax losses

The estimated income tax losses available to be carried forward at 31st December, 2014 amounted to \$6,764,877 (2013: \$3,873,545). The benefit of this loss which at the rates prevailing at balance date amounted to \$2,029,463 (2013: \$1,162,064) will be utilised only if the company earns sufficient income chargeable to tax in the future, continues to comply with the provisions of the Income Tax Act (Cap. 123) of Solomon Islands relating to the deduction of carried forward losses and no change in the income tax legislation adversely affects the company in realising the benefit of the deduction for itself.

13. RELATED PARTIES

Holding company

The immediate holding company is SPBD Microfinance Holdings (Singapore) Pte Limited. The company paid various expenses on behalf of SPBD SI during the year. A balance of \$161,978 is owing at 31st December 2014 (2013: \$148,194) and is included in accounts payable. The amount is interest free and repayable on demand.

Other Related Entities

Other related entities paid various expenses on behalf of SPBD SI during the year. A balance of \$358,241 (2013: \$467,807) is owing to Transformative Ventures LLC. The amounts are interest free and repayable on demand.

Directors

Gregory Casagrande is the sole director of the company. No emoluments were received by the director during the year.

14. NON FINANCIAL SERVICES

Financial Diaries Programme

SPBD Microfinance Solomon Islands offers a one day extensive financial literacy training as part of the 6 days of training which every borrower has to undergo before they become eligible to apply for a loan. The financial literacy training is aimed at training the borrowers to maintain their business and household income and expenses, and better manage their small business.

15. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2014 (2013: \$nil).

16. OPERATING LEASE COMMITMENTS

Except for the month-by-month rental obligations of SPBD business premises, there are no other operating lease commitments for the year ended 31st December 2014 (2013: \$nil).

17. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2014 (2013: \$nil).

18. GOING CONCERN

The company has a deficiency in equity of \$5,963,726 at 31st December 2014. As a going concern, the company is dependent on the continuing support of its shareholder. The Director considers it appropriate to prepare these accounts on the basis that the company is a going concern. In the event this basis were not appropriate, it would be necessary to write fixed assets down to realisable value, reclassify long term liabilities as current and provide for closure and shut down costs.

10th April 2015

The Partner
Morris & Sojnocki Chartered Accountants
P O Box 70
Honiara

Dear Sir

Directors' Representation Letter on the Financial Statements for the financial Year ended 31 December 2014

1. We confirm to the best of our knowledge and belief, and having made appropriate inquiries of other directors and officials of the company, the following representatives given to you in connection with your audit of the company's financial statements for the financial year ended 31 December 2014, and in the light of its requirements of the Solomon Islands Companies Act, 2009.
2. We acknowledge the directors and the management's responsibility for ensuring:
 - (a) the accuracy of the financial records and the financial statements prepared from them; and
 - (b) that the financial statements are drawn up:
 - (i) to give a true and fair view of the company's financial position as at 31 December 2014 and of its performances, as represented by the results of its operations, changes in equity and cash flows, for the financial year ended on that date;
 - (ii) in accordance with Solomon Companies Act, 2009; and
 - (iii) to comply with the Applicable Accounting Standards in Solomon Islands and other mandatory professional reporting requirements.

Fraud and Error

3. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud. We have established and maintain adequate internal control to facilitate the preparation of reliable financial statements, and adequate financial records have been maintained. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
4. We have disclosed to the auditor all the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
5. We have disclosed to the auditor all significant facts relating to any frauds or suspected frauds known to management that may have affected the entity; including:
 - (a) fraud, error or non-compliance with laws and regulations involving management or employees who have a significant role in internal control;
 - (b) fraud, error or non-compliance with laws and regulations that could have a material effect on the financial statements;
 - (c) communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements; and

- (d) knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts or others.

Material of uncorrected misstatements

6. We believe the effects of the uncorrected misstatements brought to our attentions by you are immaterial, both individual and in the aggregate, to the financial statements taken as a whole. A summary of such items is attached as Appendix 1 to this letter.

Financial Records and Transactions

7. All the financial records have been made available for the purpose of the audit, and all the transactions undertaken have been properly reflected and recorded in the financial records. All other records and related information which might affect the truth and fairness of, or necessary disclosure in, the financial statements, including minutes of the directors' and shareholders' meetings (and of all relevant management meetings), have been available to you and no such information has been withheld.

Accounting Estimates

8. In relation to the determination of our estimates, the measurement process and underlying assumptions used for this estimate are appropriate in the context of Applicable Accounting Standards, our applications of these processes is consistent, complete and appropriate disclosures have been made in the financial statements, and no subsequent events have occurred which required an adjustment to the estimate made.

Related Parties

9. We have provided you with all information and documentation regarding relating party relationships and transactions, including support for all employee and director remuneration and related party transactions. No equity instructions were issued to employers and directors during the current year.
10. Full disclosure has been made in the financial statements of information about material relating party transactions.
Transactions with related entities were on normal trading terms and conditions no more favourable than those which would have been adopted if dealing with the related entities at arm's length in the same circumstances.

Disclosure of Assets

11. The financial statements at 31 December 2014 includes all cash and bank accounts and all other assets of the company required to be included therein in accordance with general accepted accounting principles. The company has satisfactory title to all recorded assets.
12. We have no plans or intentions that may materially affect the carrying values, or classification, of assets and liabilities.

Impairment

13. We have considered the requirements of Accounting Standard 36 *Impairment of Assets*, when assessing the impairment of assets and in ensuring that no assets are stated in excess of their recoverable amount.

Accounts Receivable

14. Loans receivable totalling SBD3,609,024 were owing to the company at balance date and represent bona fide claims against debtors at that date and are not subject to discount except for normal cash discounts. We are of the opinion that these debts will be realised in full subject to a provision for doubtful debts of SBD52,445.
15. The directors have taken reasonable steps to ascertain what action has been taken in relation to the writing off bad debts and making of provisions for doubtful debts and to cause all known bad debts to be written off and adequate provisions to be made for doubtful debts.

Currents Assets

16. The current assets will be realisable in the ordinary course of business at a value which is at least the amount recorded in the financial records at balance date.
17. The directors have taken reasonable steps to ascertain whether any current assets (other than accounts receivable) are likely to be realised in the ordinary course of business at a value less than the amount recorded in the financial records of the company and if so, have caused:
 - (a) Those assets to be written down to an amount which they might be expected to realise; or
 - (b) Adequate provision to be made for the difference between the amount in the financial records and the amount that they might be expected to realise.

Properties, Plant and Equipment

18. The amounts capitalised to property, plant and equipment represent expenditure on actual capital additions.
19. All disposals, retirements or scrapping of property, plant and equipment have been authorised and correctly recorded in the financial records.
20. We have reviewed the net carrying amount of fixed assets to ensure that they are not stated at amounts in excess of their recoverable amount. Where they were considered to be carried in excess of their recoverable amount, appropriate provisions have been realistically estimated.
21. Depreciable non-current assets have been depreciated by charges against revenue on bases and at rates calculated to allocate the depreciable amount of cash asset over its total useful life. In this respect we are satisfied that the total useful lives have been realistically estimated.

Liabilities

22. All known liabilities of the company at balance date were included in the financial records and no further liabilities of a material amount have since come to our knowledge.
23. All other arrangements, contingent or otherwise, relating to the acquisition or disposal of assets, including investments, have been disclosed to you.
24. We are not aware of any pending litigation, proceedings, hearings or claims negotiations which may result in significant loss to the company.

Debt

25. All borrowings and financial obligations of the company of which we are aware are included in the financial statements at 31 December 2014, as appropriate. We have fully disclosed to you all borrowing arrangements of which we are aware.
26. There are no debt covenants the company is required to comply with.

Taxation

27. The amounts included in the balance sheet in respect of taxation are adequate to cover all unpaid taxation liabilities, agreed or estimated and future income tax benefit arising in respect of profits and losses to the date of the balance sheet.

Contingent Liabilities

28. Contingent liabilities of the company at the balance date to the extent to which provision has not been made in the financial statements amount to:

Secured Nil

Unsecured Nil

and no future contingent liabilities of a material amount have since come to our knowledge.

Capital Commitments

29. Commitments under contracts for capital expenditure at balance date to the extent which provision has not been made in the financial statements amount to SBD Nil.

Insurance

30. We have reviewed the company's insurance policies and consider them adequate to meet the insurable risks of the company.

Transaction and Agreements

31. We are not aware of any material transactions or agreements the effects of which are not properly recorded in the financial records.

Contractual and Legislative Compliance

32. We are not aware of any possible breaches of statute, regulations, contracts, agreements which might result in the company suffering significant penalties or other loss. No allegations of such breaches have come to our notice.

Other

33. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. Except as disclosed in the notes to the financial statements we have no other line of credit arrangements.

Going Concern

34. The company has adequate resources to continue operations for the foreseeable future. For this reason the Board of Directors continuing to adopt the going concern assumption in preparing the financial statements for the year ended 31 December 2014. We have reached this conclusion after making enquiries and having regard to circumstances which we consider likely to affect the company during the period of one year from date of signing the financial statements, and to the circumstances which we know will occur after that date which could affect the validity of the going concern assumption. As part of the above assessment, the Board of Directors has considered forecast information relating to operational profitability, cash flow requirements and the continuing financial support of its shareholder. The Board of Directors is satisfied there will be sufficient cash flows generated from operating activities to meet the investing and financing cash flow requirements of the company.

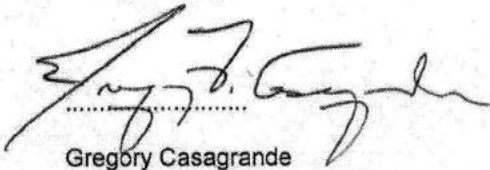
We have made available to you all relevant information on the company's ability to continue as a going concern that could affect the financial statements, including the recoverability or classification of recorded assets or the amounts and classification of liabilities. Accordingly, the company's financial statements are appropriately prepared on a going concern basis.

After Balance Date Events

35. No matters or occurrences have come to our attention up to the present time which would materially affect the financial statements or disclosures therein, or which are likely to materially affect the future results or operations of the company.

We understand that your examination was made in accordance with International Standards on Auditing and was, therefore, designed primarily for the purpose of expressing an opinion on the financial statements of the entity taken as a whole, and that your tests of the financial records and other auditing procedures were limited to those which you considered necessary for the purpose.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Gregory Casagrande', written over a dotted line.

Gregory Casagrande
Director

Appendix 1

<i>Summary of Uncorrected Mistatements</i>		
1 <i>Dr Loan Receivables</i>	\$ 19,539.93	
<i>Cr Other Income</i>		\$ 19,539.93
<i>(Take up differences from the Master list and the GL balance)</i>		
2 <i>Dr Interest expense</i>	\$ 3,873.82	
<i>Cr Accrued interest Liability</i>		\$ 3,873.82
<i>(Take up difference of Chattel mortgage as per confirmation received from credit corp)</i>		
	\$ 23,413.75	\$ 23,413.75