



South Pacific Business Development
Microfinance Ltd.

Financial Statements

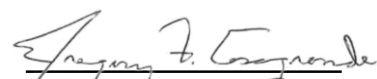
For the Period Ending 31 December 2022

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

STATEMENT OF FINANCIAL POSITION

As of 31 December 2022

ASSETS		Audited	Audited
Current Assets	<i>Note</i>	2022	2021
Cash on Hand and in Bank	5	4,364,918	2,094,419
Loan Portfolio Outstanding	6	16,257,852	14,517,889
Receivables	7	44,216	16,453
Short-Term Investments	8	398,698	379,751
Total Current Assets		21,065,684	17,008,512
Fixed Assets			
Property, plant and equipment	9	938,180	856,833
Less: Accumulated Depreciation		(559,625)	(386,725)
Net Fixed Assets		378,555	470,108
Other Assets	10	23,206	18,694
TOTAL ASSETS		21,467,445	17,497,314
LIABILITIES			
Current Liabilities			
Clients' Savings deposits	11	2,100,124	1,811,096
Bank Overdraft	5	-	103,611
Secured Borrowings	12	504,900	600,400
Unsecured Borrowings	13	2,719,821	2,081,532
Accounts Payable	14	1,016,914	959,174
Lease Liability	15	89,532	89,531
Members Death Benefit Reserve		(198,516)	(94,279)
Total Current Liabilities		6,232,775	5,551,067
Non Current Liabilities			
Secured Borrowings	12	112,650	2,136,462
Unsecured Borrowings	13	6,159,915	2,961,249
Lease Liability	15	52,227	141,758
Total Long term Liabilities		6,324,791	5,239,470
TOTAL LIABILITIES		12,557,566	10,790,536
EQUITY			
Owner's equity	16	528,233	528,233
Retained Earnings		6,178,544	4,675,794
Profit/(Loss) for the year		2,203,102	1,502,749
TOTAL EQUITY		8,909,879	6,706,777
TOTAL LIABILITIES AND EQUITY		21,467,445	17,497,314


Gregory F. Casagrande
 Chairman/ President

Date: 17 March 2023

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

	<i>Note</i>	Audited 2022	Audited 2021
Financial Income			
Interest on Loans		4,174,180	3,256,915
Development Fee		648,525	742,986
Loan Security Fee - LSF		584,104	495,074
Death Benefit Fee - DBF		184,561	207,805
Weekly Centre Meeting Fee		1,175,301	919,950
Interest earned on Bank Accounts & Term Deposits		23,363	5,510
Other operating revenues		117,762	117,464
Total Financial Income		6,907,796	5,745,703
Financial Expenses			
Interest and fees		739,766	566,089
Foreign Exchange Loss		6,780	39,680
Interest on Client Saving		30,481	23,494
Loan Security Loss		200,727	101,950
Death Benefit Loss		62,763	71,666
Total Financial Expenses		1,040,517	802,879
NET FINANCIAL INCOME		5,867,279	4,942,824
Loan Loss Provision	6	17,575	48,663
NET FINANCIAL MARGIN		5,849,703	4,894,161
Operating Expenses			
Computer Support System		8,787	16,689
Conference & Meetings		16,982	22,479
Depreciation	9	172,900	141,149
Electricity and Water		31,141	25,323
Fees and Bank Charges		5,968	6,219
Insurance		12,221	13,132
Membership Fees and Subscription		85	200
Office Expenses		16,008	12,434
Postage, Telephone and Communications		35,944	32,205
Printing and Office Stationeries		60,395	58,893
Professional Services		1,404,327	1,472,933
Public Relations and Advertisements		10,249	9,586
Rent		29,723	33,080
Repairs and Maintenance		1,139	389
Salaries and Benefits		949,118	877,069
Staff Training and Development		180	-
Transportation, Fuel, Oil		77,909	65,178

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

Travel Local	18,950	35,798
Travel Overseas	-	-
Board of Directors Fees	4,600	5,150
SPBD Award day	-	9,000
Staff Retreat	38,101	28,381
Financial Diaries Expenses	13,877	12,307
Total Operating Expenses	2,908,604	2,877,593
Non-Operating Income/(Expenses):		
- Grants & Donations Income	413,380	-
- Grants & Donations Expenses	(408,380)	-
Sale of/ (Writeoff) Fixed Assets	-	15,118
	<u>5,000</u>	<u>15,118</u>
OPERATING PROFIT/(LOSS) BEFORE INCOME TAX	2,946,098	2,031,686
Income Tax	(742,996)	(528,937)
PROFIT(LOSS) FOR THE YEAR	<u>2,203,102</u>	<u>1,502,749</u>

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD
STATEMENT OF CHANGES IN EQUITY
For the Year ended 31 December 2022

	Equity Contribution TOP	Retained Earnings TOP	Total TOP
Balance at 01 January 2022	528,233	6,178,544	6,706,777
Net Income for the year	-	2,203,102	2,203,102
Prior Year Adjustment		-	-
Balance at 31 December 2022	528,233	8,381,646	8,909,879

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
STATEMENT OF CASH FLOW
For the year ending 31 December 2022

	Audited 2022	Audited 2021
Cash flows from operating activities		
Cash was provided from:		
Receipts from Customers	5,327,243	2,809,587
Receipts from other Revenue	-	-
Total Receipts	5,327,243	2,809,587
Cash was disbursed to:		
Payments to suppliers	(3,917,336)	(5,330,764)
Labour Costs	-	-
Taxes Payable	(715,328)	(453,186)
Total Payments	(4,632,664)	(5,783,950)
Net cash inflows from operating activities	694,579	(2,974,363)
Cash flows from Investing Activities		
Cash was provided from:		
Short-term Investments	-	-
Cash was disbursed to:		
Purchase of property, plant and equipment	(92,472)	(282,575)
Purchase of Short Term Investments	-	-
Net Cash Flow used in investing activities	(92,472)	(282,575)
Cash flows from financing activities		
Cash was provided from:		
Borrowings: Client Savings	-	-
Borrowings: Loans	1,772,003	3,187,718
Cash was disbursed to:		
Dividend paid	-	-
Net Cash Flow from Financing Activities	1,772,003	3,187,718
Net increase/ (decrease) in cash and cash equivalents	2,374,110	(69,220)
Cash and cash equivalents at the beginning of the year	1,990,807	2,060,027
Cash and cash equivalents at the beginning of the year	4,364,918	1,990,807

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
STATEMENT OF CASHFLOW
For the period 1 January to 31 December 2022

Reconciliation of reported net profit/ (loss) after taxation with Cash flows from operating activities

	Audited	Audited
	2022	2021
Net Income after Tax	2,203,102	1,502,749
Add back non cash items		
Depreciation	172,900	143,313
Loan Loss Provision	17,575	48,663
 Movements in working capital:		
(Increase)decrease in Gross Loan Portfolio	(1,757,539)	(4,878,296)
(Increase)decrease in Receivables	(27,763)	(5,858)
(Increase)decrease in Other assets	(4,512)	(3,907)
Increase (decrease) in Account Payable	(63,667)	(48,432)
Increase (decrease) in Taxes Payable	69,988	206,624
Increase (decrease) in Accrued Expenses	(796)	34,779
Increase (decrease) in Death Benefit Reserve	104,237	24,334
(Increase) decrease in Short Term Investments	(18,947)	1,669
Net Cash Flow from Operating Activities	694,579	(2,974,363)

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2022

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The financial statements have been prepared on a going concern basis, and the account policies have been applied consistently throughout the year.

3. STATEMENT OF COMPLIANCE

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

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

Other changes in accounting policies

There have been no changes in SPBD's accounting policies since the date of the last audited financial statements. The accounting policies have been applied consistently throughout the year.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets SPBD has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. Information about the adoption of IFRS 16 is provided in Note 21 and 22.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Currency

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

b. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

c. Investments

Bank term deposits

Bank term deposits are initially measured at the amount invested. Interest is subsequently accrued and added to the investment balance. A loss allowance for expected credit losses is recognised if the estimated loss allowance is not trivial.

d. Loan Receivables

Loan receivables are recorded at the amount due, less an allowance for credit losses.

SPBD applies the simplified expected credit loss model of recognising lifetime expected credit losses for loan receivables. In measuring expected credit losses, short-term receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on days past due. Short-term loan receivables are written off when there is no reasonable expectation of recovery.

Previous accounting policy for impairment of receivables

In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

e. Property, plant and equipment

All plant and equipment is measured at cost less depreciation and impairment.

Additions and Subsequent costs

The cost of an item is recognised as an asset or costs incurred subsequent to initial recognition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to SPBD and the cost of the item can be measured reliably.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

Leased assets

SPBD has entered into property leases which are classified as Finance leases under IFRS 16. The net carrying amount of the leased asset is classed as "Right of Use assets". Refer to in Note 16 for finance leasing arrangements.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

Depreciation

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Office Equipment	12.5%
Computers and Peripherals	25.0%
Software and Electronics System	25.0%
Furniture and Fittings	12.5%
Leasehold Improvements	5.0%
Used Motor Vehicles	25.0%
Right to use asset	3 years

Right to use asset is depreciated over the unexpired period of the lease.

The residual value and useful life of an asset are reviewed, and adjusted if applicable, at each financial year end.

f. Impairment of Property, plant and equipment

Assets held at cost that have a finite useful life is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment is recognised in the profit or loss. Property, plant and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

g. Revenue

The specific accounting policies for significant revenue items are explained below.

- i. Interest Income - Interest income from loan portfolio and term deposits is recognized using a cash-based method where they are recognised at the time they are received.
- ii. Development Fee – SPBD charges a fee of 3% 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 Security Fee – This fee is 2% 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 Security Fee is deducted from the loan proceeds.
- iv. Weekly Centre Management Fee – This is a 5% of the loan principal amount and charged equally over 50 weeks of the loan tenor. It covers the cost of resources and logistics deployed to conduct and manage the weekly centre meeting in various communities where members conveniently make their weekly loan repayments and make small savings. These centre meetings are effectively used for delivering financial literacy, small business training and ongoing guidance & motivation to the SPBD members.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.*NOTES TO FINANCIAL STATEMENTS**FOR THE YEAR ENDING 31 DECEMBER 2022*

v. Death Benefit Fee –

- a) SPBD offers a Death Benefit Product to help the families of SPBD members to reduce the burden of bereavement and funeral expenses when the member dies. When an SPBD member dies during the period of the loan, her beneficiaries will receive a fixed payment of between 1,000 to 5,000 Pa'anga. The Death Benefit fee is deducted from the loan proceeds.

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

- b) SPBD also offers a Spousal Death Benefit Product for the same reason in a). When an SPBD member spouse dies during the period of the loan, his beneficiaries will receive a fixed payment of amount between TOP1,000 to TOP5,000. The Spousal death benefit Fee is deducted from the loan proceeds as stated below in 2017.

Size of Benefit Pa'anga	Spousal Death Benefit Fee in Pa'anga	
Minimum 1,000	20	Compulsory
2,000	40	Voluntary
3,000	60	Voluntary
4,000	80	Voluntary
5,000	100	Voluntary

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

h. Grants

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

	2022	2021
	\$408,830	-

i. Expenses*Personnel costs*

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

Superannuation schemes

Employer contributions to the Government National Retirement Fund are accounted for as defined contribution scheme and is recognised as an expense in the profit and loss as incurred.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2022

Borrowing costs

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

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

Financial and Operating expenses

All financial and operating expenses are recorded on an accrual basis.

j. Leases

Finance Leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, finance leases where SPBD is the lessee are recognised as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty as to whether SPBD will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Operating Leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lease or the lease term is less than 12 months. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

k. Financial Instruments

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

l. Income Tax

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

m. Tonga Consumption Tax

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2022

n. Foreign Currencies

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

	2022	2021
Exchange rate used at balance sheet date (TOP/USD)	0.4262	0.4387
Exchange Rate used at balance sheet date (TOP/NZD)	0.6728	0.6057
Exchange Rate used at balance sheet date (TOP/AUD)	0.6270	0.6442
Exchange Rate used at balance sheet date (TOP/EURO)	0.3975	

o. Creditors and other payables

Creditors and other payables are recorded at their face value.

p. Borrowings

Borrowings are initially recognised at the amount borrowed plus transactions costs. Interest due on the borrowings is subsequently accrued and added to the borrowing balance. Borrowings are classified as current liabilities unless SPBD has an unconditional right to defer settlement of the liability for at least 12 months after the balance date. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

q. Employee entitlements

Short term employee entitlements

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

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

Long term employee entitlements

There are long term employee entitlements.

r. 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.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

s. Change in Accounting Policies

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

t. Critical judgements in applying accounting policies

Management has exercised the following critical judgements in applying accounting policies:

Lease classification

Determining whether a lease agreement is finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to SPBD.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant, and equipment, whereas for an operating lease no such asset is recognised.

5. CASH ON HAND AND IN BANK

	<u>Cash on Hand</u>	<u>2022</u>	<u>2021</u>
Undeposited Collections		6,431	(3,194)
Petty Cash Imprest		2,000	2,000
Saving Reserve Imprest		50,000	50,000
Money Transfer Reserve Imprest		25,000	25,000
SUB_TOTAL		83,431	73,806
	<u>Cash in Bank</u>		
ANZ Dollar Account 165-3890		112,468	816,130
BSP Account 2000732848		3,404,928	1,042,324
BSP Account 2001343143		84,412	24,905
TDB- Ha'apai Bank Account 149464 S1		3,326	8,310
BSP Account 2001642673		215,177	45,574
BSP Account 2001642681		236,916	83,369
SUB_TOTAL		4,057,226	2,020,613
	<u>Bank Overdraft</u>		
ANZ Bank Account 165-3787		224,260	(103,611)
TOTAL		4,364,918	1,990,807

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

6. LOAN PORTFOLIO

	<u>Loans Receivables</u>	<u>2022</u>	<u>2021</u>
Opening Balance		14,664,534	9,786,238
Total Loan Disbursement		29,792,450	24,888,535
Less: Total Principal Loan Repayments		28,034,911	20,010,239
Gross Loan Portfolio		16,422,073	14,664,534
Less: Loan Loss Reserve		(164,221)	(146,645)
Net Loan Portfolio		16,257,852	14,517,889
		<u>2022</u>	<u>2021</u>
Opening Balance (Nuku'alofa)		11,561,193	7,963,125
Plus: 2022 Loan Disbursement		23,115,550	19,549,485
Less: 2022 Loan Repayments		(22,009,908)	(15,951,417)
Gross Loan Portfolio (Nuku'alofa)		12,666,833	11,561,193
Opening Balance (Vava'u)		1,324,784	678,725
Plus: 2022 Loan Disbursement		3,259,300	2,493,750
Less: 2022 Loan Repayments		(2,821,537)	(1,847,691)
Gross Loan Portfolio (Vava'u)		1,762,547	1,324,784
Opening Balance (Ha'apai)		1,084,215	626,942
Plus: 2022 Loan Disbursement		1,873,500	1,620,400
Less: 2022 Loan Repayments		(1,899,739)	(1,163,127)
Gross Loan Portfolio (Ha'apai)		1,057,976	1,084,215
Opening Balance ('Eua)		694,343	517,446
Plus: 2022 Loan Disbursement		1,544,100	1,224,900
Less: 2022 Loan Repayments		(1,303,726)	(1,048,003)
Gross Loan Portfolio ('Eua)		934,717	694,343
SPBD Gross Loan Portfolio		16,422,073	14,664,534
<i>No. of Loans Outstanding</i>		<u>2022</u>	<u>2021</u>
SPBD Group Loan Product		6,136	4,993

Portfolio Quality Measurement

SPBD's main measure of loan delinquency is an aged portfolio-at-risk (PAR) ratio. Loans are separated into classes depending on the number of days they are in arrears. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio. Loans are considered in arrears if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, and then to any instalment of

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

6. LOAN PORTFOLIO continued

principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid.

Loan Loss Provisioning and Loan Loss Reserve

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

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

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

Loan Write-off

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

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

Renegotiated Loans

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

6. LOAN PORTFOLIO continued

Portfolio Quality	Outstanding Loan Balance	Portfolio at Risk	Loan Loss Reserve Rate	Loan Loss Reserve Amount
Current	16,422,073	1%	1%	164,221
1 week to 4 weeks in arrears	0	0%	5%	0
5 weeks to 8 weeks in arrears	0	0%	10%	0
9 weeks to 12 weeks in arrears	0	0%	25%	0
13 weeks to 16 weeks in arrears	0	0%	50%	0
17 weeks to 20 weeks in arrears	0	0%	75%	0
21 + weeks in arrears	0	0%	100%	0
Total	16,422,073			164,221

The Board of Directors approved in a special resolution to reduce the general provision to 1% of the loan portfolio due to Portfolio at Risk consistently below 1%.

Movement in Loan Loss Reserve	2022	2021
Loan Loss Reserve, January 1	146,645	97,982
Loan Loss Provision for the year	17,576	48,663
Loan Loss Reserve, December 31	164,221	146,645

7. RECEIVABLES

	<u>2022</u>	<u>2021</u>
Other Receivables	31,859	6,554
Prepaid Expenses	7,015	4,558
Tax Recoverable	5,341	5,341
Total Receivables	44,216	16,453

8. SHORT-TERM INVESTMENTS

	<u>2022</u>	<u>2021</u>
Term Deposit BSP	57,158	56,774
Term Deposit ANZ Bank	172,977	172,977
Term Deposit TDB	168,563	150,000
Term Deposit MBF Bank	-	-
Total	398,698	379,751

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.*NOTES TO FINANCIAL STATEMENTS**FOR THE YEAR ENDING 31 DECEMBER 2022***9. PROPERTY, PLANT AND EQUIPMENT**

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	65,998	62,956	1,392	3,042
Computer Equipment and Peripherals	150,684	116,790	15,927	33,893
Motor Vehicles	288,785	134,011	58,675	154,774
Office Equipment	74,770	59,457	4,323	15,313
Software and Electronics System	44,601	42,632	1,035	1,969
Leasehold Improvements	44,747	16,941	2,017	27,806
Right of use Assets	268,596	126,837	89,532	141,759
2022 TOTAL	938,180	559,625	172,900	378,555
2021 TOTAL	856,833	386,725	141,149	470,108

10. OTHER ASSETS

	<u>2022</u>	<u>2021</u>
Stocks of Passbooks	-	40
Stocks of Receipt Books	-	-
Stocks of Secretary Books	-	285
Stocks of Financial Diaries Booklets	-	377
Other Stock	16,206	12,992
Rental Bond - Head Office	7,000	5,000
Total	23,206	18,694

11. CLIENTS SAVINGS DEPOSITS

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

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

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

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

All clients' savings are deposited in a segregated bank account at Westpac Bank. SPBD is not a regulated financial institution and does not use clients' savings for onward lending.

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

	<u>2022</u>	<u>2021</u>
No. of Saving Accounts	11,670	11,917
Clients Saving Balances	2,100,124	1,811,096

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

12. SECURED BORROWINGS

	<u>2022</u>	<u>2021</u>
Jasmine Social Investments	-	1,601,648
Tonga Development Bank	617,550	1,135,214
Total	617,550	2,736,862
Secured Borrowings - Current	504,900	600,400
Secured Borrowings - Non-Current	112,650	2,136,462
Total	617,550	2,736,862

a) Jasmine Social Investments

The loan is secured by a 100% guarantee from the SPBD Microfinance Holdings (Singapore) Pte, Ltd.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
26-11-21	NZD	500,000	8%		776,156	-	743,163	- 32,993	-	65,637
26-11-21	AUD	500,000	8%		825,491	-	797,448	- 28,043	-	72,210
TOTAL					1,601,648	-	1,540,611	- 61,037	-	137,847

b) Tonga Development Bank

The fluctuating credit facility with Tonga Development Bank is secured by a charge of 120% of SPBD loan portfolio or 2,500,000 facility amounts.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
30-09-19	TOP	1,199,000	9.0%	30-09-24	587,041	-	172,017.61	-	415,024	47,982.40
31-07-15	TOP	1,000,000	8.5%	30-06-23	339,011	-	231,873.03	-	107,138	20,126.97
28-06-18	TOP	500,000	9.0%	30-06-23	209,162	-	113,773.76	-	95,388	14,626.24
TOTAL					1,135,214	-	517,664	-	617,550	82,736

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

13. UNSECURED BORROWINGS

	<u>2022</u>	<u>2021</u>
a Microdreams Foundation	1,619,138	1,613,501
b Good Return	-	99,059
c SPBD Holdings	3,107,839	1,928,197
d KIVA	1,299,045	1,402,025
e Evanders Management	297,265	-
f P.I.F Foundation	148,633	-
g Whole Planet Foundation	1,149,954	-
h Triple Jump	1,257,862	-
Total	8,879,736	5,042,781
Unsecured Borrowings - Current	2,719,821	2,081,532
Unsecured Borrowings - Long Term	6,159,915	2,961,249
Total	8,879,736	5,042,781

a. MicroDreams Foundation

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
19-09-18	USD	150,000	6.5%	30-09-22	256,440	-	265,027	8,586	0	5,687
27-11-19	USD	75,000	6.5%	31-12-23	170,960	-	-	5,014	175,974	11,521
27-11-19	NZD	40,000	6.5%	31-12-23	62,092	-	-	(2,639)	59,453	4,127
18-12-19	TOP	134,953	9.5%	31-12-23	134,953	-	-	-	134,953	12,820
27-12-19	TOP	134,258	9.5%	31-12-23	134,258	-	-	-	134,258	12,754
21-08-20	USD	125,000	6.5%	30-09-23	284,933	-	-	8,357	293,289	19,200
11-11-20	USD	50,000	6.5%	31-12-24	113,973	-	-	3,343	117,316	7,679
19-07-21	USD	150,000	6.5%	30-06-25	341,919	-	-	10,028	351,947	6,577
24-11-21	USD	50,000	6.5%	30-06-25	113,973	-	-	3,343	117,316	27,716
28-03-22	USD	100,000	3.0%	31-03-25	-	225,327	-	9,305	234,632	-
TOTAL					1,613,501	225,327	265,027	45,336	1,619,138	108,081

b. Good Return

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
19-05-21	AUD	29,000	0%	31-03-22	47,878	-	48,576	698	0	-
28-07-21	AUD	20,000	0%	30-06-22	33,020	-	33,916	896	0	-
11-11-21	AUD	11,000	0%	30-09-22	18,161	-	17,600	561	0	-
27-01-22	AUD	6,000	0%	31-12-22	-	9,362	7,128	2,234	0	-
TOTAL					99,059	9,362	107,220	1,202	0	-

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

c. SPBD Holdings

The loan with SPBD Holdings is in a form of a promissory note between Issuer: SPBD Microfinance Ltd and Note Holder: SPBD Microfinance Holdings (Singapore) PTE LTD.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
12-10-19	NZD	50,000	8.0%	31-12-22	77,616		76,335.88	(1,280)	0	6,107
26-11-19	NZD	50,000	8.0%	31-12-22	77,617		76,335.88	(1,280)	0	6,107
24-06-20	USD	100,000	9.5%	31-12-23	182,357		96,236.89	7,733	93,853	15,753
07-07-20	USD	100,000	9.5%	31-12-23	182,357		96,236.89	7,733	93,853	17,980
22-07-21	USD	10,000	9.5%	31-12-25	227,946			6,685	234,632	31,529
06-12-21	USD	60,000	8.0%	31-12-25	136,768			4,011	140,779	49,312
06-12-21	AUD	350,000	8.0%	31-12-25	577,843			(19,630)	558,213	38,891
06-12-21	NZD	300,000	8.0%	31-12-25	465,693			(19,796)	445,897	12,169
01-12-22	NZD	500,000	8%			743,163			743,163	
01-12-22	AUD	500,000	8%			797,448			797,448	
TOTAL					1,928,196	1,540,611	345,146	(15,824)	3,107,839	177,847

d. KIVA

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
31-12-22	USD	553,653	0%	On Going	1,402,025	392,672	515,296	19,645	1,299,045	-
TOTAL					1,402,025	392,672	515,296	19,645	1,299,045	-

e. Evander Management

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
23-03-22	NZD	200,000	0%	30-06-26	-	304,832	-	7,566	297,265	-
TOTAL					-	304,832	-	7,566	297,265	-

f. P.I.F Foundation

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
08-04-22	NZD	100,000	3%	30-06-26	-	151,561	-	2,929	148,633	-
TOTAL					-	151,561	-	2,929	148,633	-

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2022

g. Whole Planet Foundation (WPF)

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
11-05-22	TOP	500,000	0%	30-04-26	-	1,149,954	-	-	1,149,954	-
TOTAL					-	1,149,954	-	-	1,149,954	-

h. Triple Jump

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-21 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-22 (TOP\$)	Interest Repayment (TOP\$)
13-05-22	EURO	500,000	5.5%	15-05-24	-	1,163,603	-	94,259	1,257,862	33,809
TOTAL					-	1,163,603	-	94,259	1,257,862	33,809

14. ACCOUNTS PAYABLE

	2022	2021
Accounts Payable	73,809	137,476
Employees Entitlement	31,636	39,779
WGF Payable	69,506	9,149
TVLLC Payable	-	-
SPBD Holding Payable	-	-
Accrued Interest Payable	56,456	57,252
Taxes Payable	785,506	715,518
Total	1,016,914	959,174

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.*NOTES TO FINANCIAL STATEMENTS**FOR THE YEAR ENDING 31 DECEMBER 2022***15. FINANCE LEASES**

SPBD has leases for offices throughout the Tonga islands. Except for the Tongatapu main office lease agreement, all other office lease agreements were considered short term rentals. The main office lease located in the Tongatapu Island is therefore reflected on the Statement of Financial Position as a right-of-use asset and a lease liability. There is no other asset category that is leased.

Lease liabilities are presented in the statement of financial position as follows:

	<u>2022</u>	<u>2021</u>
Current	89,532	89,532
Non Current	52,227	141,758
	<u>141,759</u>	<u>231,290</u>

SPBD has entered into finance lease for the lease of the Tongatapu main office. The lease commenced in 1st August 2021 and it is for a period of three years ending 1st August 2024.

The fair value of finance is \$141,758. Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 3% to 5%.

Analysis of finance leases:

	<u>2022</u>	<u>2021</u>
Minimum lease payments payable		
No later than one year	96,600	96,600
Later than one year and not later than five years	56,350	152,950
Later than five years	-	-
<i>Total minimum lease payments</i>	<u>152,950</u>	<u>249,550</u>
Future Finance charges	(11,192)	(18,260)
<i>Present Value of minimum lease payments</i>	<u>141,758</u>	<u>231,290</u>
Present Value of minimum lease payments payable		
No later than one year	89,532	89,532
Later than one year and not later than five years	52,227	141,758
Later than five years	-	-
<i>Total present value of minimum lease payments</i>	<u>141,759</u>	<u>231,290</u>

Lease payments not recognised as a liability:

SPBD has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred. The expense relating to payments not included in the measurement of the lease liability is short term leases totalling \$29,723 as at 31 December 2022.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2022

16. OWNER'S EQUITY

SPBD Microfinance Holdings (Singapore) Pte Limited:

	<u>2022</u>	<u>2021</u>
Opening Balance	528,233	528,233
Equity Injection	-	-
Closing Balance 31 Dec	528,233	528,233

There is no dividend payment approved for 2022.

17. SPBD Staff Loans

Borrower	Balance	Term	Status
Staff	\$71,219	12 months	Current

The above balance of \$71,219 for SPBD Staff Loan is included in the balance of \$16,257,852 for Loan Receivables in note 6 above.

18. CAPITAL COMMITMENTS

The capital commitments as at 31 December 2022 amount to \$134,297 (2021: \$223,828).

19. OPERATING LEASE COMMITMENTS

Except for short term month- by- month rental obligations of SPBD business premises, there are no other lease commitments for the year ended 31 December 2022.

20. CONTINGENT LIABILITY

There is no contingent liability for the year ended 31 December 2022.

21. ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS

In accordance with the transitional provisions of IFRS 9, SPBD has elected not to restate the information for previous years to comply with IFRS 9. Adjustments arising from the adoption of IFRS 9 are recognised in opening equity at 1 January 2019.

Accounting policies have been updated to comply with IFRS 9. The main updates are:

- Note 4d Loan receivable Policy: This policy has been updated to reflect that the impairment of short-term receivables is now determined by applying an expected credit loss model.
- Note 4c Investments: This policy has been updated to explain that a loss allowance for expected credit losses is recognised only if the estimated loss allowance is not trivial.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.*NOTES TO FINANCIAL STATEMENTS**FOR THE YEAR ENDING 31 DECEMBER 2022*

On the date of initial application of IFRS 9, being 1 January 2019, the classification of financial instruments under IAS 9 and IFRS 9 is as follows:

	Measurement category		Carrying amount		
	IAS 39	IFRS9	31-Dec-22	Adoption IFRS 9	1-Jan-23
Cash & Cash equivalents	Loans & Receivables	Amortised cost	4,364,918	-	4,364,918
Investments	Loans & Receivables	Amortised cost	398,698	-	398,698
Loan Portfolio Outstanding	Loans & Receivables	Amortised cost	16,257,852	-	16,257,852
Receivables	Loans & Receivables	Amortised cost	44,216	-	44,216
Total Financial Assets			21,065,683		21,065,683

22. ADOPTION OF IFRS 16 LEASES

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2022:

	Carrying amount at 31 December 2022	Reclassification	Remeasurement	IFRS 16 carrying amount at 1 January 2023
Fixed Assets	378,555	-	-	378,555
Lease liabilities	141,759	-	-	141,759
	520,314		-	520,314

The impact on the financial statements for the year ended 31 December 2022 from the adoption of IFRS 16 has no impact on the net income result.

Independent Auditor's Report

South Pacific Business Development Microfinance Limited's Financial statements for the year ended 31 December 2022

We have audited the financial statements of the South Pacific Business Development Microfinance Limited (the Company) on pages 1 to 24, that comprise Statement of the financial position as at 31 December 2022, the Statement of Profit or Loss or Other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies.

Opinion on the financial statements

In our opinion the financial statements of the Company on pages 1 to 24:

- presents fairly, in all material respects:
 - its financial Position as at 31 December 2022; and
 - its financial performance and cash flows for the year ended;
- comply with, in all material respects:
 - generally accepted accounting practice in Tonga as represented by the International Financial Reporting Standards; and
 - disclosure guidelines for financial reporting by microfinance institutions.

Our audit was completed on 17 March 2023. This is the date at which our opinion is expressed.

Basis of opinion

We have fulfilled our responsibilities and carried out our audit in accordance with the International Standards on Auditing issued by International Auditing and Assurance Standards Board.

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

Responsibilities of the Board of Directors

The Board of Directors are responsible for preparing financial statements are fairly presented, comply with generally accepted accounting practice as represented by International Financial Reporting Standards and comply with the Tonga Companies Act 1995.

The Board of Directors are also responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Tonga Companies Act 1995.

Responsibilities of the Auditor

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our responsibility is to express an independent opinion on the financial statements to comply with the Tonga Companies Act 1995.

We are independent of the Company. Other than the audit, we have no relationship with, or interests in, the Company.



Kisione Tupou
JK Chartered Accountants
Nuku'alofa, Tonga