



South Pacific Business Development
Microfinance Ltd.

Financial Statements

For the Period Ending 31 December 2020

South Pacific Business Development Microfinance Ltd.
Taufa'ahau Road, Fanga 'o Pilolevu, P.O. Box 21, Nuku'alofa, Kingdom of Tonga
Tel. No. (676) 27087 and 8440400

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

STATEMENT OF FINANCIAL POSITION

As of 31 December 2020

ASSETS		Audited	Audited
Current Assets	<i>Note</i>	2020	2019
Cash on Hand and in Bank	5	2,060,027	794,203
Loan Portfolio Outstanding	6	9,688,256	9,347,129
Receivables	7	10,595	22,041
Short-Term Investments	8	381,420	377,253
Total Current Assets		12,140,298	10,540,626
Fixed Assets			
Property, plant and equipment	9	763,301	727,138
Less: Accumulated Depreciation		(529,807)	(432,476)
Net Fixed Assets		233,494	294,662
Other Assets	10	14,787	13,421
TOTAL ASSETS		12,388,579	10,848,709
LIABILITIES			
Current Liabilities			
Cash at Bank - Overdraft	5	-	349,279
Death Benefit Reserve		(69,945)	(38,404)
Clients' Savings deposits	11	1,261,213	1,089,611
Accounts Payable	12	234,837	332,851
Commercial Loans - Current	13	600,400	600,400
Soft Loans - Current	14	1,703,999	1,026,629
Accrued Interest Payable	15	22,473	12,513
Lease Liability	16	63,951	63,951
Taxes Payable	19	508,894	274,846
Total Current Liabilities		4,325,822	3,711,676
Non Current Liabilities			
Commercial Loans - Non Current	13	1,008,792	1,295,892
Soft Loans - Non Current	14	1,828,617	1,938,658
Lease Liability	16	21,318	85,269
Total Long term Liabilities		2,858,727	3,319,819
TOTAL LIABILITIES		7,184,549	7,031,495
EQUITY			
Owner's equity	17	528,233	528,233
Retained Earnings		3,288,981	2,424,157
Profit/(Loss) for the year		1,386,814	864,824
TOTAL EQUITY		5,204,028	3,817,214
TOTAL LIABILITIES AND EQUITY		12,388,579	10,848,709


Gregory F. Casagrande
 Chairman/ President

Date: March 15, 2021

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



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2020

	<i>Note</i>	Audited 2020	Audited 2019
Financial Income			
Interest on Loans		3,728,723	3,115,659
Development Fee		389,350	322,377
Loan Security Fee - LSF		354,502	304,455
Death Benefit Fee - DBF		167,705	193,224
Weekly Centre Meeting Fee		344,558	-
Interest earned on Bank Accounts & Term Deposits		8,767	4,979
Other operating revenues		123,064	72,701
Total Financial Income		<u>5,116,669</u>	<u>4,013,395</u>
Financial Expenses			
Interest and fees		437,353	342,313
Foreign Exchange Loss		45,967	72,413
Interest on Client Saving		18,867	14,395
Loan Security Loss		72,092	25,724
Death Benefit Loss		57,020	65,735
Total Financial Expenses		<u>631,299</u>	<u>520,580</u>
NET FINANCIAL INCOME		<u>4,485,370</u>	<u>3,492,815</u>
Loan Loss Provision	6	2,818	20,637
NET FINANCIAL MARGIN		<u>4,482,552</u>	<u>3,472,178</u>
Operating Expenses			
Computer Support System		10,457	4,964
Conference & Meetings		23,470	21,460
Depreciation	9	126,029	59,158
Electricity and Water		20,786	16,673
Fees and Bank Charges		5,761	15,365
Insurance		12,403	10,982
Membership Fees and Subscription		7,638	230
Office Expenses		14,548	18,813
Postage, Telephone and Communications		30,139	33,883
Printing and Office Stationeries		54,803	38,012
Professional Services		1,298,409	1,084,416
Public Relations and Advertisements		9,986	7,028
Rent		27,330	50,159
Repairs and Maintenance		-	1,963
Salaries and Benefits		824,088	728,443
Staff Training and Development		35,340	6,901
Transportation, Fuel, Oil		63,336	81,187
Travel Local		12,971	31,288
Travel Overseas		10,050	8,829

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 2020

SPBD Award day		21,675	64,128
Staff Retreat 2020		25,706	22,005
Microfinance bills expenses		-	9,174
Financial Diaries Expenses		14,190	16,951
Management Offsite		-	15,054
Total Operating Expenses		<u>2,649,115</u>	<u>2,347,066</u>
Non-Operating Income/(Expenses):			
Sale of/ (Writeoff) Fixed Assets		<u>6,563</u>	<u>1,253</u>
		6,563	1,253
OPERATING PROFIT/(LOSS) BEFORE INCOME TAX		1,840,000	1,126,365
Income Tax	19	(453,186)	(261,542)
PROFIT(LOSS) FOR THE YEAR		<u>1,386,814</u>	<u>864,824</u>


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

Handwritten signature

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD
STATEMENT OF CHANGES IN EQUITY
For the Year ended 31 December 2020

		Equity		
		Contribution	Retained Earnings	Total
		TOP	TOP	TOP
Balance at 01 January 2020	17	528,233	3,288,981	3,817,214
Net Income for the year		-	1,386,814	1,386,814
Prior Year Adjustment				
Balance at 31 December 2020		528,233	4,675,795	5,204,028



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 2020

	Audited 2020	Audited 2019
Cash flows from operating activities		
Cash was provided from:		
Receipts from Customers	2,587,764	1,644,485
Receipts from other Revenue	-	-
Total Receipts	2,587,764	1,644,485
Cash was disbursed to:		
Payments to suppliers	(1,176,890)	(2,390,294)
Labour Costs	-	-
Taxes Payable	(55,708)	(174,026)
Total Payments	(1,232,598)	(2,564,320)
Net cash inflows from operating activities	1,355,166	(919,835)
Cash flows from Investing Activities		
Cash was provided from:		
Short-term Investments	-	-
Cash was disbursed to:		
Purchase of property, plant and equipment	(66,049)	(55,922)
Purchase of Short Term Investments	-	-
Net Cash Flow used in investing activities	(66,049)	(55,922)
Cash flows from financing activities		
Cash was provided from:		
Borrowings: Client Savings	-	-
Borrowings: Loans	325,986	1,167,662
Cash was disbursed to:		
Dividend paid	-	-
Net Cash Flow from Financing Activities	325,986	1,167,662
Net increase/ (decrease) in cash and cash equivalents	1,615,103	191,906
Cash and cash equivalents at the beginning of the year	444,924	253,018
Cash and cash equivalents at the beginning of the year	2,060,027	444,924

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 2020

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

	2020	2019
Net Income after Tax	1,386,814	864,824
Add back non cash items		
Depreciation	126,029	16,524
Loan Loss Provision	2,818	20,637
Movements in working capital:		
(Increase)decrease in Gross Loan Portfolio	(343,945)	(2,365,266)
(Increase)decrease in Receivables	11,446	34,406
(Increase)decrease in Other assets	(1,366)	1,639
Increase (decrease) in Account Payable	(98,014)	278,438
Increase (decrease) in Taxes Payable	234,048	87,516
Increase (decrease) in Accrued Expenses	9,960	(1,516)
Increase (decrease) in Death Benefit Reserve	31,541	(11,266)
(Increase) decrease in Short Term Investments	(4,167)	154,229
Net Cash Flow from Operating Activities	1,355,166	(919,835)

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 2020

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.

Standard already adopted

IFRS 9: Financial Instruments

SPBD has adopted IFRS 9 Financial Instruments. IFRS 9 replaces IAS 39: Financial Instruments: Recognition and Measurement. Information about the adoption of IFRS 9 is provided in Note 23.

IFRS 16: Leases

SPBD has adopted IFRS 16 Leases. IFRS 16 recognises the right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. The directors have decided to apply the modified retrospective adoption method in IFRS 16, and, therefore, recognise leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date.

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 24



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 2020

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 2020

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:

2020 2019

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 2020

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 2020

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.

	2020	2019
Exchange rate used at balance sheet date (TOP/USD)	0.4389	0.4367
Exchange Rate used at balance sheet date (TOP/NZD)	0.6119	0.6506
Exchange Rate used at balance sheet date (TOP/AUD)	0.5707	0.6225

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 2020

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>2020</u>	<u>2019</u>
Undeposited Collections		791	(14)
Petty Cash Imprest		2,000	2,000
Saving Reserve Imprest		50,000	50,000
Money Transfer Reserve Imprest		25,000	25,050
SUB_TOTAL		<u>77,791</u>	<u>77,036</u>
	<u>Cash in Bank</u>		
ANZ Dollar Account 165-3890		903,184	310,340
BSP Account 2000732848		310,522	347,166
BSP Account 2001343143		141,178	19,536
TDE- Ha'apai Bank Account 149464 S1		39,883	40,125
BSP Account 2001642673		57,296	
BSP Account 2001642681		60,717	
SUB_TOTAL		<u>1,512,780</u>	<u>717,167</u>
	<u>Bank Overdraft</u>		
ANZ Bank Account 165-3787		469,456	(349,279)
TOTAL		<u>2,060,027</u>	<u>444,924</u>

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

6. LOAN PORTFOLIO

	<u>Loans Receivables</u>	<u>2020</u>	<u>2019</u>
Opening Balance		9,442,293	7,077,027
Total Loan Disbursement		18,106,500	17,749,060
Less: Total Principal Loan Repayments		17,762,555	15,383,794
Gross Loan Portfolio		9,786,238	9,442,293
Less: Loan Loss Reserve		(97,982)	(95,164)
Net Loan Portfolio		9,688,256	9,347,129

GROSS LOAN PORTFOLIO

	<u>2020</u>	<u>2019</u>
Opening Balance (Nuku'alofa)	7,410,294	6,167,769
Plus: 2020 Loan Disbursement	15,166,700	13,175,010
Less: 2020 Loan Repayments	(14,613,869)	(11,932,485)
Gross Loan Portfolio (Nuku'alofa)	7,963,125	7,410,294
Opening Balance (Vava'u)	779,338	529,632
Plus: 2020 Loan Disbursement	1,229,300	1,795,626
Less: 2020 Loan Repayments	(1,329,913)	(1,545,919)
Gross Loan Portfolio (Vava'u)	678,725	779,338
Opening Balance (Ha'apai)	701,638	126,332
Plus: 2020 Loan Disbursement	898,850	1,591,375
Less: 2020 Loan Repayments	(973,546)	(1,016,069)
Gross Loan Portfolio (Ha'apai)	626,942	701,638
Opening Balance ('Eua)	551,023	253,294
Plus: 2020 Loan Disbursement	811,650	1,187,049
Less: 2020 Loan Repayments	(845,227)	(889,321)
Gross Loan Portfolio ('Eua)	517,446	551,023
SPBD Gross Loan Portfolio	9,786,238	9,442,293

No. of Loans Outstanding

	<u>2020</u>	<u>2019</u>
SPBD Group Loan Product	5,965	4,207

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 2020

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
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. A total of \$4,578,194 of loans (principal) were renegotiated and restructured in 2020. Covid 19 affected some of the members businesses and to assist its members the Chairman/President approved affected members to restructure their loans. All Revitalization Loans established specifically for members suffering from the impact of COVID 19 has a balance of \$2,239,590 as at end of year.



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

6. LOAN PORTFOLIO continued

Portfolio Quality	Outstanding Loan Balance	Portfolio at Risk	Loan Loss Reserve Rate	Loan Loss Reserve Amount
Current	9,783,825	0%	1%	97,838
5 to 8 weeks in arrears	1,946	0%	5%	97
21 + weeks in arrears	467	0%	10%	47
Total	9,786,238			97,982

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	2020	2019
Loan Loss Reserve, January 1	95,164	74,527
Loan Loss Provision for the year	2,818	20,637
Loan Loss Reserve, December 31	97,982	95,164

7. RECEIVABLES

	2020	2019
Other Receivables	1,500	16,372
Prepaid Expenses	3,754	5,669
Tax Recoverable	5,341	
Total Receivables	10,595	22,041

8. SHORT-TERM INVESTMENTS

	2020	2019
Term Deposit BSP	56,140	55,511
Term Deposit ANZ Bank	175,280	171,743
Term Deposit TDB	150,000	150,000
Term Deposit MBF Bank	-	-
Total	381,420	377,253

9. PROPERTY, PLANT AND EQUIPMENT

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	64,653	59,686	3,451	4,967
Computer Equipment and Peripherals	105,822	89,646	11,394	16,177
Motor Vehicles	249,960	171,229	36,833	78,731
Office Equipment	66,358	50,681	6,512	15,677
Software and Electronics System	41,101	39,020	1,921	2,081
Leasehold Improvements	43,551	12,960	1,967	30,591
Right of use Assets	191,855	106,585	63,951	85,270
2020 TOTAL	763,301	529,807	126,029	233,494
2019 TOTAL	727,138	432,476	59,158	294,662

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

10. OTHER ASSETS

	<u>2020</u>	<u>2019</u>
Stocks of Passbooks	45	225
Stocks of Receipt Books	1,063	1,256
Stocks of Secretary Books	570	720
Stocks of Financial Diaries Booklets	8,109	6,220
Rental Bond - Head Office	5,000	5,000
Total	<u>14,787</u>	<u>13,421</u>

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>2020</u>	<u>2019</u>
No. of Saving Accounts	11,204	10,710
Clients Saving Balances	1,261,213	1,089,611

12. ACCOUNTS PAYABLE

	<u>2020</u>	<u>2019</u>
Accounts Payable	101,284	90,922
Employees Entitlement	19,836	12,666
TVLLC Payable	41,400	85,000
SPBD Holding Payable	72,317	144,264
Total	<u>234,837</u>	<u>332,851</u>

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

13. COMMERCIAL LOANS

	<u>2020</u>	<u>2019</u>
Tonga Development Bank	1,609,192	1,896,292
Total	1,609,192	1,896,292
Commercial Loan - Current	600,400	600,400
Commercial Loan - Non-Current	1,008,792	1,295,892
Total	1,609,192	1,896,292

a) 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 31-12-19 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-20 (TOPS)	Interest Repayment (TOPS)
30-09-19	TOP	1,199,000	9.0%	30-09-24	834,575	-	90,256	-	744,319	71,907
31-07-15	TOP	1,000,000	8.5%	30-06-23	685,095	-	133,289	-	551,806	53,132
28-06-18	TOP	500,000	9.0%	30-06-23	376,622	-	63,555	-	313,067	31,341
TOTAL					1,896,292	-	287,100	-	1,609,192	156,380

14. SOFT LOANS

	<u>2020</u>	<u>2019</u>
a Microdreams Foundation	1,245,950	845,920
b Good Return	44,000	26,000
c Whole Planet Foundation	-	53,893
d SPBD Holdings	1,303,886	1,284,629
e KIVA	938,780	754,847
Total	3,532,616	2,965,288
Soft Loans - Current	1,703,999	1,026,629
Soft Loans - Long Term	1,828,617	1,938,658
Total	3,532,616	2,965,288

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

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.

a. Microdreams Foundation

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-19 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-20 (TOPS)	Interest Repayment (TOPS)
19-09-18	USD	150,000	6.5%	30-09-22	343,485	-	-	(1,722)	341,764	22,834
27-11-19	USD	75,000	6.5%	31-12-23	171,742	-	-	(861)	170,881	9,630
27-11-19	NZD	40,000	6.5%	31-12-23	61,482	-	-	3,888	65,370	3,337
18-12-19	TOP	134,953	9.5%	31-12-23	134,953	-	-	-	134,953	10,078
27-12-19	TOP	134,258	9.5%	31-12-23	134,258	-	-	-	134,258	9,707
21-08-20	USD	125,000	6.5%	30-09-23	-	276,549	-	8,254	284,803	-
11-11-20	USD	50,000	6.5%	31-12-24	-	112,183	-	1,738	113,921	-
TOTAL					845,920	388,732	-	11,298	1,245,950	55,586

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 31-12-19 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-20 (TOPS)	Interest Repayment (TOPS)
	TOP	13,000	0%		13,000	-	13,000	-	-	-
12-07-19	TOP	5,000	0%	31-12-20	5,000	-	5,000	-	-	-
	TOP	8,000	0%		8,000	-	8,000	-	-	-
02-03-20	TOP	15,000	0%		-	15,000	15,000	-	-	-
01-06-20	TOP	5,000	0%	31-03-21	-	5,000	-	-	5,000	-
30-06-20	TOP	21,000	0%	30-06-21	-	21,000	-	-	21,000	-
30-09-20	TOP	18,000	0%	30-09-21	-	18,000	-	-	18,000	-
TOTAL					26,000	59,000	41,000	-	44,000	-

c. Whole Planet Foundation

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-19 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-20 (TOPS)	Interest Repayment (TOPS)
07-11-12	TOP	243,115	0	28-11-18	-	-	-	-	-	-
28-11-13	TOP	154,699	0	28-11-20	12,892	-	12,892	-	-	-
14-04-14	TOP	123,003	0	01-04-20	41,001	-	41,001	-	-	-
TOTAL					53,893	-	53,893	-	-	-

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

d. 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.

f.SPBD Holdings

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-19 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-20 (TOPS)	Interest Repayment (TOPS)
15-09-17	AUD	100,000	10.0%	31-12-20	120,482		122,749.32	2,267	-	5,530
18-10-17	USD	50,000	7.0%	31-12-19	57,248		58,411.00	1,163	-	
12-12-17	AUD	100,000	10.0%	31-12-19	40,160		39,538.00	(622)	-	2,240
12-10-19	NZD	50,000	8.0%	31-12-22	76,852		-	4,860	81,712	6,657
11-11-19	TOP	913,034	9.5%	31-12-21	913,034		228,259.00		684,775	800,48
26-11-19	NZD	50,000	8.0%	31-12-22	76,853		-	4,859	81,711	6,639
24-06-20	USD	100,000	9.5%	31-12-23		223,514		4,329	227,844	11,502
07-07-20	USD	100,000	9.5%	31-12-23		222,767		5,076	227,844	11,016
TOTAL					1,284,629	446,281	448,957	21,932	1,303,886	123,632

e. 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 31-12-19 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-20 (TOPS)	Interest Repayment (TOPS)
31-11-17	USD	412,031	0%	On Going	754,847	247,744	113,584	49,773	938,780	-
TOTAL					754,847	247,744	113,584	49,773	938,780	-

15. ACCRUED INTEREST

	<u>2020</u>	<u>2019</u>
Microdreams Foundation	22,473	12,513
Total	22,473	12,513

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

16. 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>2020</u>	<u>2019</u>
Current	63,951	63,951
Non Current	21,318	85,269
	<u>85,269</u>	<u>149,220</u>

SPBD has entered into finance lease for the lease of the Tongatapu main office. The lease commenced in May 2019 and it is for a period of three years ending April 2022.

The fair value of finance is \$85,269. 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>2020</u>	<u>2019</u>
Minimum lease payments payable		
No later than one year	69,000	69,000
Later than one year and not later than five years	23,000	92,000
Later than five years	-	-
<i>Total minimum lease payments</i>	<u>92,000</u>	<u>161,000</u>
Future Finance charges	(6,731)	(11,780)
<i>Present Value of minimum lease payments</i>	<u>85,269</u>	<u>149,220</u>
Present Value of minimum lease payments payable		
No later than one year	63,951	63,951
Later than one year and not later than five years	21,318	85,269
Later than five years	-	-
<i>Total present value of minimum lease payments</i>	<u>85,269</u>	<u>149,220</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 \$27,330 as at 31 December 2020.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

20. CAPITAL COMMITMENTS

The capital commitments as at 31 December 2020 amount to \$79,939 (2019: \$143,890).

21. 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 2020.

22. CONTINGENT LIABILITY

There is no contingent liability for the year ended 31 December 2020.

23. 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.

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-20	Adoption IFRS 9	01-Jan-21
Cash & Cash equivalents	Loans & Receivables	Amortised cost	2,060,027	-	2,060,027
Investments	Loans & Receivables	Amortised cost	381,420	-	381,420
Loan Portfolio Outstanding	Loans & Receivables	Amortised cost	9,688,256	-	9,688,256
Receivables	Loans & Receivables	Amortised cost	10,595	-	10,595
Total Financial Assets			\$ 12,140,298		\$ 12,140,298



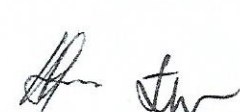
SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDING 31 DECEMBER 2020

24. 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 2020:

	Carrying amount at 31 December 2020	Reclassification	Remeasurement	IFRS 16 carrying amount at 1 January 2020
Fixed Assets	233,494	-	-	233,494
Lease liabilities	85,269	-	-	85,269
	318,763		-	318,763

The impact on the financial statements for the year ended 31 December 2020 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 2020

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 2020, 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 2020; 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 15 March 2021. 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