



South Pacific Business Development  
Microfinance Ltd.

Financial Statements

For the Period Ending 31 December 2021

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**

**STATEMENT OF FINANCIAL POSITION**

**As of 31 December 2021**

<b>ASSETS</b>		<b>Audited</b>	<b>Audited</b>
<b>Current Assets</b>	<i>Note</i>	<b>2021</b>	<b>2020</b>
Cash on Hand and in Bank	5	2,094,419	2,060,027
Loan Portfolio Outstanding	6	14,517,889	9,688,256
Receivables	7	16,453	10,595
Short-Term Investments	8	379,751	381,420
<b>Total Current Assets</b>		<b>17,008,512</b>	<b>12,140,298</b>
<b>Fixed Assets</b>			
Property, plant and equipment	9	856,833	763,301
Less: Accumulated Depreciation		(386,725)	(529,807)
<b>Net Fixed Assets</b>		<b>470,108</b>	<b>233,494</b>
<b>Other Assets</b>	10	18,694	14,787
<b>TOTAL ASSETS</b>		<b>17,497,314</b>	<b>12,388,579</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Clients' Savings deposits	11	1,811,096	1,261,213
Bank Overdraft	5	103,611	-
Secured Borrowings	12	600,400	600,400
Unsecured Borrowings	13	2,081,532	1,703,999
Accounts Payable	14	959,174	766,204
Lease Liability	15	89,531	63,951
Members Death Benefit Reserve		(94,279)	(69,945)
<b>Total Current Liabilities</b>		<b>5,551,067</b>	<b>4,325,822</b>
<b>Non Current Liabilities</b>			
Secured Borrowings	12	2,136,462	1,008,792
Unsecured Borrowings	13	2,961,249	1,828,617
Lease Liability	15	141,758	21,318
<b>Total Long term Liabilities</b>		<b>5,239,470</b>	<b>2,858,727</b>
<b>TOTAL LIABILITIES</b>		<b>10,790,536</b>	<b>7,184,549</b>
<b>EQUITY</b>			
Owner's equity	16	528,233	528,233
Retained Earnings		4,675,794	3,288,981
Profit/(Loss) for the year		1,502,749	1,386,814
<b>TOTAL EQUITY</b>		<b>6,706,777</b>	<b>5,204,028</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>17,497,314</b>	<b>12,388,579</b>

Gregory F. Casagrande

**Date:** 16 May 2022

**Gregory F. Casagrande**  
Chairman/ President

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 2021**

	<i>Note</i>	<b>Audited 2021</b>	<b>Audited 2020</b>
<b>Financial Income</b>			
Interest on Loans		3,256,915	3,728,723
Development Fee		742,986	389,350
Loan Security Fee - LSF		495,074	354,501
Death Benefit Fee - DBF		207,805	167,705
Weekly Centre Meeting Fee		919,950	344,558
Interest earned on Bank Accounts & Term Deposits		5,510	8,767
Other operating revenues		117,464	123,064
<b>Total Financial Income</b>		<b>5,745,703</b>	<b>5,116,669</b>
<b>Financial Expenses</b>			
Interest and fees		566,089	437,353
Foreign Exchange Loss		39,680	45,967
Interest on Client Saving		23,494	18,867
Loan Security Loss		101,950	72,092
Death Benefit Loss		71,666	57,020
<b>Total Financial Expenses</b>		<b>802,878</b>	<b>631,299</b>
<b>NET FINANCIAL INCOME</b>		<b>4,942,824</b>	<b>4,485,370</b>
Loan Loss Provision	6	48,663	2,818
<b>NET FINANCIAL MARGIN</b>		<b>4,894,161</b>	<b>4,482,552</b>
<b>Operating Expenses</b>			
Computer Support System		16,689	10,457
Conference & Meetings		22,479	23,470
Depreciation	9	141,149	126,029
Electricity and Water		25,323	20,786
Fees and Bank Charges		6,219	5,761
Insurance		13,132	12,403
Membership Fees and Subscription		200	7,638
Office Expenses		12,434	14,548
Postage, Telephone and Communications		32,205	30,139
Printing and Office Stationeries		58,893	54,803
Professional Services		1,472,933	1,298,409
Public Relations and Advertisements		9,586	9,986
Rent		33,080	27,330
Repairs and Maintenance		389	-
Salaries and Benefits		877,069	824,088
Staff Training and Development		-	35,340
Transportation, Fuel, Oil		65,178	63,336
Travel Local		35,798	12,971
Travel Overseas		-	10,050

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 2021**

Board of Directors Fees	5,150	-
SPBD Award day	9,000	21,675
Staff Retreat	28,381	25,706
Financial Diaries Expenses	12,307	14,190
<b>Total Operating Expenses</b>	<b>2,877,593</b>	<b>2,649,115</b>
<b>Non-Operating Income/(Expenses):</b>		
Sale of/ (Writeoff ) Fixed Assets	15,118	6,563
	15,118	6,563
<b>OPERATING PROFIT/(LOSS) BEFORE INCOME TAX</b>	<b>2,031,686</b>	<b>1,840,000</b>
Income Tax	19	(528,937)
<b>PROFIT(LOSS) FOR THE YEAR</b>	<b>1,502,749</b>	<b>1,386,814</b>

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 2021**

		<b>Equity</b>		
		<b>Contribution</b>	<b>Retained Earnings</b>	<b>Total</b>
		<b>TOP</b>	<b>TOP</b>	<b>TOP</b>
Balance at 01 January 2021	16	528,233	4,675,795	5,204,028
Net Income for the year		-	1,502,749	1,502,749
Prior Year Adjustment			-	-
<b>Balance at 31 December 2021</b>		<b>528,233</b>	<b>6,178,544</b>	<b>6,706,777</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**STATEMENT OF CASH FLOW**  
**For the year ending 31 December 2021**

	<b>Audited 2021</b>	<b>Audited 2020</b>
<b>Cash flows from operating activities</b>		
<b>Cash was provided from:</b>		
Receipts from Customers	2,809,587	2,587,764
Receipts from other Revenue	-	-
<b>Total Receipts</b>	<b>2,809,587</b>	<b>2,587,764</b>
<b>Cash was disbursed to:</b>		
Payments to suppliers	(5,330,764)	(1,176,890)
Labour Costs	-	-
Taxes Payable	(453,186)	(55,708)
<b>Total Payments</b>	<b>(5,783,950)</b>	<b>(1,232,598)</b>
<b>Net cash inflows from operating activities</b>	<b>(2,974,363)</b>	<b>1,355,166</b>
<b>Cash flows from Investing Activities</b>		
<b>Cash was provided from:</b>		
Short-term Investments	-	-
<b>Cash was disbursed to:</b>		
Purchase of property, plant and equipment	(282,575)	(66,049)
Purchase of Short Term Investments	-	-
<b>Net Cash Flow used in investing activities</b>	<b>(282,575)</b>	<b>(66,049)</b>
<b>Cash flows from financing activities</b>		
<b>Cash was provided from:</b>		
Borrowings: Client Savings	-	-
Borrowings: Loans	3,187,718	325,986
<b>Cash was disbursed to:</b>		
Dividend paid	-	-
<b>Net Cash Flow from Financing Activities</b>	<b>3,187,718</b>	<b>325,986</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>(69,220)</b>	<b>1,615,103</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2,060,027</b>	<b>444,924</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1,990,807</b>	<b>2,060,027</b>

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 2021**

<b>Reconciliation of reported net profit/ (loss) after taxation with Cash flows from operating activities</b>		
	<b>Audited</b>	<b>Audited</b>
	<b>2021</b>	<b>2020</b>
Net Income after Tax	1,502,749	1,386,814
Add back non cash items		
Depreciation	143,313	126,029
Loan Loss Provision	48,663	2,818
 Movements in working capital:		
(Increase)decrease in Gross Loan Portfolio	(4,878,296)	(343,945)
(Increase)decrease in Receivables	(5,858)	11,446
(Increase)decrease in Other assets	(3,907)	(1,366)
Increase (decrease) in Account Payable	(48,432)	(98,014)
Increase (decrease) in Taxes Payable	206,624	234,048
Increase (decrease) in Accrued Expenses	34,779	9,960
Increase (decrease) in Death Benefit Reserve	24,334	31,541
(Increase ) decrease in Short Term Investments	1,669	(4,167)
<b>Net Cash Flow from Operating Activities</b>	<b>(2,974,363)</b>	<b>1,355,166</b>

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 2021*

#### **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



**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2021*

**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 2021*

*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 2021*

## 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:

2021	2020
-	-

**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 2021*

*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 2021*

**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.

	<b>2021</b>	<b>2020</b>
Exchange rate used at balance sheet date (TOP/USD)	0.4387	0.4389
Exchange Rate used at balance sheet date (TOP/NZD)	0.6057	0.6119
Exchange Rate used at balance sheet date (TOP/AUD)	0.6442	0.5707

**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 2021**

**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**

	<b><i>Cash on Hand</i></b>	<b><u>2021</u></b>	<b><u>2020</u></b>
Undeposited Collections		(3,194)	791
Petty Cash Imprest		2,000	2,000
Saving Reserve Imprest		50,000	50,000
Money Transfer Reserve Imprest		25,000	25,000
<b>SUB_TOTAL</b>		<b><u>73,806</u></b>	<b><u>77,791</u></b>
	<b><i>Cash in Bank</i></b>		
ANZ Dollar Account 165-3890		816,130	903,184
BSP Account 2000732848		1,042,324	310,522
BSP Account 2001343143		24,905	141,178
TDB- Ha'apai Bank Account 149464 S1		8,310	39,883
BSP Account 2001642673		45,574	57,296
BSP Account 2001642681		83,369	60,717
<b>SUB_TOTAL</b>		<b><u>2,020,613</u></b>	<b><u>1,512,780</u></b>
	<b><i>Bank Overdraft</i></b>		
ANZ Bank Account 165-3787		(103,611)	469,456
<b>TOTAL</b>		<b><u>1,990,807</u></b>	<b><u>2,060,027</u></b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2021**

**6. LOAN PORTFOLIO**

	<u>Loans Receivables</u>	<u>2021</u>	<u>2020</u>
Opening Balance		9,786,238	9,442,293
Total Loan Disbursement		24,888,535	18,106,500
Less: Total Principal Loan Repayments		20,010,239	17,762,555
<b>Gross Loan Portfolio</b>		<b>14,664,534</b>	<b>9,786,238</b>
Less: Loan Loss Reserve		(146,645)	(97,982)
<b>Net Loan Portfolio</b>		<b>14,517,889</b>	<b>9,688,256</b>

**GROSS LOAN PORTFOLIO**

	<u>2021</u>	<u>2020</u>
<b>Opening Balance (Nuku'alofa)</b>	7,963,125	7,410,294
Plus: 2021 Loan Disbursement	19,549,485	15,166,700
Less: 2021 Loan Repayments	(15,951,417)	(14,613,869)
<b>Gross Loan Portfolio (Nuku'alofa)</b>	<b>11,561,193</b>	<b>7,963,125</b>
<b>Opening Balance (Vava'u)</b>	678,725	779,338
Plus: 2021 Loan Disbursement	2,493,750	1,229,300
Less: 2021 Loan Repayments	(1,847,691)	(1,329,913)
<b>Gross Loan Portfolio (Vava'u)</b>	<b>1,324,784</b>	<b>678,725</b>
<b>Opening Balance (Ha'apai)</b>	626,942	701,638
Plus: 2021 Loan Disbursement	1,620,400	898,850
Less: 2021 Loan Repayments	(1,163,127)	(973,546)
<b>Gross Loan Portfolio (Ha'apai)</b>	<b>1,084,215</b>	<b>626,942</b>
<b>Opening Balance ('Eua)</b>	517,446	551,023
Plus: 2021 Loan Disbursement	1,224,900	811,650
Less: 2021 Loan Repayments	(1,048,003)	(845,227)
<b>Gross Loan Portfolio ('Eua)</b>	<b>694,343</b>	<b>517,446</b>
<b>SPBD Gross Loan Portfolio</b>	<b>14,664,534</b>	<b>9,786,238</b>

**No. of Loans Outstanding**

	<u>2021</u>	<u>2020</u>
SPBD Group Loan Product	4,993	5,965

**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

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**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.



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**6. LOAN PORTFOLIO continued**

<b>Portfolio Quality</b>	<b>Outstanding Loan Balance</b>	<b>Portfolio at Risk</b>	<b>Loan Loss Reserve Rate</b>	<b>Loan Loss Reserve Amount</b>
Current	14,664,534	0%	1%	146,645
1 to 4 weeks in arrears	0	0%	5%	0
5 to 8 weeks in arrears	0	0%	10%	0
9 to 12 weeks in arrears	0	0%	25%	0
13 to 16 weeks in arrears	0	0%	50%	0
17 to 20 weeks in arrears	0	0%	75%	0
21 + weeks in arrears	0	0%	100%	0
<b>Total</b>	<b>14,664,534</b>			<b>146,645</b>

<b>Movement in Loan Loss Reserve</b>	<b>2021</b>	<b>2020</b>
Loan Loss Reserve, January 1	97,982	95,164
Loan Loss Provision for the year	48,663	2,818
<b>Loan Loss Reserve, December 31</b>	<b>146,645</b>	<b>97,982</b>

**7. RECEIVABLES**

	<b>2021</b>	<b>2020</b>
Other Receivables	6,554	1,500
Prepaid Expenses	4,558	3,754
Tax Recoverable	5,341	5,341
<b>Total Receivables</b>	<b>16,453</b>	<b>10,595</b>

**8. SHORT-TERM INVESTMENTS**

	<b>2021</b>	<b>2020</b>
Term Deposit BSP	56,774	56,140
Term Deposit ANZ Bank	172,977	175,280
Term Deposit TDB	150,000	150,000
Term Deposit MBF Bank	-	-
<b>Total</b>	<b>379,751</b>	<b>381,420</b>

**9. PROPERTY, PLANT AND EQUIPMENT**

<b>Type</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Depreciation for the year</b>	<b>Net Book Value</b>
Furniture and Fixtures	65,998	61,564	1,878	4,434
Computer Equipment and Peripherals	135,432	100,863	11,217	34,569
Motor Vehicles	223,885	75,335	47,252	148,550
Office Equipment	74,770	55,135	4,454	19,636
Software and Electronics System	44,601	41,597	2,577	3,004
Leasehold Improvements	43,551	14,926	1,967	28,625
Right of use Assets	268,596	37,305	71,805	231,291
<b>2021 TOTAL</b>	<b>856,833</b>	<b>386,725</b>	<b>141,149</b>	<b>470,108</b>
<b>2020 TOTAL</b>	<b>763,301</b>	<b>529,807</b>	<b>126,029</b>	<b>233,494</b>

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**10. OTHER ASSETS**

	<u>2021</u>	<u>2020</u>
Stocks of Passbooks	40	45
Stocks of Receipt Books	-	1,063
Stocks of Secretary Books	285	570
Stocks of Financial Diaries Booklets	377	8,109
Other Stock	12,992	-
Rental Bond - Head Office	5,000	5,000
<b>Total</b>	<b>18,694</b>	<b>14,787</b>

**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 1<sup>st</sup> 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>2021</u>	<u>2020</u>
No. of Saving Accounts	11,917	11,204
Clients Saving Balances	1,811,096	1,261,213

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**12. SECURED BORROWINGS**

	<u>2021</u>	<u>2020</u>
Jasmine Social Investments	1,601,648	
Tonga Development Bank	1,135,214	1,609,192
<b>Total</b>	<b>2,736,862</b>	<b>1,609,192</b>
Secured Borrowings - Current	600,400	600,400
Secured Borrowings - Non-Current	2,136,462	1,008,792
<b>Total</b>	<b>2,736,862</b>	<b>1,609,192</b>

**a) Jasmine Social Investments**

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-20 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-21 (TOP\$)	Interest Repayment (TOP\$)
26-11-21	NZD	500,000	8%		-	756,773	-	19,383	776,157	-
26-11-21	AUD	500,000	8%		-	791,766	-	33,725	825,491	-
									-	
<b>TOTAL</b>					-	1,548,539	-	53,108	1,601,648	-

**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 31-12-20 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-21 (TOP\$)	Interest Repayment (TOP\$)
30-09-19	TOP	1,199,000	9.0%	30-09-24	744,319	-	157,278	-	587,041	61,162
31-07-15	TOP	1,000,000	8.5%	30-06-23	551,806	-	212,795	-	339,011	38,185
28-06-18	TOP	500,000	9.0%	30-06-23	313,067	-	103,905	-	209,162	23,655
<b>TOTAL</b>					<b>1,609,192</b>	-	<b>473,978</b>	-	<b>1,135,214</b>	<b>123,002</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
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**13. UNSECURED LOANS**

	<u>2021</u>	<u>2020</u>
a Microdreams Foundation	1,613,501	1,245,950
b Good Return	99,059	44,000
c SPBD Microfinance Holdings (Singapore) Pte. Ltd	1,928,197	1,303,886
d KIVA	1,402,025	938,780
<b>Total</b>	<b>5,042,781</b>	<b>3,532,616</b>
Unsecured Borrowings - Current	2,081,532	1,703,999
Unsecured Borrowings - Long Term	2,961,249	1,828,617
<b>Total</b>	<b>5,042,781</b>	<b>3,532,616</b>

**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 31-12-20 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-21 (TOP\$)	Interest Repayment (TOP\$)
19-09-18	USD	150,000	6.5%	30-09-22	341,764	-	88,028	2,703	256,440	28,232
27-11-19	USD	75,000	6.5%	31-12-23	170,881	-	-	79	170,960	11,284
27-11-19	NZD	40,000	6.5%	31-12-23	65,370	-	-	(3,278)	62,092	4,278
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	284,803	-	-	130	284,933	20,906
11-11-20	USD	50,000	6.5%	31-12-24	113,921	-	-	52	113,973	6,680
19-07-21	USD	150,000	6.5%	30-06-25	-	331,053	-	10,866	341,919	-
24-11-21	USD	50,000	6.5%	30-06-25	-	111,582	-	2,391	113,973	-
<b>TOTAL</b>					<b>1,245,950</b>	<b>442,635</b>	<b>88,028</b>	<b>12,943</b>	<b>1,613,501</b>	<b>96,954</b>

**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 31-12-20 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-21 (TOP\$)	Interest Repayment (TOP\$)
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	-	-	-
18-02-21	AUD	25,000	0%	31-12-21	-	41,948	41,948	-	-	-
18-02-21	TOP	4,500	0%	31-12-21	-	4,500	4,500	-	-	-
19-05-21	AUD	29,000	0%	31-03-22	-	47,646	-	232	47,878	-
28-07-21	AUD	20,000	0%	30-06-22	-	31,444	-	1,576	33,020	-
11-11-21	AUD	11,000	0%	30-09-22	-	17,424	-	737	18,161	-
<b>TOTAL</b>					<b>44,000</b>	<b>142,962</b>	<b>90,448</b>	<b>2,545</b>	<b>99,059</b>	<b>-</b>

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**c. SPBD Microfinance Holdings (Singapore) Pte. Ltd.**

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 31-12-20 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-21 (TOP\$)	Interest Repayment (TOP\$)
12-10-19	NZD	50,000	8.0%	31-12-22	81,712		-	(4,096)	77,616	6,299
11-11-19	TOP	913,034	9.5%	31-12-21	684,775		684,775.00	-	-	34,146
26-11-19	NZD	50,000	8.0%	31-12-22	81,711		-	(4,094)	77,617	6,299
24-06-20	USD	100,000	9.5%	31-12-23	227,844		46,948.00	1,460	182,357	10,830
07-07-20	USD	100,000	9.5%	31-12-23	227,844		46,948.00	1,460	182,357	10,830
22-07-21	USD	100,000	9.5%	31-12-25		221,092		6,853	227,946	-
06-12-21	USD	60,000	8.0%	31-12-25		134,559		2,208	136,768	-
06-12-21	AUD	350,000	8.0%	31-12-25		554,499		23,343	577,843	-
06-12-21	NZD	300,000	8.0%	31-12-25		451,467		14,225	465,693	-
<b>TOTAL</b>					<b>1,303,885</b>	<b>1,361,617</b>	<b>778,671</b>	<b>41,359</b>	<b>1,928,197</b>	<b>68,404</b>

**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 31-12-20 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-21 (TOP\$)	Interest Repayment (TOP\$)
31-12-21	USD	615,068	0%	On Going	938,780	602,224	246,037	107,058	1,402,025	-
<b>TOTAL</b>					<b>938,780</b>	<b>602,224</b>	<b>246,037</b>	<b>107,058</b>	<b>1,402,025</b>	<b>-</b>

**14. ACCOUNTS PAYABLE**

	<b>2021</b>	<b>2020</b>
Accounts Payable	137,476	101,284
Employees Entitlement	39,779	19,836
WGF Payable	9,149	-
TVLLC Payable	-	41,400
SPBD Holding Payable	-	72,317
Accrued Interest Payable	57,252	22,473
Taxes Payable	715,518	508,894
<b>Total</b>	<b>959,174</b>	<b>766,204</b>

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**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>2021</u>	<u>2020</u>
Current	89,531	63,951
Non Current	141,758	21,318
	<u>231,290</u>	<u>85,269</u>

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

The fair value of finance is \$231,290. 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>2021</u>	<u>2020</u>
<b>Minimum lease payments payable</b>		
No later than one year	96,600	69,000
Later than one year and not later than five years	152,950	23,000
Later than five years	-	-
<i>Total minimum lease payments</i>	<u>249,550</u>	<u>92,000</u>
<b>Future Finance charges</b>	<u>(18,260)</u>	<u>(6,731)</u>
<i>Present Value of minimum lease payments</i>	<u>231,290</u>	<u>85,269</u>
<b>Present Value of minimum lease payments payable</b>		
No later than one year	89,531	63,951
Later than one year and not later than five years	141,758	21,318
Later than five years	-	-
<i>Total present value of minimum lease payments</i>	<u>231,290</u>	<u>85,269</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 \$33,080 as at 31 December 2021.

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**16. OWNER'S EQUITY**

SPBD Microfinance Holdings (Singapore) Pte Limited:

	<u>2021</u>	<u>2020</u>
Opening Balance	528,233	528,233
Equity Injection	-	-
<b>Closing Balance 31 Dec</b>	<b>528,233</b>	<b>528,233</b>

There is no dividend payment approved for 2021.

**17. SPBD Staff Loans**

<b>Borrower</b>	<b>Balance</b>	<b>Term</b>	<b>Status</b>
Staff	\$47,659	12 months	Current

The above balance of \$47,659 for SPBD Staff Loan is included in the balance of \$14,664,534 for Loan Receivables in note 6 above.

**18. CAPITAL COMMITMENTS**

The capital commitments as at 31 December 2021 amount to \$223,828 (2020: \$79,939).

**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 2021.

**20. CONTINGENT LIABILITY**

There is no contingent liability for the year ended 31 December 2021.

**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.

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:

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	Measurement category		Carrying amount		
	IAS 39	IFRS9	31-Dec-21	Adoption IFRS 9	01-Jan-22
Cash & Cash equivalents	Loans & Receivables	Amortised cost	2,094,419	-	2,094,419
Investments	Loans & Receivables	Amortised cost	379,751	-	379,751
Loan Portfolio Outstanding	Loans & Receivables	Amortised cost	14,517,889	-	14,517,889
Receivables	Loans & Receivables	Amortised cost	16,453	-	16,453
<b>Total Financial Assets</b>			<b>17,008,512</b>		<b>17,008,512</b>

**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 2021:

	Carrying amount at 31 December 2021	Reclassification	Remeasurement	IFRS 16 carrying amount at 1 January 2022
Fixed Assets	469,962	-	-	469,962
Lease liabilities	231,290	-	-	231,290
	701,252		-	701,252

The impact on the financial statements for the year ended 31 December 2021 from the adoption of IFRS 16 has no impact on the net income result.