



South Pacific Business Development
Microfinance Ltd.

Financial Statements

For the Period Ending 31 December 2009



SPBD Microfinance Ltd.

Taufa'ahau Road, Kolofo'ou
P.O. Box 21, Nuku'alofa
Kingdom of Tonga
Tel. No. 28103 and 27087

5 April 2010

Dear Friends and Colleagues,

The launch of SPBD Microfinance Ltd (Tonga) in September signified the crossing of a major milestone for the emerging South Pacific Business Development Microfinance Network. Our presence in Tonga demonstrates our determined desire to expand our services beyond the shores of Samoa and into new markets across the Pacific. I am pleased to report that our launch in Tonga is going smoothly and that we are on track to achieving our vision of building a permanent, Tongan-based, financially self-sufficient micro-enterprise development organization.

SPBD is all about empowering women from families with little economic opportunity. We do this by providing micro-business training, unsecured credit to startup and grow micro-businesses and ongoing guidance and motivation to make them a success. We also provide micro-entrepreneurs with access to unsecured credit for basic housing improvements and childhood education expenses and access to our basic savings and insurance services. We believe that this combination of services directly empowers our clients and enables them to productively invest in sustainable sources of income for themselves and to help lift their family permanently out of poverty.

In 2009 the legal entity, SPBD Microfinance Ltd, was formed. We recruited, hired and trained staff, developed our lines of product and services and installed our various operating, financial and administrative control procedures. We then began to roll out our suite of services to women in a handful of villages on Tongatapu and I am pleased to say that our services have been well received. As of yearend we have 700 active clients being supported by a well trained staff of seven.

2010 will be an equally ambitious year for SPBD in Tonga. Our goal in 2010 is to further scale SPBD beyond 2,000 clients so that in 2011 SPBD can have its first year of profitability and hence permanence. I am confident that based on the foundation that we built in 2009 and that with the team that we now have in place, these goals are fully attainable.

I want to personally thank our funders, our management and staff for making the vision of SPBD Microfinance Ltd in Tonga a reality.

Gregory F. Casagrande

President and Chairman

AUDIT REPORT

**TO THE READERS OF THE
SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LIMITED
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2009**

Report of the independent auditor to the shareholders of South Pacific Business Development Microfinance Limited (the Company).

Unqualified opinion

In our opinion:

- (a) Proper books of account have been kept by the company, so far as it appears from our examination of those books, and
- (b) The accompanying financial statements which have been prepared in accordance with generally accepted accounting practises represented by International Financial Reporting Standards:
 - i. Are in agreement with the books of account;
 - ii. To the best of our information and according to the explanations given to us:
 - a. Give a true and fair view of the state of affairs of the company's financial position as at 31 December 2009
 - b. Give a true and fair view of the company's results and cash flows for the year ended on that date;
 - c. Give the information required by the Tonga Companies Act, 1995 in the manner so required.
- (c) Balance Sheet and Profit and Loss account together with the notes thereon have been drawn up in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions.

The audit was completed on 5 April 2010, and is the date at which our opinion is expressed.

The basis of the opinion is explained below.

Basis of Opinion

The directors of the Company are responsible for the preparation and presentation of the financial statements and the information they contain. We have conducted an independent audit of these financial statements in order to express an opinion on them.

This report is made solely to the company's shareholders, as a body, in accordance with Section 220 of the Tonga Companies Act 1995. We have audited the accompanying financial statements of the company which comprise the balance sheet as of 31 December 2009 and the income statement, statement of changes in equity and cash flow statement for the year the ended and a summary of significant accounting policies and other explanatory notes as set out on pages 1 to 10. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. The auditor also considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

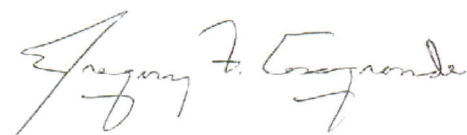


Jennifer Tupou
JK Chartered Accountant
Nuku'alofa
Tonga

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.
BALANCE SHEET
As of 31 December 2009

ASSETS		
Current Assets	<i>Note</i>	
Cash on Hand and in Bank	5	84,625.27
Loan Portfolio Outstanding	6	532,513.79
Receivables	7	6,050.54
Short-Term Investments	8	250,000.00
Total Current Assets		873,189.60
Fixed Assets		
Fixed Assets	9	106,935.00
Less: Accumulated Depreciation		14,208.53
Net Fixed Assets		92,726.47
Other Assets	10	4,387.16
TOTAL ASSETS		970,303.23
LIABILITIES		
Current Liabilities		
Clients' Savings deposits	11	66,836.88
Accounts Payable	12	2,094.79
Taxes Payable		15,601.69
Accrued Interest Payable	13	6,440.10
Total Current Liabilities		90,973.46
Long-term Liabilities		
Soft Loans	13	905,346.26
TOTAL LIABILITIES		996,319.72
EQUITY		
Owner's equity	14	182,882.04
Retained Earnings		0.00
Excess of Income and Expenditure, current period		-208,898.53
TOTAL EQUITY		-26,016.49
TOTAL LIABILITIES AND EQUITY		970,303.23

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



Gregory F. Casagrande
Chairman/President

5 April 2010

Date



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

INCOME STATEMENT

For the period 7 July to 31 December 2009

Financial Income	
Interest on Loans	40,553.95
Development Fee	14,000.00
Loan Insurance Fee	17,500.00
Interest earned from Bank Accounts	10.98
Other operating revenues	885.32
Total Financial Income	<u>72,950.25</u>
Financial Expenses	
Interest and fees on borrowed funds	13,313.18
Foreign Exchange Loss	-180.03
Total Financial Expenses	<u>13,133.15</u>
NET FINANCIAL INCOME	59,817.10
Loan Loss Provision	-
NET FINANCIAL MARGIN	<u>59,817.10</u>
Operating Expenses	
Computer Support System	1,217.86
Conference & Meetings	1,168.90
Depreciation	14,208.53
Electricity and Water	528.76
Fees and Bank Charges	673.13
Insurance	1,491.70
Management Fees	67,146.39
Membership Fees and Subscription	291.00
Office Expenses	10,565.64
Postage, Telephone and Communications	3,696.93
Printing and Office Stationeries	6,512.44
Professional Services	36,008.02
Public Relations and Advertisements	20,295.46
Rentals	8,000.00
Repairs and Maintenance	4,268.38
Salaries and Benefits	36,206.92
Staff Training and Development	4,901.49
Transportation, Fuel, Oil	3,717.84
Travel	47,816.24
Total Operating Expenses	<u>268,715.63</u>
NET OPERATING INCOME/LOSS	-208,898.53
Non-Operating Income/ (Expense)	<u>0.00</u>
NET INCOME	<u><u>-208,898.53</u></u>



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

STATEMENT OF CASH FLOW

For the year ending 31 December 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Net Operating Income	-208,898.53
Adjustment for Non-Cash Items:	
Depreciation	14,208.53
Loan Loss Provision	0.00

(Increase)/Decrease in Operating Assets:

Loan Portfolio Outstanding	-532,513.79
Receivables	-6,050.54
Other Assets	-4,387.16

Increase/(Decrease) in Operating Liabilities:

Accounts Payable	2,094.79
Taxes Payable	15,601.69
Accrued Interest Payable	6,440.10

Net Cash Flow from Operating Activities **-713,504.91**

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of Fixed Assets	-106,935.00
Short-term Investments	-250,000.00
Net Cash Flow from Investing Activities	-356,935.00

CASH FLOW FROM FINANCING ACTIVITIES

Client Savings Deposits	66,836.88
Equity	182,882.04
Soft Loans	905,346.26
Net Cash Flow from Financing Activities	1,155,065.18

NET INCREASE/(DECREASE) IN CASH **84,625.27**

OPENING CASH BALANCE **0.00**

CLOSING CASH BALANCE **84,625.27**



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDING 31 DECEMBER 2009

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 income women entrepreneurs with financial services, training, ongoing guidance and motivation to help them start or grow micro-businesses so that they can improve their lives and that of their families. It was incorporated under the Companies Act 1995 on July 7, 2009 and licensed by the Ministry of Labour, Commerce and Industries to provide financial services. Its offices are located in Taufa'ahau Road, Kolofo'ou District in the capital Nuku'alofa, Kingdom of Tonga.

2. MEASUREMENT BASE

The accounting principles recognized as appropriate for the measurement and reporting of financial performance and financial position on a historical cost basis are followed.

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

3. STATEMENT OF COMPLIANCE

The financial statements comply with the Disclosure Guidelines for financial reporting of Microfinance Institutions which guidelines are voluntary norms recommended by a group of international donors under the Consultative Group to Assist the Poor (CGAP) and by the members of the Social Enterprise Education and Promotion Network (SEEP).

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

c. Investments

Investments are classified as held to maturity. These investments are with fixed or determinable payments and fixed maturity in which SPBD has the positive intent and ability to hold the investment till maturity.

d. Depreciation

Fixed assets are depreciated on a straight-line basis using the following useful life of the assets:

Office Equipment	5 years
Computers and Peripherals	3 years

Software and Electronics System	3 years
Furniture and Fittings	5 years
Leasehold Improvements	2 years
Used Motor Vehicles	3 years

e. Revenue

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

- i. Interest Income - Interest income from loan portfolio and term deposits is recognized using a cash-based method where they are recognized at the time they are received. Hence, if the loan (with the interest) is paid before it is due, then the interest income is recognized at the time of collection; whereas if the loan (with the interest) is in arrears, then no interest income is recognized.
- ii. Development Fee – SPBD charges a fee of 2% of principal loan amount to be used to cover the cost of training the clients, loan evaluation and monitoring. This fee is deducted from the loan proceeds.
- iii. Loan Insurance – This fee is 2% of the total obligations of the client which is the loan principal plus loan interest to cover the risk in the event of death of the client. Should death occur while a loan is still outstanding, the requirement for her family and centre members to fully pay the amount owed to SPBD is eliminated. The loan insurance fee is deducted from the loan proceeds.

f. 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.

No grants or donations were received during the period.

g. Expenses

Expenses are recorded on an accrual basis.

h. Leases

SPBD leases the premises from which it conducts its business under an operating lease.

Operating lease payments, where the lessors effectively retain substantially all of the risks and benefits of ownership of the leased items, are recognized in the determination of the net income of the company as rentals paid.

i. Borrowing Costs

All borrowing costs are expensed.

j. 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.

k. Income Tax

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

l. 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.

m. Foreign Currencies

Transactions in foreign currency have been converted into TOP amount at rates ruling at the particular balance sheet date. The source for exchange rates are the published rates of either Westpac Bank (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.

Exchange rate used at balance sheet date (USD/TOP) 0.5242

n. Comparative Figures

SPBD was incorporated in July 7, 2009. The financial statements are prepared for the six months period ending December 31, 2009. Presenting comparative figures therefore is not applicable.

5. CASH ON HAND AND IN BANK

Cash on Hand

Undeposited Collections	8.00
Petty Cash Imprest	500.00
Savings Reserve Imprest	2,124.96
SUB-TOTAL	<u>2,632.96</u>


Cash in Bank

ANZ Bank Account 165-3787	66,082.66
Westpac Bank Account 2000732848	15,909.65
SUB-TOTAL	<u>81,992.31</u>

TOTAL	<u><u>84,625.27</u></u>
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6. LOAN PORTFOLIO

Total Loan Disbursements	700,000.00
Total Principal Loan Repayments	<u>167,486.21</u>
Loan Portfolio Outstanding	<u><u>532,513.79</u></u>



Portfolio Composition

SPBD Group Loan Product	532,513.79
Insider Loans/SPBD Staff Loans	0
Loan Portfolio Outstanding	<u>532,513.79</u>

No. of Loans Outstanding

SPBD Group Loan Product	<u>698</u>
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Portfolio Quality Measurement

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

As of the end of the financial year, SPBD had no loans in arrears and the PAR ratio was zero.

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%

Since there was no loan in arrears for 1 week and above during the period, no loan loss provision was charged and the loan loss reserve balance as of December 31, 2009 is zero.

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.

No loan was written-off by SPBD during the period.

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.

No loan was renegotiated during the period.

7. RECEIVABLES

Advances to Officers and Staff	97.75
Other Receivables	3,500.19
Prepaid Expenses	2,452.60
Total Receivables	<u>6,050.54</u>

8. SHORT-TERM INVESTMENTS

Term Deposits – Westpac Bank	50,000.00
Term Deposits – ANZ	200,000.00
Total	<u>250,000.00</u>

9. FIXED ASSETS

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	17,025.82	0	1,257.12	15,768.70
Computer Equipment and Peripherals	13,404.23	0	1,761.40	11,642.83
Motor Vehicle	59,800.00	0	8,361.11	51,438.89
Office Equipment	8,268.95	0	716.90	7,552.05
Software and Electronics System	4,200.00	0	700.00	3,500.00
Leasehold Improvements	4,236.00	0	1,412.00	2,824.00
TOTAL	106,935.00	0	14,208.53	92,726.47

10. OTHER ASSETS

Stocks of Passbooks	2,219.67
Stocks of Receipt Books	2,167.49
Total	<u>4,387.16</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 occurs.

All members also face a compulsory savings requirement. The compulsory savings requirement is 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:

<i>No. of Savings Accounts</i>	<u>723</u>
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12. ACCOUNTS PAYABLE

Suppliers	<u>2,094.79</u>
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13. SOFT LOANS

SPBD availed of long-term loans at below market interest rates with the following balances as of December 31, 2009:

	<i>Principal Balance</i>	<i>Accrued Interest Payable</i>
MicroDreams Foundation (USA)	405,346.26	1,097.10
Jasmine Charitable Trust (NZ)	500,000.00	5,343.00
Total	<u>905,346.26</u>	<u>6,440.10</u>

MicroDreams Foundation

Four (4) long term loans were received during the period with the following terms:

Loan Amount and Currency	Amount in TOP*	Interest Rate	Date Granted	Maturity Date	Grace Period on Principal (years)	Principal Repayment during the period	Interest Payments during the period	Accrued Interest Payable
TOP 4,000.00	4,000.00	7%	20-Jul-2009	30-Sept-2012	3.25	0	0	125.22
USD 75,000.00	143,075.16	5%	6-Aug-2009	30-Sept-2013	3.65	0	2,584.62	298.07
TOP 162,887.66	162,887.66	7%	1-Sept-2009	30-Sept-2014	4.30	0	3,313.46	475.09
USD 50,000.00	95,383.44	5%	2-Oct-2009	15-Dec-2014	5.00	0	975.00	198.72
TOTAL	405,346.26						6,873.08	1,097.10

Jasmine Charitable Trust

Loan Amount and Currency	Amount in TOP*	Interest Rate	Date Granted	Maturity Date	Grace Period on Principal (years)	Principal Repayment during the period	Interest Payments during the period	Accrued Interest Payable
TOP 500,000.00	500,000.00	5%	15-Oct-2009	31-Dec-2013	2.0	0	0	5,343.00

*These are also the average outstanding balances during the period.

All outstanding loans with Microdreams Foundation and Jasmine Charitable Trust are unsecured. No deposits are tied to these loans and no guarantee was obtained to secure them.

14. OWNER'S EQUITY

Balance as of December 31, 2009

Gregory F. Casagrande	182,882.04
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15. TAXATION

No income tax payable as the entity made a loss. The entity will have losses available to be carried forward to subsequent years.