

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

COMPANY NUMBER: 20129967

**BALANCE SHEET AND ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2017**

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SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
DIRECTOR'S REPORT

Your director has the pleasure in presenting the company's balance sheet and accounts as at 31st December, 2017 together with his annual report.

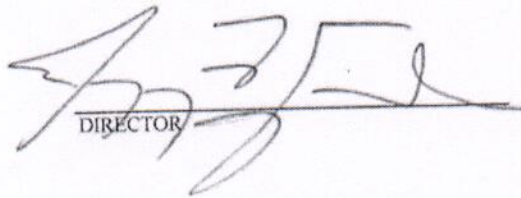
The accompanying balance sheet and accounts on pages 3 to 14 show that operations for the year ended 31st December 2017 resulted in a deficit of \$3,643,685 (2016: deficit of \$2,714,320) after charging income tax of \$20,000 (2016: \$20,000). These accounts have been prepared under the supervision of the director and in the opinion of the board are drawn up so as to exhibit a true and fair view of the state of affairs of the company as at 31st December 2017 and of its results for the year then ended.

No dividends were declared or paid during the year ended 31st December 2017 (2016: \$nil).

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

Dated at Newark, NJ, USA this 18th day of June 2018.

BY ORDER OF THE DIRECTOR



DIRECTOR

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

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Independent Auditor's Report

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

We have audited the accompanying financial statements of South Pacific Business Development Microfinance (Solomon Islands) Limited which comprise the balance sheet as of 31st December 2017 and the profit and loss account and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 3 to 14.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Policies set out in Note 2 to the financial statements and with the requirements of the Companies Act 2009. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with applicable Auditing Standards in Solomon Islands. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

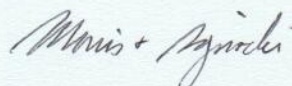
Opinion

In our opinion:

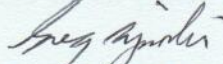
- (a) the accompanying financial statements are in agreement with the books of account kept by the company and are properly drawn up:
 - (i) so as to give a true and fair view of the financial position of the company as of 31st December 2017, and of its financial performance and its cash flows for the year then ended;
 - (ii) in accordance with the applicable regulations made under the Solomon Islands Companies Act 2009; and
 - (iii) in accordance with accounting policies set out in note 2 to the financial statements.
- (b) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit for the year ended 31st December 2017.
- (c) proper books and accounts have been kept by the company as far as it appears from the examination of those books.

Emphasis of Matter

Without qualifying our opinion, we draw your attention to note 19 to the financial statements which details the basis for preparing the accounts on a going concern basis and notes that the company is dependent on the continuing support of its shareholders.



MORRIS & SOJNOCKI
Chartered Accountants



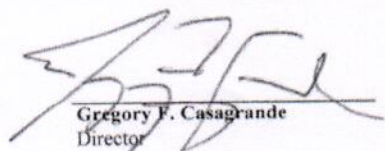
BY GREG SOJNOCKI

Date: 25 June 2018
Honiara

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**
COMPANY NUMBER: 20129967
BALANCE SHEET as at 31st December 2017

| | <u>Note</u> | <u>2017</u> \$ | <u>2016</u> \$ |
|--|-------------|---------------------|---------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash on hand and in bank | 3 | 1,516,448 | 2,300,086 |
| Loan portfolio outstanding | 4 | 11,535,601 | 9,839,810 |
| Receivables | 5 | 26,198 | 11,197 |
| Other assets | 6 | 224,508 | 291,802 |
| Total current assets | | 13,302,755 | 12,442,895 |
| Fixed assets | | | |
| Fixed assets | 7 | 1,280,694 | 1,184,088 |
| Less: Accumulated depreciation | 7 | (710,782) | (556,615) |
| Net fixed assets | | 569,912 | 627,473 |
| TOTAL ASSETS | | 13,872,667 | 13,070,368 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Clients' savings deposits | 8 | 4,797,049 | 3,930,524 |
| Accounts payable | 9 | 1,493,233 | 1,245,917 |
| Kiva loan | 10(a) | 2,202,933 | 297,003 |
| Soft loans -current | 10(b) | 6,112,755 | 2,906,715 |
| Death benefit reserve | 11(a) | 73,407 | 86,263 |
| Spousal death benefit reserve | 11(b) | 25,733 | 20,684 |
| Provision for income tax | 12 (b) | 20,000 | 31,048 |
| Total current liabilities | | 14,725,110 | 8,518,154 |
| Non Current liabilities | | | |
| Whole Planet - non - current | 10(c) | 2,442,047 | 1,116,467 |
| Soft loans - non-current | 10(b) | 12,647,427 | 15,733,979 |
| Total non-current liabilities | | 15,089,474 | 16,850,446 |
| TOTAL LIABILITIES | | 29,814,584 | 25,368,600 |
| NET ASSETS / (LIABILITIES) | | (15,941,917) | (12,298,232) |
| EQUITY | | | |
| Issued capital | 13 | 1,047,425 | 1,047,425 |
| Shareholders funds / (Deficit in shareholders funds) | | (16,989,342) | (13,345,657) |
| TOTAL EQUITY / (DEFICIENCY IN EQUITY) | | (15,941,917) | (12,298,232) |

The balance sheet is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 14.


 Gregory F. Casagrande
 Director

Date: 18 / June / 2018

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**
COMPANY NUMBER: 20129967
PROFIT AND LOSS ACCOUNT for the year ended 31st December 2017

| Financial Income | Note | 2017 \$ | 2016 \$ |
|--|-------|--------------------|--------------------|
| Interest on loans | | 5,096,005 | 4,427,610 |
| Development fee | | 475,415 | 502,146 |
| Loan Security fee | | 236,753 | 246,823 |
| Death Benefit fee | | 182,305 | 202,880 |
| Savings withdrawal fees | | 91,163 | 117,837 |
| Other non-operating income | | 340,370 | 1,069,780 |
| Miscellaneous income | | - | 2,044 |
| Savings passbook issuance fees | | 54,500 | 350 |
| Spousal Death Benefit fee | | 87,746 | 59,096 |
| Commission solar sales | | 26,462 | 18,618 |
| Commission air-time | | 3,306 | 67,589 |
| Financial Booklet Issuance Fee | | 21,550 | - |
| Total Financial Income | | 6,615,575 | 6,714,773 |
| Foreign exchange gain | | 101,731 | - |
| LESS : Financial Expenses | | | |
| Interest and fees on borrowed funds | | 2,414,969 | 1,952,521 |
| Foreign exchange loss | | - | 179,124 |
| Loss on sale of fixed assets | | 7,047 | - |
| Loss on savings, saving imprest and inventory | | 15,366 | - |
| Total financial expenses | | 2,437,382 | 2,131,645 |
| NET FINANCIAL INCOME | | 4,279,924 | 4,583,128 |
| LESS : Provisions and write-offs | | | |
| Loan loss provision and write-offs | 4 | 404,523 | 430,057 |
| Death Benefit reserve | 11(a) | 12,725 | 58,175 |
| Other provisions and write-offs | 11(b) | 8,769 | 20,684 |
| Bad debts expense | | 104,675 | - |
| NET FINANCIAL MARGIN | | 3,749,232 | 4,074,212 |
| Operating Expenses | | | |
| Bank charges | | 23,105 | 15,014 |
| Computer support system | | 60,456 | 70,153 |
| Conference and meetings | | 29,157 | 3,163 |
| Depreciation | 7 | 241,772 | 246,480 |
| Electricity and water | | 65,148 | 23,297 |
| Events and festivals | | 19,135 | 13,535 |
| Insurance | | 53,112 | 51,608 |
| Marketing and advertisement | | 3,180 | 500 |
| Management fees and subscriptions | | 1,945 | 1,404 |
| Office expenses | | 418,871 | 441,526 |
| Postage, telephone and communications | | 245,865 | 190,933 |
| Printing and office stationeries | | 205,887 | 294,521 |
| Professional services | | 831,917 | 792,000 |
| Management services | | 732,839 | 534,172 |
| Rentals | | 809,020 | 678,139 |
| Repairs and maintenance | | 208,510 | 126,522 |
| Registration fees | | 10,368 | 7,876 |
| Salaries and benefits | | 2,566,947 | 2,596,972 |
| Transportation, fuel, oil | | 434,024 | 289,307 |
| Travel | | 411,659 | 391,411 |
| Total Operating Expenses | | 7,372,917 | 6,768,533 |
| Net surplus / (deficit) before taxation | | (3,623,685) | (2,694,321) |
| Income tax expense | 12(a) | 20,000 | 20,000 |
| | | (3,643,685) | (2,714,321) |

The profit and loss account is to be read in conjunction with the notes to and forming part of these accounts set out on pages 7 to 14.

SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
STATEMENT OF CHANGES IN EQUITY for the year ended 31st December 2017

| | Share capital | Retained earnings/ (Accumulated losses) | Total |
|--|------------------|--|---------------------|
| | \$ | \$ | \$ |
| Balance at 1 January 2016 | 1,047,425 | (10,631,336) | (9,583,911) |
| Total comprehensive income for the year | | | |
| Profit / (loss) for the year | - | (2,714,321) | (2,714,321) |
| Total other comprehensive income | - | - | - |
| Total comprehensive income for the year | <u>-</u> | <u>(2,714,321)</u> | <u>(2,714,321)</u> |
| Transactions with owners | | | |
| Dividends | - | - | - |
| Total transactions with owners | <u>-</u> | <u>-</u> | <u>-</u> |
| Balance at 31 December 2016 | <u>1,047,425</u> | <u>(13,345,657)</u> | <u>(12,298,232)</u> |
| Total comprehensive income for the year | | | |
| Profit / (loss) for the year | - | (3,643,685) | (3,643,685) |
| Total other comprehensive income | - | - | - |
| Total comprehensive income for the year | <u>-</u> | <u>(3,643,685)</u> | <u>(3,643,685)</u> |
| Transactions with owners | | | |
| Dividends | - | - | - |
| Issue of shares | - | - | - |
| Total transactions with owners | <u>-</u> | <u>-</u> | <u>-</u> |
| Balance at 31 December 2017 | <u>1,047,425</u> | <u>(16,989,342)</u> | <u>(15,941,917)</u> |

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 14.

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

STATEMENT OF CASH FLOWS for the year ended 31st December 2017

| | <u>Note</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|--------------------|--------------------|
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Net surplus / (deficit) after tax | | (3,643,685) | (2,714,321) |
| Adjustment for non-cash items: | | | |
| Depreciation | | 241,772 | 246,480 |
| Foreign exchange loss | | (101,731) | 179,123 |
| Loan loss provision and other provisions | | 404,523 | 430,057 |
| (Gain)/Loss on sale of fixed assets | | 7,047 | - |
| (Increase) / decrease in operating assets: | | | |
| Gross loan portfolio | | (2,083,699) | (2,955,550) |
| Gross receivables | | 52,293 | (8,917) |
| Other assets | | - | (44,940) |
| Increase / (decrease) in operating liabilities: | | | |
| Client savings deposits | | 866,525 | 562,086 |
| Accounts payable | | 247,316 | 746,151 |
| Provision for income tax | | (11,048) | 20,000 |
| Death benefit reserve and spousal death benefit reserve | | (7,807) | 63,859 |
| Net cash flows from / (used in) operating activities | | <u>(4,028,494)</u> | <u>(3,475,972)</u> |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | | (191,258) | (422,825) |
| Net cash flows from / (used in) investing activities | | <u>(191,258)</u> | <u>(422,825)</u> |
| Cash flows from financing activities | | | |
| Proceeds from borrowing - Kiva loan | | 1,999,211 | - |
| Proceeds from borrowing - Soft loans | | 3,395,743 | 4,355,132 |
| Proceeds from borrowing - Whole Planet Foundation | | 1,325,581 | 1,116,465 |
| Repayments of borrowing-Kiva | | (144,318) | - |
| Repayments of borrowing - Soft loans | | (3,204,093) | (1,157,368) |
| Repayments of borrowing - Credit Corporation loan | | - | (107,618) |
| Net cash flows from / (used in) financing activities | | <u>3,372,124</u> | <u>4,206,611</u> |
| Net increase / (decrease) in cash and cash equivalents | | (847,628) | 307,814 |
| Cash and cash equivalents at the beginning of the financial year | | 2,300,086 | 1,912,714 |
| Foreign currency account translation adjustment | | 63,990 | 79,558 |
| Cash and cash equivalents at the end of the financial year | 3 | <u>1,516,448</u> | <u>2,300,086</u> |

The statement of cash flows is to be read in conjunction with the notes to and forming part of the accounts set out on pages 7 to 14.

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2017**

1. REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Reporting Currency

All amounts are expressed in Solomon Islands dollars (SBD).

(b) Cash and Cash Equivalents

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

(c) Depreciation

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

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

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

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

(d) Revenue

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

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

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

iii. Loan Security Fee - This fee is of the loan principal to cover the risk in the event of death of the client. A member's loan obligations to SPBD will be eliminated upon the death of that member.

The loan insurance fee of 1% is deducted from the loan proceeds.

iv. Death Benefit Fee - 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 SBD3000. The life insurance fee is deducted from the loan proceeds and is based on the period of Loans as follows: 26 weeks-\$25; 39 weeks \$35; and 52 weeks \$45.

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

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - cont'd

(e) Expenses

Expenses are recorded on an accrual basis.

(f) Borrowing costs

All borrowing costs are expensed.

(g) Taxation

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

(h) Foreign currencies

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

| | | |
|--|-----------|--------|
| Exchange rate used at balance sheet date | (SBD/USD) | 0.1252 |
| Exchange rate used at balance sheet date | (SBD/NZD) | 0.1748 |
| Exchange rate used at balance sheet date | (SBD/AUD) | 0.1598 |

(i) Comparative figures

The financial statements are prepared for the year end 31st December 2017 with comparative figures for the year end 31st December 2016.

(j) Creditors and other payables

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

(k) Borrowings

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

(l) Employee entitlements

Short term employee entitlements

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

Long term employee entitlements

There are no long term employee entitlements.

(m) Provisions

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

(n) Change in Accounting Policy

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

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2017

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|--------------|--------------|
| | \$ | \$ |
| 3. CASH ON HAND AND IN BANK | | |
| <i>Cash on hand</i> | | |
| Savings imprest reserve | 9,840 | 8,652 |
| Undeposited funds | 541 | 1,567 |
| Petty cash imprest | - | 10,000 |
| SUB-TOTAL | 10,381 | 20,219 |
| <i>Cash in bank</i> | | |
| BSP-Term Deposit | 520,000 | 500,000 |
| BSP Central 2000195905 | 779,795 | 1,018,044 |
| ANZ bank account AUD 4934797 | 942 | 614,468 |
| ANZ bank account 4926628 | 149,442 | 147,355 |
| BSP Gizo | 17,562 | - |
| BSP Munda | 38,326 | - |
| SUB-TOTAL | 1,506,067 | 2,279,867 |
| TOTAL | 1,516,448 | 2,300,086 |
| 4. LOAN PORTFOLIO | | |
| LOAN RECEIVABLES | | |
| Opening balance | 9,839,810 | 7,314,315 |
| Total loan disbursements | 23,543,479 | 25,033,067 |
| Less: Total principal loan repayments | (21,090,368) | (22,018,179) |
| Less: Loan write-offs | (113,217) | (136,596) |
| Gross Loan Portfolio | 12,179,704 | 10,192,607 |
| Less: Loan loss reserve | (644,103) | (352,797) |
| Net Loan Portfolio | 11,535,601 | 9,839,810 |
| <i>No. of Loans Outstanding</i> | | |
| SPBD Group Loan Product | 4,196 | 4,433 |

Portfolio Quality Measurement

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

Loan Provisioning and Loan Loss Reserve

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

| Provisioning Ratios for Group Loans | Loan Loss Provision | Honiara | Munda | Gizo | Total | Loan Loss Prov. Amt |
|--|------------------------|---------------------|---------------------|---------------------|---------------------|------------------------|
| | | Loan Outstanding | Loan Outstanding | Loan Outstanding | Loan Outstanding | |
| 1 week to 4 weeks late(<30 days) | 5% | 71,141 | 118,587 | 192,170 | 381,898 | 19,095 |
| 5 weeks to 8 weeks late(30 to 60 days late) | 10% | 20,557 | 40,615 | 16,243 | 77,415 | 7,742 |
| 9 weeks to 12 weeks late(60 to 90 days late) | 25% | - | 8,681 | 5,585 | 14,266 | 3,567 |
| 13 weeks to 16 weeks late(90 to 120 days late) | 50% | 3,365 | 9,547 | - | 12,912 | 6,456 |
| 17 weeks to 20 weeks late(120 to 150 days late) | 75% | - | 3,300 | - | 3,300 | 2,475 |
| 21 weeks or more(150+ days) | 100% | 316,676 | 284,998 | 3,094 | 604,768 | 604,768 |
| TOTAL PROVISIONING AS OF 31 DECEMBER 2017 | | 411,739 | 465,728 | 217,092 | 1,094,559 | 644,103 |

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (SOLOMON ISLANDS) LIMITED**
COMPANY NUMBER: 20129967
NOTES TO AND FORMING PART OF THE ACCOUNTS
for the year ended 31st December 2017

4. **LOAN PORTFOLIO - cont'd**

Loan Write-Off

The purpose of loan write-offs is to remove loans in arrears from SPBD's balance sheet, where there is significant doubt of any material loan payment recovery. Any loan in arrears exceeding 26 weeks will be short-listed for potential write-off. Write-off decision will be made on a case-by-case basis by the Chairman/President upon review of the recommendations of the General Manager. The amount of write-offs for 2017 were considered and approved by the Director.

Portfolio Quality

| Loan Types | # of Accounts | 31-Dec-17 | | | # of Accounts | 31-Dec-16 | | |
|------------------------------|---------------|---------------------------------|----------------|----------------|---------------|---------------------------------|----------------|----------------|
| | | Outs standing Principal Balance | PAR Amount SBD | PAR>30 days(%) | | Outs standing Principal Balance | PAR Amount SBD | PAR>30 days(%) |
| Group Loans | | | | | | | | |
| Current | 3227 | 10,911,280 | | | 3235 | 8,553,112 | | |
| 1-4 weeks late | 218 | 383,363 | | | 479 | 1,072,310 | | |
| 5-8 weeks late | 34 | 77,230 | 77,230 | 0.63% | 69 | 75,548 | 75,548 | 0.74% |
| 9-12 weeks late | 6 | 14,266 | 14,266 | 0.12% | 34 | 79,251 | 79,251 | 0.75% |
| 13-16 weeks late | 4 | 9,847 | 9,847 | 0.08% | 16 | 44,523 | 44,523 | 0.44% |
| 17-20 weeks late | 2 | 6,482 | 6,482 | 0.05% | 4 | 10,615 | 10,615 | 0.10% |
| Over 21 weeks late | 508 | 562,661 | 562,661 | 4.62% | 497 | 242,341 | 242,341 | 2.38% |
| Sub-total | 4,059 | 11,965,128 | 670,485 | 5.50% | 4334 | 10,074,706 | 449,278 | 4.41% |
| Salary Loans | | | | | | | | |
| Current | 33 | 39,225 | | | 21 | 74,750 | | |
| Over 4 weeks in arrears | - | - | | | - | - | | |
| Sub-total | 33 | 39,225 | | | 21 | 74,750 | | |
| Higher Education Loan | | | | | | | | |
| Current | 15 | 47,484 | | | - | - | | |
| Over 4 weeks in arrears | - | - | | | - | - | | |
| Sub-total | 15 | 47,484 | | | | | | |
| Staff Loans | | | | | | | | |
| Current | 89 | 127,868 | | | 78 | 43,150 | | |
| Over 4 weeks in arrears | - | - | | | - | - | | |
| Sub-total | 89 | 127,868 | | | 78 | 43,150 | | |
| Grand Total | 4,196 | 12,179,705 | 670,485 | 5.50% | 4433 | 10,192,606 | 449,278 | 4.41% |

Movement in Loan Loss Reserve

| | 2,017 | 2016 |
|--|----------------|----------------|
| Loan reserve, 1 January | \$ 352,797 | \$ 59,336 |
| Loan loss provision expense for the year | 404,523 | 430,057 |
| Less: Loans written-off during the year | (113,217) | (136,596) |
| Loan reserve, 31 December | 644,103 | 352,797 |

5. **RECEIVABLES**

| | | |
|-------------------|---------------|---------------|
| Other receivables | 26,198 | 11,197 |
| | <u>26,198</u> | <u>11,197</u> |

6. **OTHER ASSETS**

| | | |
|-------------------------------|----------------|----------------|
| Stock - Passbooks | 17,103 | 66,336 |
| Stock - Receipt books | 20,744 | 8,580 |
| Rental bond - head office | 92,540 | 87,540 |
| Staff advances | 15,139 | 2,826 |
| Prepaid expenses | 78,982 | 102,058 |
| Staff amortization due | - | 7,556 |
| Air-Time Stock | - | 16,906 |
| Doubtful staff loan provision | - | - |
| | <u>224,508</u> | <u>291,802</u> |

7. **FIXED ASSETS**

| Type | Cost | Accumulated Depreciation | Depreciation for the year | Net Book Value |
|------------------------------------|------------------|--------------------------|---------------------------|----------------|
| Furniture and fixtures | \$ 105,068 | \$ 37,585 | \$ 12,738 | \$ 67,483 |
| Computer equipment and peripherals | 195,403 | 83,810 | 51,406 | 111,593 |
| Motor vehicles | 739,691 | 476,889 | 149,756 | 262,802 |
| Office equipment | 177,384 | 61,842 | 21,222 | 115,542 |
| Software and electronic system | 63,148 | 50,656 | 6,650 | 12,492 |
| 2017 TOTAL | 1,280,694 | 710,782 | 241,772 | 569,912 |
| 2016 TOTAL | 1,184,088 | 556,615 | 246,480 | 627,473 |

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8. CLIENTS' SAVINGS DEPOSITS

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

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

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

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

| | <u>Number of saving accounts</u> | <u>2017</u> | <u>2016</u> |
|---|----------------------------------|-------------|-------------|
| | | \$ | \$ |
| Clients saving balances | 7,875 (2016: 7,370) | 4,797,049 | 3,930,524 |
| 9. ACCOUNTS PAYABLE | | | |
| Accounts payable - holding company - SPBD Microfinance Holdings (Singapore) Pte Limited | | 359,425 | - |
| Accounts payable - related entities - Transformative Ventures LLC | | 318,063 | 132,914 |
| Accounts payable - other | | 267,764 | 446,362 |
| Employee deductions payable - PAYE, NPF and Basic rates | | 76,522 | 113,259 |
| Accrued interest payable - holding company - SPBD Microfinance Holdings (Singapore) Pte Lim | | 471,459 | 553,382 |
| | | 1,493,233 | 1,245,917 |
| 10(a) KIVA LOAN | | | |
| | | 2,202,933 | 297,003 |

KIVA Micro Funds is a non-profit organization based in California which established a website to pool lending funds at zero percent interest rate from individuals and channel the pooled funds to field partners. SPBD is one of the Experimental partners of KIVA, thereby entitling it to be included in the fund raising activities of KIVA Micro funds. The loan is unsecured and interest-free with on-going principal payment based on fund raising limit of SPBD.

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10. BORROWINGS - cont'd

10(b) SOFT LOANS

MicroDreams Foundation
SPBD Micro Finance Holdings
Total

Soft Loans - current
Soft Loans - long term
Total

MicroDreams Foundation

The loans with MicroDreams Foundation are unsecured. There are no deposits tied to these loans and no

| | 2017 \$ | 2016 \$ |
|--|-------------------|-------------------|
| | 2,097,971 | 3,218,630 |
| | 16,662,211 | 15,422,064 |
| | <u>18,760,182</u> | <u>18,640,694</u> |
| | 6,112,755 | 2,906,715 |
| | 12,647,427 | 15,733,979 |
| | <u>18,760,182</u> | <u>18,640,694</u> |

| Date | Currency | Amount | Interest | Maturity Date | Grace Period on Principal (yrs) | Amount Received (SBD) | Beginning balance from 1/01/2017 | Principal repayment | Balance 31/12/2017 (SBD) | Interest repayment (SBD) 2017 | Interest payable as at 31/12/2017 (SBD) |
|-----------|----------|---------|----------|---------------|---------------------------------|-----------------------|----------------------------------|---------------------|--------------------------|-------------------------------|---|
| 22-Jun-13 | USD | 100,000 | 9.50% | 30-Jun-17 | 3.16 | 719,094 | 561,727 | 561,727 | - | - | - |
| 4-Nov-13 | USD | 80,000 | 9.50% | 31-Oct-17 | 2.95 | 583,070 | 526,316 | 517,799 | - | 90,949 | - |
| 25-Sep-14 | USD | 60,000 | 8.50% | 31-Mar-18 | 3.45 | 442,478 | - | - | 479,233 | 51,455 | 10,184 |
| 19-Nov-14 | USD | 60,000 | 8.50% | 30-Jun-18 | 3.57 | 445,434 | 493,421 | - | 479,233 | 40,931 | 10,071 |
| 3-Mar-15 | SBD | 770,396 | 11.50% | 31-Mar-18 | 2.95 | 770,396 | 770,396 | - | 770,396 | 88,596 | 22,149 |
| 17-Sep-15 | NZD | 65,000 | 9.00% | 30-Sep-19 | 3.45 | 328,375 | 373,349 | - | 369,109 | 30,683 | 7,845 |
| | | | | | | Total | 3,288,847 | 3,218,630 | 1,079,526 | 2,097,971 | 363,863 |

SPBD MicroFinance Holdings

The loans with SPBD MicroFinance Holdings are unsecured. There are no deposits tied to these loans and no guarantee was obtained to secure them.

| Date | Currency | Amount | Interest | Maturity Date | Grace Period on Principal (yrs) | Amount Received (SBD) | Beginning balance from 1/01/2017 | Principal repayment (2017) | Balance 31/12/2017 (SBD) | Interest repayment (SBD) | Interest payable as at 31/12/2017 (SBD) |
|--------------------|----------|---------|----------|---------------|---------------------------------|-----------------------|----------------------------------|----------------------------|--------------------------|--------------------------|---|
| 18-Jan-13 | SBD | 980,226 | 9.00% | 15-Jun-17 | 2.63 | 980,226 | 367,596 | 367,584 | - | - | 8,128 |
| 8-Feb-13 | AUD | 50,000 | 7.00% | 15-Dec-17 | 3.07 | 370,645 | 185,680 | 152,439 | - | - | 7,645 |
| 8-Feb-13 | USD | 20,000 | 7.00% | 15-Dec-17 | 3.07 | 144,803 | 102,796 | 96,822 | - | - | 4,011 |
| 8-Apr-13 | USD | 50,000 | 9.00% | 15-Dec-17 | 3.07 | 231,027 | 144,393 | 115,512 | - | - | 5,775 |
| 15-Aug-13 | USD | 100,000 | 9.50% | 30-Jun-16 | 2.72 | 362,562 | - | - | - | - | 641 |
| 12-Feb-14 | NZD | 120,000 | 9.00% | 31-Dec-17 | 3.38 | 719,384 | 822,368 | 804,505 | - | - | - |
| 14-Feb-14 | USD | 40,000 | 9.00% | 31-Dec-17 | 2.30 | 712,345 | 689,259 | 685,714 | - | - | 37,847 |
| 28-May-14 | USD | 125,000 | 9.00% | 31-Dec-18 | 2.60 | 291,525 | 328,947 | 321,802 | - | - | 26,902 |
| 15-Aug-14 | USD | 200,000 | 8.00% | 1-Dec-17 | 3.38 | 903,179 | 411,184 | - | - | - | 14,334 |
| 5-Feb-15 | USD | 50,000 | 8.00% | 30-Jun-19 | 4.38 | 361,533 | 1,027,961 | 402,253 | 599,042 | - | 44,936 |
| 7-Apr-15 | USD | 100,000 | 8.50% | 30-Jun-20 | 5.42 | 1,533,722 | 1,644,737 | - | 399,361 | - | 32,111 |
| 23-Apr-15 | USD | 200,000 | 8.00% | 31-Dec-19 | 4.76 | 773,974 | 822,368 | 160,901 | 1,597,444 | - | 128,419 |
| 15-Sep-15 | USD | 100,000 | 8.50% | 30-Nov-18 | 3.63 | 1,533,646 | 1,644,737 | - | 638,978 | - | 102,144 |
| 2-Dec-15 | AUD | 300,000 | 11.00% | 31-Dec-18 | 3.30 | 798,642 | 822,368 | - | 1,597,444 | - | 97,394 |
| 6-Apr-16 | AUD | 150,000 | 10.00% | 30-Jun-21 | 5.34 | 1,801,969 | 1,782,531 | - | 1,871,491 | - | 64,009 |
| 1-Jul-16 | USD | 100,000 | 10.00% | 30-Sep-20 | 4.23 | 858,614 | 891,266 | - | 935,745 | - | 51,890 |
| 14-Oct-16 | NZD | 200,000 | 10.00% | 30-Sep-20 | 4.23 | 770,433 | 822,368 | - | 798,722 | - | 85,720 |
| 14-Oct-16 | AUD | 200,000 | 10.00% | 30-Sep-20 | 4.02 | 1,126,126 | 1,188,355 | - | 1,247,661 | - | 79,920 |
| 22-Jun-17 | USD | 200,000 | 10.00% | 30-Sep-20 | 4.02 | 1,078,167 | 1,148,766 | - | 1,135,719 | - | 31,110 |
| 15-Oct-17 | USD | 100,000 | 7.50% | 30-Sep-20 | 4.02 | - | - | - | 1,597,444 | - | 141,272 |
| 15-Oct-17 | NZD | 100,000 | 11.00% | 15-Oct-17 | 3.20 | - | - | - | 798,722 | - | 29,872 |
| 30-Oct-17 | AUD | 50,000 | 8.50% | 30-Oct-17 | 3.20 | - | - | - | 567,859 | - | 16,853 |
| 30-Oct-17 | USD | 150,000 | 8.50% | 30-Oct-17 | 3.20 | - | - | - | 311,915 | - | 11,982 |
| | | | | | | Total | 15,363,822 | 14,847,680 | 3,107,832 | 1,198,083 | 4,504 |
| CASAGRANDE GREGORY | | | | | | | | | 16,094,382 | 1,027,774 | 408,468 |
| 10-Mar-16 | NZD | 100,000 | 8.00% | 31-Mar-20 | 4.06 | 512,802 | 574,384 | - | 567,859 | - | 28,456 |
| | | | | | | | | | | | 12,743 |
| | | | | | | Total | 512,802 | 574,384 | - | 567,859 | 28,456 |

10(c) Whole Planet Foundation

Whole Planet Foundation loan

| | 2017 \$ | 2016 \$ |
|--|------------------|------------------|
| | 2,442,047 | 1,116,467 |
| | <u>2,442,047</u> | <u>1,116,467</u> |

Founded in 2005, Whole Planet Foundation is a Whole Foods Market foundation that funds poverty alleviation worldwide where the company sources products. The non-profit's mission is to empower the world's poorest people with microcredit and the chance to create or expand a home-based business and lift themselves and their families out of poverty.

The Foundation has agreed to give a loan of USD\$45,000 to the company in three tranches. An amount of USD139,000 (equivalent to SBD1,116,466) was received in 2016. An amount of USD171,000 (equivalent to SBD 1,325,581) was received during 2017 and the final USD235,000 is to be received by 20 January 2018. The loan is interest free and unsecured and repayable in 12 instalments with the first instalment due 15 January 2019.

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| | | |
|---|---------------------|---------------------|
| 11. Movement in Other Reserves | | |
| 11(a) Movement in Death Benefit Reserve | <u>2017</u> | <u>2016</u> |
| | \$ | \$ |
| Death benefit reserve, 1 January | 86,263 | 43,088 |
| Death benefit provision for the year | 12,725 | 58,175 |
| Less: Loans written-off during the year | (25,581) | (15,000) |
| Death benefit reserve, 31 December | <u>73,407</u> | <u>86,263</u> |
| 11(b) Movement in Spousal Death benefit reserve | | |
| Spousal death benefit reserve, 1 January | 20,684 | - |
| Spousal death benefit provision for the year | 8,769 | 20,684 |
| Less: Loans written-off during the year | (3,720) | - |
| Spousal death benefit reserve, 31 December | <u>25,733</u> | <u>20,684</u> |
| 12. TAXATION | | |
| 12(a) Income tax expense | | |
| Income tax expense is 30% of taxable income for the financial year, or 0.5% of revenue if there is a taxable loss | <u>2017</u> | <u>2016</u> |
| | \$ | \$ |
| Net surplus/(deficit) per the profit and loss account | (3,623,685) | (2,694,321) |
| <i>Add: Non deductible expenses</i> | | |
| Depreciation for accounting purposes | 241,772 | 246,480 |
| Member and spousal death benefit reserve | (7,807) | 63,860 |
| Loan loss provision | 291,306 | 293,461 |
| Loss on disposal of assets | 7,047 | - |
| <i>Less: Deductible expenses/non-assessable revenue</i> | (3,091,367) | (2,090,520) |
| Tax loss carried forward | 12,438,397 | 9,884,828 |
| Depreciation for taxation purposes | 197,849 | 200,046 |
| Unrealised exchange gain | - | 263,003 |
| Taxable income / (loss) | <u>(15,727,613)</u> | <u>(12,438,397)</u> |
| Income tax expense - turnover tax | <u>20,000</u> | <u>20,000</u> |
| 12(b) Provision for income tax | | |
| Provision for income tax at beginning of year | 31,048 | 11,048 |
| Add: Income tax expense | 20,000 | 20,000 |
| Less: Tax paid during the year | (31,048) | - |
| Provision for income tax at end of year | <u>20,000</u> | <u>31,048</u> |
| 12(c) Income tax losses | | |
| The estimated income tax losses available to be carried forward at 31st December, 2017 amounted to \$15,727,613 (2016: \$12,438,397). The benefit of this loss which at the rates prevailing at balance date amounted to \$4,718,284(2016: \$3,731,518) will be utilised only if the company earns sufficient income chargeable to tax in the future, continues to comply with the provisions of the Income Tax Act (Cap. 123) of Solomon Islands relating to the deduction of carried forward losses and no change in the income tax legislation adversely affects the company in realising the benefit of the deduction for itself. | | |
| 13. ISSUED CAPITAL | <u>2017</u> | <u>2016</u> |
| SPBD Microfinance Holdings (Singapore) Pte Limited: | \$ | \$ |
| Opening balance | 1,047,425 | 1,047,425 |
| Movement during the year | - | - |
| Closing balance | <u>1,047,425</u> | <u>1,047,425</u> |

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14. RELATED PARTIES

Holding company

The immediate holding company is SPBD Microfinance Holdings (Singapore) Pte Limited. The company provides management services on normal commercial terms and conditions.

Other Related Entities

Other related company includes Transformative Ventures LLC. The company provides professional services on normal commercial terms and conditions.

Directors

Gregory Casagrande is the sole director of the company. No emoluments were received by the director during the year (2016: \$nil).

15. NON FINANCIAL SERVICES

Financial Diaries Programme

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

16. CAPITAL COMMITMENTS

There were no capital commitments as at 31st December 2017 (2016: \$nil).

17. OPERATING LEASE COMMITMENTS

Except for the month-by-month rental obligations of SPBD business premises, there are no other operating lease commitments for the year ended 31st December 2017 (2016: \$nil).

18. CONTINGENT LIABILITIES

There were no contingent liabilities as at 31st December 2017 (2016: \$nil).

19. GOING CONCERN

The company has a deficiency in equity of \$15,941,917 at 31st December 2017. As a going concern, the company is dependent on the continuing support of its shareholder. The Director considers it appropriate to prepare these accounts on the basis that the company is a going concern. In the event this basis were not appropriate, it would be necessary to write fixed assets down to realisable value, reclassify long term liabilities as current and provide for closure and shut down costs.