

**SOUTH PACIFIC BUSINESS DEVELOPMENT
MICROFINANCE (FIJI) (LTD)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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DIRECTORS' REPORT

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of the company as at 31 December 2012, the related statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended on that date and report as follows:

Directors

The names of the directors in office at the date of this report are:

Gregory F Casagrande
Peter Lowing

Principal Activities

The principal activity of the company during the year was to provide financial assistance to economically disadvantaged people particularly women who cannot easily access savings and loan products from traditional banks.

During September 2012, the company was issued a Foreign Investment Registration Certificate (FIRC) by Investment Fiji to extend its activity to include maintaining money savings account.

Apart from the above, there were no significant changes in the nature of these activities during the financial year.

Results

The loss after income tax for the year was \$1,200,492 (2011: \$713,198).

Dividends

The directors recommend that no amounts be paid by way of dividends for the year ended 31 December 2012.

Reserves

It is proposed that no amounts be transferred to reserves within the meaning of the Seventh Schedule of the Companies Act, 1983.

Going Concern Basis of Accounting

Notwithstanding the company's net liability position as at balance date and accumulated losses, the financial statements have been prepared on a going concern basis. The directors consider the application of the going concern principle to be appropriate in the preparation of the financial statements on the basis that the company will continue to receive financial support and other ongoing support from the founder of the company, which will enable the company to meet its funding requirements for operations and to meet its obligations as and when they fall due. Furthermore, the directors believe that the company has plans and strategies to generate adequate profit and cash flows from its operations, and together with the financial and other support of the founder and lenders of the company, the company will be able to continue in operation for at least 12 months from the date of this statement and the classification and carrying amounts of assets and liabilities as stated in these financial statements are appropriate.

DIRECTORS' REPORT [CONT'D]**Value of Assets**

Prior to the completion of the company's financial statements, the directors took reasonable steps to ascertain whether any assets were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the company.

Where necessary, these assets have been written down or adequate allowance has been made to bring the values of such assets to an amount that they might be expected to realise.

As at the date of this report, the directors are not aware of any circumstances, which would render the values attributed to assets in the company's financial statements misleading.

Loan Loss Allowance

Prior to the completion of the company's financial statements, the directors took reasonable steps to ascertain that action has been taken in relation to writing off of loan loss and the making of allowance for loan loss. In the opinion of the directors and the management, adequate allowance has been made for loan loss.

As at the date of this report, the directors are not aware of any circumstances, which would render the amount written off for loan loss, or the allowance for loan loss in the company, inadequate to any substantial extent.

Unusual Transactions

In the opinion of the directors, the results of the operations of the company during the financial year were not substantially affected by any item, transaction or event of a material unusual nature, nor has there arisen between the end of the financial year and the date of this report any item, transaction or event of a material unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the company in the current financial year.

Significant Event During the Year

During September 2012, the company was issued a Foreign Investment Registration Certificate (FIRC) by Investment Fiji to extend its activity to include maintaining money savings account.

Events Subsequent to Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

DIRECTORS' REPORT [CONT'D]

Other Circumstances

As at the date of this report:

- (i) no charge on the assets of the company has been given since the end of the financial year to secure the liabilities of any other person;
- (ii) no contingent liabilities have arisen since the end of the financial year for which the company could become liable; and
- (iii) no contingent liabilities or other liabilities of the company has become or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the company to meet its obligations as and when they fall due.

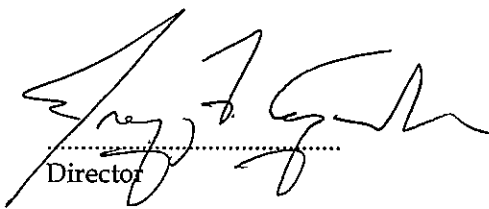
As at the date of this report, the directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report or the company's financial statements, which would make adherence to the existing method of valuation of assets or liabilities of the company misleading or inappropriate.

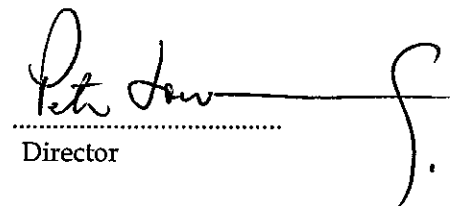
Directors' Benefits

No director has received or become entitled to receive a benefit (other than those disclosed in the financial statements) by reason of a contract made by the company or by a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 19 day of March 2013.


.....
Director


.....
Director

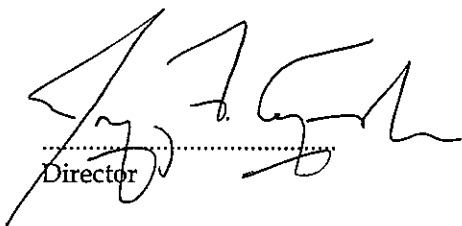
STATEMENT BY DIRECTORS

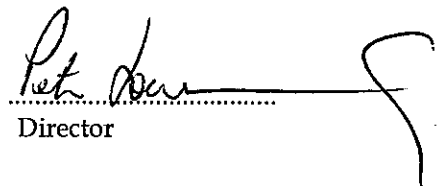
In accordance with a resolution of the board of directors of South Pacific Business Development Microfinance (Fiji) (Ltd), we state that in the opinion of the directors:

- [i] the accompanying statement of comprehensive income of the company is drawn up so as to give a true and fair view of the results of the company for the year ended 31 December 2012;
- [ii] the accompanying statement of changes in equity of the company is drawn up so as to give a true and fair view of the changes in equity of the company for the year ended 31 December 2012;
- [iii] the accompanying statement of financial position of the company is drawn up so as to give a true and fair view of the state of affairs of the company as at 31 December 2012;
- [iv] the accompanying statement of cash flows of the company is drawn up so as to give a true and fair view of the cash flows of the company for the year ended 31 December 2012;
- [v] the financial statements have been prepared in accordance with International Financial Reporting Standards, and in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions;
- [vi] at the date of this statement, there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due; and
- [vii] all related party transactions have been adequately recorded in the books of the company.

For and on behalf of the board and in accordance with a resolution of the directors.

Dated this 19 day of March 2013.


.....
Director


.....
Director

INDEPENDENT AUDITORS' REPORT

To the members of South Pacific Business Development Microfinance (Fiji) (Ltd)

Report on the Financial Statements

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We have audited the accompanying financial statements of South Pacific Business Development Microfinance (Fiji) (Ltd), which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 8 to 39.

The statement of comprehensive income and the statement of financial position together with the notes thereon have been drawn up in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions.

Director's and Management's Responsibility for the Financial Statements

Directors and management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions and the requirements of the Companies Act, 1983. 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT [CONT'D]

To the members of South Pacific Business Development Microfinance (Fiji) (Ltd) (Cont'd)

Opinion

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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 International Financial Reporting Standards, and in conformity with the Disclosure Guidelines for Financial Reporting by Microfinance Institutions:
 - 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 as at 31 December 2012 and of the results, cash flows and changes in shareholders' equity of the company for the year ended on that date; and
 - (b) give the information required by the Companies Act, 1983 in the manner so required.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

SUVA, FIJI
19 MARCH 2013


CHARTERED ACCOUNTANTS

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

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	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Financial Income			
Development fee	\$	47,038	45,194
Interest on loans		459,157	405,449
Loan insurance fee		-	56,250
Life insurance fee		167,200	19,564
Loan restructure fee		-	5,299
Resignation fee		7,880	2,710
Savings withdrawal fee		7,092	14,698
Total financial income		<u>688,367</u>	<u>549,164</u>
Financial Expenses			
Life insurance fee		(122,604)	(9,735)
Interest on borrowed funds		(159,486)	(80,462)
Interest on savings deposits		(4,485)	(2,444)
Loan insurance loss		-	(7,001)
Loan loss allowance		(118,892)	(66,565)
Total financial expenses		<u>(405,467)</u>	<u>(166,207)</u>
Net financial income		282,900	382,957
Other operating revenue	5	24,248	36,128
Total operating income		307,148	419,085
Administration and operating expenses		(1,509,140)	(1,146,033)
Operating Loss for the year before income tax	7	(1,201,992)	(726,948)
Non operating revenue			
Donations	6	1,500	13,750
Income tax expense	8 (a)	-	-
Loss for the year		(1,200,492)	(713,198)
Other comprehensive income		-	-
Total comprehensive loss for the year	\$	<u>(1,200,492)</u>	<u>(713,198)</u>

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

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	Issued Capital	Accumulated Loss	Total
	\$	\$	\$
Balance as at 31 December 2010	250,000	(365,163)	(115,163)
Loss for the year	-	(713,198)	(713,198)
Balance as at 31 December 2011	250,000	(1,078,361)	(828,361)
Loss for the year	-	(1,200,492)	(1,200,492)
Balance as at 31 December 2012	250,000	(2,278,853)	(2,028,853)

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

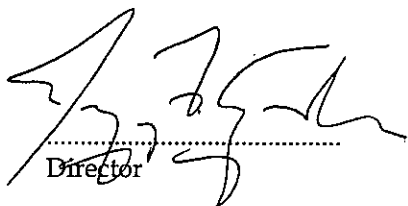
SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
 STATEMENT OF FINANCIAL POSITION
 AS AT 31 DECEMBER 2012

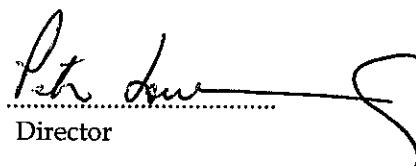
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	<u>Notes</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS			
Cash on hand and at bank	9	\$ 639,789	659,867
Loan portfolio outstanding	10	1,117,614	969,299
Receivables	11	47,606	27,562
Total current assets		<u>1,805,009</u>	<u>1,656,728</u>
NON-CURRENT ASSETS			
Property, plant and equipment	12	116,675	91,647
Total non-current assets		<u>116,675</u>	<u>91,647</u>
TOTAL ASSETS		<u>1,921,684</u>	<u>1,748,375</u>
CURRENT LIABILITIES			
Clients' savings deposits	13	544,257	245,721
Payables	14	71,204	375,901
Interest bearing borrowings	15	530,346	292,949
Total current liabilities		<u>1,145,807</u>	<u>914,571</u>
NON-CURRENT LIABILITIES			
Interest bearing borrowings	15	2,804,730	1,662,165
Total non-current liabilities		<u>2,804,730</u>	<u>1,662,165</u>
TOTAL LIABILITIES		<u>3,950,537</u>	<u>2,576,736</u>
NET LIABILITIES		<u>(2,028,853)</u>	<u>(828,361)</u>
SHAREHOLDERS' EQUITY			
Issued capital	16	250,000	250,000
Accumulated loss		(2,278,853)	(1,078,361)
TOTAL SHAREHOLDERS' EQUITY DEFICIT		<u>\$ (2,028,853)</u>	<u>(828,361)</u>

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

For and on behalf of the board and in accordance with a resolution of the directors.


 Director


 Director

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

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	2012 Inflows/ (Outflows)	2011 Inflows/ (Outflows)
Cash flows from operating activities		
Interest, development, loan and other fees received	\$ 688,367	532,975
Loans to clients and staff	(2,410,641)	(2,288,350)
Repayments from clients and staff	2,144,644	1,623,838
Client savings deposit	292,841	192,796
Payments to suppliers and employees	(1,534,633)	(997,999)
Interest paid on soft loan	(197,250)	(17,099)
Net cash used in operating activities	<u>(1,016,672)</u>	<u>(953,839)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(73,654)	(27,270)
Proceeds from sale of fixed asset	-	65,507
Net cash (used in)/ provided by investing activities	<u>(73,654)</u>	<u>38,237</u>
Cash flows from financing activities		
Repayments to related entities	(250,879)	-
Proceeds from term loans received from SPBD Holdings Microfinance (Singapore) Pte Limited	1,291,686	46,105
Proceeds from term loans	317,600	1,382,446
Repayment of term loans	(288,159)	-
Net cash provided by financing activities	<u>1,070,248</u>	<u>1,428,551</u>
Net increase/(decrease) in cash and cash equivalents	<u>(20,078)</u>	<u>512,949</u>
Cash and cash equivalents at the beginning of the year	<u>659,867</u>	<u>146,918</u>
Cash and cash equivalents at the end of the year (Note 9)	<u>\$ 639,789</u>	<u>659,867</u>

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 12 to 39.

NOTE 1. GENERAL INFORMATION

South Pacific Business Development Microfinance (Fiji) (Ltd) (SPBD) is a company incorporated and domiciled in Fiji. The address of its registered office and principal place of business is disclosed in Note 23 to the financial statements.

The principal activities of the company are disclosed in Note 22 of the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by the company are stated to assist in a general understanding of these financial statements. The accounting policies adopted are consistent with those of the previous year except as stated otherwise.

(a) Statement of Compliance

The financial statements of the company have been drawn up in accordance with the provisions of the Companies Act 1983 and International Financial Reporting Standards ("IFRS").

The financial statements have also been prepared in accordance with the Disclosure Guidelines for financial reporting of Microfinance Institutions whereby 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).

(b) Basis of preparation

The financial statements have been prepared on the basis of historical cost convention, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of IFRS, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are critical to the financial statements are disclosed in Note 4.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Basis of preparation (Cont'd)

Standards and amendments issued but not yet effective

The following new standards and amendments to existing standards have been published and are mandatory for accounting periods beginning on or after 1 July 2012 or later periods, and the company has not early adopted them. No significant impact is expected to arise out of these standards and amendments, however, the following standards and amendments are relevant to the company:

- IAS 1 (Amendment) - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012).
- IAS 19 (Revised) - Employee Benefits (effective for annual periods beginning on or after from 1 January 2013).
- IAS 32 (Amendment) - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014).
- IFRS 7 (Amendment) - Financial Instruments: Disclosure on Transfer of Financial Assets (effective for annual periods beginning on or after 1 January 2015).
- IFRS 9 (Amendment) - Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2015).
- IFRS 13 - Disclosures of Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).

(c) Going Concern Basis of Accounting

Notwithstanding the company's net liability position as at balance date and accumulated losses, the financial statements have been prepared on a going concern basis. The directors consider the application of the going concern principle to be appropriate in the preparation of the financial statements on the basis that the company will continue to receive financial support and other ongoing support from the founder of the company, which will enable the company to meet its funding requirements for operations and to meet its obligations as and when they fall due. Furthermore, the directors believe that the company has plans and strategies to generate adequate profit and cash flows from its operations, and together with the financial and other support of the founder and lenders of the company, the company will be able to continue in operation for at least 12 months from the date of this statement and the classification and carrying amounts of assets and liabilities as stated in these financial statements are appropriate.

(d) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

(e) 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(f) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within interest bearing borrowings in current liabilities in the statement of financial position.

(g) Client savings deposits

Client savings deposit is recorded as current liabilities in the statement of financial position.

A savings account is required to be established by client in order for consideration for loan by depositing \$10. An existing member without an open savings account is required to make an initial deposit of \$20 when applying for second loan.

All members are required to have a compulsory savings account and make a deposit of \$2 per week per cumulative terms of the previous loan cycles. The compulsory savings amount cannot be withdrawn while the client is a member of the SPBD Centre.

All members are required to maintain a minimum balance in their savings account.

A member with or without an outstanding loan must maintain a required compulsory savings balance equivalent the value of cumulative term of the loan (previous and current) expressed in weeks multiplied by \$2. A withdrawal is not allowed if the resulting balance will be less than the member's required balance.

The 50% of the equivalent savings amount used to top up the client's succeeding loan is "locked in" and forms part of the additional maintaining balance of the client.

Any savings amount that is above the required minimum compulsory savings balance (plus "locked-in" savings) is considered to be voluntary savings. Voluntary savings can be withdrawn at any time and the minimum savings that can be made is \$1 during centre meeting and \$10 at the centre office.

A withdrawal fee of \$2 is imposed for every withdrawal transaction. A full withdrawal of a member's savings account balance is only possible if the member has fully paid the loan and wishes to resign from the program. In this event, the initiation deposit of \$10 is forfeited as resignation fee.

A member can make weekly loan repayments from her savings account for her loan or another member's loan. Members who belong to a centre in which there is a loan defaulter cannot make withdrawals from their savings accounts until the defaulting loan is repaid in full.

The savings accounts earn interest at the rate of 1.5% per annum and this interest rate may be modified by the company based on the prevailing interest rates amongst commercial banks.

(h) Comparative amounts

Where necessary, comparative figures have been re-grouped to conform with changes in presentation in the current year.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Employee benefits

Wages, salaries and sick leave

Liabilities for wages and salaries expected to be settled within 12 months of the reporting date are accrued up to the reporting date. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates prevailing at that time.

Annual leave

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Defined contribution plans

Contributions to Fiji National Provident Fund are expensed when incurred.

(j) Foreign currency translation

a) Functional and presentation currency

The company operates in Fiji and hence its financial statements are presented in Fiji dollars, which is the company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the Fijian currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(k) Income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the statement balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Income tax (Cont'd)

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

(l) Leased Assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Company as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated so as to write off the net cost of property, plant and equipment over its expected useful life.

The principal annual rates employed are as follows:

Leasehold improvements	50% (2 years)
Furniture and fittings	20% (5 years)
Motor vehicles	33% (3 years)
Computer equipment & peripherals	33% (3 years)
Office equipment	50% (2 years)
Software and electronics system	33% (3 years)

Profits and losses on disposal of property, plant and equipment are taken into account in determining the results for the year.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Provision is made for the company's liability to employees for annual leave on the basis of statutory or contractual requirements.

(o) Revenue recognition

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

(i) *Interest Income from loans receivable*

In accordance with the Disclosure Guidelines for Financial Reporting of Microfinance Institutions, interest income from loan portfolio is recognised using a cash-based method where they are recognised at the time they are received. Hence, if the loan (with the interest) is paid before it is due, then the interest income is recognised at the time of collection, whereas if the loan (with the interest) is in arrears then no interest income is recognised.

(ii) *Development fees*

The company charges a fee of 2% of principal loan amount to be used to cover the cost of training clients, loan evaluation and monitoring. This fee is deducted from the loan proceeds, and are recognised in the period received.

(iii) *Loan Insurance fee*

In accordance with the Disclosure Guidelines for financial reporting of Microfinance Institutions, the company charges and with-holds 2% insurance on the principal amount plus interest on the loans issued to the clients as security in case of death of the client before full payment of their loans (applies to group loans only). The loan insurance fee is treated as income as it is not refundable to the client upon payment of the loan and is recognised in the period in which they are received. Commencing 2 December 2011, loan insurance fee was no longer charged to clients. Instead, the Life Insurance fee is charged as security for loan in case of death.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Revenue recognition (Cont'd)

(iv) *Life Insurance fee*

Commencing 2 December 2011, the company entered into an agreement with the Life Insurance Corporation of India (LICI) for a group loan insurance programme named SPBD Life Guardian Programme where qualified SPBD clients and employees are enrolled in the programme. The company charges \$18 per quarter to the programme enrollees as life insurance fee. The company in turn pays a quarterly premium of \$15 to LICI for each enrollee covered and retain \$3 for its administrative costs. The death benefit of each qualified enrollee is \$5,000 (or \$10,000 in case of accidental death). The benefits are given to the beneficiaries of the client after deducting outstanding principal plus interest as applicable.

The life insurance fee is treated as income as it is not refundable to the client and is recognised in the period in which they are received. The premium payments to LICI, in turn, are recognised as expenses in the period in which they are paid to LICI.

(v) *Restructure fee*

The restructured loans were from clients who had great difficulty in paying off their loans for various reasons but these clients have expressed their intent of paying of their loans based on agreed terms.

(vi) *Savings Withdrawal fee*

A fee of \$2 is charged by the company to its members when they withdraw from their savings accounts and are recognised in the period received.

(p) **Loans Portfolio Outstanding**

Loans, net of loan loss allowance and loan insurance loss reserve, include direct financial assistance provided to economically disadvantaged people particularly women who cannot easily access savings and loan products from traditional banks.

They are carried at recoverable amount represented by the gross value of the outstanding balance adjusted for loan loss allowance and loan insurance loss reserve.

(q) **Payables**

Accounts payables are recognized when the company becomes obliged to make future payments resulting from the receipt of goods and services.

(r) **Share Capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

NOTE 3. FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, regulatory risk and interest rate risk), credit risk, liquidity risk and capital risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

Risk management is carried out by executive management. Executive management identifies, evaluates and monitors financial risks in close co-operation with the operating units.

(a) Market risk

i) Foreign exchange risk

The company undertakes transactions denominated in foreign currencies: consequently, exposures to exchange rate fluctuation arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amount of the company's foreign currency denominated monetary liabilities at the end of reporting year are as follows:

	2012 FJD	2011 FJD
US Dollar	490,000	730,132
AUD Dollar	185,000	-
NZD Dollar	675,000	1,080,380

Foreign currency sensitivity analysis

The company is mainly exposed to the currency of USA, Australia and New Zealand.

The following table details the company's sensitivity to a 10% increase and decrease in Fiji dollar against the relevant US, Australian and New Zealand dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. If the FJD strengthens/weakens by 10% against the USD, AUD and NZD with all other variables held constant, pre- tax profit impact is as follows:

	Profit / (Loss)			
	Strengthen		Weaken	
	2012 FJD	2011 FJD	2012 FJD	2011 FJD
Australian Dollar - AUD	31,949	-	(39,049)	-
US Dollar - USD	80,845	63,616	(98,810)	(84,499)
New Zealand Dollar - NZD	92,290	98,216	(112,795)	(120,043)

NOTE 3. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (Cont'd)

ii) Price risk

The company does not have investments in equity securities and hence is not exposed to equity securities price risk.

iii) Regulatory risk

The company is subject to the provisions of the Microfinance Institutions (Examination and Assessment) Decree 2010 set by the regulatory authority, Reserve Bank of Fiji. Under Section 3 (1) of the Decree, the Reserve Bank may conduct examinations, onsite or otherwise, of any microfinance institution.

iv) Interest rate risk

The principal risk to which lending portfolios are exposed to is the risk of the effects of fluctuations in the prevailing levels of market interest rates on the financial position and cash flows of the company.

The objective of interest rate risk control is to minimize these fluctuations in value and net interest income over time, providing secure and stable sustainable net interest earnings in the long term.

As interest rates and yield curves change over time, the company may be exposed to a loss in earnings due to the sensitivity that arises from mismatches in the re-pricing dates, cash flows and other characteristics of the assets and their corresponding liability funding. These mismatches are actively monitored and managed by the company.

The company has not engaged in any variable rate borrowing.

(b) Credit Risk

Credit risk is the risk of financial loss to the company if a client or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's loans to clients.

As part of its risk control procedures, an assessment of the credit quality of a new client, taking into account its financial position, past experience and other factors, is carried out prior to the credit approval. Individual credit risk limits are then set based on the assessments done. The utilisation of credit limits is regularly monitored. Loans to clients are settled via weekly deductions.

(c) Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liability. Prudent and careful management of the company's liquidity position is essential in order to ensure that adequate funds are available to meet the company's ongoing financial obligations.

The company manages liquidity risk by maintaining adequate banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows.

NOTE 3. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity Risk (Cont'd)

The table below analyses the company's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2012	Fixed maturity dates			Total \$
	Less than 1 year \$	1-2 years \$	2-3 years \$	
Financial assets:				
Cash on hand and at bank	639,789	-	-	639,789
Loan portfolio outstanding	1,117,613	-	-	1,117,613
Receivable	47,607	-	-	47,607
	1,805,009	-	-	1,805,009
Financial liabilities:				
Client savings deposit	544,257	-	-	544,257
Payables	71,204	-	-	71,204
Interest bearing borrowings	530,346	1,848,915	955,815	3,335,076
	1,145,807	1,848,915	955,815	3,950,537

(d) Capital Risk

The company's objectives when managing capital is to safeguard its ability to continue as a going concern in order to provide consistent returns for shareholders to maintain an optimal capital structure to reduce the cost of capital and be in compliance with statutory requirements. In order to maintain the capital structure, the company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- (i) To comply with the capital requirements set by the Reserve Bank of Fiji;
- (ii) To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders; and
- (iii) To maintain a strong capital base to support the development of the company's business.

Capital adequacy and the use of regulatory capital are monitored by the management of the company.

NOTE 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments in Applying the Company's Accounting Policies

(a) Impairment of Loans

Impairment of loans balances is assessed at an individual as well as on a collective level. A general loan loss allowance is made based on the appraisal carried out at year end and in accordance with the Disclosure Guidelines for Financial Reporting of Microfinance Institutions (refer note 10 (a)).

(b) Impairment of property, plant and equipment

The company assesses whether there are any indicators of impairment of all property, plant and equipment at each reporting date. Property, plant and equipment are tested for impairment and when there are indicators that the carrying amount may not be recoverable, a reasonable allowance for impairment is made. For the year ended 31 December 2012, no allowance for impairment has been made as the company reasonably believes that no indicators for impairment exist.

NOTE 5. OTHER OPERATING INCOME

	<u>2012</u>	<u>2011</u>
Exchange gain - unrealized	\$ 435	-
Exchange gain - realized	-	17,541
Gain on sale of fixed asset	-	3,451
Interest from bank	4,056	10,986
Loan write-off recoveries	10,699	-
Miscellaneous income	<u>9,058</u>	<u>4,150</u>
Total other operating income	<u>24,248</u>	<u>36,128</u>

NOTE 6. NON OPERATING INCOME

Donations (SPBD awards day)	<u>\$ 1,500</u>	<u>13,750</u>
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NOTE 7. LOSS BEFORE INCOME TAX	2012	2011
Loss before income tax has been determined after charging the following expenses:		
Auditors' remuneration for:		
- Audit fees	\$ 23,000	14,000
- Other services	30,820	13,196
Depreciation	48,626	47,732
Legal fees	926	1,578
Loan loss allowance	118,892	66,565
Insurance loan loss reserve	-	7,001
Management fees	148,071	185,291
Organisational set-up costs	-	58,210
Rent	93,997	79,500
Salaries, wages, FNPF and training levy	454,204	340,035
SPBD grand opening day	-	17,669
Overseas traveling	19,767	44,016

NOTE 8. INCOME TAX

a) Income Tax Expense

The prima facie tax expense on loss is reconciled to the income tax benefit as follows:

Loss before income tax	(1,200,492)	(713,198)
Prima facie tax thereon at 20% (2011: 28%)	(240,098)	(199,695)
Tax effect of:		
Non-deductible expenses	1,591	24,848
Temporary differences not recognized as deferred tax assets	(2,079)	28,745
Deferred tax assets on tax losses not recognised	240,586	146,102
Income tax expense	\$ -	-

(b) Benefit of Income Tax Losses not brought to Account

As at 31 December 2012, the company had unconfirmed unrecouped income tax losses of approximately \$1,965,530 (2011: \$762,602) available to offset against future years' taxable income. The benefit on income tax losses has not been brought to account as realisation is not considered to be probable. The benefit will only be obtained if:

- (i) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised;
- (ii) the company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the losses.

NOTE 9. NOTES TO THE STATEMENT OF CASH FLOWS

	2012	2011
Cash on hand and at bank		
Petty cash	\$ 3,000	1,000
Savings reserve imprest	132	1,948
Vodafone M-Paisa account	12,688	47,072
Cash at bank	623,969	609,847
Total cash on hand and at bank	639,789	659,867

Cash and cash equivalents included in the statement of cash flows comprise the above statement of financial position amounts.

NOTE 10. LOANS PORTFOLIO OUTSTANDING

Accumulative Since Inception:

Total loan disbursements	5,110,991	2,700,350
Repayments	(3,815,608)	(1,670,964)
Interest income capitalised to restructured loan	8,180	8,180
Restructure fee capitalised to restructured loan	5,299	5,299
Loan insurance loss reserve - write-offs - principal	(3,956)	(3,956)
Loan loss allowance - write-offs - principal	(144,631)	(40,508)
Gross loans portfolio outstanding	1,160,275	998,401
Loan loss allowance (d)	(40,826)	(26,057)
Loan insurance loss reserve (c)	(1,835)	(3,045)
Net loans portfolio outstanding	1,117,614	969,299

Movement:

Opening balance	969,299	364,874
Disbursements	2,410,641	2,288,350
Repayments	(2,144,644)	(1,623,838)
Interest income capitalised to restructure loan	-	8,180
Restructure fee capitalised to restructure loan	-	5,299
Loan insurance loss reserve write-offs - principal	1,210	(3,956)
Loan insurance loss reserve - principal	-	(3,045)
Loan loss allowance write-offs - principal (b)	(104,123)	(40,508)
Loan loss allowance - principal	(14,769)	(26,057)
Closing balance	\$ 1,117,614	969,299

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(a) Loan Loss Allowance

The company conducts loan loss provisioning every quarter to maintain an adequate reserve for doubtful loans. The reserve is determined by applying predicted loss percentages to aged loans grouped by lateness of payment. A loan becomes late as a weekly scheduled payment is missed. The company applies the following conservative predicted loss ratios.

Allowance Ratios for Group Loans

Loan Aging	Loan Loss Allowance	Loan Outstanding (\$)	Loan Loss Allowance Amount (\$)
1 week to 4 weeks late	5%	87,064	4,353
5 weeks to 8 weeks late	10%	6,710	671
9 weeks to 12 weeks late	25%	3,731	933
13 weeks to 16 weeks late	50%	1,026	513
17 weeks to 20 weeks late	75%	1,349	1,012
21 weeks or more	100%	137,467	137,467
Total Allowance as of 31 December 2012		237,347	144,949

The company provides a 100% provision for loan losses for loans overdue for 21 weeks or more.

(b) Write-Offs

Loan Type	Number of Loans	Write off Amount	Amount as % of Loan Portfolio
Loan Loss Allowance	400	104,123	8.24%

The decision as to which loans to write off and to which to provide loan allowance in 2012 was made taking into account the age of the outstanding loan, the balance of the outstanding loan compared to the cost effectiveness of recovery and management's own evaluation of the likelihood of recovery. Loans write-off requires an approval by the President of the company.

(c) Movement in Insurance Loan Loss Reserve

Insurance loan loss reserve is increased by annual insurance loan loss reserve expense and decreased by loan reserve write-offs.

	2012	2011
Opening balance	\$ 3,045	-
Loan loss expense for the year	-	7,001
Loans written off in the year	(1,210)	(3,956)
Closing balance	\$ 1,835	3,045

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(d) Loan Loss Allowance

Loan loss allowance is increased by annual loan loss provisioning expense and decreased by loan write-offs.

Movement in Loan Loss allowance

	2012	2011
Opening balance	\$ 26,057	-
Loan loss expense for the year	118,892	66,565
Loans written off in the year	(104,123)	(40,508)
Closing balance	\$ 40,826	26,057

(e) Portfolio Composition

The company adopts the Grameen Bank's group solidarity lending methodology. The company's loan portfolio consists of loans to clients and staff. Group loans are made under the provisions of SPBD Credit Manual. Staff loans are made under the provisions of the employee loan program under SPBD Human Resources Policy Manual.

The company offers one group loan product with variable terms and pricing depending on the loan amount as shown in the following table:

Minimum Loan Amount \$	Maximum Loan Amount \$	Loan Term	Add-on Interest
250	300	13 weeks	8%
350	550	26 weeks	14%
600	850	39 weeks	20%
900	5,000	52 weeks	25%

The loan product is unsecured and is amortised in weekly equal instalments. The first loan (regardless of loan product) should be used exclusively to expand or establish a microenterprise to be managed by the client or by a household member (husband, son, daughter, etc.). Subsequent loans can be used only for any or a combination of the following purposes: business, home improvement and education of children. Loans are disbursed at the company office while loan repayments are collected at the village-based meetings by the company staff. Repayment of loan via Vodafone's MPaiSA mobile money services is also available to the clients. A loan must be paid off before another loan is issued to the same client.

Loans Disbursed during 2012			
Loan Type	Number of New Loans	Principal Amount \$	Amount as % of Total Portfolio
Group loans (New)	2,456	1,442,550	60%
Group loans (Existing)	811	909,350	38%
Staff loans	34	58,740	2%
Total	3,301	2,410,640	100%
<i>Average loan size at disbursement</i>		\$730	

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(e) Portfolio Composition (Cont'd)

Loans Disbursed during 2011			
Loan Type	Number of New Loans	Principal Amount	Amount as % of Total Portfolio
		\$	
Group loans (New)	2,325	2,169,050	95%
Group loans (Existing)	69	91,650	4%
Staff loans	13	27,650	1%
Total	2,407	2,288,350	100%
<i>Average loan size at disbursement</i>		\$951	

The clients must use the first loans for starting or expanding micro-businesses. If these micro-businesses are doing well, they can then apply for housing improvement and educational loans for their subsequent borrowings. Housing improvement loans are typically used to buy concrete, timber, roofing, plumbing or electrical supplies to significantly upgrade their homes. Educational loans are typically used to pay for school fees, school uniforms and text books.

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(f) Portfolio Quality

The company loans is staff's number one priority to keep the loan portfolio healthy. They strictly apply the credit rules and policies outlined in SPBD Credit Manual. As the company offers only unsecured loans, it relies on good client and project selection as a primary tool to ensure portfolio quality. When a client does not make a payment, the company applies the group guarantee policy and asks her group members to make a payment for that client. The principle of group guarantee is clearly communicated and explained in program training, knowledge test, loan application and loan interview; and is regularly reinforced through weekly meetings and periodic trainings.

Loan Types	Number of Accounts	31 December 2012		
		Outstanding Principal Balance	PAR > 30 Amount	PAR > 30 Days (%)
		\$	\$	
Group Loans				
Current	2,475	1,001,473		
1-4 weeks late	222	85,134		
5-8 weeks late	12	5,795	5,795	0.51%
9-12 weeks late	8	3,731	3,731	0.33%
13-16 weeks late	2	1,026	1,026	0.09%
17-20 weeks late	2	1,349	1,349	0.12%
Over weeks late	86	32,451	32,451	2.87%
Total	2,807	1,130,959	44,352	3.92%
Staff Loans				
Current	18	25,579		
1-4 weeks late	1	1,333		
5-8 weeks late	1	733	733	2.50%
9-12 weeks late	-	-	-	-
13-16 weeks late	-	-	-	-
17-20 weeks late	-	-	-	-
Over weeks late	1	1,671	1,671	5.70%
Total	21	29,316	2,404	8.20%
Total Group and Staff Loan				
Current	2,493	1,027,052		
1-4 weeks late	223	86,467		
5-8 weeks late	13	6,528	6,528	0.56%
9-12 weeks late	8	3,731	3,731	0.32%
13-16 weeks late	2	1,026	1,026	0.09%
17-20 weeks late	2	1,349	1,349	0.12%
Over weeks late	87	34,122	34,122	2.94%
Total	2,828	1,160,275	46,756	4.03%

NOTE 10. LOANS PORTFOLIO OUTSTANDING (CONT'D)

(f) Portfolio Quality (cont'd)

The company defines portfolio at risk (PAR) as:

= Outstanding principal amount of all loans that have one or more instalments of principal past due by 30 days/ Gross Loan Portfolio.

A loan is considered in arrears when a due weekly payment is missed and that group guarantee does not work. The company does not have any late or penalty fees. The company staff then follows the procedures outlined in the SPBD Credit Manual to get clients in arrears back on track as soon as possible. Parallel to these efforts, the company creates provisions to ensure that adequate reserves are maintained for potential losses as outlined under SPBD Loan Loss Provisioning and write-off policies outlined in note 10 (a) above.

NOTE 11. RECEIVABLES

	<u>2012</u>	<u>2011</u>
Deposits	\$ 35,701	20,600
Prepayments and other receivables	11,905	6,962
Total receivables	<u>\$ 47,606</u>	<u>27,562</u>

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
NOTES TO THE FINANCIAL STATEMENTS [CONT'D]
FOR THE YEAR ENDED 31 DECEMBER 2012

NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year are as follows:

	Leasehold improvements	Furniture and fixtures	Office equipment	Computer equipment and peripherals	Motor vehicles	Software and electronics system	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Gross carrying amount							
Balance at 1 January 2011	21,144	18,495	8,592	18,004	111,000	8,106	185,341
Additions	-	11,599	1,273	12,462	-	1,936	27,270
Disposals	-	-	-	-	(76,000)	-	(76,000)
Balance at 31 December 2011	21,144	30,094	9,865	30,466	35,000	10,042	136,611
Additions	4,150	26,853	2,100	24,302	13,000	3,249	73,654
Balance at 31 December 2012	25,294	56,947	11,965	54,768	48,000	13,291	210,265
Accumulated depreciation							
Balance at 1 January 2011	1,762	605	367	1,294	6,472	676	11,176
Depreciation	10,512	4,619	1,820	7,424	20,111	3,246	47,732
Disposals	-	-	-	-	(13,944)	-	(13,944)
Balance at 31 December 2011	12,274	5,224	2,187	8,718	12,639	3,922	44,964
Depreciation	11,376	7,795	1,919	11,051	12,749	3,736	48,626
Balance at 31 December 2012	23,650	13,019	4,106	19,769	25,388	7,658	93,590
Net book value							
Balance at 31 December 2011	8,870	24,870	7,678	21,748	22,361	6,120	91,647
Balance at 31 December 2012	1,644	43,928	7,859	34,999	22,612	5,633	116,675

NOTE 13. CLIENT SAVINGS DEPOSITS

	<u>2012</u>	<u>2011</u>
Number of Savings Accounts	\$ 5,366	2,668
Client savings balance	<u>544,257</u>	<u>245,721</u>

All members of SPBD are required to open a savings account and deposit an initial amount of \$10. This must be deposited prior to any initial loans disbursed. When the loan has been processed and approved, 5% of the loan amount is deducted and recorded in the client savings account as compulsory deposit. Client with a current loan balance must have a minimum deposit of 5% of the original loan amount.

Only members of SPBD formed Centre can open a savings account with South Pacific Business Development Microfinance (Fiji) (Ltd). Notwithstanding the outstanding loan, the member is required to fully observe members duties like attending the weekly meetings, approve and guarantee other member's loans.

There is no limit on the amount of money the clients can keep in the savings account. The minimum balance that a client can keep is \$1. However, for members with current loan the minimum balance at any given time should be \$10 plus 5% of the original loan amount.

NOTE 14. PAYABLES

Payable to South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited (a)	21,996	175,398
Payable to Transformative Ventures LLC (a)	6,338	109,565
Accrued interest	4,575	68,127
Accruals	<u>38,295</u>	<u>22,811</u>
Total payables	\$ <u>71,204</u>	<u>375,901</u>

- (a) South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited and Transformative Ventures LLC are shareholder related entities. Payable to shareholder related entities are for the travelling charges and executive remuneration fees and management fees, paid by the shareholder related entities on behalf of the company.

NOTE 15	INTEREST BEARING BORROWINGS	2012	2011
Current			
Unsecured borrowings:			
	Jasmine Charitable Trust (c)	\$ 451,196	108,038
	MicroDreams Foundation loan 2 (a)(i)	-	184,911
	SPBD Microfinance Holdings (Singapore) Pte Ltd 1 (d)(i)	40,000	-
	World Education Australia Limited (WEAL) (e)	39,150	-
	Total current unsecured interest bearing borrowings	530,346	292,949
Non-Current			
Unsecured borrowings:			
	MicroDreams Foundation loan 1 (a)(ii)	200,000	200,000
	MicroDreams Foundation loan 3 (a)(iii)	362,976	369,823
	MicroDreams Foundation loan 4 (a)(iv)	163,340	-
	SPBD Microfinance Holdings (Singapore) Pte Ltd loan 1 (d)(i)	160,000	-
	SPBD Microfinance Holdings (Singapore) Pte Ltd loan 2 (d)(ii)	362,976	-
	SPBD Microfinance Holdings (Singapore) Pte Ltd loan 3 (d)(ii)	400,000	-
	SPBD Microfinance Holdings (Singapore) Pte Ltd loan 4 (d)(iii)	351,444	-
	PIF Foundation loan 1 (b) (i)	120,000	120,000
	PIF Foundation loan 2 (b) (ii)	120,000	-
	Jasmine Charitable Trust (c)	563,994	972,342
	Total non-current unsecured interest bearing borrowings	\$ 2,804,730	1,662,165

(a) MicroDreams Foundation

The company received the following loans from MicroDreams Foundation to assist the company in financing its activities:

- (i) Unsecured loan amounting to USD 100,000 on 7 December 2010 at an interest rate of 6% per annum. Interest payments were made semi-annually during current financial period. The loan was restructured by way of loan 2 from SPBD Microfinance Holdings (Singapore) Pte Ltd. Refer note 15 (d) (ii).
- (ii) Unsecured loan amounting to \$200,000 on 1 November 2010 at an interest rate of 8% per annum. The interest payments were made semi-annually beginning 30 June 2011 and will be based on the amount of principal outstanding for the prior six month period. The interest payment on 30 June 2011 was based on the entire period since loan disbursement. The final interest payment will be due on 31 December 2014.

Principal repayments will be made in four quarterly instalments of \$50,000 and will be due on 31 March 2014, 30 June 2014, 30 September 2014 and 31 December 2014. The loan is due in full on 31 December 2014.

Since the loans are unsecured, the Funder requires the following:

- the annual audited financial statements.
- unaudited quarterly financial statements.
- a completed semi-annual report with data for 30 June and 31 December for each year that this loan agreement remains in effect.
- three well written SPBD-Fiji client success stories with high quality photos every six months.
- such other information regarding the company or the Loan Program as the Funder may reasonably request from time to time.

NOTE 15. INTEREST BEARING BORROWINGS (CONT'D)

(a) MicroDreams Foundation (Cont'd)

- (iii) Unsecured loan amounting to USD 200,000 on 23 May 2011 at an interest rate of 7% per annum. The interest payments will be made annually beginning 31 December 2014 and will be based on the amount of principal outstanding for the year. The final interest payment will be due on 31 December 2015.

Principal repayments will be made in five quarterly instalments of USD 40,000 and will be due on 31 December 2014, 31 March 2015, 30 June 2015, 30 September 2015 and 31 December 2015. The loan is due in full on 31 December 2015.

Since the loans are unsecured, the Funder requires the following:

- the annual audited financial statements.
 - unaudited quarterly financial statements.
 - three well written SPBD-Fiji client success stories with high quality photos every six months.
 - such other information regarding the company or the Loan Program as the Funder may reasonably request from time to time.
- (iv) Unsecured loan amounting to USD 90,000 on 31 December 2012 at an interest rate of 9% per annum. Interest payments to be made semi-annually during 2013 and 2014 and then quarterly during 2015. Interest payments are based on amount of principal outstanding for the prior period. The first interest payment was on 15 June 2013 and is based on the entire period since the loan disbursement. The final interest payment will be due on 31 December 2015.

Principal repayments will be made in four quarterly instalments of USD 22,500 and will be due on 15 March 2015, 15 June 2015, 15 September 2015 and 15 December 2015. The loan is due in full on 15 December 2015.

Since the loans are unsecured, the Funder requires the following:

- the annual audited financial statements.
- unaudited quarterly financial statements.

(b) PIF Foundation

The company received the following loans from PIF Foundation to assist the company in financing its activities:

- (i) An unsecured loan amounting to \$120,000 from PIF Foundation at an interest rate of 5% per annum. Interest payments are made annually and are due on 31 December of each year. The first interest payment was due on 31 December 2011 and was based on 13 and half months. Interest payment is based on the average amount of principal outstanding for the preceding twelve months.

NOTE 15. INTEREST BEARING BORROWINGS (CONT'D)

(b) PIF Foundation (Cont'd)

Principal repayments will begin in the final year of the loan contract. The first principal repayment will be on 31 March 2014. The company will make four quarterly principal repayments of \$30,000. The final principal payment must be made on 31 December 2014. The loan and all accrued but unpaid interest is due and payable in full on 31 December 2014.

Since the loan is unsecured, the Funder requires the annual audited financial statements, access to the President or General Manager for general discussion and such other information regarding the company or the loan program as the Funder may reasonably request from time to time.

The funder also requires the following reports within 45 days of the end of each quarter.

- Management report providing update on program activities, intermediate outputs and progress towards targeted outcomes.
- Financial Performance Report.
- Other reports reasonably requested by the Funder including explanation around administrative issues, legal advice and staffing.
- The parties will meet by conference call to discuss the contents of the report.

- (ii) An unsecured loan amounting to \$120,000 from PIF Foundation to assist in financing its activities at an interest rate of 4% per annum. Interest payments will be made annually and are due on 31 July of each year. The first interest payment will be due on 31 July 2013. Interest payment is based on the average amount of principal outstanding for the preceding twelve months.

Principal repayments will begin in the final year of the loan contract. The first principal repayment will be on 31 October 2016. The company will make four quarterly principal repayments of \$30,000. The final principal payment must be made by the 31 July 2017. The loan and all accrued but unpaid interest is due and payable in full on this date.

Since the loan is unsecured, the Funder requires the annual audited financial statements, access to the President or General Manager for general discussion and such other information regarding the company or the loan program as the Funder may reasonably request from time to time.

The funder also requires the following reports within 45 days of the end of each quarter.

- Management report providing update on program activities, intermediate outputs and progress towards targeted outcomes.
- Financial Performance Report.
- Other reports reasonably requested by the Funder including explanation around administrative issues, legal advice and staffing.
- The parties will meet by conference call to discuss the contents of the report.

NOTE 15. INTEREST BEARING BORROWINGS (CONT'D)

(c) Jasmine Charitable Trust

Loan from Jasmine Charitable Trust was acquired to assist the company in financing its activities. The company received unsecured loan amounting to NZD 750,000 at an interest rate of 3% per annum. Interest payments will be made quarterly. The first interest payment will begin 24 months after disbursement of loan. Interest payments will be based on the average amount of principal outstanding for each quarter.

Principal repayments will begin 24 months after disbursement of the loan contract. The first principal repayment was made on 31 December 2012. The company will make ten quarterly principal repayments of NZD 75,000 each. The final principal payment must be made on 31 March 2015. The loan and all accrued but unpaid interest is due and payable in full on 31 March 2015.

Since the loan is unsecured, the Funder requires the annual audited financial statements, access to the President or General Manager for general discussion and such other information regarding the company or the loan program as the Funder may reasonably request from time to time.

The funder also requires the following reports within 30 days of the end of each quarter.

- Management report providing update on program activities, intermediate outputs and progress towards targeted outcomes.
- Financial Performance Report.
- Other reports reasonably requested by the Funder including explanation around administrative issues, legal advice and staffing.
- The parties will meet by conference call to discuss the contents of the report.

(d) Loan from SPBD Holding (Singapore) Pte Limited

The company received the following loans from SPBD Holdings (Singapore) Pte Limited to assist the company in financing its activities:

- (i) Unsecured loan amounting to FJD 200,000 on 4 January 2012 at an interest rate of 7% per annum. Interest payments will be made on 15 December of each calendar year. Interest payments are based on amount of principal outstanding for the prior period. The final interest payment will be due on 15 December 2014.

Principal repayments will be made in five quarterly instalments of FJD 40,000 each and will be due on 15 December 2013, 15 March 2014, 15 June 2014, 15 September 2014 and 15 December 2014. The loan is due in full on 15 December 2014.

Since the loans are unsecured, the Funder requires the following:

- the annual audited financial statements.
 - unaudited quarterly financial statements.
 - such other information regarding the company or the Loan Program as the Funder may reasonably request from time to time.
- (ii) Unsecured loan amounting to FJD 400,000 and USD \$200,000 less payments amounting to USD \$100,000 plus interest accrued to MicroDreams Foundation loan 2 on 1 August 2012.

Interest is charged at the rate of 9% per annum on the principal outstanding of the FJD loan and 7% per annum on the principal outstanding of the USD loan. Refer note 15 (a)(i).

NOTE 15. INTEREST BEARING BORROWINGS (CONT'D)

(d) SPBD Holding (Singapore) Pte Limited (Cont'd)

Interest payments were made on 15 December 2012 and be made quarterly. Interest payments are based on amount of principal outstanding for the prior period. The final interest payment will be due on 15 June 2017.

Principal repayments will be made in eight quarterly instalments of FJD 50,000 and USD 25,000 each. The final principal payment must be made on 15 June 2017.

Since the loans are unsecured, the Funder requires the following:

- the annual audited financial statements.
- unaudited quarterly financial statements.
- such other information regarding the company or the Loan Program as the Funder may reasonably request from time to time.

(iii) Unsecured loan amounting to AUD 185,000 on 20 December 2012 at an interest rate of 7% per annum. Interest payments will be begin on 15 March 2013 and will be made quarterly. Interest payments are based on amount of principal outstanding for the prior period. The final interest payment will be due on 15 June 2017.

Principal repayments will be made in eight quarterly instalments of AUD 23,125 and will be due on 15 September 2015. The loan is due in full on 15 June 2017.

Since the loans are unsecured, the Funder requires the following:

- the annual audited financial statements.
- unaudited quarterly financial statements.
- such other information regarding the company or the Loan Program as the Funder may reasonably request from time to time.

(e) World Education Australia Limited (WEAL)

During the financial year, loan from World Education Australia Limited (WEAL) was acquired to assist the company in financing its activities. Interest free loans amounting to FJD 39,150 was received from WEAL.

WEAL aggregates and disburses funds received from lenders for loan applicants sourced by the company.

The company undertakes to:

- lend the amount of funding (less any transaction fees agreed with WEAL); and
- use reasonable endeavours to ensure that the funding is used for the purpose(s) notified to WEAL in the initial application.

The company provides details of loan applicant, details of the manner in which the loan applicant proposes to repay the loan together with other details of the loan applicant which is disclosed on the WEAL website. Loan applicant details together with repayments are forwarded to WEAL every month.

Since the loan is unsecured WEAL requires the company to provide regular reports to WEAL containing information required by WEAL from time to time.

NOTE 16. SHARE CAPITAL	2012	2011
Authorised capital 4,000,000 ordinary shares of \$0.25 each (2010: 250,000 ordinary shares of \$1 each)	\$ 1,000,000	1,000,000
Issued and paid up capital 1,000,000 ordinary shares of \$0.25 each (2010: 250,000 ordinary shares of \$1 each)	250,000	250,000

NOTE 17. COMMITMENTS

a) Capital Commitments

Capital expenditure approved but not committed	75,000	534,002
Total capital expenditure commitments	75,000	534,002

Capital expenditure commitment relates to renovations and furnishings of Lautoka and Rakiraki branches.

b) Operating Lease Commitments

Operating lease rental for building spaces used is payable as follows:

Not later than one year	84,899	66,000
Later than one year but not later than two years	26,399	50,000
Later than two years but not later than five years	38,198	-
	\$ 149,496	116,000

c) The company is committed to pay Transformative Ventures LLC , management fees of \$100,000 per annum

NOTE 18. CONTINGENT LIABILITIES

Contingent liabilities as at 31 December 2012 amounted to \$Nil (2011: Nil).

NOTE 19 SIGNIFICANT EVENT DURING THE YEAR

During September 2012, the company was issued a Foreign Investment Registration Certificate (FIRC) by Investment Fiji to extend its activity to include maintaining money savings account.

NOTE 20. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

NOTE 21. RELATED PARTY TRANSACTIONS

(a) Holding company and ultimate holding company

The holding company and ultimate holding company is South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited, a company incorporated in Singapore.

(b) The names of persons who were directors of the company at any time during the year are as follows:

Gregory F Casagrande
Peter Lowing

Shareholder related entities are as follows:

1. South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited
2. Transformative Ventures LLC.

During the year, related party transactions with the above entities were as follows:

1. Management fees amounting to \$90,000 (2011: \$81,203) was paid to Transformative Ventures LLC.
2. Charges for payments made by Transformative Ventures LLC Limited for reimbursement of travelling charges, marketing and promotions and professional fees for the implementation of a Financial Literacy Initiative of the company amounted to \$79,937 (2011: \$34,337).
3. Charges for payments made by South Pacific Business Development Microfinance Holdings (Singapore) Pte for reimbursement of management fess amounted to \$Nil (2011: \$104,088).
4. Receipt of loan from South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited amounting to \$1,291,686 (2011: \$Nil).
5. Interest on loan amounting to \$38,823 (2011: \$Nil) was paid to South Pacific Business Development Microfinance Holdings (Singapore) Pte Limited.

(c) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

During the financial year, no compensation was directly paid to key management personnel.

However, management fee was paid to shareholder related entity for management services provided amounting to \$90,000. This amount has been disclosed as management fees in the financial statements.

NOTE 22. PRINCIPAL ACTIVITIES

The principal activity of the company during the year was to provide financial assistance to economically disadvantaged people particularly women who cannot easily access savings and loan products from traditional banks.

During September 2012, the company was issued a Foreign Investment Registration Certificate (FIRC) by Investment Fiji to extend its activity to include maintaining money savings account.

Apart from the above, there were no significant changes in the nature of the activities during the financial year.

NOTE 23. COMPANY DETAILS

Company Incorporation

The company was incorporated in Fiji under the Companies Act, 1983.

Registered Office and Principal Place of Business

The registered office and principal place of business of the company is located at:

Bidesi Building,
250 Waimanu Road
Suva

NOTE 24. COMPARATIVES

Where necessary, comparative figures have been re-grouped to conform with changes in presentation in the current year.

NOTE 25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on 19 March 2013.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
ADDITIONAL FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012**

DISCLAIMER

The additional financial information presented on pages 40 to 41 does not form part of the statutory financial statements. The additional financial information is in accordance with the books and records of South Pacific Business Development Microfinance (Fiji) (Ltd) which has been subjected to the auditing procedures applied in our statutory audit of the company for the year ended 31 December 2012. Our statutory audit did not cover all details of the additional financial information. Accordingly, we do not express an opinion on the additional financial information and no warranty of accuracy and reliability is given.

In accordance with our firm's policy, we advise that neither the firm nor any member or employee of the firm undertakes responsibility arising in any way whatsoever to any person (other than the company) in respect of such information.

SUVA, FIJI
19 MARCH 2013


CHARTERED ACCOUNTANTS

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
ADDITIONAL INFORMATION
DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

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	<u>2012</u>	<u>2011</u>
Financial Income		
Development fee	\$ 47,038	45,194
Interest on loans	459,157	405,449
Loan insurance fee	167,200	56,250
Savings withdrawal fee	7,092	14,698
Life insurance fee	-	19,564
Resignation fee	7,880	2,710
Loan restructure fee	-	5,299
	<hr/>	<hr/>
Total financial income	688,367	549,164
Financial Expenses		
Life insurance fee	(122,604)	(9,735)
Interest on borrowed funds	(159,486)	(80,462)
Interest on savings deposits	(4,485)	(2,444)
Loan insurance loss	-	(7,001)
Loan loss allowance	(118,892)	(66,565)
	<hr/>	<hr/>
Total financial expenses	(405,467)	(166,207)
Net financial income	282,900	382,957
Other operating revenue	24,248	36,128
	<hr/>	<hr/>
Total income	307,148	419,085
Administration and operating expenses (Page 41)	(1,509,140)	(1,146,033)
	<hr/>	<hr/>
Operating Loss before income tax	(1,201,992)	(726,948)
Non operating revenue		
Donations	1,500	13,750
Income tax expense	-	-
	<hr/>	<hr/>
Loss for the year	\$ (1,200,492)	(713,198)

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE (FIJI) (LTD)
ADDITIONAL INFORMATION [CONT'D]
DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

Page 41

	<u>2012</u>	<u>2011</u>
Administration and Operating Expenses		
Accounting fees	\$ 30,820	13,196
Audit fees	23,000	14,000
Bank charges	3,321	5,526
Branch opening	4,537	-
Computer support	9,649	9,128
Conference and meetings	10,998	568
Depreciation	48,626	47,732
Electricity and water	13,884	8,262
Exchange loss - unrealised	58,835	67,859
FNPF contribution	46,728	25,637
GM's expenses and allowances	31,643	13,860
Insurance	77	1,497
Legal fees	926	1,578
Management fees	148,071	185,291
Membership and subscriptions	-	255
Office expenses	25,135	10,662
Other expenses	4,778	15,761
Organisational set-up costs	-	58,210
Overseas traveling	19,767	44,016
Printing and office stationeries	42,641	18,661
Program Development cost	-	11,798
Professional fees	42,098	-
Postage, telephone and communication	21,068	15,960
Public relations and advertisements	27,184	3,133
Realised exchange loss	5,718	-
Rent	93,997	79,500
Repairs and maintenance	7,435	13,169
Salaries and wages	454,204	314,398
SPBD grand opening day	-	17,669
SPBD awards day	31,847	25,144
Staff benefits	48,192	34,811
Staff training and development	60,875	13,753
FBT and other taxes	4,658	-
Transportation, fuel and oil	175,172	74,999
VAT expense	13,256	-
Total administration and operating expenses	\$ 1,509,140	1,146,033