



South Pacific Business Development  
Microfinance Ltd.

Financial Statements

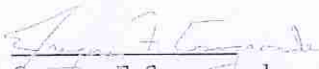
For the Period Ending 31 December 2019

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

STATEMENT OF FINANCIAL POSITION

As of 31 December 2019

ASSETS		Audited	Audited
Current Assets	Note	2019	2018
Cash on Hand and in Bank	5	794,203	732,077
Loan Portfolio Outstanding	6	9,347,129	7,002,500
Receivables	7	22,041	56,447
Short-Term Investments	8	377,253	531,482
<b>Total Current Assets</b>		<b>10,540,626</b>	<b>8,322,506</b>
<b>Fixed Assets</b>			
Property, plant and equipment	9	727,138	640,827
Less: Accumulated Depreciation		(432,476)	(531,466)
<b>Net Fixed Assets</b>		<b>294,662</b>	<b>109,361</b>
<b>Other Assets</b>	10	13,421	15,060
<b>TOTAL ASSETS</b>		<b>10,848,709</b>	<b>8,446,927</b>
LIABILITIES			
<b>Current Liabilities</b>			
Cash at Bank - Overdraft	5	349,279	479,059
Death Benefit Reserve		(38,404)	(27,138)
Clients' Savings deposits	11	1,089,611	779,764
Accounts Payable	12	332,851	54,413
Commercial Loans - Current	13	600,400	1,175,683
Soft Loans - Current	14	1,026,629	970,205
Accrued Interest Payable	15	12,513	14,029
Lease Liability	16	63,951	-
Taxes Payable	19	274,846	187,330
<b>Total Current Liabilities</b>		<b>3,711,676</b>	<b>3,633,345</b>
<b>Non Current Liabilities</b>			
Commercial Loans - Non Current	13	1,295,892	1,360,646
Soft Loans - Non Current	14	1,938,658	500,546
Lease Liability	16	85,269	-
<b>Total Long term Liabilities</b>		<b>3,319,819</b>	<b>1,861,192</b>
<b>TOTAL LIABILITIES</b>		<b>7,031,495</b>	<b>5,494,537</b>
EQUITY			
Owner's equity	17	528,233	528,233
Retained Earnings		2,424,157	1,650,264
Profit/(Loss) for the year		864,824	773,893
<b>TOTAL EQUITY</b>		<b>3,817,214</b>	<b>2,952,390</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>10,848,709</b>	<b>8,446,927</b>

  
 Gregory F. Casagrande  
 Chairman/ President

Date: 26 March 2020

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



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.  
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
For the year ended 31 December 2019

	<i>Note</i>	Audited 2019	Audited 2018
<b>Financial Income</b>			
Interest on Loans		3,115,659	3,105,496
Development Fee		322,377	163,780
Loan Security Fee - LSF		304,455	176,910
Death Benefit Fee - DBF		193,224	190,564
Interest earned on Bank Accounts & Term Deposits		4,979	1,181
Other operating revenues		72,701	58,626
<b>Total Financial Income</b>		<u>4,013,395</u>	<u>3,696,557</u>
<b>Financial Expenses</b>			
Interest and fees		342,313	324,661
Foreign Exchange Loss		72,413	165,782
Interest on Client Saving		14,395	14,579
Loan Security Loss		25,724	55,517
Death Benefit Loss		65,735	38,115
<b>Total Financial Expenses</b>		<u>520,580</u>	<u>598,654</u>
<b>NET FINANCIAL INCOME</b>		<u>3,492,815</u>	<u>3,097,903</u>
Loan Loss Provision	6	<u>20,637</u>	<u>9,363</u>
<b>NET FINANCIAL MARGIN</b>		<u>3,472,178</u>	<u>3,088,540</u>
<b>Operating Expenses</b>			
Computer Support System		4,964	6,609
Conference & Meetings		21,460	21,064
Depreciation	9	59,158	90,873
Electricity and Water		16,673	17,421
Fees and Bank Charges		15,365	19,456
Insurance		10,982	9,863
Management Fees		-	22,212
Membership Fees and Subscription		230	115
Office Expenses		18,813	14,072
Postage, Telephone and Communications		33,883	38,224
Printing and Office Stationeries		38,012	72,121
Professional Services		1,084,416	869,949
Public Relations and Advertisements		7,028	2,877
Rent		50,159	37,015
Repairs and Maintenance		1,963	1,139
Salaries and Benefits		728,443	547,687
Staff Training and Development		6,901	7,970
Transportation, Fuel, Oil		81,187	62,338
Travel Local		31,288	38,539
Travel Overseas		8,829	19,618
Board of Directors Fees		-	2,150

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.  
 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
 For the year ended 31 December 2019

SPBD Award day	64,128	58,971
Staff Retreat 2019	22,005	15,865
Microfinance bills expenses	9,174	-
Financial Diaries Expenses	16,951	17,670
Management Offsite	15,054	8,806
<b>Total Operating Expenses</b>	<b>2,347,066</b>	<b>2,052,624</b>
 <b>Non-Operating Income/(Expenses):</b>		
Grants & Donations	-	495,095
Sale of/ (Writeoff) Fixed Assets	1,253	501
Other non-operating income	-	(495,095)
	1,253	501
 <b>OPERATING PROFIT/(LOSS) BEFORE INCOME TAX</b>		
	1,126,365	1,036,417
Income Tax	19	(261,542)
<b>PROFIT (LOSS) FOR THE YEAR</b>	<b>864,824</b>	<b>773,893</b>

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



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD  
STATEMENT OF CHANGES IN EQUITY  
For the Year ended 31 December 2019

		Equity Contribution	Retained Earnings	Total
		TOP	TOP	TOP
Balance at 01 January 2019	17	528,233	2,424,157	2,952,390
Net Income for the year		-	864,824	864,824
Prior Year Adjustment			-	-
<b>Balance at 31 December 2019</b>		<b>528,233</b>	<b>3,288,981</b>	<b>3,817,214</b>

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



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.

STATEMENT OF CASH FLOW

For the year ending 31 December 2019

	Audited 2019	Audited 2018
<b>Cash flows from operating activities</b>		
<b>Cash was provided from:</b>		
Receipts from Customers	1,644,485	2,355,019
Receipts from other Revenue	-	495,095
<b>Total Receipts</b>	<b>1,644,485</b>	<b>2,850,114</b>
<b>Cash was disbursed to:</b>		
Payments to suppliers	(2,390,294)	(2,709,976)
Labour Costs	-	-
Taxes Payable	(174,026)	(187,330)
<b>Total Payments</b>	<b>(2,564,320)</b>	<b>(2,897,306)</b>
<b>Net cash inflows from operating activities</b>	<b>(919,835)</b>	<b>(47,192)</b>
<b>Cash flows from Investing Activities</b>		
<b>Cash was provided from:</b>		
Short-term Investments	-	-
<b>Cash was disbursed to:</b>		
Purchase of property, plant and equipment	(55,922)	(36,298)
Purchase of Short Term Investments	-	-
<b>Net Cash Flow used in investing activities</b>	<b>(55,922)</b>	<b>(36,298)</b>
<b>Cash flows from financing activities</b>		
<b>Cash was provided from:</b>		
Borrowings: Client Savings	-	-
Borrowings: Loans	1,167,662	728,906
<b>Cash was disbursed to:</b>		
Dividend paid	-	-
<b>Net Cash Flow from Financing Activities</b>	<b>1,167,662</b>	<b>728,906</b>
Net increase/ (decrease) in cash and cash equivalents	191,906	645,416
Cash and cash equivalents at the beginning of the year	253,018	(392,398)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>444,924</b>	<b>253,018</b>

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



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.  
STATEMENT OF CASHFLOW  
For the period 1 January to 31 December 2019

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

	2019	2018
Net Income after Tax	864,824	773,893
Add back non cash items		
Depreciation	16,524	90,872
Loan Loss Provision	20,637	9,363
Movements in working capital:		
(Increase)decrease in Gross Loan Portfolio	(2,365,266)	(649,577)
(Increase)decrease in Receivables	34,406	(27,240)
(Increase)decrease in Other assets	1,639	(410)
Increase (decrease) in Account Payable	278,438	(178,847)
Increase (decrease) in Taxes Payable	87,516	1,635
Increase (decrease) in Accrued Expenses	(1,516)	(10,119)
Increase (decrease) in Death Benefit Reserve	(11,266)	(56,762)
(Increase ) decrease in Short Term Investments	154,229	-
<b>Net Cash Flow from Operating Activities</b>	<b>(919,835)</b>	<b>(47,192)</b>

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

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2019*

**1. GENERAL INFORMATION**

South Pacific Business Development Microfinance Ltd. (or SPBD) is a privately owned microenterprise development organization with a mission to provide financial services to economically disadvantaged people particularly women who cannot access savings and loan products from traditional banks. SPBD provides unemployed and low income women entrepreneurs with financial services, training, ongoing guidance and motivation to help them start or grow micro-businesses so that they can improve their lives and that of their families. It was incorporated under the Companies Act 1995 on July 7, 2009 and licensed by the Ministry of Commerce, Tourism and Labour to provide financial services. SPBD have four office branches operating in the Kingdom of Tonga: Nuku'alofa, Tongatapu; Neiafu, Vava'u; Pangai, Ha'apai; and Mu'a, 'Eua.

**2. BASIS OF PREPARATION**

The financial statements have been prepared on a going concern basis, and the account policies have been applied consistently throughout the year.

**3. STATEMENT OF COMPLIANCE**

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

The Financial Statements comply with the Disclosure Guidelines for financial reporting of Microfinance Institutions.

**Other changes in accounting policies**

There have been no changes in SPBD's accounting policies since the date of the last audited financial statements. The accounting policies have been applied consistently throughout the year.

**Standard already adopted**

**IFRS 9: Financial Instruments**

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

**IFRS 16: Leases**

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

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets SPBD has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight line basis over the remaining lease term. Information about the adoption of IFRS 16 is provided in Note 23



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Reporting Currency

All amounts are expressed in Tongan Pa'anga (TOP) currency.

##### b. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

##### c. Investments

###### *Bank term deposits*

Bank term deposits are initially measured at the amount invested. Interest is subsequently accrued and added to the investment balance. A loss allowance for expected credit losses is recognised if the estimated loss allowance is not trivial.

##### d. Loan Receivables

Loan receivables are recorded at the amount due, less an allowance for credit losses.

SPBD applies the simplified expected credit loss model of recognising lifetime expected credit losses for loan receivables. In measuring expected credit losses, short-term receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on days past due. Short-term loan receivables are written off when there is no reasonable expectation of recovery.

###### *Previous accounting policy for impairment of receivables*

In the previous year, the allowance for credit losses was based on the incurred credit loss model. An allowance for credit losses was recognised only when there was objective evidence that the amount due would not be fully collected.

##### e. Property, plant and equipment

All plant and equipment is measured at cost less depreciation and impairment.

###### *Additions and Subsequent costs*

The cost of an item is recognised as an asset or costs incurred subsequent to initial recognition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to SPBD and the cost of the item can be measured reliably.

###### *Disposals*

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit.

###### *Leased assets*

SPBD has entered into property leases which are classified as Finance leases under IFRS 16. The net carrying amount of the leased asset is classed as "Right of Use assets". Refer to in Note 16 for finance leasing arrangements.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2019**

*Depreciation*

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Office Equipment	12.5%
Computers and Peripherals	25.0%
Software and Electronics System	25.0%
Furniture and Fittings	12.5%
Leasehold Improvements	5.0%
Used Motor Vehicles	25.0%
Right to use asset	3 years

Right to use asset is depreciated over the unexpired period of the lease.

The residual value and useful life of an asset are reviewed, and adjusted if applicable, at each financial year end.

**f. Impairment of Property, plant and equipment**

Assets held at cost that have a finite useful life is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment is recognised in the profit or loss. Property, plant and equipment that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**g. Revenue**

The specific accounting policies for significant revenue items are explained below.

- i. Interest Income - Interest income from loan portfolio and term deposits is recognized using a cash-based method where they are recognised at the time they are received.
- ii. Development Fee – SPBD charges a fee of 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 1% of the loan principal to cover the risk in the event of death of the client. A member's loan obligations to SPBD will be eliminated upon the death of that member. The Loan Security Fee is deducted from the loan proceeds.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2019**

iv. Death Benefit Fee –

- a) SPBD offers a Death Benefit Product to help the families of SPBD members to reduce the burden of bereavement and funeral expenses when the member dies. When an SPBD member dies during the period of the loan, her beneficiaries will receive a fixed payment of between 1,000 to 5,000 Pa'anga. The Death Benefit fee is deducted from the loan proceeds.

Size of Death Benefit Pa'anga	Death Benefit Fee in Pa'anga	
Minimum 1,000	15	Compulsory for all members
2,000	35	Voluntary
3,000	55	Voluntary
4,000	75	Voluntary
5,000	95	Voluntary

- b) SPBD also offers a Spousal Death Benefit Product for the same reason in a). When an SPBD member spouse dies during the period of the loan, his beneficiaries will receive a fixed payment of amount between TOP1,000 to TOP5,000. The Spousal death benefit Fee is deducted from the loan proceeds as stated below in 2017.

Size of Benefit Pa'anga	Spousal Death Benefit Fee in Pa'anga	
Minimum 1,000	20	Compulsory
2,000	40	Voluntary
3,000	60	Voluntary
4,000	80	Voluntary
5,000	100	Voluntary

- v. Savings Fees – A TOP\$1.00 fee is charged by SPBD to its member when they withdraw from their savings account and are recognised in the period in which they are received.

**h. Grants**

SPBD records all grants and donations in the income statement in the period they are received. It is recorded after the net operating income. Grants and Donations for the period:

2019	2018
-	495,095

**i. Expenses**

*Personnel costs*

Salaries and wages

Salaries and wages are recognised as an expense as employees provide services.

*Superannuation schemes*

Employer contributions to the Government National Retirement Fund are accounted for as defined contribution scheme and is recognised as an expense in the profit and loss as incurred.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2019*

*Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

*Financial and Operating expenses*

All financial and operating expenses are recorded on an accrual basis.

**j. Leases**

*Finance Leases*

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, finance leases where SPBD is the lessee are recognised as assets and liabilities in the Statement of Financial Position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance charge is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty as to whether SPBD will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

*Operating Leases*

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lease or the lease term is less than 12 months. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

**k. Financial Instruments**

Financial instruments are recognized in the balance sheet when SPBD becomes a party to a financial contract. These include cash balances, borrowings, related-party advances, receivables and payables. All financial instruments are initially recorded at cost and subsequently carried at the balance outstanding at the balance date.

**l. Income Tax**

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

**m. Tonga Consumption Tax**

Provision of financial services is exempted from Consumption Tax by the order of the Commissioner of the Revenue Services Department with the consent of the Privy Council.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2019*

**n. Foreign Currencies**

Transactions in foreign currency have been converted into Tongan Pa'anga (TOP) amount at rates ruling at the particular balance sheet date. The source for exchange rates are the published rates of either Bank of South Pacific (Tonga) Ltd or ANZ Bank (Tonga) Ltd using the average of the buying and selling rates. Exchange differences should be taken to the income statement as foreign exchange gain or loss.

	<b>2019</b>	<b>2018</b>
Exchange rate used at balance sheet date (TOP/USD)	0.4367	0.4502
Exchange Rate used at balance sheet date (TOP/NZD)	0.6506	0.6702
Exchange Rate used at balance sheet date (TOP/AUD)	0.6225	0.6372

**o. Creditors and other payables**

Creditors and other payables are recorded at their face value.

**p. Borrowings**

Borrowings are initially recognised at the amount borrowed plus transactions costs. Interest due on the borrowings is subsequently accrued and added to the borrowing balance. Borrowings are classified as current liabilities unless SPBD has an unconditional right to defer settlement of the liability for at least 12 months after the balance date. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

**q. Employee entitlements**

***Short term employee entitlements***

Employee benefits that are due to be settled within 12 months after the end of the period in which the employee renders the related service are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to but not yet taken at balance date and sick leave.

***Long term employee entitlements***

There are no long term employee entitlements.

**r. Provisions**

A provision is recognised for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDING 31 DECEMBER 2019

s. **Change in Accounting Policies**

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

t. **Critical judgements in applying accounting policies**

Management has exercised the following critical judgements in applying accounting policies:

*Leases classification*

Determining whether a lease agreement is finance or an operating lease requires judgement as to whether the agreement transfers substantially all the risks and rewards of ownership to SPBD.

Judgement is required on various aspects that include, but are not limited to, the fair value of the leased asset, the economic life of the leased asset, whether or not to include renewal options in the lease term, and determining an appropriate discount rate to calculate the present value of the minimum lease payments. Classification as a finance lease means the asset is recognised in the Statement of Financial Position as property, plant, and equipment, whereas for an operating lease no such asset is recognised.

5. **CASH ON HAND AND IN BANK**

	<u>2019</u>	<u>2018</u>
	<u>Cash on Hand</u>	
Undeposited Collections	(14)	-
Petty Cash Imprest	2,000	2,000
Saving Reserve Imprest	50,000	36,801
Money Transfer Reserve Imprest	25,050	25,000
<b>SUB_TOTAL</b>	<b>77,036</b>	<b>63,801</b>
	<u>Cash in Bank</u>	
ANZ Dollar Account 165-3890	310,340	13,449
BSP Account 2000732848	347,166	632,549
BSP Account 2001343143	19,536	15,272
TDB- Ha'apai Bank Account 149464 S1	40,125	7,006
TDB- 'Eua Bank Account 149961 S1	-	-
<b>SUB_TOTAL</b>	<b>717,167</b>	<b>668,276</b>
	<u>Bank Overdraft</u>	
ANZ Bank Account 165-3787	(349,279)	(479,059)
<b>TOTAL</b>	<b>444,924</b>	<b>253,018</b>

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDING 31 DECEMBER 2019

6. LOAN PORTFOLIO

	<u>Loans Receivables</u>	<u>2019</u>	<u>2018</u>
Opening Balance		7,077,027	6,427,450
Total Loan Disbursement		17,749,060	12,823,272
Less: Total Principal Loan Repayments		15,383,794	12,173,695
Gross Loan Portfolio		9,442,293	7,077,027
Less: Loan Loss Reserve		(95,164)	(74,527)
Net Loan Portfolio		<u>9,347,129</u>	<u>7,002,500</u>

GROSS LOAN PORTFOLIO

	<u>2019</u>	<u>2018</u>
Opening Balance (Nuku'alofa)	6,167,769	5,271,654
Plus: 2019 Loan Disbursement	13,175,010	10,325,612
Less: 2019 Loan Repayments	(11,932,485)	(9,429,497)
Gross Loan Portfolio (Nuku'alofa)	7,410,294	6,167,769
Opening Balance (Vava'u)	529,632	738,194
Plus: 2019 Loan Disbursement	1,795,626	1,215,959
Less: 2019 Loan Repayments	(1,545,919)	(1,424,521)
Gross Loan Portfolio (Vava'u)	779,338	529,632
Opening Balance (Ha'apai)	126,332	168,241
Plus: 2019 Loan Disbursement	1,591,375	631,455
Less: 2019 Loan Repayments	(1,016,069)	(673,364)
Gross Loan Portfolio (Ha'apai)	701,638	126,332
Opening Balance ('Eua)	253,294	249,361
Plus: 2019 Loan Disbursement	1,187,049	651,130
Less: 2019 Loan Repayments	(889,321)	(647,197)
Gross Loan Portfolio ('Eua)	551,023	253,294
SPBD Gross Loan Portfolio	<u>9,442,293</u>	<u>7,077,027</u>

*No. of Loans Outstanding*

	<u>2019</u>	<u>2018</u>
SPBD Group Loan Product	4,207	6,074

*Portfolio Quality Measurement*

SPBD's main measure of loan delinquency is an aged portfolio-at-risk (PAR) ratio. Loans are separated into classes depending on the number of days they are in arrears. For each class of loans, the outstanding principal balance of such loans is divided by the outstanding principal balance of the gross loan portfolio. Loans are considered in arrears if any payment has fallen due and remained unpaid. Loan payments are applied first to any interest due, and then to any instalment of

**6. LOAN PORTFOLIO continued**

principal that is due but unpaid, beginning with the earliest such instalment. The number of days of lateness is based on the due date of the earliest loan instalment that has not been fully paid.

***Loan Loss Provisioning and Loan Loss Reserve***

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

The following schedule is to be used from the loan portfolio aging report to set the reserve:

Number of weeks in arrears	Percentage of outstanding principal required to be charged as loan loss provision
1 week to 4 weeks in arrears	5%
5 weeks to 8 weeks in arrears	10%
9 weeks to 12 weeks in arrears	25%
13 weeks to 16 weeks in arrears	50%
17 weeks to 20 weeks in arrears	75%
21 + weeks in arrears	100%

***Loan Write-off***

The purpose of loan write-offs is to remove loans in arrears from SPBD's balance sheet, where there is significant doubt of any material loan payment recovery.

Any loan in arrears exceeding 26 weeks will be short-listed for potential write-off. Write-off decision will be made on a case-by-case basis by the Chairman/President upon review of the recommendations of the General Manager.

***Renegotiated Loans***

Under exceptional circumstances, management may renegotiate loans—either refinancing the entire loan (issuing a new loan to pay off an existing one) or rescheduling repayment terms for clients who have suffered catastrophic events and who appear willing and able to repay their loans under longer-term agreements. Every renegotiation of a loan must be approved by the Chairman/President. Renegotiated loans are tracked separately because they have a higher risk profile than loans that have not been renegotiated. A total of \$2,255,026 of loans (principal) were renegotiated and restructured in 2018. Cyclone Gita caused widespread damage to Tonga and to assist its members the Chairman/President approved affected members to restructure their loans. All Rehabilitation Loans established specifically for members suffering from the impact of Cyclone Gita has been fully repaid in 2019.



SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDING 31 DECEMBER 2019

6. LOAN PORTFOLIO continued

Portfolio Quality	Outstanding Loan Balance	Portfolio at Risk	Loan Loss Reserve Rate	Loan Loss Reserve Amount
Current	9,440,251	0%	1%	94,403
5 to 8 weeks in arrears	1,423	0%	10%	142
21 + weeks in arrears	619	0%	100%	619
<b>Total</b>	<b>9,442,293</b>			<b>95,164</b>

The Board of Directors approved in a special resolution to reduce the general provision to 1% of the loan portfolio due to Portfolio at Risk consistently below 1%.

Movement in Loan Loss Reserve	2019	2018
Loan Loss Reserve, January 1	74,527	65,164
Loan Loss Provision for the year	20,637	9,363
<b>Loan Loss Reserve, December 31</b>	<b>95,164</b>	<b>74,527</b>

7. RECEIVABLES

	2019	2018
Other Receivables	16,372	45,815
Prepaid Expenses	5,669	10,632
Tax Recoverable	-	-
<b>Total Receivables</b>	<b>22,041</b>	<b>56,447</b>

8. SHORT-TERM INVESTMENTS

	2019	2018
Term Deposit BSP	55,511	214,890
Term Deposit ANZ Bank	171,743	166,592
Term Deposit TDB	150,000	150,000
Term Deposit MBF Bank	-	-
<b>Total</b>	<b>377,253</b>	<b>531,482</b>

9. PROPERTY, PLANT AND EQUIPMENT

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	65,149	56,704	3,591	8,445
Computer Equipment and Peripherals	100,537	79,703	690	20,833
Motor Vehicles	222,336	161,172	2,412	61,164
Office Equipment	62,608	44,168	5,943	18,440
Software and Electronics System	41,101	37,100	1,921	4,002
Leasehold Improvements	43,552	10,994	1,967	32,558
Right of use Assets	191,854	42,634	42,634	149,220
<b>2019 TOTAL</b>	<b>727,138</b>	<b>432,476</b>	<b>59,158</b>	<b>294,662</b>
<b>2018 TOTAL</b>	<b>640,827</b>	<b>531,466</b>	<b>90,873</b>	<b>109,361</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2019**

**10. OTHER ASSETS**

	<u>2019</u>	<u>2018</u>
Stocks of Passbooks	225	39
Stocks of Receipt Books	1,256	711
Stocks of Secretary Books	720	117
Stocks of Financial Diaries Booklets	6,220	1,193
Rental Bond - Head Office	5,000	13,000
<b>Total</b>	<u>13,421</u>	<u>15,060</u>

**11. CLIENTS SAVINGS DEPOSITS**

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

SPBD actively encourages its members to develop a regular habit of savings. All members are required to open a savings account and deposit an initial amount of TOP 10. This must be performed prior to any 1<sup>st</sup> Cycle loan disbursement occurring.

All members also face a compulsory savings requirement. The compulsory savings requirement is 2.5% of the loan amount and deducted from the loan proceeds. The compulsory savings amount cannot be withdrawn while the loan is outstanding. Only when a loan is fully repaid can a member withdraw the compulsory savings.

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

All clients' savings are deposited in a segregated bank account at Westpac Bank. SPBD is not a regulated financial institution and does not use clients' savings for onward lending. The number of savings accounts as of the end of the financial year is:

	<u>2019</u>	<u>2018</u>
No. of Saving Accounts	10,710	10,058
Clients Saving Balances	1,089,611	779,764

**12. ACCOUNTS PAYABLE**

	<u>2019</u>	<u>2018</u>
Accounts Payable	90,922	41,022
Employees Entitlement	12,666	13,391
TVLLC Payable	85,000	
SPBD Holding Payable	144,264	
<b>Total</b>	<u>332,851</u>	<u>54,413</u>

SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDING 31 DECEMBER 2019

13. COMMERCIAL LOANS

	2019	2018
Tonga Development Bank	1,896,292	1,867,871
Bank of South Pacific	-	224,211
Responsability	-	444,247
<b>Total</b>	<b>1,896,292</b>	<b>2,536,329</b>
Commercial Loan - Current	600,400	1,175,683
Commercial Loan - Non-Current	1,295,892	1,360,646
<b>Total</b>	<b>1,896,292</b>	<b>2,536,329</b>

a) Tonga Development Bank

The fluctuating credit facility with Tonga Development Bank is secured by a charge of 120% of SPBD loan portfolio or 480,000 facility amount.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-18 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-19 (TOPS)	Interest Repayment (TOPS)
04-04-17	TOP	799,000	9.0%	31-03-22	533,041	400,000	98,466	-	834,575	53,274
31-07-15	TOP	1,000,000	8.5%	30-06-23	868,882	-	183,787	-	685,095	66,653
28-06-18	TOP	500,000	9.0%	30-06-23	455,948	-	89,326	-	376,622	38,234
<b>TOTAL</b>					<b>1,867,871</b>	<b>400,000</b>	<b>371,579</b>	<b>-</b>	<b>1,896,292</b>	<b>158,161</b>

b) Bank of South Pacific

BSP Loan is secured by the 4 vehicles purchased with loan Fund ie. Honda 2000chasis no RDI-5311336 Reg. No.L17535, Nissan 2003 chasis no.NT30-125891 Reg. NO.L17532, Nissan 2003 chasis no.NT30-130726 Reg. NO.L17534 & Honda Van L15476.Loans had been fully settled in 2019.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-18 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-19 (TOPS)	Interest Repayment (TOPS)
25-05-17	TOP	60,000	9.65%	25-01-19	8,636	-	8,636	-	-	131
25-05-17	TOP	400,000	9.11%	31-05-21	215,575	-	215,575	-	-	13,947
<b>TOTAL</b>					<b>224,211</b>	<b>-</b>	<b>224,211</b>	<b>-</b>	<b>-</b>	<b>14,078</b>

c) ResponsAbility

The loan with ResponsAbility is in a form of a promissory note between Issuer: SPBD Microfinance Lts and Note Holder: responsAbility Global Microfinance Fund.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-18 (TOPS)	Additional Fund during the year	Principal Repayment (TOPS)	Foreign Currency Movement	Balance 31-12-19 (TOPS)	Interest Repayment (TOPS)
21-04-17	USD	200,000	8.0%	8-04-19	444,247	-	460,829	(16,582)	-	-
<b>TOTAL</b>					<b>444,247</b>	<b>-</b>	<b>460,829</b>	<b>(16,582)</b>	<b>-</b>	<b>-</b>



**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2019**

**c. Whole Planet Foundation**

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-18 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-19 (TOP\$)	Interest Repayment (TOP\$)
07-11-12	TOP	243,115	0	28-11-18	-	-	-	-	-	-
28-11-13	TOP	154,699	0	28-11-20	64,458	-	51,566	-	12,892	-
14-04-14	TOP	123,003	0	01-04-20	82,002	-	41,001	-	41,001	-
<b>TOTAL</b>					<b>146,460</b>	<b>-</b>	<b>92,567</b>	<b>-</b>	<b>53,893</b>	<b>-</b>

**d. SPBD Holdings**

The loan with SPBD Holdings is in a form of a promissory note between Issuer: SPBD Microfinance Ltd and Note Holder: SPBD Microfinance Holdings (Singapore) PTE LTD.

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-18 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-19 (TOP\$)	Interest Repayment (TOP\$)
15-09-17	AUD	100,000	10.0%	31-12-20	156,937	-	41,557.61	5,103	120,482	4,033
18-10-17	USD	50,000	7.0%	31-12-19	111,062	-	58,220.78	4,407	57,248	4,042
12-12-17	AUD	100,000	10.0%	31-12-19	78,468	-	41,557.61	3,250	40,160	4,033
12-10-19	NZD	50,000	8.0%	31-12-22	-	72,211	-	4,641	76,852	-
11-11-19	TOP	913,034	9.5%	31-12-21	-	913,034	-	-	913,034	-
26-11-19	NZD	50,000	8.0%	31-12-22	-	71,619	-	5,233	76,853	-
<b>TOTAL</b>					<b>346,467</b>	<b>1,056,864</b>	<b>141,336</b>	<b>22,633</b>	<b>1,284,629</b>	<b>12,107</b>

**e. KIVA**

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

Date	Currency	Amount	Interest	Maturity Date	Balance 31-12-18 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31-12-19 (TOP\$)	Interest Repayment (TOP\$)
31-11-17	USD	329,642	0%	On Going	609,639	309,441	197,694	33,461	754,847	-
<b>TOTAL</b>					<b>609,639</b>	<b>309,441</b>	<b>197,694</b>	<b>33,461</b>	<b>754,847</b>	<b>-</b>

**15. ACCRUED INTEREST**

	<u>2019</u>	<u>2018</u>
Microdreams Foundation	12,513	5,835
SPBD Holdings	-	-
Respons-Ability	-	8,194
<b>Total</b>	<u>12,513</u>	<u>14,029</u>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2019**

**16. FINANCE LEASES**

SPBD has leases for offices throughout the Tonga islands. Except for the Tongatapu main office lease agreement, all other office lease agreements were considered short term rentals. The main office lease located in the Tongatapu Island is therefore reflected on the Statement of Financial Position as a right-of-use asset and a lease liability. There is no other asset category that is leased.

*Lease liabilities are presented in the statement of financial position as follows:*

	<u>2019</u>
Current	63,951
Non-Current	85,269
<b>Total</b>	<u>149,220</u>

There were no finance lease liabilities as at 31 December 2018.

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

The fair value of finance is \$149,220. Fair value has been determined using contractual cash flows discounted using a rate based on market borrowing rates at balance date ranging from 3% to 5%.

*Analysis of finance leases:*

	<u>2019</u>
<b>Minimum lease payments payable</b>	
No later than one year	69,000
Later than one year and not later than five years	92,000
Later than five years	-
<i>Total minimum lease payments</i>	<u>161,000</u>
Future Finance charges	(11,780)
<i>Present Value of minimum lease payments</i>	<u>149,220</u>
<b>Present value of minimum lease payments payable</b>	
No later than one year	63,951
Later than one year and not later than five years	85,268
Later than five years	-
<i>Total present value of minimum lease payments</i>	<u>149,220</u>

*Lease payments not recognised as a liability:*

SPBD has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred. The expense relating to payments not included in the measurement of the lease liability is short term leases totalling \$50,159 as at 31 December 2019.

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2019**

**17. OWNER'S EQUITY**

SPBD Microfinance Holdings (Singapore) Pte Limited:

	<u>2019</u>	<u>2018</u>
Opening Balance	528,233	528,233
Equity Injection	-	-
Closing Balance 31 Dec	<u>528,233</u>	<u>528,233</u>

There is no dividend payment approved for 2019.

**18. SPBD Staff Loans**

<b>Borrower</b>	<b>Balance</b>	<b>Term</b>	<b>Status</b>
Staff	\$52,997.89	12 months	Current

The above balance of \$52,997.89 for SPBD Staff Loan is included in the balance of \$9,442,293 for Loan Receivables in note 6 above.

**19. TAXATION**

**a. Income Tax**

Income tax payable is 25% of Net Operating Income for the financial period.

Operating Income as per Financials	1,126,365
<i>Add: Non deductible expenses</i>	
Unrealised Forex Loss	72,413
Death Benefit Provision	65,735
Loan Security Loss	-
Loan Loss Provision	20,637
	<u>158,787</u>
<i>Less: Deductible expenses</i>	
Death Benefit 2018	38,115
Forex 2018	165,782
Loan Security Loss	25,724
Loan Loss Provision 2018	9,363
	<u>238,984</u>
<b>Taxable Income</b>	<b>1,046,168</b>
	<u>261,542</u>
<b>b. Tax Payable</b>	
Income Tax Payable	261,542
Withholding Tax Payable	13,304
	<u>274,846</u>
<b>Total</b>	<b>274,846</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDING 31 DECEMBER 2019**

**20. CAPITAL COMMITMENTS**

The capital commitments as at 31 December 2019 amount to \$143,890 (2018: \$Nil).

**21. OPERATING LEASE COMMITMENTS**

Except for short term month- by- month rental obligations of SPBD business premises, there are no other lease commitments for the year ended 31 December 2019.

**22. CONTINGENT LIABILITY**

There is no contingent liability for the year ended 31 December 2019.

**23. ADOPTION OF IFRS 9 FINANCIAL INSTRUMENTS**

In accordance with the transitional provisions of IFRS 9, SPBD has elected not to restate the information for previous years to comply with IFRS 9. Adjustments arising from the adoption of IFRS 9 are recognised in opening equity at 1 January 2019.

Accounting policies have been updated to comply with IFRS 9. The main updates are:

- Note 4d Loan receivable Policy: This policy has been updated to reflect that the impairment of short-term receivables is now determined by applying an expected credit loss model.
- Note 4c Investments: This policy has been updated to explain that a loss allowance for expected credit losses is recognised only if the estimated loss allowance is not trivial.

On the date of initial application of IFRS 9, being 1 January 2019, the classification of financial instruments under IAS 9 and IFRS 9 is as follows:

	Measurement category		Carrying amount		
	IAS 39	IFRS9	31-Dec-18	Adoption IFRS 9	01-Jan-19
Cash & Cash equivalents	Loans & Receivables	Amortised cost	\$ 732,077	-	\$ 732,077
Investments	Loans & Receivables	Amortised cost	\$ 531,482	-	\$ 531,482
Loan Portfolio Outstanding	Loans & Receivables	Amortised cost	\$ 7,002,500	-	\$ 7,002,500
Receivables	Loans & Receivables	Amortised cost	\$ 56,447	-	\$ 56,447
<b>Total Financial Assets</b>			<b>\$ 8,322,506</b>		<b>\$ 8,322,506</b>



**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2019*

**24. ADOPTION OF IFRS 16 LEASES**

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

	Carrying amount at 31 December 2018	Reclassification	Remeasurement	IFRS 16 carrying amount at 1 January 2019
Fixed Assets	109,361	-	191,854	191,854
Leave liabilities	-	-	191,854	191,854
	109,361		383,708	383,708

The impact on the financial statements for the year ended 31 December 2019 from the adoption of IFRS 16 was increase in assets and liabilities by \$149,220 and no impact on the net income result.



## Independent Auditor's Report

### South Pacific Business Development Microfinance Limited's Financial statements for the year ended 31 December 2019

We have audited the financial statements of the South Pacific Business Development Microfinance Limited (the Company) on pages 1 to 24, that comprise of the financial position as at 31 December 2019, the Statement of Profit or Loss or Other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies.

#### Opinion on the financial statements

In our opinion the financial statements of the Company on pages 1 to 24:

- presents fairly, in all material respects:
  - its financial Position as at 31 December 2019; and
  - its financial performance and cash flows for the year ended;
- comply with, in all material respects:
  - generally accepted accounting practice in Tonga as represented by the International Financial Reporting Standards; and
  - disclosure guidelines for financial reporting by microfinance institutions.

Our audit was completed on 26 March 2020. This is the date at which our opinion is expressed.

#### Basis of opinion

We have fulfilled our responsibilities and carried out our audit in accordance with the International Standards on Auditing issued by International Auditing and Assurance Standards Board.

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

#### Responsibilities of the Board of Directors

The Board of Directors are responsible for preparing financial statements are fairly presented, comply with generally accepted accounting practice as represented by International Financial Reporting Standards and comply with the Tonga Companies Act 1995.

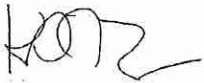
The Board of Directors are also responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Tonga Companies Act 1995.

## Responsibilities of the Auditor

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our responsibility is to express an independent opinion on the financial statements to comply with the Tonga Companies Act 1995.

We are independent of the Company. Other than the audit, we have no relationship with, or interests in, the Company.



Kisione Tupou  
JK Chartered Accountants  
Nuku'alofa, Tonga