



South Pacific Business Development  
Microfinance Ltd.

Financial Statements

For the Period Ending 31 December 2012

**AUDIT REPORT  
TO THE READERS OF THE  
SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LIMITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**Unqualified opinion**

In our opinion, proper accounting records have been kept by the Company, so far as it appears from our examination of those records, and the accompanying financial statements, which have been prepared in accordance with generally accepted accounting practises, give a true and fair view of the state of affairs of the Company's financial position as at 31 December 2012 and the Company's financial results of operations and cashflow for the year then ended.

We conclude that the financial statements together with notes thereon have been drawn up in conformity with the Disclosure Guidelines for financial reporting by microfinance institutions in all material respects.

The audit was completed on 18 March 2013, and is the date at which our opinion is expressed.

The basis of the opinion is explained below.

**Basis of Opinion**

We carried out the audit in accordance with the International Auditing Standards. We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error. Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements.

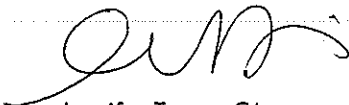
The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, an assessment of accounting policies and significant accounting estimates made by management, and evaluation of the overall financial statement presentation. We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We believe we have obtained all the information and explanations we required to support our opinion above.

**Responsibilities of the Board of Directors and the Auditor**

The Board of Directors is responsible for preparing the financial statements in accordance with international accounting standards. The financial statements must give a true and fair view of the Company's financial results of operations and cash flows for the year ended 31 December 2012.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you.



Jennifer Tupou, CA  
JK Chartered Accountants  
Nuku'alofa, Tonga

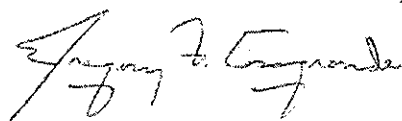
**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**

**BALANCE SHEET**

As of 31 December 2012

<b>ASSETS</b>			
<b>Current Assets</b>	<i>Note</i>	<b>2012</b>	<b>2011</b>
Cash on Hand and in Bank	5	(289,781)	20,403
Loan Portfolio Outstanding	6	3,389,070	2,764,085
Receivables	7	23,906	15,026
Short-Term Investments	8	380,476	383,344
<b>Total Current Assets</b>		<b>3,503,671</b>	<b>3,182,858</b>
<b>Fixed Assets</b>			
Fixed Assets	9	329,718	208,832
Less: Accumulated Depreciation		159,329	97,336
<b>Net Fixed Assets</b>		<b>170,389</b>	<b>111,496</b>
Other Assets	10	8,562	1,185
<b>TOTAL ASSETS</b>		<b>3,682,622</b>	<b>3,295,539</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Clients' Savings deposits	11	408,193	334,760
Accounts Payable	12	29,476	11,697
Taxes Payable	17	131,012	86,664
Accrued Interest Payable	15	10,370	4,618
Commercial Loans - Current	13	569,981	830,515
Soft Loans - Current	14	975,098	440,053
Life Insurance Reserve		16,539	20,366
<b>Total Current Liabilities</b>		<b>2,140,669</b>	<b>1,728,673</b>
<b>Long-term Liabilities</b>			
Commercial Loans - Non-current	13	0	0
Soft Loans - Non-current	14	517,362	969,194
<b>Total Long term Liabilities</b>		<b>517,362</b>	<b>969,194</b>
<b>TOTAL LIABILITIES</b>		<b>2,658,031</b>	<b>2,697,867</b>
<b>EQUITY</b>			
Owner's equity	16	528,233	354,624
Retained Earnings		243,047	9,788
Excess of Income and Expenditure, current period		253,311	233,259
<b>TOTAL EQUITY</b>		<b>1,024,591</b>	<b>597,671</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,682,622</b>	<b>3,295,539</b>

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



**Gregory F. Casagrande**  
Chairman/President

Date: 18 March 2013



**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
**INCOME STATEMENT**  
**For the period 1 January to 31 December 2012**

<b>Financial Income</b>	<i>Note</i>	<b>2012</b>	<b>2011</b>
Interest on Loans		1,377,886	1,019,156
Development Fee		124,114	107,664
Loan Insurance Fee		62,243	59,134
Life Insurance Fee		77,759	87,795
Interest earned on Bank Accounts & Term Deposits		4,707	7,077
Other operating revenues		42,803	32,501
<b>Total Financial Income</b>		<b>1,689,511</b>	<b>1,313,327</b>
<b>Financial Expenses</b>			
Interest and fees on borrowed funds		183,911	166,879
Foreign Exchange Loss/(Gain)		(28,731)	(27,702)
Interest on Client Saving		6,515	4,891
Loan Insurance Loss		10,036	6,302
Life Insurance Loss		27,171	29,366
<b>Total Financial Expenses</b>		<b>198,902</b>	<b>179,736</b>
<b>NET FINANCIAL INCOME</b>		<b>1,490,609</b>	<b>1,133,591</b>
Loan Loss Provision	6	43,353	13,129
<b>NET FINANCIAL MARGIN</b>		<b>1,447,256</b>	<b>1,120,462</b>
<b>Operating Expenses</b>			
Computer Support System		2,401	4,390
Conference & Meetings		6,687	3,780
Depreciation	9	61,993	43,570
Electricity and Water		10,427	7,803
Fees and Bank Charges		32,007	6,043
Insurance		9,625	7,919
Management Fees		188,797	176,660
Membership Fees and Subscription		441	235
Office Expenses		20,658	15,997
Postage, Telephone and Communications		15,184	18,418
Printing and Office Stationeries		37,711	30,807
Professional Services		9,845	4,946
Public Relations and Advertisements		3,158	13,007
Rentals		40,800	32,400
Repairs and Maintenance		19,742	7,577
Salaries and Benefits		385,240	305,967
Staff Training and Development		15,512	17,589
Transportation, Fuel, Oil		45,487	31,297
Travel		92,893	60,910
Board of Directors Fees		4,000	3,000
SPBD Award day		25,128	18,026
SPBD Ha'apai Opening		2,094	-
Financial Diaries Expenses	19	66,154	-
<b>Total Operating Expenses</b>		<b>1,095,980</b>	<b>810,341</b>

<b>NET OPERATING INCOME BEFORE TAXES &amp; DONATIONS</b>	<b>351,276</b>	<b>310,121</b>
Income Tax	17	(77,362)
<b>NET INCOME AFTER TAX AND BEFORE DONATIONS</b>	<b>253,311</b>	<b>232,759</b>
<b>Non-Operating Income/Expenses:</b>		
Grants & Donations	-	500
Non operating income/(expense)- Loss on write-off of Fixed Assets	-	-
<b>NET INCOME</b>	<b>253,311</b>	<b>233,259</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 2012**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2012</b>	<b>2011</b>
Net Income after Tax	253,311	232,759
Adjustment for Non-Cash Items:		
Depreciation	61,993	43,570
Loan Loss Provision	43,353	13,129
 (Increase)/Decrease in Operating Assets:		
Gross Loan Portfolio	(668,338)	(1,327,262)
Receivables	(16,880)	359
Other Assets	623	1,624
 Increase/(Decrease) in Operating Liabilities:		
Accounts Payable	17,780	5,284
Taxes Payable	44,348	54,786
Accrued Interest Payable	5,752	(47,484)
Life Insurance Reserve	(3,829)	20,366
 <b>Net Cash Flow from Operating Activities</b>	 <b>(261,888)</b>	 <b>(1,002,869)</b>
 <b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of Fixed Assets	(120,886)	(24,567)
Short-term Investments	2,868	(134,641)
Loss on Write-off of Fixed Assets	-	-
<b>Net Cash Flow from Investing Activities</b>	<b>(118,018)</b>	<b>(159,208)</b>
 <b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Client Savings Deposits	73,433	111,643
Equity	173,609	171,742
Soft Loans	83,213	15,500
Commercial Loan	(260,534)	630,102
Grants and Donations	-	500
<b>Net Cash Flow from Financing Activities</b>	<b>69,722</b>	<b>929,487</b>
 <b>NET INCREASE/(DECREASE) IN CASH</b>	 <b>(310,184)</b>	 <b>(232,590)</b>
<b>OPENING CASH BALANCE</b>	<b>20,403</b>	<b>252,993</b>
<b>CLOSING CASH BALANCE</b>	<b>(289,781)</b>	<b>20,403</b>

**SOUTH PACIFIC BUSINESS DEVELOPMENT MICROFINANCE LTD.**  
*NOTES TO FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDING 31 DECEMBER 2012*

**1. REPORTING ENTITY**

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

**2. MEASUREMENT BASE**

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

**3. STATEMENT OF COMPLIANCE**

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

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

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Reporting Currency**

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

**b. Cash and Cash Equivalents**

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

**c. Investments**

Investments are classified as held to maturity. These investments are with fixed or determinable payments and fixed maturity in which SPBD has the positive intent and ability to hold the investment till maturity. Investments in bank deposits are initially measured at fair value plus transaction costs.

**d. Depreciation**

Fixed assets are depreciated on a straight-line basis. The following associated depreciation rates of major classes of fixed assets are used and are in accordance with the rates prescribed in the Tonga Income Tax 2007:

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%

**e. Revenue**

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

- i. Interest Income - Interest income from loan portfolio and term deposits is recognized using a cash-based method where they are 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 Insurance – 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 insurance fee is deducted from the loan proceeds.
- iv. Life Insurance – SPBD offers a Life Micro-insurance 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 life insurance fee is deducted from the loan proceeds.

Size of Benefit Pa’anga	Insurance 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

- 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.

**f. Grants**

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

2012	2011
-	500

**g. Expenses**

Expenses are recorded on an accrual basis.

**h. Leases**

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

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

**i. Borrowing Costs**

All borrowing costs are expensed.



**j. Financial Instruments**

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

**k. Income Tax**

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

**l. Tonga Consumption Tax**

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

**m. Foreign Currencies**

Transactions in foreign currency have been converted into 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 Westpac Bank (Tonga) Ltd or ANZ Bank (Tonga) Ltd using the average of the buying and selling rates. Exchange differences should be taken to the income statement as foreign exchange gain or loss.

		2012	2011
Exchange rate used at balance sheet date	(TOP/USD)	0.5639	0.5785
Exchange rate used at balance sheet date	(TOP/NZD)	0.6785	

**n. Comparative Figures**

The financial statements are prepared for the twelve months period ending December 31, 2012 with comparative figures for twelve months operating period in 2011.

**o. Creditors and other payables**

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

**p. Borrowings**

Borrowings are initially recognised at their fair value. 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.

**s. Change in Accounting Policies**

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

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

	<i>Cash on Hand</i>	<b>2012</b>	<b>2011</b>
Undeposited Collections		85	2,338
Petty Cash Imprest		1,265	800
Savings Reserve Imprest		9,639	14,114
<b>SUB-TOTAL</b>		<b>10,989</b>	<b>17,251</b>
	<i>Cash in Bank</i>		
ANZ Bank Account 165-3787		(360,072)	(103,395)
ANZ US Dollar Account 165-3890		502	8,712
Westpac Bank Account 2000732848		21,012	97,835
Westpac Bank Account 2000921573 (Hp)		37,788	-
<b>SUB-TOTAL</b>		<b>(300,770)</b>	<b>3,152</b>
<b>TOTAL</b>		<b>(289,781)</b>	<b>20,403</b>

**6. LOAN PORTFOLIO**

**LOANS RECEIVABLES**

	<b>2012</b>	<b>2011</b>
Opening Balance	2,791,779	1,464,517
Total Loan Disbursements	6,485,241	5,392,950
Less: Total Principal Loan Repayments	5,816,902	4,065,687
<b>Gross Loan Portfolio</b>	<b>3,460,117</b>	<b>2,791,779</b>
Less: Loan Loss Reserve	71,047	27,694
<b>Net Loan Portfolio</b>	<b>3,389,070</b>	<b>2,764,085</b>

**GROSS LOAN PORTFOLIO**

	<b>2012</b>	<b>2011</b>
Opening Balance (Nuku'alofa)	2,469,253	1,464,517
Plus: Loan Disbursement	5,470,734	4,743,867
Less: Loan Repayments	5,070,862	3,739,130
<b>Gross Loan Portfolio (Nuku'alofa)</b>	<b>2,869,125</b>	<b>2,469,253</b>

	<b>2012</b>	<b>2011</b>
Opening Balance (Vava'u)	322,526	-
Plus: Loan Disbursement	891,464	649,083
Less: Loan Repayments	701,976	326,557
<b>Gross Loan Portfolio (Vava'u)</b>	<b>512,014</b>	<b>322,526</b>



	<b>2012</b>	<b>2011</b>
Opening Balance (Ha'apai)	-	-
Plus: Loan Disbursement	123,042	-
Less: Loan Repayments	44,064	-
<b>Gross Loan Portfolio (Ha'apai)</b>	<b>78,978</b>	<b>-</b>

<b>SPBD Gross Loan Portfolio</b>	<b>3,460,117</b>	<b>2,791,779</b>
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***No. of Loans Outstanding***

	<b>2012</b>	<b>2011</b>
SPBD Group Loan Product	4,230	4,090

***Portfolio Quality Measurement***

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

***Loan 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.

Portfolio Quality	Outstanding Loan Balance	Portfolio at Risk	Loan Loss Reserve Rate	Loan Loss Reserve Amount
Current	3,420,428	0%	2%	68,409
1 to 4 weeks in arrears	36,714	0%	5%	1,836
5 to 8 weeks in arrears	1,423	0%	10%	142
9 to 12 weeks in arrears	462	0%	25%	116
13 to 16 weeks in arrears	1,090	0%	50%	545
17 to 20 weeks in arrears	0	0%	75%	0
21 + weeks in arrears	0	0%	100%	0
<b>Total</b>	<b>3,460,117</b>	<b>0%</b>		<b>71,047</b>

The Board of Directors approved in a special resolution to have a general provision of 2% of the loan portfolio.

Movement in Loan Loss Reserve	2012	2011
Loan Loss Reserve, January 1	27,694	14,566
Loan Loss Provision for the year	43,353	13,129
Less: Loans Written-off during the year	-	-
<b>Loan Loss Reserve, December 31</b>	<b>71,047</b>	<b>27,694</b>

#### 7. RECEIVABLES

	2012	2011
Advances to Officers and Staff	100	1,251
Other Receivables	12,008	5,222
Prepaid Expenses	11,798	8,553
<b>Total Receivables</b>	<b>23,906</b>	<b>15,026</b>

#### 8. SHORT-TERM INVESTMENTS

	2012	2011
Term Deposits - Westpac Bank	201,184	208,690
Term Deposits - ANZ	179,293	174,654
<b>Total</b>	<b>380,476</b>	<b>383,344</b>

#### 9. FIXED ASSETS

Type	Cost	Accumulated Depreciation	Depreciation for the year	Net Book Value
Furniture and Fixtures	48,536	14,480	5,364	34,056
Computer Equipment and Peripherals	38,174	19,472	7,973	18,702
Motor Vehicle	170,007	99,557	37,564	79,450
Office Equipment	26,347	7,472	2,736	18,875
Software and Electronics System	33,418	14,112	8,356	19,306
Leasehold Improvements	4,236	4,236	-	-
<b>2012 TOTAL</b>	<b>329,718</b>	<b>159,329</b>	<b>61,993</b>	<b>170,389</b>
<b>2011 TOTAL</b>	<b>208,832</b>	<b>97,336</b>	<b>43,570</b>	<b>111,496</b>

#### 10. OTHER ASSETS

	2012	2011
Stock - Passbooks	562	1,185
Rental Bond - Head Office	8,000	-
<b>Total Other Assets</b>	<b>8,562</b>	<b>1,185</b>

## 11. CLIENTS SAVINGS DEPOSITS

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

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

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:

	2012	2011
<i>No. of Savings Accounts</i>	6,195	4,841
<i>Clients Saving Balances</i>	408,193	334,760

## 12. ACCOUNTS PAYABLE

	2012	2011
Accounts Payable	14,180	7,674
Employees Entitlement	15,296	4,023
<b>Total</b>	<b>29,476</b>	<b>11,697</b>

## 13. COMMERCIAL LOANS

	2012	2011
Tonga Development Bank	388,493	400,000
Cresud	181,488	430,515
<b>Total</b>	<b>569,981</b>	<b>830,515</b>

### Tonga Development Bank

The fluctuating credit facility with Tonga Development Bank is secured by a charge of 120% of the loan portfolio of SPBD or 480,000 to cover the 400,000 facility amount.

Date	Currency	Amount	Interest	Maturity Date	Balance 31/12/11 (TOP\$)	Additional Fund during the year	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
17/08/10	TOP	400,000	10.5%	31/03/13	400,000	100,000	111,507	-	388,493	34,176
<b>Total</b>					<b>400,000</b>	<b>100,000</b>	<b>111,507</b>	<b>-</b>	<b>388,493</b>	<b>34,176</b>

### Cresud

Cresud loan is secured by Guarantees from Microdreams for 40% or USD150,000 and MCC Servire for 60% or USD75,000. It is also secured by a USD25,000 term deposit at a local commercial Bank in Tonga.

Date	Currency	Amount	Interest	Maturity Date	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
12/12/10	USD	250,000	9.50%	31/01/14	430,515	173,914	-75,113	181,488	33,652
<b>Total</b>					<b>430,515</b>	<b>173,914</b>		<b>181,488</b>	<b>33,652</b>

#### 14. SOFT LOANS

	2012	2011
Microdreams Foundation	266,468	251,721
Jasmine Charitable Trust	400,000	800,000
Deutsche Bank	312,295	303,808
Good Return	45,778	53,718
Microlumbia Fund	35,467	-
Whole Planet Foundation	255,116	-
SPBD Microfinance Holding	177,336	-
<b>Total</b>	<b>1,492,460</b>	<b>1,409,247</b>

Soft Loans – Current	975,098	440,053
Soft Loans – Long term	517,362	969,194
<b>Total</b>	<b>1,492,460</b>	<b>1,409,247</b>

#### MicroDreams Foundation

The loans with MicroDreams Foundation are unsecured. There are no deposits tied to these loans and no guarantee was obtained to secure them.

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
20/07/09	TOP	4,000	7.00%	30/09/12	3.25	4,000	4,000	-	-	-
1/09/09	TOP	162,887	7.00%	30/09/13	4.30	162,887	-	-	162,887	11,402
1/12/11	NZD	70,000	7.00%	15/12/14	1.75	84,854	-	18,727	103,581	-
<b>Total</b>						<b>251,741</b>	<b>4,000</b>		<b>266,468</b>	<b>11,402</b>

#### Jasmine Charitable Trust

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

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
15/10/09	TOP	1,000,000	5.00%	31/12/13	2.00	800,000	400,000	-	400,000	32,208
<b>Total</b>						<b>800,000</b>	<b>400,000</b>		<b>400,000</b>	<b>32,208</b>

### Deutsche Bank

The loans with Deutsche Bank are unsecured. There are no deposits tied to these loans and no guarantee was obtained to secure them.

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
15/10/09	USD	100,000	5.00%	28/02/13	2.00	172,206	-	-	177,336	8,965
2/12/11	USD	75,000	5.00%	28/02/13	-	131,602	-	-	133,002	6,133
<b>Total</b>						<b>303,808</b>	<b>-</b>	<b>-</b>	<b>310,338</b>	<b>15,098</b>

### Good Return

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

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
1/04/11	TOP	53,698	0.00%	On-Going	-	53,718	36,073	-	17,645	-
2/12/11	TOP	28,133	0.00%	On-Going	-	-	-	-	28,133	-
<b>Total</b>						<b>53,718</b>	<b>36,073</b>	<b>-</b>	<b>45,778</b>	<b>-</b>

### Microlumbia Fund

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

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
26/03/12	USD	20,000	8.00%	26/02/13	0.50	-	-	-	35,467	1,417
<b>Total</b>						<b>-</b>	<b>-</b>	<b>-</b>	<b>35,467</b>	<b>1,417</b>

### 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	Grace Period on Principal (yrs)	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
7/11/12	USD	143,860	0.00%	30/08/18	3.00	-	-	-	255,116	-
<b>Total</b>						-	-	-	<b>255,116</b>	-

### SPBD Microfinance Holding

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

Date	Currency	Amount	Interest	Maturity Date	Grace Period on Principal (yrs)	Balance 31/12/11 (TOP\$)	Principal Repayment (TOP\$)	Foreign Currency Movement	Balance 31/12/12 (TOP\$)	Interest Repayment (TOP\$)
27/11/12	USD	100,000	2.50%	28/02/13	3 months	-	-	-	177,336	-
<b>Total</b>						-	-	-	<b>177,336</b>	-

### 15. ACCRUED INTEREST

<b>Accrued Interest Payable</b>	<b>2012</b>	<b>2011</b>
Microdreams Foundation (USA)	1,131	867
Jasmine Charitable Trust (NZ)	-	-
Deutsche bank	1,879	1,741
Cresud	5,177	2,010
Microlumbia Fund	705	-
SPBD Microfinance Holding	1,478	-
<b>Total</b>	<b>10,370</b>	<b>4,618</b>

### 16. OWNER'S EQUITY

SPBD Microfinance Holdings (Singapore) Pte Limited:

	<b>2012</b>	<b>2011</b>
Opening Balance	354,624	182,882
Equity injection	173,609	171,742
<b>Closing Balance 31 Dec</b>	<b>528,233</b>	<b>354,624</b>



**17. TAXATION**

**a. Income Tax**

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

Operating Income as per financials		351,276
<i>Add: Non deductible expenses</i>		
Unrealised Forex Loss	28,731	
Life Insurance Provision	27,171	
Loan Loss Provision	43,353	99,255
		<u>450,531</u>
<i>Less: Deductible expenses</i>		
Life Insurance Provision 2011		29,366
Unrealised Forex Gain 2011		16,179
Loan Loss Provision 2011		13,128
		<u>58,673</u>
<b>Taxable Income</b>		<b><u>391,858</u></b>
<b>Income Tax Payable</b>		<b><u>\$97,965</u></b>
<b>b. Tax Payable</b>		
Income Tax Payable		97,965
Withholding Tax Payable		33,047
		<u>131,012</u>
<b>Total</b>		<b><u>\$131,012</u></b>

**18. RELATED PARTY TRANSACTIONS**

<b>Borrower</b>	<b>Balance</b>	<b>Term</b>	<b>Status</b>
Staff	\$35,216 12	months	Current

The above balance of \$35,216 for Related Party Transactions is included in the balance of \$3,460,117 for Loan Receivables in note 6 above.

**19. NON FINANCIAL SERVICES**

**Financial Diaries Program**

In 2012 the executive management decided to develop and pilot a project to increase financial literacy for SPBD clients.

Initial development of the project began in February 2012. That stage of development included information gathering, needs analysis and identification of a training partner to help implement the pilot. It also included the development of the training and supporting training manual/program for SPBD Center Managers and clients. Roll out of the pilot began in July 2012 with one pilot center per Center Manager. An additional two centers were added in Tongatapu and one in Ha'apai during the third quarter.

At the beginning of 2013 the project began to be rolled out across the entire SPBD Tonga network in Tongatapu, Vava'u, Ha'apai and the seven other outer islands we have a presence in.

SPBD charges no fees for this training to clients.

Financial Diaries Expenditure comprises:

Professional Services – Implementation	62,687
Training expenses	1,702
Travel Expenses – outer islands	871
Stationeries	894
<b>Total</b>	<b>\$66,154</b>

## **20. CAPITAL COMMITMENTS**

There were no capital commitments for the year ended 31 December 2012.

## **21. OPERATING LEASE COMMITMENTS**

Except for the month-by-month rental obligations of SPBD business premises, there are no other operating lease commitments for the year ended 31 December 2012.

## **22. CONTINGENT LIABILITY**

There is no contingent liability for the year ended 31 December 2012.

## **23. SIGNIFICANT EVENTS DURING THE YEAR**

SPBD officially launched in the Ha'apai Islands on 2<sup>nd</sup> October 2012. The SPBD Ha'apai branch has three employees consisting of the branch manager, center manager and an administration officer.