SPBD MICROFINANCE (VANUATU) LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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SPBD MICROFINANCE (VANUATU) LIMITED

Report of the directors
For the year ended 31 December 2018

The directors present their report together with the audited financial statements for the year ended 31 December 2018 and the auditors' report thereon.

Directors

The directors of the company at the date of this report, who served throughout the year except where otherwise indicated, are:

	Date Appointed
Gregory Francis Casagrande	10/08/2016

Principal activities

The principal activity of SPBD is to improve the quality of life of families living in poverty by providing unsecured credit, training, and on-going motivation and guidance to help them start, grow and maintain micro-businesses, build assets, as well as, finance home improvements and childhood education.

Its corporate vision is to create a network of micro-enterprise development organizations in the South-Pacific and neighbouring regions to empower women through financial access and economic development to help lift themselves and their families permanently out of poverty and improve self-esteem.

SPBD also provides a comprehensive Financial Education program (FEP) to provide meaningful and practical financial education to all its clients which helps them to manage their economic life better.

There were no significant changes in the nature of the activities of the company during the year.

State of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the company that occurred during the financial year not otherwise disclosed in this report or the financial statements. Further, it is the opinion of the directors that there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable and that the going concern presumption is therefore appropriate.

Result

The operating loss for the year was Vt 7,433,856 (2017: Vt 16,127,357).

Reserves

The directors propose that no transfer be made to reserves (2017: Vt Nil).

Dividends

The Directors recommend that no dividends be paid for the year. (2017: Vt Nil).

Directors' benefits

During the financial year, the directors of the company have not received or become entitled to receive any benefits, other than:

(a) a benefit included in the aggregate amount of the directors' benefit as shown in the financial statements;
(b) the fixed salary of a full-time employee of the company or of a related company, by reason of a contract made by the company or related company with the directors.

Report of the directors
For the year ended 31 December 2018 (continued)

Directors' interests in contracts and related party transactions

Directors serving during the year had no interests in the activities of the company.

Directors' declaration

It is the responsibility of the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its statement of comprehensive income, statement of cash flows and statement of changes in equity for that year. In the directors' opinion, the financial statements for the year ended 31 December 2018 have been drawn up so as to give a true and fair view.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2018. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records and for safeguarding the assets of the company by taking reasonable steps to prevent and detect fraud.

Auditors

A resolution to re-appoint Law Partners, as auditors will be proposed at the Annual General Meeting.

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

Dated at Port Vila, the 23rd of July 2019.

Director

Independent Auditors' Report to the members of SPBD Microfinance (Vanuatu) Limited

Audit Opinion

We have audited the accompanying financial statements of SPBD Microfinance (Vanuatu) Limited which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 6 to 21.

In our opinion, the financial statements have been properly prepared in accordance with the provisions of the Vanuatu Companies Act No. 25 of 2012 of the Republic of Vanuatu and give a true and fair view of the financial position of the company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We have conducted our audit in accordance with International Standards on Auditing. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial statements in Vanuatu. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Responsibilities of directors for the financial statements

The directors of the company are responsible for:

- the preparation and fair presentation of these financial statements and the information they contain, in accordance with International Financial Reporting Standards and the Vanuatu Companies Act No. 25 of 2012;
- implementing necessary internal controls to enable the preparation of the financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an auditor's report that includes our opinion.

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Independent Auditors' Report to the members of SPBD Microfinance (Vanuatu) Limited (continued)

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. A further description of our responsibilities for the audit of the financial statements is located at the website https://www.ifac.org/system/files/publications/files/ISA-700-Revised_3.pdf. This description forms part of our auditor's report.

Law Partners
LAW PARTNERS
Chartered Accountants
(Qualified auditors under Section 130 of the Companies Act No. 25 of 2012 of the Republic of Vanuatu)

Jonathan Law
Partner
Port Vila
23 July 2019

SPBD MICROFINANCE (VANUATU) LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
Financial income			
Interest income on loans		43,275,552	7,484,056
Development fee		5,720,025	3,006,150
Loan security fee		7,267,520	3,817,811
Death benefit fee		2,636,800	1,604,000
Savings withdrawal fee		2,466,310	228,200
Financial booklet issuance fee		1,636,000	1,996,500
Interest on bank account and term deposits		-	691
Miscellaneous income		228,118	12,616
Total financial income		63,230,325	18,150,024
Financial expenses			
Interest and fee on loans		8,106,627	2,808,251
Interest on client savings		465,219	70,920
Foreign exchange loss / (gain)		3,600,474	1,585,767
Total financial expenses		12,172,320	4,464,938
Net financial income		51,058,005	13,685,086
Loan loss provision		938,429	721,050
Loan insurance loss provision		565,050	-
Death benefit provision		897,056	613,088
Net financial margin		48,657,470	12,350,948
Operating expenses	7	(56,091,326)	(28,478,305)
Total comprehensive loss for the year		(7,433,856)	(16,127,357)

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 10 to 21.

SPBD MICROFINANCE (VANUATU) LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Accumulated losses	Total
Balance at 1 January 2018	5,329,565	(17,747,729)	(12,418,164)
Issued shares	-	-	-
Total comprehensive loss for the year	-	(7,433,856)	(7,433,856)
Balance at 31 December 2018	5,329,565	(25,181,585)	(19,852,020)
Balance at 1 January 2017	-	(1,620,372)	(1,620,372)
Issued shares	5,329,565	-	5,329,565
Total comprehensive loss for the year	-	(16,127,357)	(16,127,357)
Balance at 31 December 2017	5,329,565	(17,747,729)	(12,418,164)

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 10 to 21.

SPBD MICROFINANCE (VANUATU) LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018	2017
Current assets			
Cash at bank and on hand	8(a)	17,811,614	15,422,345
Loans receivable	9	101,755,159	71,383,973
Inventory	11	152,691	58,840
Other assets	10	1,190,470	998,057
Total current assets		120,909,934	87,863,215
Non-current assets			
Property, plant and equipment	12	11,316,801	6,898,111
Total non-current assets		11,316,801	6,898,111
Total assets		132,226,735	94,761,326
Current liabilities			
Accounts payable	13	1,960,698	1,337,646
Customer deposits	14	21,385,113	11,749,056
Provision for death benefit		850,144	613,088
Total current liabilities		24,195,955	13,699,790
Non-current liabilities			
Borrowings	15	127,882,800	93,479,700
Total non-current liabilities		127,882,800	93,479,700
Total liabilities		152,078,755	107,179,490
Net assets		(19,852,020)	(12,418,164)
Shareholders' equity			
Share capital	16	5,329,565	5,329,565
Accumulated losses		(25,181,585)	(17,747,729)
Total shareholders' equity		(19,852,020)	(12,418,164)

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 10 to 21.

Director

Port Vila, 23rd of July 2019.

SPBD MICROFINANCE (VANUATU) LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
Cash flows from operating activities			
Interest received		43,275,552	7,485,438
Interest paid		(9,215,270)	(2,070,780)
Net payments to suppliers and employees		(38,809,907)	(19,727,578)
Net increase in loan receivables		(30,371,186)	(71,383,973)
Net cash used in operating activities	8(b)	(35,120,811)	(85,696,893)
Cash flows used in investing activities			
Payment for property, plant and equipment		(6,529,077)	(7,818,711)
Net cash used in investing activities		(6,529,077)	(7,818,711)
Cash flows from financing activities			
Issued shares		-	5,329,565
Net movement in customer deposits		9,636,057	11,749,056
Related parties		-	(1,618,904)
Borrowings		34,403,100	92,391,700
Dividends paid		-	-
Net cash provided by financing activities		44,039,157	107,851,417
Net increase in cash and cash equivalents held		2,389,269	14,335,813
Cash and cash equivalents at beginning of the financial year		15,422,345	1,086,532
Cash and cash equivalents at the end of the financial year	8(a)	17,811,614	15,422,345

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 10 to 21.

1. Reporting entity

SPBD Microfinance (Vanuatu) Limited is a company domiciled in Vanuatu and was incorporated on 10 August 2016. The address of the company's registered office is Law Partners House, Kumul Highway, Port Vila, Vanuatu.

The financial statements of the Company for the year ended 31 December 2018 relate to its operations in Vanuatu.

2. Basis of preparation

(a) Statement of compliance

The financial statements of the company are drawn up in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of the Vanuatu Companies Act No. 25 of 2012.

(b) Basis of measurement

The financial statements are prepared on a historical cost basis and do not take into account changing money values or, except where stated, current valuations of non-current assets.

(c) Functional and presentation currency

The financial statements are presented in Vanuatu currency ('Vatu')

3. Significant accounting policies

The accounting policies have been consistently applied during the period.

(a) Revenue recognition

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below.

Interest income

Interest income on group loans is recognized using cash basis straight-line method which reflects the fixed interest rate of 27% charged. Interest income on Term deposits is recognised as it accrues.

Fees and charges

Fees and charges are recognized in the account only when received.

Loan security fees

A Loan security fee of 3% of the total of the approved loan principal amount and interest, is charged and withheld as security in case the customer has deceased before the full payment on loan is due. This is treated as income as it is not refundable to the customer upon payment of the loan and is recognized when the loan disbursement occurs.

Savings accounts withdrawal fees

A Vt200 fee is charged to members when a withdrawal is made from their savings account and is recognized in the period in which the fee is charged.

3. Significant accounting policies (continued)

(a) Revenue recognition (continued)

Development fees

A development fee of 3% of the approved loan principal disbursement amount is charged to be used to cover the cost of training clients, loan evaluation and monitoring. This is recognized when the loan disbursement occurs.

Death benefit fee

Death benefit is a program that benefits the member. This can only be obtained at the time of the new loan. The fee is payable upfront and is deducted from the loan amount at disbursement.

Death benefit fee is mandatory for all loan cycles with a Vt40,000 benefit for Vt800 fee paid and is recognized when the loan disbursement occurs.

(b) Foreign currency

All foreign currency transactions are translated to Vanuatu currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling at balance date. Gains and losses arising on such translations are recognised in the result for the year.

(c) Financial assets

The company's financial assets comprise loans and receivables, prepayments, cash and cash equivalents.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date. These are classified as non-current assets.

Loans and receivables comprise primarily lending associated with providing direct financial assistance in establishing new or expanding of micro businesses for economically disadvantaged people, particularly women, who cannot easily access savings and loan products from traditional banks. These are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment of financial assets

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 according to the age of the outstanding payment. The age of outstanding payment is analysed in three weekly bands from one week to greater than twenty-one weeks. 100% provision is automatically assessed for loans whose repayments are more than 21 weeks overdue.

When a loan is uncollectible, it is written off against the related provision for bad and doubtful loans. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the provision decreases and the decrease can be related objectively to an event occurring after the provision was recognised (such as an improvement in the debtor's credit rating), the previously recognised provision is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loan recoveries are cases of default loans which have been written off during previous year's and subsequently recovered are credited to income as bad debts recovered in the period in which the recovery is made.

3. Significant accounting policies (continued)

(d) Property, plant and equipment

Items of property are stated at valuation less accumulated depreciation. The carrying amounts of assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower amount.

Disposal of assets

The gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal, and is included in the result in the year of disposal.

Depreciation

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives at which depreciation is charged is as follows:

Furniture and fittings	3-5 years
Office equipment	3-5 years
Motor vehicles	2-5 years
Leasehold improvements	3-5 years
Software and electronic systems	2-5 years
Computer equipment and peripherals	2-5 years

Assets are depreciated from the date of acquisition or from the date on which significant use commenced. Expenditure on repairs or maintenance of property, plant and equipment incurred to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

Leased assets

Payments made under operating leases are charged to income in equal instalments over the accounting period covered by the lease term. For operating leases, the lease payments are expensed on a straight-line basis over the lease term.

(e) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(f) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current year financial year amounts and other disclosures.

(g) Impairment

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

(h) Employee benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

The company's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current period based on current earnings of the employee.

3. Significant accounting policies (continued)

(i) Value Added Tax (VAT)

As a financial institution, the Company is exempt from VAT and all expenses incurred are inclusive of VAT amounts charged.

(j) Financial instruments

Recognition, initial measurement and derecognition
Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transaction costs except for those carried at fair value through profit and loss which are measured initially at fair value. Subsequent measurements of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets

The Company classifies its financial assets in the following categories; loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'Loans to customers', 'Cash on hand and at banks' and 'Term deposits'. Loans to customers are considered impaired when they are past due per Note 3(c).

Classification and subsequent measurement of financial liabilities

The Company's financial liabilities include borrowings, trade and other payables. Financial liabilities are recognized initially at fair value, net of transactions costs incurred. They are measured subsequently at amortised cost using the effective interest method.

(k) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(l) Impairment

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the profit or loss.

(m) Loan loss provisioning and loan loss reserve

Portfolio quality measurement

The Company'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 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.

3. Significant accounting policies (continued)

(m) Loan loss provisioning and loan loss reserve (continued)

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 the Company'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
Standard Portfolio	1%
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 the Company'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.

Portfolio quality	Outstanding loan balance	Portfolio at risk	Loan loss reserve rate	Loan loss reserve amount
Current	101,695,082	0%	1%	1,016,951
1 to 4 weeks in arrears	714,801	1%	5%	35,740
5 to 8 weeks in arrears	99,759	0.10%	10%	9,976
9 to 12 weeks in arrears	96,232	0.09%	25%	24,058
13 to 16 weeks in arrears	192,939	0.19%	50%	96,469
17 to 20 weeks in arrears	114,336	0.11%	75%	85,752
21 + weeks in arrears	390,533	0.38%	100%	390,533
Loans written off during the year				(110,956)
Total	**103,303,682**			**1,548,523**

Movement in loan loss reserve	**2018**	**2017**
Loan loss reserve, January 1	721,050	-
Loan loss provision for the year	938,429	721,050
Loans written off during the year	(110,956)	-
Loan loss reserve, December 31	**1,548,523**	**721,050**

4. Critical accounting estimates/judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans

The Company reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

5. New standards and interpretations adopted in 2018

(a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018)

IFRS 9 is effective for the company from 1 January 2018. IFRS 9 stipulates new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. Details of the key requirements and estimated impacts in the company are outlined below.

Impairment

IFRS 9 replaces the incurred loss impairment model under IAS 39: Financial Instruments: Recognition and Measurement (IAS 39) with an expected credit loss (ECL) model incorporating forward looking information. The ECL model will be applied to all financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, certain loan commitments and financial guarantees. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

• Stage 1: At the origination of a financial asset, a provision equivalent to 12 months ECL is recognised.

• Stage 2: Where there has been a significant increase in credit risk since origination, a provision equivalent to lifetime ECL is recognised.

• Stage 3: Similar to the current IAS 39 requirements for individual impairment provisions, lifetime ECL is recognised for loans where there is objective evidence of impairment.

Expected credit losses are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecast of future economic conditions.

Classification and measurement

There are three measurement classifications under IFRS 9: Amortised cost, Fair Value Profit or Loss and Fair Value through Other Comprehensive Income. Financial assets are classified into these measurement classifications taking into account the business model within which they are managed, and their contractual cash flow characteristics.

5. New standards and interpretations adopted in 2018 (continued)

(a) IFRS 9: Financial instruments (periods beginning on or after 1 January 2018) (continued)

The classification and measurement requirements for financial liabilities under IFRS 9 are largely consistent with IAS 39 with the exception that for financial liabilities designated as measured at fair value, gains and losses relating to changes in the entity's own credit risk are included in other comprehensive income.

Transition to IFRS 9

IFRS 9 has a date of initial application for the company of 1 January 2018, the company has already implemented a forward looking model for recognizing and provisioning for expected credit losses (ECL) which is in line with IFRS 9.

(b) IFRS 15: Revenue from contracts with customers (periods beginning on or after 1 January 2018)

This standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and their interpretations and sets out the new requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees. The recognition of revenues in the income statement shall depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

From the initial assessment conducted by the company it was noted that the standard had no significant impact on the company's financial statements as net interest income, which is a primary revenue stream of the company, is not impacted by the adoption of IFRS 15 and the existing company accounting treatment for revenue from contracts with customers, including fee and commission income, is generally in line with IFRS 15.

6. New standards and interpretations not yet adopted in 2018

(a) IFRS 16: Leases (periods beginning on or after 1 January 2019)

IFRS 16, 'Leases' – replaces the current guidance in IAS 17. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted but only in conjunction with IFRS 15, 'Revenue from contracts with customers'.

	2018	2017
7. Operating expense		
Auditors' remuneration	510,000	485,000
Bank charges	98,977	130,434
Communications	1,681,319	658,352
Depreciation	2,110,387	920,600
IT related costs	213,832	484,814
Legal fees	-	1,003,753
Management and professional fees	19,218,010	3,136,450
Office supplies	2,734,699	1,915,604
Other expenses	1,761,205	357,705
Premises related costs	2,476,943	1,201,290
Public relations	377,009	811,546
Staff costs	15,386,204	8,180,752
Transportation	1,999,685	1,094,696
Travel	7,523,056	8,097,309
	56,091,326	28,478,305

Staff costs comprise staff salaries, entitlements and training costs. The number of employees at the reporting date was 19 (2017: 9).

8. Cash and cash equivalents

a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand, cash at bank and cash held on short term deposit. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand	(189,162)	384,414
Cash at bank	18,000,776	15,037,931
	17,811,614	15,422,345

b) Reconciliation of loss for the year to net cash used in operating activities

Loss for the year	(7,433,856)	(16,127,357)
Adjustments for non cash items		
Depreciation and amortisation	2,110,387	920,600
Movement in general allowance for impairment	-	-
Net cash provided by operating activities before change in assets and liabilities	(5,323,469)	(15,206,757)
Adjustments for increase in liabilities		
Creditors and accruals	623,052	1,337,646
Provision for death benefit	237,056	613,088
Adjustments for increase in assets		
Loan receivables	(30,371,186)	(71,383,973)
Prepayments	(138,787)	(73,125)
Inventories	(93,851)	(58,840)
Other debtors	(53,626)	(924,932)
Net cash used in operating activities	(35,120,811)	(85,696,893)

		2018	2017
9.	**Loans receivable**		
	Current		
	Gross amounts receivable within one year:		
	Micro loans	102,339,452	72,105,023
	Employee loans	964,230	-
		103,303,682	72,105,023
	Add: loan insurance reserve	-	-
	Less: loan loss provision	(1,548,523)	(721,050)
	Less: deferred income – establishment fees	-	-
	Less: unearned income	-	-
		101,755,159	71,383,973
	Less: collective allowance for impairment	-	-
		101,755,159	71,383,973
10.	**Other assets**		
	Deposits/bonds and other receivables	978,558	924,932
	Prepaid expenses	211,912	73,125
		1,190,470	998,057
11.	**Inventory**		
	Financial booklets	117,711	2,520
	Other booklets	34,980	56,320
		152,691	58,840
12.	**Plant and equipment**		
	Computer equipment and peripherals		
	At cost	1,687,052	1,110,703
	Less: accumulated depreciation	(398,337)	(131,209)
		1,288,715	979,494
	Furniture and fittings		
	At cost	1,078,063	514,521
	Less: accumulated depreciation	(230,521)	(65,211)
		847,542	449,310
	Leasehold improvements		
	At cost	138,687	138,687
	Less: accumulated depreciation	(55,475)	(13,869)
		83,212	124,818
	Motor vehicles		
	At cost	10,581,152	5,530,806
	Less: accumulated depreciation	(2,157,805)	(645,261)
		8,423,347	4,885,545
	Office equipment		
	At cost	414,141	381,431
	Less: accumulated depreciation	(128,113)	(50,192)
		286,028	331,239

12. Plant and equipment (continued)

	2018	2017
Software and electronic systems		
At cost	448,693	142,563
Less: accumulated depreciation	(60,736)	(14,858)
	387,957	127,705
Total plant and equipment	11,316,801	6,898,111
Movement in plant and equipment:		
Opening carrying value	6,898,111	-
Additions	6,529,077	7,818,711
Depreciation	(2,110,387)	(920,600)
Closing carrying value	11,316,801	6,898,111

13. Accounts payable

Accounts payable	1,145,122	510,900
Accruals for employee entitlements	574,038	-
Accrued interest	164,967	808,391
VNPF payable	76,571	18,355
	1,960,698	1,337,646

14. Customer deposits

Regular savings		
Current	21,385,113	11,749,056
	21,385,113	11,749,056

15. Borrowings

Due to Evander Management Limited		
Non - Current	39,361,000	15,488,000
	39,361,000	15,488,000
Due to SPBD Microfinance Holdings (Singapore) Pte. Ltd.		
Non - current	88,521,800	77,991,700
	88,521,800	77,991,700

16. Share capital

Issued and paid-up capital	5,329,565	5,329,565

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings. All shares rank equally with regards to the residual assets of the company.

17. Related parties

Ultimate parent entity

The ultimate parent entity is SPBD Microfinance Holdings (Delaware) L.L.C, a company incorporated in the State of Delaware, United States of America.

Related party transactions and balances

Reference should be made to note 15 regarding related party payable balance to SPBD Microfinance Holdings (Singapore) Pte. Ltd. as at balance date.

During the year the company paid management and professional fees as follows:

	2018	2017
SPBD Microfinance Holdings (Singapore) Pte. Ltd.		
Management fees	8,136,249	1,936,450
Professional fees	729,896	-
Transformative Ventures LLC		
Management fees	10,351,865	1,200,000
	19,218,010	3,136,450

18. Financial instruments

Exposure to credit, interest rate and currency risks arises in the normal course of the company's business.

Credit risk
The company requires collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. At balance date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Foreign exchange risk
The company's foreign currency risk is limited to transactions with a related entity denominated predominantly in New Zealand dollars (NZD) and United States dollars (USD).

Interest rate risk
The company monitors the interest rate exposure on a regular basis. However, the company is restricted in its ability to mitigate the risks associated with interest rate movements. The company's lease rental agreements with customers are generally of a short-term nature and interest rates are fixed.

Fair value
Fair values of financial instruments are not expected to be materially different from their carrying values.

19. Commitments

	2018	2017
Operating lease commitments		
Minimum lease payments under non-cancellable operating leases, not provided for:		
- not later than one year	744,498	1,459,920
- between 1 and 5 years	-	729,960
	744,498	2,189,880

Capital commitments

The directors are aware of no capital commitments as at the balance date (2017: Nil).

20. Contingent liabilities

The directors are aware of no contingent liabilities at the date of the directors' report (2017: Nil).

21. Subsequent events

There are no events subsequent to balance date which require adjustments or disclosure in the financial statements (2017: Nil).