

# 2008 ANNUAL REPORT



**"CONTINUED SECURITY IN  
CHALLENGING TIMES"**

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### **“Not for Profit, Not for Charity, But for Service”**

#### **OUR MISSION**

“We aim to provide the best sustainable customer service to our members by understanding their needs, educating them in responsible saving and borrowing behaviour and continually developing our people, products, processes and our financial standing.”

# BOARD OF DIRECTORS & EXECUTIVE MANAGEMENT TEAM

## DIRECTORS



**Mr. Gabriel Tai**  
Deputy Chairman - Highlands Region



**Mr. Sam Nalong**  
Director - Momase Region



**Mr. Francis Samoak**  
Director - Southern Region



**Mr. Alex Peter**  
Director - National Capital District

## AUDIT COMMITTEE



**Mr. William Walaisim**  
Chairman - Audit Committee



**Mr. Chris Alu**  
Member - Audit Committee



**Mr. Paul Aitsi**  
Member - Audit Committee

## EXECUTIVE MANAGEMENT



**Mr. Dennis Sapak**  
Acting General Manager - National Members Services



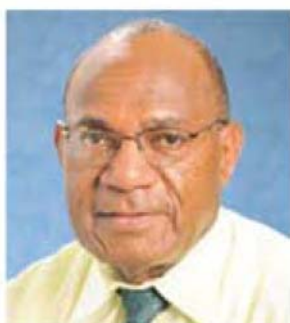
**Mr. Morgan Sehuri**  
Manager - Marketing



**Mr. Raymond Hegoi**  
Manager - Lending



**Ms. Taita Labi**  
Manager - Information Technology



**Mr. Terry Mayu**  
Manager - Personnel & Administration



**Mr. William Seikepe**  
Manager - Finance & Accounting



**Mr. Jeffery Yabra**  
Manager - Internal Audits



**Mr William Varmari**  
CHAIRMAN

It gives me pleasure to present to you on behalf of your Board of Directors the affairs of the Teachers Savings and Loan Society including the Financial Statements for the year ended 31st December 2008.

With marked co-operation from you all, our financial members, management and other stakeholders, our Society has seen the year 2008 as another year of remarkable success. This is despite the adverse effect caused by the difficult economic conditions in Papua New Guinea and elsewhere on the fair value of the Society's unrealised quoted shares, which is not sustainable.

Some of the key material indicators for our success are reflected in the increases or improvement rounded up figures from 2007 levels to the 2008 levels as follows:

- A) Lending Value from K56.7 million (2007) to K71 million (2008) increasing by K14.3 million (25%)
- B) Membership based increased from 30 000 in 2007 to 34 000 as of the 31st December 2008, an increase of 4000 new members.

C) Audited Profit Declared from K172.2 million (2007) to K21.6 million, a decrease by K150.6 million (87.5%)

D) Net total asset value of the Society in 2008 stood at K329.9 million

E) Other areas of increase or improvement.

Your Society in 2008 recorded an operating surplus for the year (and after crediting members accounts) of K21,648,371 million (2007: K172,186,642 million). I must add that the year's operating surplus consists of two (2) components, firstly, interest income – members loans and income – short term liquid funds of K19.6 million and secondly; fair value gains on investments – quoted shares of K2 million (which is not sustainable).

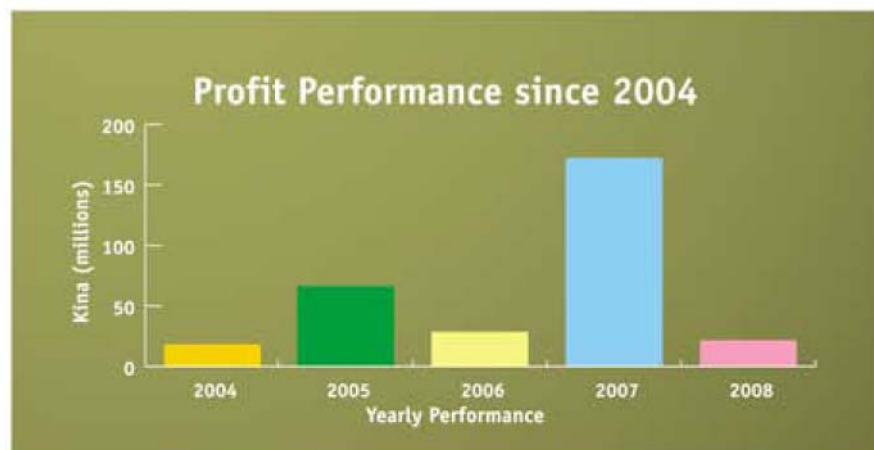
For interests paid to members:-

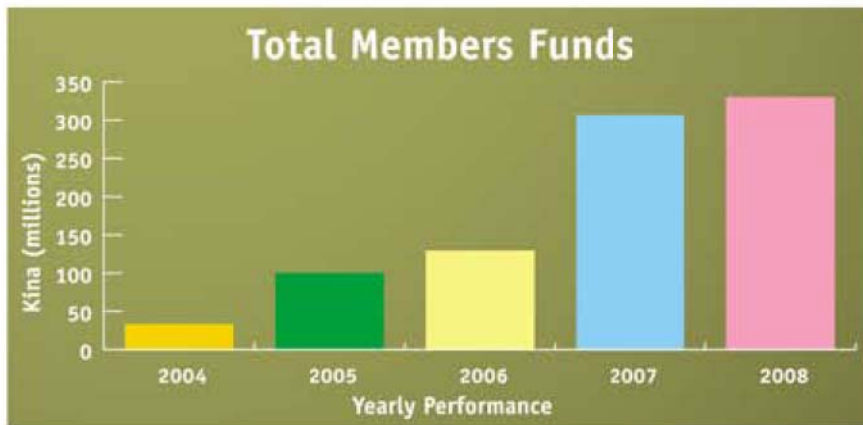
- K 2,471,612 (2007: K 1,958,195) in the form of interest on members savings was paid during the year.
- K 3,481,524 (2007: K 2,999,389) was declared as additional interest on members savings as at year ended 2008.
- Total payment K 5,953,136 (2007: K 4,957,584).

The next phase of the provincial office establishment programme will cover a number of locations in the Southern and also Highlands Regions and is anticipated to be completed soon. Opening up provincial offices is a great investment as the potential for membership growth is enormous. It is also a vote of confidence in what members in the provinces can do for themselves, a sure viable approach towards people's empowerment.

Our success must be made real and sustainable and I am very proud to state that this is gradually taking place. Firstly there is a growing sense of pride and practical ownership of the Society especially at the rural/provincial level; better accessibility to better quality services for members; with more room for local participation through empowerment.

The Board of Directors Election, in mid 2008 saw a new Board elected. As re-elected Chairman of the Board, I take this opportunity to welcome back and congratulate, Mr. Gabriel Tai – Director Highlands, who is now the Deputy Chairman of the Board and Mr. Sam Nalong - Director Momase. I also welcome two new Directors, Mr. Francis Samoak, representing the Southern Region and Mr. Alex Peter, representing the National Capital District.





I further thank the former Deputy Chairman – Mr. Madako Suari and former Board Member, Mr. Michael Ova, for their valued contributions to the process of good governance. I must also thank all members who stood for the election and supported this democratic process.

Together, we will continue to ensure that our Society remains sound, prudently managed, and best represents our values and mission.

We will continue to make our member service more focused, competitive and sustainable. The overall support of members has been outstanding, and we will ensure that the Society is ready to provide its members with the best customer service. We are committed to making Teachers Savings and Loan Society Ltd – a Society of Choice, for our members and potential members.

The year 2008 definitely opened new doors for the Society, but while the opportunities present themselves we are cautious of the business decisions we make. This is to ensure the well being of the Society that services more than 34 thousand members nationwide.

In 2008 your Society took bold steps to see, among others, that:-

- A new three (3) year Corporate Development Plan approved and made effective. This is the Society's signpost that points the

way for its current and future endeavours.

- The Provincial Branch roll out project and the upgrading programme continued well.
- The ongoing strengthening of the Society's own Capital Life Insurance Ltd.
- The purchasing of a certain level of equities in Airlines PNG Ltd.
- The kick start of the Teachers Solar Lighting Project.
- The signing of the Agreement with Credit & Data Bureau Ltd.
- The continuous development, reviews and promotions of our Society's policies, services, products, systems and processes, for the benefit and long term advancement of our society members, and the community at large.
- A full review of the Society's management structure and human resource policies.
- Our participation in the proposal towards the review of the Savings & Loans Act, which, once passed by Parliament, will help open up a number of the needed doors or opportunities for our Society's further development and progress.

Finally, but definitely not the least, I would like to congratulate the Society for the launch of its

corporate re-brand in October 2008. The re-brand paves way for relevant but still limited changes in the Society and also enhances the unity and support that has made the Society what it is today reflects our Society's vision, aspiration, values and culture.

The Society has been privileged to have had the presence of, firstly, our Prime Minister the Hon. Grand Chief Sir Michael Somare, who officiated at the launch of the Wewak Branch opening, and then our Governor General, Grand Chief Sir Paulias Matane, at the Society's Corporate Rebranding Launch in Port Moresby.

We have been able to progress so well this far despite many difficulties and challenges. This is because of the support, encouragement and guidance we've received from all authorities concerned. This includes the regulator, Bank of Papua New Guinea, the Teaching Services Commission, the Education Department other Government Departments and Statutory Bodies, the PNG Teachers Association, the Provincial Education Boards, the School Authorities, other stakeholders and of course our valuable members.

We can only say thank you so much to you all. To those at the engine room, and those at the front lines of our Society's Establishment at Waigani Head Office and the Provincial Offices, especially the Management and Staff headed by Chief Executive Officer, Mr. Michael Koisen; we fully appreciate your foresight, dedication, drive and tolerance in providing quality services, to the Society; our members and the community at large, sometimes in trying situations.

**William M.K. Varmari**  
Chairman – Board of Directors



**Mr Michael Koisen**  
CHIEF EXECUTIVE OFFICER

Teachers Savings and Loan Society has had its fair share of remarkable business activities and progress in the year 2008, despite the global financial crisis.

Papua New Guinea has been somewhat insulated from the effects of the global financial crises. Our banks and licensed financial institutions, including savings and loan societies have very minimal exposure if any in terms of international financial and capital markets. PNG is in an exceedingly fortunate position in that its banks and financial institutions are also very well capitalized, well regulated, and have limited exposure to the toxic debt that is swirling through the international system. Generally Papua New Guinea's risk is more commodities based than financial.

Teachers Savings and Loan Society Ltd's exposure is limited to its stocks listed on the Port Moresby Stock exchange (PomSox). The price of our stocks with the PomSox that is Airlines PNG, BSP and Credit Corporation have depreciated and we did not achieve the same rate of returns as previous financial years. This is a direct effect of the global economic recession.

Despite this your Society progressed well in terms of service to members, branch rollout program and other business activities.

### Financial Performance

Your Society recorded a net profit of K21.6 million for the 12 months ending 31st December 2008 (2007: K172.2 million). The statutory reserve requirement of the 20% of the net profit was set aside increasing General reserves by 8% to K68.3 million.

A special additional interest of K3.5 Million was paid into members' S1 savings accounts during the financial period, bringing the total interest paid to members' savings accounts to K6 Million for the financial period.

Your Society's total assets increased by 10% to K456 Million (2007: K413 Million) while members funds increased by 8% to K330 Million (2007: K306.6 Million). Members deposit rose by 19% from K103.3 Million in 2007 to K123 Million as at the 31st December 2008 while loans issued to members' grew to K71 Million for the same period, a growth of 25% (2007: K57 Million)

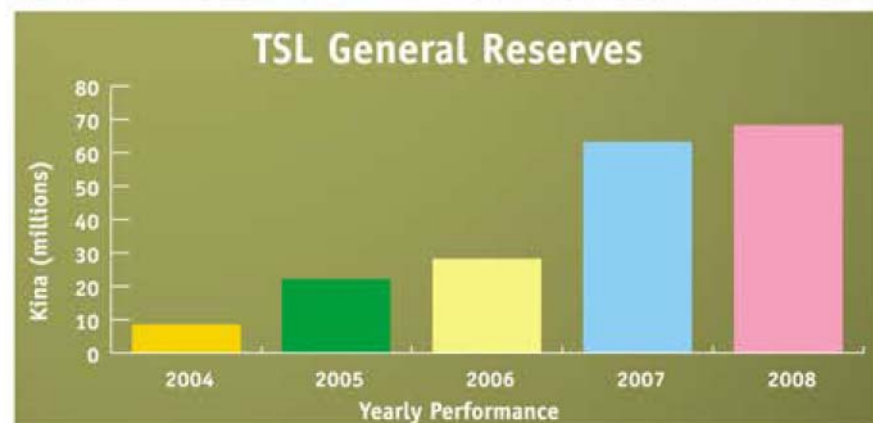
### Investment Portfolio

The Society's total investments under management by Kina Funds Management consists of four assets

classes; Cash, Fixed Term Deposits, Equities and Property.

At reporting date, the total investment portfolio increased by K11.37 Million or 3.38% from K336.60 million at the end of December 2007 to K347.97 Million at the end of December 2008. The gain in the portfolio was attributed to positive performance of the domestic listed equities portfolio and cash and fixed interest. The Society's dual investments had been affected by the exchange rate loss in the dual listed share portfolio denominated in AUD, due to the appreciation of the Kina against the AUD. The Society recorded investment income of K28.93 million for the year ended 31 December 2008. A return of 8.89% exclusive of exchange rate effect and 8.84% inclusive.

The continued improvement in PNG's economy has contributed to market interest rates remaining depressed. In 2008, PNG's private sector has remained positive as the private sector lending growth improved due to low interest rates attributed to improvements in the domestic economic condition and high liquidity in the banking system. Overall, the domestic growth forecast has been revised down by BPNG, reflecting the deterioration of the global outlook and price falls



in commodity markets. The extent of the weakening in growth will be moderated, but not fully offset, by the easing that has occurred in monetary and fiscal policy and by the large depreciation of the exchange rate. Inflation is forecast to fall gradually from its current high.

### Cash Portfolio

The Society's cash consists of Central Bank Bills (CBB) and Interest Bearing Deposits (IBD) with maturities up to 90 days. As at financial year end the Society's holding in cash amounted to K29.4 million or 8.45% of the total investment portfolio, which is within the sector range of 5-20%.

Total income received during 2008 was K982, 557 which represents an annual return of 5.40%, above the benchmark of 3.57%. The interest rates had been trending higher during the year as indicated by the increase of weekly Central Bank Bills average rates and the IBD rates offered by the banks. The Central Bank has indicated that it is tightening the monetary policy by increasing the Kina Facility Rate (KFR). The current KFR is 8.0%

### Fixed Interest Portfolio

Fixed Interest Portfolio primarily consists of Government Inscribe Stock (GIS) which amounted to

K5.20 Million or 1.50% of the total investment portfolio. The composition is below the sector range of 10-40%. Total income for the month was K439, 846 which represents an annual return of 8.28%, exceeding the bench mark of 5.55%.

### Equities Portfolio

Equities consist of domestic listed (PomSox) and dually listed (PomSox and ASX) stocks. The total Equity values as at 31 December 2008 is K308 million or 88.6% of the Society's total investment portfolio. For the last 3 months of 2008, liquidity in Port Moresby Stock Exchange has dropped significantly due to the loss of confidence in the market place resulting from global financial crisis. This has made the disposal of BSP and CCP especially in large volumes very difficult. We will monitor the market closely with the aim of selling down BSP and CCP.

### Airlines PNG Shares

The Society participated in Airlines PNG IPO in June and invested 7 Million shares at K1.00 each. Airlines PNG makes up 2.27% of the total investment portfolio. The share price rallied from K1.00 at the IPO to K1.20 at the end of September then fell by 16.67% during the final quarter to close at K1.00 on the 31st December 2008.

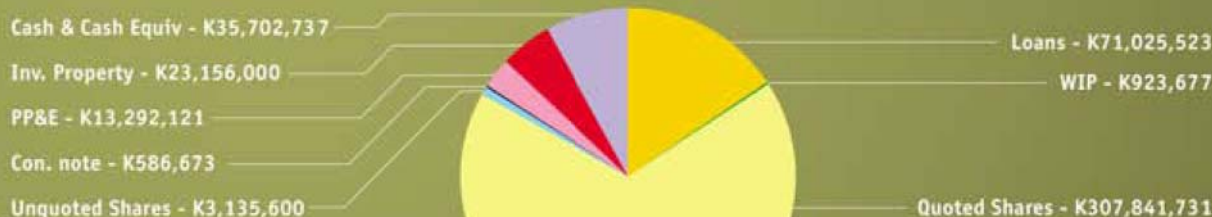
The main rationale for the Society to participate in the IPO was to take advantage of the 10% discount offered to its institutional investors in airfares for members on domestic and international traveling. CGA has made progress towards achieving its vision of becoming a comprehensive domestic and international airline company. The acquisition to two main aircrafts, a dash 8 and a twin otter has increased the fleets total to 10 and 8 aircrafts respectively.

The code sharing as been approved by the Independent Consumer and Competition Commission (ICCC). It shall be effective for three years, whereby flight operation for newly formed alliance will be jointly marketed. Via this partnership agreement, Pacific Blue's Boeing 767-800 services will operate between Port Moresby and Brisbane under Virgin Blue's Pacific network.

### Bank South Pacific ("BSP")

The Society holds 182.97 million shares in BSP. BSP's exposure to total portfolio was 51.53%. The share price closed at K0.98 at the year end. Prior to the 1 to 10 shares split on the 1st of June 2008, BSP's share price reached split, from K0.80 to K1.26. However, the price dropped dramatically over the last quarter due to the loss of confidence in the share market, as a result of the global financial crises.

## Total Asset Classification



A sell down of shares of 3,453,494 shares was completed, over this financial year, at an average price of K10.32 per share TSLs also disposed another 3,030,303 through an investment transfer to Capital Life Insurance Company Limited at the end of the year. The value of the investment was K3 Million. We are monitoring the over exposure and the situation of the share prices movement and will sell down while being cautious not to put downward pressure on the market. BSP has a steady growth with positive performance indicated with its consolidated record has yearly profit for 2008 of K185.83 million compared to K132.72 million in 2007. This indicated an increase of 35% from K5.8 billion in 2007.

#### Credit Corporation ("CCP")

Teachers Savings and Loan Society Ltd's holdings in CCP are currently 48.61 million shares which represent 34.93% of the total investment portfolio. CCP shares fell by 18.03% from K3.05 in 2007 to K2.50 at the end of 2008. Since the Securities Commission launched an enquiry, after the split last year, on the substantial share price increase over a short period of time, the price has been falling. We are hopeful of a recovery. A dividend of K0.05 per share was paid out on 29th of August, of which a total of K2,430,675.00 was received in cash.



CCP announced a record profit after tax profit of K238.34 Million for the first half of 2008, an increase of 346.9% from the corresponding period last year. Consequently, earnings per share have risen by 342.86 from K0.35 in December 2007 to K1.55 at the end of June 2008. Total assets have appreciated by 33.6% from K681 Million to K910 Million over the same period of time. CCP expects another strong result for 2008 with a healthy increase in profit and dividend growth.

#### Mahogany Notes Series II ("MHZHA")

The Society currently holds 4,343 units. MHZHA principal has been rated BB Credit Watch Negative for BBB- by S&P in September. Since September 18 MHZHA has been on voluntary, temporary suspension from quotation in ASX and POMSOX because its swap agreement counterparty, guaranteed by Lehman Brothers Holdings Inc (LBHI) has entered into bankruptcy protection. It is unlikely that MHZHA could

be redeemed at their respective unwound values which investors would expect to receive less than face value. MHZHA understands that interest is accruing and is expected to release as part of any disposal process, the collateral. Interest will be paid with incurred interest during the period. MHZHA will continue to advise note holders of any developments and is endeavoring to achieve a resolution of the outcome of these issues for the note holders in the best interest. Our investment manager will monitor the investment awaiting the result if the discussion among all stakeholders.

#### Exchange Rate Effect

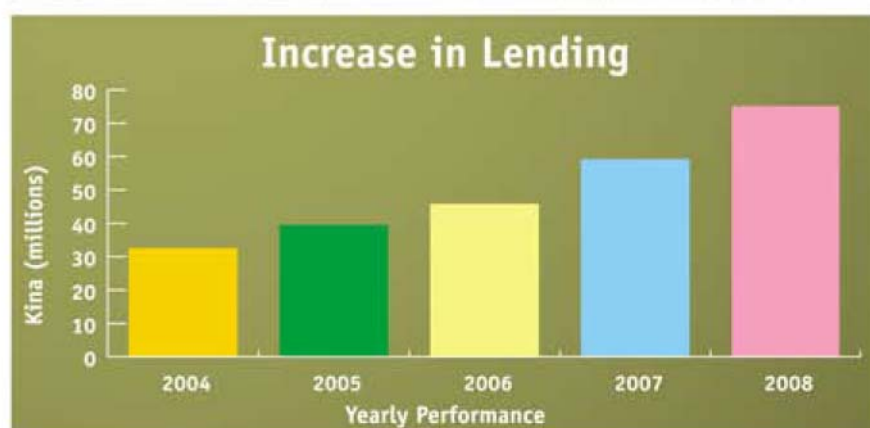
The exchange rate movement from 0.4081 (mid rate) at the end of December 07 to 0.5367 (mid rate) at reporting date negatively impacted the dually listed shares in Pom Sox and ASX by K184,872.

#### Property Portfolio

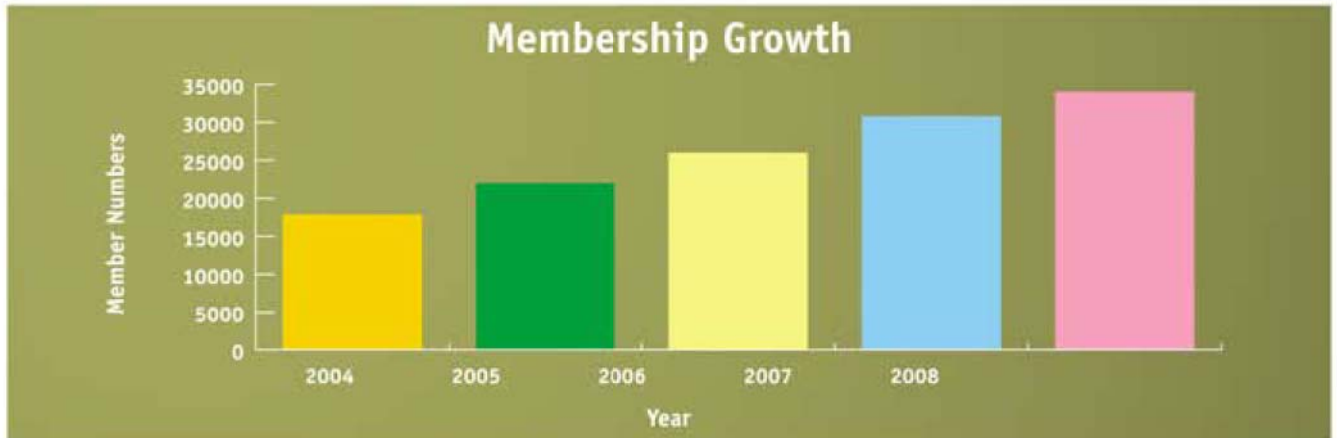
The Society's Property Portfolio currently has a market value of K23.16 million, which constitutes 6.85% of the total investment portfolio. This is below the sector range of 10-30%. The net rental income of K2.46 million for the year which represents a return of 10.62%.

#### Going Forward

Overall key indicators have proven that healthy economic growth has continued from previous year into 2008. It is anticipated this







economic growth to continue into 2009 but this is unlikely to be the case given sharp decline in prices of major commodities. Under the circumstances better than average performance is not expected from the Society for the year 2009.

#### Capital Life Insurance

The Society welcomes Credit Corporation (PNG) as a new partner in its life insurance subsidiary. The entry of Credit Corporation (PNG) as a shareholder adds significant value, strength and capacity to Capital Life Insurance. We expect to make headway with its investment in 2009.

#### Credit and Data Bureau Ltd (PNG)

Teachers Savings and Loan Society Ltd has joined a number of licensed banks and financial institution to establish Papua New Guinea's first Credit and Data Bureau. The objective of the data bureau is the sharing of information between lenders to reduce loan losses. These services can be extended to other credit providers.

#### IT Development

The Society has launched its website and has experienced a relatively high number of hits since launch. The website will be developed further to provide on line services. The Society is currently in the process of upgrading its

retail banking systems to a more contemporary version of its current system. This upgrade will enhance the product and service delivery and will render Teachers Savings and Loan Society Ltd on par with Australian Credit Unions in terms of banking systems.

It is prudent to be mindful of global events that have a local effect. Major financial institution in the developed world have collapsed overnight and governments have intervened with bail out programs to mitigate the impact and rebuild confidence in the worlds financial systems. Teachers Savings and Loan Society has always depended largely on the support of its members. We will continue to focus on serving our members.

Once again we wish to thank the members for your support throughout the year and look

forward to your continued support in 2009. My vote of thanks to the Board of Directors and staff of the Society. Thank you also to Dr. Joseph Pagelio, Secretary for Education, Mr. Michael Pearson, Chairman of the Teaching Services Commission, the registrar of Savings and Loan Societies, Mr. Wilson Kamit and his staff, various heads of government, staff of the payroll sections of the Department of Education and other government departments and SOE's.

Thank you kindly for you cooperation and hard work and we look forward to your continued support.

**Michael Koisen**  
*FAMI, SA Fin, MAICD*  
 Chief Executive Officer



## Define Objectives

## Assess Risks

## Evaluate Controls

The relationship between the Board and Senior Management is critical to the Society's long term success. The directors are responsible to the members for the performance of the Society in both the short and the longer term. Being a mandatory role of the Board, the directors seek to balance sometimes - competing objectives by setting sound governance frameworks. These governance frameworks which include, administrative guidelines, policies, procedures and governance structures are devised and delegated by the board and administered by the management to achieve the best results for the members.

The governance framework also provides a platform for the day to day management of the Society's affairs and the implementation of the Society's strategy and policy initiatives which are formally delegated by the board to the Chief Executive Officer and Senior Executives to implement.

Essentially the Teachers Savings and Loan Society's Board and Management are committed to acting responsibly, ethically and with the highest standards of integrity to ensure that Society's activities are continually structured and delivered in a manner that allows us to meet the needs of our members.

To achieve "Sound Corporate Governance", business practices

and policies are continually being reviewed and adopted by the Board and cascaded throughout all levels of the organisation. We strive to ensure that our governance "in action" is of the highest standard, consistent with our mutual underpinnings, while at the same time our governance systems are practical and transparent to our members.

As a mandatory function, the Board will continue to work to improve our governance policies and practices both at the Board level and throughout the Society's business units. While our mutual values remain constant, we know we must adapt our business practices to ensure we meet our obligations in a changing world, where the challenges of doing business are constantly changing in retrospect to our local and global market conditions.

### The Board of Directors

The board operates in accordance with the powers and functions set out in Sections 28 and 28A of the Savings and Loan Society's (Amendment Act) 1995.

The Bank of Papua New Guinea's regulatory instructions and directives sets out the minimum competencies regarding personal attributes, skills and knowledge that each Director should bring to Teacher Savings and Loans Society. The Governor Bank of PNG

may undertake relevant skills gap analysis to ensure that the Board has the right mix of skills.

The Governor Bank of PNG is also required to assess all elected candidates with regard to these minimum competencies. The Board is also committed to following the World Council of Credit Unions Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". Further, the Board has carefully considered and has complied to the "fit and proper" framework in accordance with the Bank of Papua New Guinea issued regulatory instructions. The Savings and Loans (Amended Act) 1995, endeavours to ensure that Directors and Senior Management of Teachers Savings and Loans Society are appropriate persons to lead the organisation. The "fit and proper" framework deals with matters such as minimum competencies, Director Development, Independence, Director Refreshment and Renewal and Performance.

## Control Environment

Operations  
Financial Reporting  
Compliance

# Risk Assessment

Operations  
Financial Reporting  
Compliance

## Responsibilities

The Board comprises a majority of Non-Executive Directors, who together with the Chief Executive Officer are required to have extensive business acumen to bring accountability and sound judgement to the Board's deliberations to ensure optimum benefit to members, employees and the wider community.

The responsibilities of the board include:

- Providing strategic guidance to the Society including contributing to the development and approval of the corporate strategy.
- Reviewing and approving business plans, the annual budget and investment plans, including capital resources procurement and major capital expenditure initiatives.
- Overseeing and monitoring:
  - ▷ Organisational performance and the achievement of the Society's strategic goals and objectives.
  - ▷ Compliance with the Society's Code of Conduct.
  - ▷ Progress of major capital expenditures and other significant corporate projects including any acquisitions or investments.

- Monitoring financial performance, treasury operations including approval of the annuals and half-year financial reports.
- Appointment, performance assessment and if necessary removal of the Chief Executive Officer.
- Ensuring there are effective management processes in place and approving major corporate initiatives.
- Enhance and protect the reputation of the organisation.
- Report to members and monitors that all Bank of PNG regulatory requirements are met.
- Oversee internal controls and processes for identifying areas of significant business risk.
- Ensure that Teachers Savings and Loans Society's business is conducted ethically and transparently.

The responsibility for administering the day-to-day activities is delegated to the Chief Executive Officer by the Board.

## Term of Office

The Savings and Loan Societies Act specifies that all directors and Internal Audit Committee members must retire from office after expiry of three (3) years from the date of their last election. Where eligible, a director may stand for re-election.

## Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the board; ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating

board discussions and managing the board's relationship with the Society's senior executives.

The CEO is responsible for implementing the Society's strategies and policies. The Savings and Loan Society's Act specifies that these are separate roles to be undertaken by separate people.

## COMMITMENT

The board held four (4) meetings in the financial year 2007.

The Board is also required to review the performance of its members annually. The annual review of performance of the Board includes the audit committees, individual Directors, including the Chairman. The Board and the Audit Committee's records of their attendance during 2007 financial year are indicated below:

## Structure of the Board

The size and composition of the Board is determined by the Board subject to the limits set out in the Bank of PNG regulations and instructions, which requires a minimum of 5 Directors who are members elected as Directors representing the Mamose Region, NGI Region, Highlands Region, Southern Region, NCD, and the Chief Executive Officer as an Executive Director. At all times, members elected directors always constitute a majority of Directors, a requirement which protects our mutuality.

All Directors are shareholding members of Teachers Savings and Loan Society. Board members are elected by the members and appointed in accordance with the Bank of PNG requirements. All elected Directors hold a term of three years upon election.

## • Board of Directors

Director	Position	Meeting Held in 2008	Attended in 2008
Mr. William Varmari	Chairman	6	6
Mr. Gabriel Tai	Deputy Chairman	6	6
Mr. Sam Nalong	Director	6	6
Mr. Francis Samoak	Director	6	2
Mr. Alex Peter	Director	6	2
Mr. Michael Koisen	CEO	6	6

The Chairman of the Board is a member elected Non-Executive Director. If a Board appointed Non-Executive Director is appointed as Chairman, they must stand for election at the election which immediately follows their appointment as Chairman.

It is important that the above framework is maintained at the Teachers Savings and Loan to ensure that the Board is able to operate independently of Executive Management. Each of the Non-Executive Directors is independent of Management. This means that they are free from any relationship (for example, a business interest in a supplier or competitor of Teachers Savings and Loan Society) which could materially interfere with the exercise of their independent judgement and their ability to act in the best interests of Teachers Savings and Loan Society.

In the event that a potential conflict of interest arises, involved Directors are required to withdraw from all debate and decisions concerning the matter unless the Board resolves that the interest should not disqualify the Director from being present and/or voting.

### Corporate Reporting

The CEO has made the following certifications to the Board:

- That the Society's financial reports are complete and present a true and fair view, in all material respects of the financial condition and operational results of the Society and is in accordance with relevant accounting standards.
- That the above statement is based on a sound system of risk management in which the CEO is required to implement the policies adopted by the board and that Society's risk management and internal control and compliance systems are operating efficiently and effectively in all material respects.
- Review the organisation's internal control environment covering:
  - ▷ Effectiveness and efficiency of operations.
  - ▷ Compliance with applicable laws and regulations.
- Determine the scope of internal audit function and ensure that its resources are adequate and used effectively and assess its performance including independence.
- Ratify appointment and/or removal & contribute to the performance assessment of the Manager Audit and Business Assurance.

### Audit Committee

The committee consists of the following financial members: Paul Aitsi, Christian Alu and Wilson Walaisim (Chairman). The Audit Committee has the appropriate financial and audit expertise and all members are financially literate and have an appropriate understanding of the industry in which the Society operates.

The Audit Committee operates in accordance with Section 20 of the Savings and Loan (amended) Act 1995. The responsibilities of the committee include:

- Oversee the effective operation of the risk management framework.
- Appointment, removal and remuneration of the external auditors and review the terms of their engagement, the scope and quality of the audit services and assess the performance of audit.
- Consider the independence and competence of the external auditor on an ongoing basis.
- Review and approve the level of non- audit services provided



by the external auditors and ensure it does not adversely impact on the auditor's independence.

- Review and monitor related party transactions and assess their propriety.
- Report to general meetings on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the audit committee:

- Receives regular reports from management, the internal and external auditors.
- Meets with the internal and external auditors at least twice a year or more frequently if necessary.
- Reviews the business processes, operating systems, and management systems that are in place to support their assurance to the board.
- Reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved.

- Meets separately with External Auditors and the Manager Audit and Business Assurance at least twice a year without the presence of the management.

- Provides the internal and external auditors with a clear line or direct communication at any time to either the Chairman of the audit committee or the Chairman of the board.

- Conducts an examination of the Society's affairs and audit its books at least quarterly; and

- May discipline, suspend or dismiss any officer, director or management in the interests of the Society.

#### External Auditors

The Society's policy is to appoint external auditors who can clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually, external auditors are requested to submit proposal for annual external audit services, and selection of the external auditor is based on the assessment of their performance in other entities, existing value, experience, knowledge of the sector and the industry and tender costs.

PricewaterhouseCoopers were appointed as the external auditors in 2008. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every seven years. The Society is aware of this, therefore PricewaterhouseCoopers has been retained in 2007-2008.

It is also the policy of the external auditors to provide an annual declaration of their independence to the Audit Committee. The external auditor is required to attend the Annual General Meeting and be available to answer member questions about the conduct of the audit and the preparation and content of the audit report.

#### Continuous Disclosure and Shareholder Communication

The Society publishes a quarterly newsletter together with the release of annual reports for members' interests. The newsletter provides for the members' interest among other things a communication channel to continuously disclose any information concerning the Society and its controlled entities. The Society promotes communications with members and encourages effective participation at general meetings.

#### Risk Assessment and Management

The Audit Committee is responsible for ensuring there are adequate policies in relation to risk management, compliance

### Control Activities

Operations  
Financial Reporting  
Compliance

## Information & Communication

### Operations Financial Reporting Compliance

and internal control systems. In summary, the Society's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, measured and assessed. A risk management plan has been developed to monitor and manage the Society's risk profile. The plan is being used as a basis for monitoring and implementing risk mitigation processes to enable the achievement of the Society's business objectives.

The Board and Audit Committee also ensure that Teachers Savings and Loan Society adopt an integrated approach to risk management including:

- Treasury risk management and capital management dealing with all risks of the portfolio including those to do with the balance sheet and interest rates.
- Credit risk that arises in the credits and the loan book portfolio.
- Operational risk management, including regulatory risk management, as part of the day to day conduct of the business.
- Alignment with prudential standards.

Financial and Operational Risks are timely managed through internal audit with regular monitoring of control activities. Appropriately the findings are made available to relevant Business Unit Managers, the Audit Committee and CEO for redress, improvement and mitigation of known risks.

#### Code of Conduct

The Society has adopted a statement of values and a Code of Conduct (The Code) which has

been fully endorsed by the Board and incorporated into the Society's Standard Operating Procedure. The code applies to all directors audit committee and employees. The code is regularly reviewed and updated as necessary to ensure it reflects the highest standard of behaviour and professionalism and the practices necessary to maintain a reputable institution.

In summary, the Code requires that, at all times all Society personal should act with the highest integrity, objectivity and in compliance with the related regulations governing the society.

Annual Report of the Directors to the Members

Accordingly, your directors take pleasure in presenting the 2008 Annual Report on the affairs of the Society, including the financial statements for the year ended 31 December 2008:

#### Activities

The nature of operations and principal activities of the Society are maintaining membership of teachers and public service officers for the purpose of a Savings and Loan Society, processing member contributions and loans, and managing the investments of the Society.

#### Registered Office

The Society is a limited liability company incorporated and domiciled in Papua New Guinea.

The address of its registered office is Level 1, Tisa Haus, Sir John Guise Drive, Waigani, NCD, Papua New Guinea.

#### Directors

The directors as at the date of this report are:

Mr. William Varmari (Chairman)  
Mr. Gabriel Tai (D/Chairman)  
Mr. Alex Peter  
Mr. Francis Samoak  
Mr. Sam Nalong  
Mr. Michael Koisen (CEO/Director)

#### Remuneration of Directors and Employees

All directors were shareholders of the Society for the purpose of eligibility of a director of the Society. No Director had any materiel interest in any contract or arrangement with the Society or any related entity during the year.

#### Auditors

PricewaterhouseCoopers were reappointed as auditors for the year ended 31 December 2008. Details of amounts paid to the auditors for audits and other services are shown in note 3 to the financial statements.

For and on behalf of the Board,



**William M. K. Varmari**  
Chairman  
Signed in Port Moresby

# MANAGEMENT LETTER OF REPRESENTATION

Financial year ended 31 December 2008

PricewaterhouseCoopers  
Chartered Accountants, PO Box 484, Port Moresby, NCD

31st March 2009

**Subject: Management Letter of Representation  
Teachers Savings and Loans Society Limited - financial year ended 31 December 2008**

Dear Sirs

1. We confirm to the best of our knowledge and belief, and having made appropriate inquiries of other directors and officials of the Society, the following representations given to you in connection with your audit of the Society's financial report for the financial year ended 31 December 2008, and in the light of the requirements of the PNG Companies Act 1997 and the Savings and Loan Societies (Amendment) Act 1995, Ch.No.141.
2. We acknowledge the Directors and Management's responsibility for ensuring:
  - (a) the accuracy of the financial records and the financial report prepared from them; and
  - (b) that the financial report is drawn up:
    - (i) to give a true and fair view of the Society's financial position as at 31 December 2008 and of its performance, as represented by the results of its operations and cash flows, for the financial year ended on that date;
    - (ii) in accordance with the PNG Companies Act 1997 and the Savings and Loan Societies Act, Ch.No.141; and
    - (iii) to comply with International Financial Reporting Standards and other mandatory professional reporting requirements.

## Financial Records and Transactions

3. All the financial records have been made available for the purpose of the audit, and all the transactions undertaken have been properly reflected and recorded in the financial records. All other records and related information which might affect the truth and fairness of, or necessary disclosure in, the financial report, including minutes of directors (and of all relevant management meetings), have been made available to you and no such information has been withheld.
4. We are not aware of any irregularities involving management or those employees who have significant roles in the control structure.

## Disclosure of Assets

5. The financial report at 31 December 2008 includes all cash and bank accounts and all other assets of the Society required to be included therein in accordance with generally accepted accounting principles. The Society has satisfactory title to all recorded assets.

## Accounts Receivable

6. Accounts receivable totalling K328,984 were owing to the Society at balance date and represent bona fide claims against debtors at that date and are not subject to discount except for normal cash discounts. We are of the opinion that these debts will be realised in full subject to a provision for doubtful debts of K70,233.

7. The directors have taken reasonable steps to ascertain what action has been taken in relation to the writing off of bad debts and the making of provisions for doubtful debts and to cause all known bad debts to be written off and adequate provisions to be made for doubtful debts.

### **Current Assets**

8. The current assets will be realisable in the ordinary course of business at a value which is at least the amount recorded in the financial records at balance date.
9. The directors have taken reasonable steps to ascertain whether any current assets (other than accounts receivable) are likely to be realised in the ordinary course of business at a value less than the amount recorded in the financial records of the Society and if so, have caused:
  - (a) those assets to be written down to an amount which they might be expected to realise; or
  - (b) adequate provision to be made for the difference between the amount in the financial records and the amount that they might be expected to realise.

### **Investments**

10. Adequate provision has been made in the financial report for any permanent diminution in the value of investments.

Land & Buildings are based on last independent valuation by Pokawin Potuan of The Professional Valuers of PNG Ltd at the balance date. The properties were valued on an 'open market' basis, on assumption that they are free of mortgages and other encumbrances. No events have arisen since then to impair the fair values as disclosed in the 2008 statutory financial statements.

### **Property, Plant and Equipment**

11. The amounts capitalised to property, plant and equipment represent expenditure on actual capital additions.
12. All disposals, retirements or scrapings of property, plant and equipment have been authorised and correctly recorded in the financial records.
13. Depreciable non-current assets have been depreciated by charges against revenue on bases and at rates calculated to allocate the depreciable amount of each asset over its total useful life. In this respect we are satisfied that the total useful lives have been realistically estimated.

### **Non-Current Assets**

14. The directors have taken reasonable steps to ensure that non-current assets are not carried at amounts which are in excess of their recoverable amounts at balance date based on expected net cash flows which have been discounted to their present value.

### **Liabilities**

15. All known liabilities of the Society at balance date were included in the financial records and no further liabilities of a material amount have since come to our knowledge.
16. We are not aware of any pending litigation, proceedings, hearings or claims negotiations which may result in significant loss to the Society.



### **Contingent Liabilities**

17. We are not aware of any contingent liabilities which provisions are required.

### **Capital Commitments**

18. The Society is committed to providing the necessary financial support to Capital Life Insurance Company Ltd (CLIL) to ensure that CLIL continues to operate normally and where necessary, assist them to settle debts as and when they fall due. The board of directors do not consider that this commitment will result in significant losses or put cause unnecessary significant financial difficulties to the Society.

### **Future Cash Resources**

19. Based on cash flow forecasts, adequate cash resources will be available to cover the Society's requirements for working capital and capital expenditure for at least the next twelve months.

### **Related Party Transactions**

20. Full disclosure has been made in the financial report of information about material related party transactions.

### **Insurance**

21. All insurable assets and risks are to the best of our knowledge and belief fully covered by insurance.

### **Transactions And Agreements**

22. We are not aware of any material transactions or agreements the effect of which are not properly recorded in the financial records.

### **Other Matters**

23. We are not aware of any possible breaches of statute, regulations, contracts, agreements which might result in the company suffering significant penalties or other loss. No allegations of such breaches have come to our notice.

### **After Balance Date Events**

24. No matters or occurrences have come to our attention up to the present time which would materially affect the financial report or disclosures therein, or which are likely to materially affect the future results or operations of the Society.

Yours faithfully



**William M. K. Varmari**  
Chairman - BOD

.....  
**Mr. Michael Koisen**  
CEO

The authority of this audit report is under Section 30 of the Savings and Loans Society (Amendment) Act 1995.

The purpose of this report is to inform the Board of Directors and financial members that the Internal Audit Committee as required under the Savings and Loans (Amendment) Act 1995 had carried out its mandatory audit review of the accounts, financial records and business affairs of the Teachers Savings and Loan Society Limited, for the year 2008.

The audit review was done on a random basis and involves examination of accounting records and reports/statements to ensure that amounts are accurately supported by valid documentations and that reports and statements reported are accurately recorded and reported, admittance of members to the Society are accurately done and ensure that Boards decisions and Audit Reports compiled by the Internal Audit Branch of the Society are correctly implemented by the management. During the audit review the following accounts and reports were selected and reviewed:

1. Financial Reports and Statements,
2. Investments and Term Deposits,
3. Member Services,
4. Board of Directors Meeting Minutes,
5. Internal Audit Reports and Registers'
6. Detailed Income and Expenditure Statements with notes to the financial statements for the year ended December, 31 2008.

Based on this audit review, the Committee is satisfied that:

1. The overall management of the affairs of the PNG Teachers Savings and Loan Society is in compliance with the statutory requirements of Savings and Loans Society (Amendment) Act 1995;
2. The financial statements are prepared and presented in accordance with the generally accepted accounting practices and
3. The Balance Sheet gives a true and fair view of the financial position of the Society as at 31 December, 2008.

**Wilson Walaisim**  
*Chairman – Audit Committee*  
26th March 2009

# ANNUAL REPORT OF THE DIRECTORS TO THE MEMBERS

*For the year ended 31 December 2008*

Your directors take pleasure in presenting their annual report on the affairs of the Society, including the financial statements, for the year ended 31 December 2008.

## **ACTIVITIES**

The nature of operations and principal activities of the Society are maintaining membership of teachers and public service officers for the purpose of a Savings and Loan Society, processing member contributions and loans, and managing the investments of the Society.

## **REGISTERED OFFICE**

The Society is a limited liability company incorporated and domiciled in Papua New Guinea. The address of its registered office is Level 1, Tisa Haus, Sir John Guise Drive, Waigani, NCD, Papua New Guinea.

## **RESULTS**

The society has recorded an operating surplus for the year, of K 21,648,371 (2007: K 172,186,642).

## **PAYMENTS TO MEMBERS**

No dividends were credited to the members savings for the year ended 31 December 2008 (2007: Knil),

- K 2,471,612 (2007 K1,958,195) in the form of interest on members savings was paid during the year.
- K 3,481,524 ( 2007: K2,999,389) was declared as additional interest on members savings as at year end.

## **DIRECTORS**

The directors as at the date of this report are:

Mr William Varmari (Chairman)  
Mr Gabriel Tai (Deputy Chairman)  
Mr Sam Nalong  
Mr Francis Samoak  
Mr Alex Peter

## **REMUNERATION OF DIRECTORS AND EMPLOYEES**

All directors were shareholders of the Society for the purpose of eligibility of being a director of the Society. No director had any material interest in any contact or arrangement with the Society or any related entity during the year.

## **AUDITORS**

PricewaterhouseCoopers were re-appointed as auditors for the year ended 31 December 2008. Details of amounts paid to the auditors for audit and other services are shown in note 3 to the financial statements.

For, and on behalf of, the board



**William Varmari**

*Chairman*

*Signed in Port Moresby*

*This 18th day of June 2009.*

### **Unqualified Audit Opinion**

In our opinion,

- a) the financial report of Teachers Savings and Loan Society Limited set out on pages 23 to 38:
  - gives a true and fair view of the financial position of Teachers Savings and Loan Society Limited at 31 December 2008 and of its performance for the year ended on that date, and
  - is presented in accordance with the Savings and Loans Society Act, International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.
- b) proper accounting records have been kept by the Society as far as appears from our examination of those records; and
- c) we have obtained all the information and explanations we have required.

This opinion must be read in conjunction with the rest of our audit report.

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, profit and loss account, statement of changes in equity, statement of cash flows, and the accompanying notes to the financial statements for Teachers Savings and Loan Society Limited (Society) for the year ended 31 December 2008.

The directors of the Society are responsible for the preparation and true and fair presentation of the financial report in accordance with the Savings and Loans Society Act. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit in order to express an opinion to the members of the Society. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Savings and Loans Society Act, International Finance Reporting Standards and other generally accepted accounting practice in Papua New Guinea, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

We have read the other information in the Annual Report to determine whether it contained any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

### **Independence**

In conducting our audit, we followed applicable independence requirements of the Certified Practicing Accountants of Papua New Guinea and the Savings and Loans Society Act.



**PricewaterhouseCoopers**

*By: JC Seeto*

*Registered under the Accountants Act 1996*

*Port Moresby*

*1st March 2009*

# INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008 K	2007 K
Interest income	2 (a)	9,600,663	7,336,166
Rental income		2,463,497	2,363,834
Dividend income		6,463,151	4,236,503
Fair value movements on investments - quoted shares & convertible notes	5	19,658,545	173,576,802
Fair value movements on investments - properties	7	1,989,826	3,519,357
Other income	2 (c)	2,544,325	2,461,614
Impairment in unquoted shares	6	-	(5,000,000)
Total Income		<u>42,720,007</u>	<u>188,494,276</u>
Operating expenses	3	<u>(15,118,500)</u>	<u>(11,350,050)</u>
<b>Operating surplus before income tax</b>		<b><u>27,601,507</u></b>	<b><u>177,144,226</u></b>
Interest credited to member's account - Monthly	2 (b)	(2,471,612)	(1,958,195)
- Additional	2 (b)	(3,481,524)	(2,999,389)
		<u>(5,953,136)</u>	<u>(4,957,584)</u>
Income tax expense	1 (d)	-	-
<b>Surplus for the year after crediting members' accounts</b>		<b><u>21,648,371</u></b>	<b><u>172,186,642</u></b>

This statement is to be read in conjunction with the Notes on pages 25 to 36.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note	General Capital	General Reserve	Special Reserve	Asset Revaluation Reserve	Retained Earnings	Total
		K	K	K	K	K	K
<b>Balance at 1 January 2007</b>		-	28,190,103	700,000	1,167,132	99,355,951	129,413,188
Opening balance		-	28,190,103	700,000	1,167,132	99,355,951	129,413,188
Asset revaluation surplus		-	-	-	4,996,000	-	4,996,000
Net surplus for the year		-	-	-	-	172,186,642	172,186,642
Transfer to/(from) General Reserve		-	35,037,206	-	-	(35,037,206)	-
Transfer to/(from) Special Reserve		-	-	(400,000)	-	400,000	-
<b>Balance at 31 December 2007</b>		-	<b>63,227,309</b>	<b>300,000</b>	<b>6,163,132</b>	<b>236,905,389</b>	<b>306,595,830</b>
Balance at 1 January 2008		-	63,227,309	300,000	6,163,132	236,905,389	306,595,830
Asset revaluation surplus	4	-	-	-	1,738,015	-	1,738,015
Not surplus for the year		-	-	-	-	21,648,371	21,648,371
Transfer to/(from) General Reserve	16	-	5,025,979	-	-	(5,025,979)	-
Transfer to/(from) Special Reserve	17	-	-	-	-	-	-
<b>Balance at 31 December 2008</b>		-	<b>68,253,288</b>	<b>300,000</b>	<b>7,901,147</b>	<b>253,527,781</b>	<b>329,982,216</b>

This statement is to be read in conjunction with the Notes on pages 25 to 36.

# BALANCE SHEET

For the year ended 31 December 2008

	NOTE	2008 K	2007 K
<b>ASSETS</b>			
<b>Non-Current</b>			
Property, plant and equipment	4	13,292,121	10,974,962
Work in Progress		923,677	1,567,872
Assets at fair value through profit or loss - Quoted Shares	5	307,841,731	293,756,113
Assets at fair value through profit or loss - Investment Property	7	23,156,000	17,731,000
Assets at fair value through profit or loss - Convertible notes	5	586,673	988,616
Investments in unlisted shares	6	3,135,600	-
Deposits held to maturity	10	3,264,436	5,198,082
<b>Total non-current assets</b>		<b>352,200,238</b>	<b>330,216,645</b>
<b>Current</b>			
Cash and cash equivalent	9	29,786,211	25,162,972
Deposits held to maturity	10	1,929,359	
Rental & other receivables	11	722,731	418,056
Loans to members	8	71,025,523	56,795,590
<b>Total current assets</b>		<b>103,463,824</b>	<b>82,376,618</b>
<b>TOTAL ASSETS</b>		<b>455,664,062</b>	<b>412,593,263</b>
<b>LIABILITIES</b>			
<b>Non-Current</b>			
Employee provisions	12	158,128	122,200
<b>Total non-current liabilities</b>		<b>158,128</b>	<b>122,200</b>
<b>Current</b>			
Bank overdraft	9	407,887	1,493,998
Members Savings	13	123,194,048	103,262,407
Creditors and accruals	14	1,731,850	975,995
Employee provisions	12	189,933	142,833
<b>Total current liabilities</b>		<b>125,523,718</b>	<b>105,875,233</b>
<b>TOTAL LIABILITIES</b>		<b>125,681,846</b>	<b>105,997,433</b>
<b>NET ASSETS</b>		<b>329,982,216</b>	<b>306,595,830</b>
Represented by:			
<b>EQUITY</b>			
Members' capital	15	-	-
Revaluation reserve	4	7,901,147	6,163,132
General reserve	16	68,253,288	63,227,309
Special reserve	17	300,000	300,000
Retained earnings		253,527,781	236,905,389
<b>Total equity</b>		<b>329,982,216</b>	<b>306,595,830</b>

For, and on behalf of, the board

For, and on behalf of the board

Director



Director



This statement is to be read in conjunction with the Notes on pages 25 to 36.



# STATEMENT OF CASH FLOWS

For the year ended 31 December 2008

	NOTE	2008 K	2007 K
<b>Cash flows from operating activities</b>			
Net advances to members		(15,866,908)	(13,450,601)
Interest received on loans	2 (a)	7,967,637	6,167,483
Interest paid on savings	2 (b)	(2,471,612)	(1,958,195)
Cash payment to employees and suppliers		(12,773,943)	(13,889,397)
<b>Net cash outflows from operating activities</b>		<u>(23,144,826)</u>	<u>(23,130,710)</u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		149,450	-
Interest on term deposits	2 (a)	1,633,026	1,179,990
Dividends received		6,463,151	4,236,503
Net rental income		2,463,497	2,544,969
Proceeds on disposal of Investments		17,728,021	-
Payments for investment in Investment property	7	(3,435,174)	(99,643)
Investment property (work in progress)		(800,268)	(921,072)
Payments for investment in Property, plant and equipment	4	(1,662,044)	(721,853)
Investment in a subsidiary company	6	(3,135,600)	-
Investment in convertible notes, Airlines PNG	5	(7,000,000)	-
Investment in longer term interest bearing deposits	11	-	-
<b>Net cash flows from/used in investing activities</b>		<u>12,404,059</u>	<u>6,218,894</u>
<b>Cash flows from financing activities</b>			
Net savings and deposits received		16,450,117	21,588,306
<b>Net cash flows from financing activities</b>		<u>16,450,117</u>	<u>21,588,306</u>
<b>Net increase/(decrease) in cash held</b>		<u>5,709,350</u>	<u>4,676,490</u>
<b>Opening cash brought forward</b>		<u>23,668,974</u>	<u>18,992,484</u>
<b>Closing cash carried forward</b>		<u>29,378,324</u>	<u>23,668,974</u>
<b>Closing cash comprises</b>			
Cash on hand and at Bank	9	2,968,654	28,853
Overdrafts	9	(407,887)	(1,493,998)
Held to maturity investments - highly liquid	9	26,817,557	25,134,119
<b>Total cash and cash equivalent</b>		<u>29,378,324</u>	<u>23,668,974</u>

This statement is to be read in conjunction with the Notes on pages 25 to 36.

## 1. Statement of significant accounting policies

The Teachers Savings and Loan Society Limited is a co-operative financial services organization domiciled in Papua New Guinea.

These financial statements are presented in accordance with the requirements of the Savings & Loans Societies Act, the Teachers Savings and Loan Society Ltd Rules and the Papua New Guinea Companies Act 1997 and comply with generally accepted accounting practice, including applicable financial reporting standards approved for use in Papua New Guinea by the Accounting Standards Board. The Accounting Standards Board has approved all International Financial Reporting Standards as financial reporting standards.

All amounts are expressed in Papua New Guinea Kina rounded to the nearest Kina.

### a) Basis of accounting

The financial statements have been prepared on the basis of historical costs, as modified for financial instruments, investments in shares and properties, which are carried at fair value.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

### b) Revenue recognition

Revenue is stated at fair value, net of Goods and Services Tax, rebates and discounts. Revenue is recognised as follows:

#### *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method.

#### *Dividend income*

Dividend income is recognised when received.

#### *Fees and services*

Revenue from services is generally recognised on an accruals basis in the accounting period in which the services are provided.

#### *Rental income*

Revenue from rentals is generally recognised on an accruals basis in the accounting period in which rentals on properties is due and receivable.

### c) Property, plant and equipment and depreciation

Land and buildings are shown at fair value, based on annual valuations undertaken by external independent valuers, less accumulated depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Society and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. Increases in the carrying amount arising on revaluation of land and buildings are credited to asset revaluation reserves. Decreases that offset previous increases of the same asset are charged against the asset revaluation

reserves; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation on other assets is calculated on a diminishing value basis to write off the cost of assets over their estimated economic lives. Depreciation commences from the date upon which an asset becomes operational. The rates of depreciation used are as follows:

Leasehold land	-
Motor vehicles	30%
Office equipment	10%
Furniture and fittings	10%
Land & Buildings	3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains - net' in the income statement.

When re-valued assets are sold, the amounts included in other reserves are transferred to retained earnings.

**d) Income tax**

The Society is exempt from income tax under section 40A of the Papua New Guinea Income Tax Act 1959.

**e) Loans to members**

Loans to members are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Society provides money or services directly to a member with no intention of trading the receivable. All such loans are carried at an amortized cost. The Society assesses at each balance sheet date whether there is evidence that the loans or group of loans is impaired. A specific provision is made against individual loans where recovery is considered to be in doubt. A general provision is also made where loans are considered delinquent.

Interest income on members' loans is charged at 1% per month and is accrued monthly.

**f) Receivables**

Receivables are recognised initially at fair value less a provision for doubtful debts. A provision for doubtful debts is established when there is evidence that the company will not be able to collect amounts receivable. Any movement in the provision for doubtful debts is recognised in the Profit & Loss account.

**g) Investments in financial assets - quoted shares**

Investments in quoted shares are measured at fair value through profit or loss. Annual changes in fair values are credited/ (charged) directly to the profit and loss account at each balance date.

**h) Investment in financial assets - investment properties**

Investment property, principally comprising freehold land and office buildings, is held for long-term rental yields.

Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by The Professional valuers of PNG Limited. Changes in fair values are recorded in the income statement.

**i) Deposits Held to maturity**

Deposits and treasury bills are held to maturity and are carried at amortized cost. Interest income is recognised on an accrual basis.

**j) Employee benefits**

Liabilities for employees' entitlements to wages and salaries, annual leave, and other current employee entitlements are accrued at nominal amounts calculated on the basis of current wage and salary rates.

Liabilities for other employee benefits, which are not expected to be paid or settled within 12 months of balance date, are accrued in respect of all employees.

**k) Provisions**

A provision is recognised when there is a present obligation to transfer economic benefits as a result of past events. The amount provided is the best estimate of the expenditure that would be required to settle the obligation that existed at the balance sheet date.

**l) Cash and cash equivalents**

For the purposes of the statement of cash flows, cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash.

**m) Financial instruments**

Financial instruments, such as loans to members and short term deposits are generally recorded at fair values. The methods of accounting for possible changes in the fair value of financial instruments, such as doubtful loans receivable, are outlined in the policy statement associated with the particular items.

**n) Borrowing costs**

All borrowing costs are recognised as an expense in the period in which they are incurred.

**o) Comparative figures**

Where necessary comparative figures have been adjusted and conform to changes in presentation in the current year.

**p) Changes in accounting policies**

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

## 2 (a) Interest Income

	2008 K	2007 K
Interest income- members loans	7,967,637	6,167,483
Interest income- short term liquid funds	1,6333,026	1,168,683
	<u>9,600,663</u>	<u>7,336,166</u>

## 2 (b) Interest Expense

Interest income- members savings	<u>(5,953,136)</u>	<u>(4,957,584)</u>
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Interest expense on members' savings is accrued and credited to members' accounts at the end of each month. The interest paid for 2008 is K 5,953,136 (2007: K4,957,584) This amount is included as a charge against operating surplus for the year.

## 2 (c) Other Income

Loan Processing & Account Administration Fees	2,526,434	2,274,915
Tisa & LPI insurance commission, and other	17,891	186,699
	<u>2,544,325</u>	<u>2,461,614</u>

### 3. Operating expenses

The surplus for the year was arrived at after charging the following items to the profit and loss account.

	<b>2008</b>	<b>2007</b>
	<b>K</b>	<b>K</b>
Auditors remuneration : statutory audit services	110,000	95,000
: other services	25,000	68,552
Bank charges and interest	177,833	79,518
Depreciation	709,771	513,487
Doubtful Debts - Rent	-	92,698
Doubtful Debts - Loans	1,634,773	-
Electricity	727,877	611,210
Insurance	133,310	130,661
Property expenses	1,060,057	785,444
Staff Costs	2,449,812	2,468,661
Travel, airfare and accommodation	454,638	489,997
Security costs	762,990	569,457
Rental expenses	660,645	594,646
Data processing expense	674,107	476,528
Printing and Stationery	952,823	635,456
Investments management fees	1,798,329	1,013,777
General and administration expenses	193,365	135,194
Establishment Cost	110,426	215,930
Fuel	141,016	87,491
Advertising, Promotion, 35th Anniversary	107,499	642,714
Staff education	246,909	120,875
Donations	81,789	69,476
Entertainment	15,460	31,388
Telephone	271,040	182,295
Repair and maintenance	108,367	142,187
Rates and taxes	317,172	241,645
Motor vehicles	103,244	107,830
Filing & Legal Costs	171,848	68,772
Freight	143,699	166,045
Consulting	177,975	178,302
Cleaning	93,478	98,774
Other Administrative Expenses	503,248	236,040
<b>Total Operating expenses</b>	<b>15,118,500</b>	<b>11,350,050</b>

#### 4. Property, Plant and Equipment

	Building & Improvement	Leasehold Land	Motor Vehicle	Office Equipment	Furniture & Fitting	TOTAL
	K	K	K	K	K	K
<b>Cost or Valuation</b>						
At 1 January 2008	1,192,000	6,577,000	1,439,547	3,425,215	727,274	13,361,036
Additions	61,985	-	758,300	751,062	90,697	1,662,044
Revaluation surplus	398,015	1,340,000	-	-	-	1,738,015
Disposals	-	(174,000)	(509,269)	(151,226)	(7,300)	(841,795)
<b>At 31 December 2008</b>	<b>1,652,000</b>	<b>7,743,000</b>	<b>1,688,578</b>	<b>4,025,051</b>	<b>810,671</b>	<b>15,919,300</b>
<b>Accumulated Depreciation</b>						
At 1 January 2008	-	-	798,400	1,281,384	306,290	2,386,074
Charge for the year	126,368	-	332,139	231,610	47,823	737,940
Disposals	-	-	(397,271)	(92,806)	(6,758)	(496,835)
<b>At 31 December 2008</b>	<b>126,368</b>	<b>-</b>	<b>733,268</b>	<b>1,420,188</b>	<b>347,355</b>	<b>2,627,179</b>
<b>Net Book Value</b>						
<b>At 31 December 2008</b>	<b>1,525,632</b>	<b>7,743,000</b>	<b>955,310</b>	<b>2,604,863</b>	<b>463,316</b>	<b>13,292,121</b>
<b>At 31 December 2007</b>	<b>1,192,000</b>	<b>6,577,000</b>	<b>641,147</b>	<b>2,143,831</b>	<b>420,984</b>	<b>10,974,962</b>

The valuation of land and buildings is the fair value being the amounts for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The carrying amounts are based on an independent revaluation undertaken by The Professional Valuers of PNG Ltd at the balance date. Consistent with the accounting policy of the Society, revaluation surplus was credited to the revaluation reserves account.

## 5. Financial assets at fair value through profit or loss - quoted shares

Financial assets at fair value through profit or loss comprise and investment properties, analysed as follows:

	2008 K	2007 K
<b>Quoted shares:</b>		
<b>Bank South Pacific Limited</b>		
Balance at the beginning of the year	134,504,938	74,292,673
DRP (2008:3,332,625 shares @ K1.21)	4,032,476	-
Carrying value of shares sold (2008: 2,603,494 shares @ K0.726 per share)	(1,890,136)	-
Carrying value of shares transferred to CLICL (2008:3,030,303 shares @ K0.99 per share)	(3,000,000)	-
Fair value gain from change in net market value	45,660,703	60,212,265
At Valuation (2008: 182,967,328 shares @ K0.98 per share) (2007: 18,526,851 shares @ K7.26 per share)	179,307,981	134,504,938
<b>Credit Corporation (PNG) Limited</b>		
Balance at the beginning of the year	159,251,175	44,951,314
DRP (2007:220,870 shares @ K5.76)	-	1,272,207
Carrying value of shares sold (2008:3,600,000 shares @ K3.05 per share)	(10,980,000)	-
Fair value gain/(loss) from change in net market value	(26,737,425)	113,027,654
At Valuation (2008: 48,613,500 shares @ K2.50 per share) (2007: 52,213,500 shares @ K3.05 per share)	121,533,750	159,251,175
<b>Airlines PNG Limited</b>		
Bought shares in July 2008 (7,000,000 shares @K1.00 per share)	7,000,000	-
Fair value gain from change in net market value	-	-
At Valuation (2008: 7,000,000 shares @ K1.00 per share) (2007: nil shares)	7,000,000	-
	307,841,731	293,756,111
<b>Mahogany Convertibles Notes</b>		
Balance at the beginning of the year	988,616	1,000,738
Fair value/ (loss) gain from change in net market value	(401,943)	(12,122)
At Valuation (2008: (4,343 units @ AUD72.50/share @ 0.5367) (2007: (4,343 units @ AUD93/share @ 0.4085)	586,673	988,616
	-	-
<b>Total financial assets at fair value through profit and loss</b>	<b>308,428,404</b>	<b>294,744,729</b>
The quoted shares are valued at fair value which is determined using the quoted market price per share as at 31 December 2008. Gains/ (losses) recognised in relation to financial assets at fair value through profit or loss:		
- realized gain	1,137,210	349,005
- unrealized loss	(27,139,368)	(12,122)
- unrealized gain	45,660,703	173,239,919
	19,658,545	173,576,802



## 6. Unquoted shares

	2008	2007
Unquoted shares:	K	K
Capital Life Insurance Limited	5,000,000	5,000,000
Additional Investment	3,135,600	-
Provision for impairment	(5,000,000)	(5,000,000)
	<u>3,135,600</u>	<u>-</u>

In 2006, the Society acquired 100% shareholding interest in Capital Life Insurance Company Limited (CLIC) at a total cost of K5,000,000 and a further investment during the year of K3,135,600. For the purpose of these financial statements, the investment has been accounted for at cost, less provision made for impairment. For an understanding of the results and financial position of the group, reference should be made to the consolidated financial statements the company and its subsidiaries. The Society liquidated K3m worth of shares in BSP and transferred to CLIC through an off market transfer arrangement in return for the investment in this company.

## 7. Financial assets at fair value through profit or loss- investment properties

### *Investment Properties - Land & buildings*

Fair Value	Fair Value change	Additions	Disposals	Fair Value
31/12/07				31/12/08
K17,731,000	K1,989,826	K3,435,174	K -	K 23,156,000

### *Properties*

Land & buildings are based on an independent valuation by The Professional Valuers of PNG Ltd as at the balance date.

## 8. Loans to members

Balances receivable	7 5,128,234	59,261,326
Provision for doubtful debts	(4,102,711)	(2,465,736)
	<u>71,025,523</u>	<u>56,795,590</u>

The interest rate charged on loans to members during the year was 1% per month or 12% per annum. These loans are repayable over various periods, as fixed by the Board, but not exceeding 5 years.

## 9. Cash and Cash equivalent

Cash on hand and at Bank	2,968,656	28,853
Held to maturity investments - highly liquid	26,817,557	25,134,119
	<u>29,786,211</u>	<u>25,162,972</u>
Cash at bank/(overdraft)	(407,887)	(1,493,998)
<b>Net cash and cash equivalent</b>	<b><u>29,378,324</u></b>	<b><u>23,668,974</u></b>

The Society does not have a credit facility with any bank. It operates a number of accounts throughout the country with the main operating account used for general administration and loan payments to members. Bank accounts are held with Bank South Pacific in Port Moresby, Lae, Mount Hagen, Kokopo, Goroka, Madang, Wewak, Alotau and Kavieng. Short term deposits bear interest on average of 5% per annum. Included in held to maturity investments are treasury bills that have maturity of no more than 90 days from the balance date and provide a return of approximately 4% per annum.

## 10. Deposits held to maturity

Short term liquid investments held at the balance date were as follows:

	<b>2008</b>	<b>2007</b>
	<b>K</b>	<b>K</b>
Investment in Government Inscribed stock/Treasury bills	5,198,082	5,182,082
Less accumulated amortization of premium cost	(4,287)	-
Net carrying amount:	<u>5,193,597</u>	<u>5,198,082</u>

Analyzed as follows:

Current	1,929,359	-
Non-Current	3,264,436	5,198,082
	<u>5,193,795</u>	<u>5,198,082</u>

Investments in Government Inscribed Stock bear interest varying between 5-12% per annum.  
(2007:5-12% per annum)

## 11. Rental and other receivables

Rental debtors	328,984	145,225
Less: Provision for rental debtors	(70,223)	(70,223)
	<u>258,761</u>	<u>75,002</u>
Prepayments	268,211	194,963
Interest receivable	(8,600)	(30)
Other Debtors	187,159	148,061
	<u><b>722,731</b></u>	<u><b>418,056</b></u>

## 12. Employee provisions

### Non-Current

Long Service Leave	<u>158,128</u>	<u>122,200</u>
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### Current

Annual Leave	<u>189,933</u>	<u>142,833</u>
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## 13. Members Savings

Opening balance at 1 January	103,262,407	81,674,101
Net increase	19,931,641	21,588,306
<b>Closing balance at 31 December</b>	<u><b>123,194,048</b></u>	<u><b>103,262,407</b></u>

In accordance with Section 22 of the Savings & Loans Societies Act (Chapter 141), the society has a lien over all members' savings and has a right of offset in respect of any debt due from a member.

#### 14. Creditors and Accruals

Short term liquid investments held at the balance date were as follows:

	2008	2007
	K	K
Trade creditors	233,861	258,099
Medical claims	14,461	14,461
Rental bonds	23,055	20,151
Goods and Services Tax	9,771	1,222
Group tax	46,864	57,395
Accrued Expenses	915,286	488,520
Sundry Creditors	294,757	136,147
	<u>1,538,055</u>	<u>975,995</u>

#### 15. Members' Capital

The Society has no share capital as it is a company limited by guarantee.

#### 16. General reserve

Opening balance at 1 January	63,227,309	28,190,103
Transfer from Retained Earnings	5,025,982	35,037,206
<b>Closing balance at 31 December</b>	<u><b>68,253,291</b></u>	<u><b>63,227,309</b></u>

The General reserve represents a statutory minimum of twenty percent (20%) of each year's net earnings before declaring interest on deposits and dividends. Money standing to the credit of the fund shall be invested in the same manner as other monies of the Society. However, application of the fund shall be for the purpose of bad loans or losses and shall not be used for any other purpose except on the winding up of the Society.

#### 17. Special reserve

Opening balance at 1 January	300,000	700,000
Transfer from/(to) Retained Earnings	-	(400,000)
<b>Closing balance at 31 December</b>	<u><b>300,000</b></u>	<u><b>300,000</b></u>

In October 2009, the Society achieved its 35th anniversary and in recognition of this milestone, the Society approved for K500,000 to be set aside for this purpose and also established a special reserve account for an amount of K200,000 for directors' training costs. The activities were undertaken during the 2007 financial year, and the related costs were reported through the profit and loss account. The remaining reserve is maintained for directors and management training costs.

## 18. Financial instruments and risk management

The Society's activities expose it to a variety of financial risks, including the effects of changes in market prices and interest rates. The Society monitors these financial risks and seeks to minimize the potential adverse effects on the financial performance of the Society. The Society does not use any derivative financial instruments to hedge these exposures.

### (i) Maximum credit risk and concentration of credit risk.

Current management policy requires that all loans to be secured by restricting loans to the maximum of members' savings. In cases where loans are taken out on a 1:2 ratio, additional security may be deemed necessary in accordance with the Rules of the Society.

### (ii) Liquidity risk

Loans to members are approved with adherence to specified repayment terms and rate facility within the loan contract and are generally over a 2 to 60 month repayment term depending on the nature of the loan. The Society maintains a mix of investments on call and with a spread of maturity terms from two months to six months. This ensures the Society maintains liquid capability and limits its exposure to interest rate risks due to market fluctuations.

### (iii) Interest rate risk

The Society's standard loan agreement provides that interest be charged at 1% per calendar month on all existing and current loan accounts. Loan terms are restricted to a maximum of five years, although all delinquent loans are repayable on demand after 90 days. The short term nature of borrowing and the lack of fixed long term lending ensure that the Society does not face any material interest rate risk. The average interest rate charged over the year was 12.0% (2007: 12%) compared to the cost of funds of 2%.

The Society also holds 'Held-to-maturity financial assets' at variable rates, which expose the Society to cash flow interest rate risk. It is not the Society's policy to hedge this interest rate risks.

### (iv) Price risk

A large amount of the Society's assets are held in listed shares (see Note 5) on the Port Moresby Stock Exchange. The value of these shares is subject to market conditions.

#### Sensitivity analysis

With all other variables held constant, the Society's exposure to share price and interest (on held to maturity deposits) risks are measured by sensitivity analysis, as follows:

#### Interest bearing deposits

	K'000	Profit Effect K'000	Profit Effect K'000
Deposits with BPNG	17,818	(677)	748
Deposits with financial institutions	9,000	(428)	473
	<b>26,818</b>	<b>(1,105)</b>	<b>1,221</b>

#### Investment in shares

Bank South Pacific Ltd	179,308	(8,965)	8,965
Credit Corporation (PNG) Ltd	121,534	(6,077)	6,077
	<b>300,842</b>	<b>(15,042)</b>	<b>15,042</b>

**(v) Fair values**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments: Cash, deposits, investments and loans to members - the carrying amount of these is equivalent to their fair value. For investments refer note 5 and 6. Accounts payable deposits by members and sundry payables are carried at fair value.

**19. Employees**

The number of people employed by the Society during the year was 142 (2007: 109).

**20. Retirement benefits**

The Society participates in the National Superannuation Fund of Papua New Guinea in respect of its national employees. Employer contribution during the year amounted to K134,077 (2007: K109,038).

**21. Related parties**

Member loans are made to staff and directors in the ordinary course of business in accordance with the Society's Rules. The total value of these loans at 31 December 2008 is K404,393(2007: K316,391). The interest rate, security and repayment terms on these loans are consistent with the normal terms extended to members who are not either directors or staff.

**22. Contingencies and capital commitments**

The Society had no contingent liabilities and/or contingent assets and nil capital commitments at the year end (2007: Knil).

**23. Subsequent Events**

There were no material or significant events after balance date that require additional disclosure or adjustment to the financial statements.



# TISA

TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

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