

2009 ANNUAL REPORT



TISA

TEACHERS SAVINGS AND LOAN SOCIETY LIMITED



Building A Strong And Secure Relationship

For the year ended 31 December 2009

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Board of Directors, Executive Management, Audit Committee

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. Wilson Walaisim
Audit Committee



Mr. Chris Alu
Member - Audit Committee



Mr. Paul Aitsi
Member - Audit Committee

EXECUTIVE MANAGEMENT



Mr. Dennis Sapak
GM - National Member Services



Mr. David Munaga
Manager - Lending



Mr. Morgan Sehuri
Manager - Marketing



Ms Taita Labi
Manager - Information Technology



Mr. Terry Mayu
General Manager - Corporate Services



Ms Grace Bayak
Manager - Human Resource



Mr. Tabu Airi
Manager - Administration



Mr. William Seikepe
Manager - Finance & Accounts



Mr. Jeffery Yabra
Manager - Internal Audits

Overview



It gives me the pleasure in presenting to you on behalf of the Board of Directors the affairs of Teachers Savings and Loans Society Limited including the Financial Statements for the year ended 31st December 2009.

With continued support from you all as financial members, management and other stakeholders, our Society has seen 2009 as another year of challenges and an end to another chapter of its operations enduring 36 years of operations.

2009 has been a difficult year for the Society due to global financial crisis effects being experienced in the later part of 2008 and continuing on into 2009 financial year.

The rippling effects caused by the Global financial meltdowns forced difficult economic conditions experienced in Papua New Guinea, resulting in a drastic drop in the commodity prices and unquoted share values on the Port Moresby Stock Exchange.

The Society's quoted share values have dropped drastically to an all time lowest resulting in massive negative movement of K61,909,697, being recorded for the year ending 31st December 2009.

As mentioned in our 2008 presentation of the expected economic downturn, our Society did not fare well as expected, recording a net loss of K52 million as compared to 2008's K21.6 million net profit, and the net total asset stood at K279.1 million as compared to K329.9 million in 2008, a reduction in the net asset value by K50.8 million.

Despite the negative financial effects caused by the difficult economic conditions in Papua New Guinea and elsewhere on the fair value of the Society's quoted shares, with endless support from you all, as financial members, management, and other stakeholders, your Society strived well operationally in terms of membership growth, lending and branch upgrading programs.

Some of these material highlights are as follows:

- Lending value increased from K71 million to K83.7 million, increasing by K12.7 million
- Membership base increased from 34,000 in 2008 to 35,000 in 2009, an increase by 1,000 new members
- Buka and Manus sub branches were upgraded to a fully fledged branch status in 2009, bringing the total of fully fledged branches up to 10.

The successful restructuring of the Head Office Management and the general improvement in the member service area.

Profit/Loss Performance.

Your Society in 2009 recorded an audited operating loss for the year of K52,037,356 (2008: K21,684,372 million profit) Refer to Profit Performance Graph on Page 30. I must point out that, the 2009 loss was a direct effect of negative movements from two (2) main components of the Society's income area, firstly, negative fair value movement on investments – quoted shares of K61,909,697 (2008: K19,658,545 positive) and the impairment on convertible notes K586,673 (2008: Knil). Other areas of income have all shown upward trend in income.

With regard to interests paid to members;

- Monthly interest of K2, 788,011 (2008:K2,471,612) was paid to members savings accounts in the form of interests.
- No additional interests were declared for the 2009 financial year on members savings due to the financial loss situation, (2008: K3,481,524)

Our net asset position for the 2009 stood at K279.1 million, a decrease by 16% from almost K329.98 Million in 2008, thereby decreasing the members' funds by the same.

On the other hand, the members savings rose by 8% to K132.9 Million from K123.2 Million in 2008, while member lending grew to K83.7 Million(after provisions) for the same period, a growth of 18% (2008: K71.0 Million).

I must once again point out and must be noted by us all also is that this type of performance and reductions cannot be sustained and members' should not expect similar performance in future financial years. Also the additional interests whether paid into members' savings accounts or not to total profits derived from operations is not mandatory. It is not the Society's policy nor its intention to use profits derived from capital gains to pay members' interests or for operational purposes.

Investment Performance Highlights

The Society's total investments under management by Kina Funds Management consists of four assets classes: Cash, Fixed Term Deposits, Equities and Property.

The equities portfolio consists of domestically listed Port Moresby Stock Exchange (POMSoX) and dually listed Port Moresby and the Australian Stock Exchange (POMSoX and ASX), valued at K245.75 Million at financial year end which constitutes 83% of the total investment portfolio of the Society. Efforts are being made to reduce this over exposure.

The Society's property portfolio at financial year end has a market value of K27.40 Million which constitutes 10% of the total investment portfolio. Property income for the year was K3.92 Million representing an annual return of 14.31%.

Going Forward

Our current failures and financial losses experienced due to circumstances beyond our control must not become stumbling blocks for our future growths and making the services available to our members at the provincial centers efficiently and effectively.

Opening up provincial offices we see as an investment in terms membership growth and bringing of our Society's services to our members domiciled in these areas of the Country. We must not pretend, but seen to be living up to our mission statement, "Not for Profit, Not for Charity but for Service" is materialised and this is the way forward in achieving our objectives.

Therefore, your Society's next phase of the provincial establishment programme will cover number of locations, such as Mendi for Southern Highlands, Kiunga for Western and Kerema for Gulf Provinces respectively.

Our growth and success must be measured in terms of membership and growth. In a competitive Savings and Loans Society environment, we must provide the avenue and the choice for potential new members to join and become part of the biggest and the leading Savings and Loans Society in the Papua New Guinea.

We have lived up to our mission statement by bringing the services to all our members at the provincial levels and this must be further strengthened and sustained by our members feeling the ownership of the Society in encouraging fellow Teachers, Policemen/women, CIS officers, Health workers just to name a few of the Public Servant Machinery to join and become part of the leading and growing Society.

Our primary objective is to maintain and build into it highest value in benefit and quality of service for our members. Apart from the compulsory superfund contributions, we strive to provide the public servants the alternate choice for savings for the time and day when the member retires. We continually strive to educate our members' mentality to save for the period after retirement rather than a short term saving solution for all social problems faced by our members.

We have been able to progress so well this far despite many difficulties and challenges and will continue to strive for excellence in value and service for the benefit of our members. This is because of the support, encouragement and the guidance we've received from all authorities concerned. This include the regulators, Bank of Papua New Guinea, the Teaching Services Commission, the Education Department and other Government departments and Statutory Bodies, the PNG Teachers Association, The Provincial Education Boards, the School Authorities, other stakeholders and indeed our valuable members. We can only say thank you so much to you all.

Acknowledgements

In addition to that, on behalf of the Board of Teachers Savings and Loan Society Ltd, I acknowledge, commend and sincerely thank our members nationwide for their confidence, loyalty and overall support to the Society over the last 36 years of development and progress, sometimes through very challenging situations and environments. Without your loyalty and support the Society would not have come this far.

We are indeed indebted to the Teaching Services Commission, the Department of Education and the respective Provincial Education Boards for their on-going overwhelming support towards the cause of the Teachers Savings and Loan Society Ltd and its endeavors at the national, regional and provincial levels.

On the international scene, we also acknowledge the professional and technical cooperation we share with neighboring credit union movements in Australia and the Asia-pacific.

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 the Chief Executive officer, Mr. Michael Kosen; 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.

To all our valued members present here today in this Annual General Meeting and elsewhere, thank you so much for your contributions to end another chapter of our Society's operations, 2009.

Thank you and May God bless you all.



Mr. William Varmari

Chairman - Board of Directors

Overview



It gives me pleasure in presenting to you on behalf of the Executive Management the affairs of Teachers Savings and Loans Society Limited including the Financial Statements for the year ended 31st December 2009

With continued support from financial members, the Society has overcome a challenging year in 2009, and added another chapter to its 37 years of operations.

We currently operate 14 branches in the country and continue to press on with the establishment of branches in our effort to bring services closer to our members.

2009 has been a challenging year for the Society due to global financial crisis effects being experienced in the later part of 2008 and continuing on into 2009 financial year. The ripple effect of the Global financial meltdown created difficult economic conditions in Papua New Guinea, resulting in a significant drop in the commodity prices and quoted share values on the Port Moresby Stock Exchange. A net loss of K52 million recorded in financial year 31 December 2009 is a direct result of significant drop in the price of shares held by your Society. This in turn has reduced the net asset position of the Society by 15% to K279 Million. With strong reserves the Society is still in a position to weather the storm, while it waits for hedge strategies to be implemented and to take their effect.

Despite the negative financial results in financial, year 31 December 2009, the continuous support from financial members was crucial in ensuring your Society did well operationally.

Some operational highlights are as follows:

- a) Loans to members increased from K71 million to K83.7 million, increasing by 18%.
- b) Membership increased from 34,000 in 2008 to 36,000 in 2009, an increase of 6%.
- c) Buka and Manus sub branches were upgraded to a fully fledged branch status in 2009, bringing the total of fully fledged branches up to 10.
- d) The successful restructuring of the Head Office Management and the general improvement in the member service area.

Profit/Loss Performance.

Your Society in 2009 recorded an operating loss for the year of K52, 037,356 (2008:K21, 684,372 million profit). Again, the 2009 loss was a direct effect of negative movements from two (2) main components of the Society's income area, firstly, negative fair value movement on investments –

- quoted shares of K61,909,697 (2008: K19,658,545 positive) and
- impairment of convertible notes K586, 673 (2008: Knil). Other areas of income have all shown upward trend in income (Refer to Graph highlighting Profit Performance on Page 30).

Interests paid to members;

- Monthly interest of K2, 788,011 (2008:K2, 471,612) was paid to members savings accounts in the form of interests.
- No additional interests were declared for the 2009 financial year.00

Members savings rose by 8% to K132.9 Million from K123.2 Million in 2008, while member lending grew to K83.7 Million(after provisions) for the same period, a growth of 18% (2008: K71.0 Million).

Investment Performance Highlights

The Society's total investments under management by Kina Funds Management consists of four assets classes: Cash, Fixed Term Deposits, Equities and Property.

The equities portfolio consists of domestically listed Port Moresby Stock Exchange (POMSoX) and dually listed Port Moresby and the Australian Stock Exchange (POMSoX and ASX), valued at K245.75 Million at financial year end which constitutes 83% of the total investment portfolio of the Society. Efforts are being made to reduce this over exposure.

The Society's property portfolio at financial year end has a market value of K27.40 Million which constitutes 10% of the total investment portfolio. Property income for the year was K2.9 Million representing an annual gross return of 10.5%.

Going Forward

Opening up provincial offices is an investment in terms of bringing the Society's services to closer to members and providing the opportunity for new members to join.

Our growth and success must be measured in terms of membership growth, service excellence and balance sheet strength. In a competitive environment, we must provide the avenue and the choice for new members to join and become part of the biggest and the leading Savings and Loans Society in the Papua New Guinea.

Your Society continues to live up to its mission statement by bringing services closer to members. Our primary objective is to build and maintain value for our members in terms of benefits and quality of service.

We have been able to progress well this far despite many difficulties and challenges and will continue to strive for excellence in value and service for the benefit of our members.

Acknowledgements

A word of thanks to the Teaching Services Commission, the Education Department and other Government departments and Statutory Bodies, the Provincial Education Boards, the School Authorities, and the Bank of Papua New Guinea.

In addition to that, on behalf of the Executive Management and Staff of Teachers Savings and Loan Society Ltd,

I acknowledge, commend and sincerely thank our members nationwide for their confidence, loyalty and unwavering support to the Society over the last 37 years of development and progress, sometimes through very challenging situations and environments. Without your loyalty and support the Society would not have come this far.

My personal word of thank you to the Board of Directors for their support, direction and counsel.

I take my hat off to the Audit Committee who has at all times maintained their independence and professionalism.

To my staff thank you for your cooperation, support and loyalty. Thank you more importantly for your smart and hard work.

Michael O Koisen *FAMI, SA Fin, MAICD*

Chief Executive Officer

Annual Report of the Directors to the Members

For the year ended 31 December 2009

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 2009.

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 loss for the year of K 52,037,356 (2008: K 21,648,371).

PAYMENTS TO MEMBERS

No dividends were credited to the members savings for the year ended 31 December 2009 (2008: Knil).

- K 2,788,011 (2008: K2,471,612) in the form of interest on members savings was paid during the year.
- Knil (2008: K3,481,524) 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.

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AUDITORS

PricewaterhouseCoopers were reappointed as auditors for the year ended 31 December 2009. 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 of the Board of Directors



Alex Peter
Director

Signed in Port Moresby

This 1st day of March 2010.

Internal Audit Report 2009

This Audit Report is written under Section 30 of the Savings and Loans Society (Amendment) Act 1995.

The purpose of this report is to inform the Board Directors, Financial Members and the regulator (BPNG) that the Internal Audit Committee is required under the Savings and Loan (Amendment) Act 1995 has 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 2009.

The Audit review was conducted in November 2009 and March 2010 covering the periods for January to December 2009. The review was conducted on a sampling basis where sampling basis where samples selected were reviewed and tested to ensure the compliance to existing internal controls, policies, standards, Acts/ Rules are correctly.

The test performed includes the following areas:

1. Procurement procedures;
2. Member Services Procedures
3. Financial reports and Statements
4. Board Directors Meeting Minutes
5. Internal Audits Report
6. Detailed Income and Expenditure statements with notes to the Financial Statements

The Committee found that the Management has exercised stringent internal controls in all the areas reviewed in the exception to Member Services where some weakness were identified in the admittance of members to the Society.

The Committee has taken necessary steps to ensure that the weaknesses identified are addressed and that remedial actions are taken by the management to correct the weaknesses highlighted.

However, in all areas reviewed and tested, the committee is satisfied that;

1. The overall management of the affairs of the Teachers Savings and Loan Society is in conformity with the statutory requirement of the Savings and Loans Act and the Generally Accepted Accounting Practice in Papua New Guinea.
2. The Financial Statements are prepared and presented in accordance with the Savings and Loan Act and Generally Accepted Accounting Practice in Papua New Guinea and,
3. The Balance Sheet gives a true and fair View of the financial position of the Society as at the 31st December 2009.



Wilson Walaisim
Chairman – Audit Committee 2009

Independent Auditor's Report



Independent auditor's report to the shareholders of Members of Teachers Savings and Loan Society Ltd

Report on the financial statements

We have audited the accompanying financial statements of Teachers Savings and Loan Society Ltd (the "Society") which comprise the statement of financial position as at 31 December 2009, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies, and other explanatory notes for the Society.

Directors' responsibility for the financial statements

The directors of the Society are responsible for the preparation and fair presentation of the financial statements in accordance with Generally Accepted Accounting Standards in Papua New Guinea and the Companies Act 1997. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report. Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Auditor's opinion

In our opinion the financial statements of Teachers Savings and Loan Society Ltd is in accordance with the Companies Act 1997, including giving a true and fair view of the Society as at 31 December 2009 and of its performance for the year ended on that date; and complying with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.

Report on other legal and regulatory requirements

The Papua New Guinea Companies Act 1997 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- a) in our opinion proper accounting records have been kept by the company, so far as appears from our examination of those records;
- b) we have obtained all the information and explanations we have required; and
- c) in conducting our audit we followed applicable independence requirements of Certified Practising Accountants Papua New Guinea.

Other Matters

This report, including the opinion, has been prepared for and only for the company's shareholders as a body in accordance with the PNG Companies Act 1997 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers



By: J C Seeto
Partner
Registered under the Accountants Act 1996

Port Moresby

17 March 2010



J Richardson
Engagement Leader

Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 K	2008 K
Interest and similar income	2 (a)	11,797,436	9,600,663
Rental income		2,909,393	2,463,497
Dividend income		6,453,536	6,463,151
Fair value movements on investments – quoted shares	5	(61,909,697)	19,658,545
Fair value movements on investments – properties	7	3,920,812	1,989,826
Other income	2 (c)	3,123,968	2,544,325
Impairment on convertible notes	5	(586,673)	-
Total Income		(34,291,225)	42,720,007
 Operating expenses	 3	 (14,958,120)	 (15,118,500)
Operating surplus before income tax		(49,249,345)	27,601,507
 Interest credited to member's account – Monthly	 2 (b)	 (2,788,011)	 (2,471,612)
- Additional	2 (b)	-	(3,481,524)
		(2,788,011)	(5,953,136)
Income tax expense	1 (d)	-	-
Surplus/(deficit) for the year after crediting members' accounts		(52,037,356)	21,648,371
 Other comprehensive income			
Surplus on revaluation of Land & Buildings	4	1,160,000	1,738,015
Total comprehensive income for the year is attributed to: Members of Teachers Savings and Loan Society Limited		(50,877,356)	23,386,386

Refer to Graph showing Operating Expenses for the last 5 years on Page 31.

This statement is to be read in conjunction with the Notes on pages 18 to 29.

Statement of Changes in Equity For the year ended 31 December 2009

	Note	General Capital	General Reserve	Special Reserve	Asset Revaluation Reserve	Retained Earnings	Total
		K	K	K	K	K	K
Balance at 1 January 2008			63,227,309	300,000	6,163,132	236,905,389	306,595,830
Opening balance Total		-		-			
Comprehensive Income for the Year		-		-	1,738,015	-	1,738,015
Net 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	-		-	-	-	-
Balance at 31 December 2008		-	68,253,288	300,000	7,901,147	253,527,781	329,982,216
Balance at 1 January 2009		-	68,253,288	300,000	7,901,147	253,527,781	329,982,216
Total Comprehensive Income for the Year	4	-	-	-	1,160,000	-	1,160,000
Net deficit for the year		-	-	-	-	(52,037,356)	(52,037,356)
Transfer to/(from) General Reserve	16	-	-	-	-	-	-
Transfer to/(from) Special Reserve	17	-	-	-	-	-	-
Balance at 31 December 2009		-	68,253,288	300,000	9,061,147	201,490,425	279,104,860

This statement is to be read in conjunction with the Notes on pages 18 to 29

Refer to Graph showing Changes in Equity for the last 5 years on Page 32.

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Statement of Financial Position
As at 31 December 2009

	Note	2009 K	2008 K
ASSETS			
Non-Current			
Property, plant and equipment	4	14,605,174	13,292,121
Capital Work in progress		1,923,241	923,677
Assets at fair value through profit or loss – Quoted Shares	5	245,751,785	307,841,731
Assets at fair value through profit or loss – Investment Property	7	27,403,000	23,156,000
Assets at fair value through profit or loss – Convertible notes	5	-	586,673
Investments in unlisted shares	6	3,135,600	3,135,600
Deposits held to maturity	10	2,998,901	3,264,436
Total non-current assets		295,817,701	352,200,238
Current			
Cash and cash equivalent	9	32,626,702	29,786,211
Deposits held to maturity	10	-	1,929,359
Rental & other receivables	11	1,771,673	722,731
Loans to members	8	83,708,577	71,025,523
Other Asset		64,000	-
Total current assets		118,170,952	103,463,824
TOTAL ASSETS		413,988,653	455,664,062
LIABILITIES			
Non-Current			
Employee provisions	12	156,015	158,128
Total non-current liabilities		156,015	158,128
Current			
Bank overdraft	9	250,429	407,887
Members Savings	13	132,938,242	123,194,048
Creditors and accruals	14	1,377,442	1,731,850
Employee provisions	12	161,665	189,933
Total current liabilities		134,727,778	125,523,718
TOTAL LIABILITIES		134,883,793	125,681,846
NET ASSETS		279,104,860	329,982,216
Represented by:			
EQUITY			
Members' capital	15	-	-
Revaluation reserve	4	9,061,147	7,901,147
General reserve	16	68,253,288	68,253,288
Special reserve	17	300,000	300,000
Retained earnings		201,490,425	253,527,781
Total equity		279,104,860	329,982,216

For, and on behalf of, the board



Director

Date: 1st of March, 2010

For, and on behalf of, the board



Director

Date: 1st of March, 2010

This statement is to be read in conjunction with the Notes on pages 18 to 29.

Refer to Graph showing Asset Classification on Page 34.

Not for Profit, Not for Charity, But for Service



Statement of Cash Flows
For the year ended 31 December 2009

	Note	2009 K	2008 K
Cash flows from operating activities			
Net advances to members		(13,282,574)	(15,866,908)
Interest received on loans	2 (a)	9,835,264	7,967,637
Interest paid on savings	2 (b)	(2,788,011)	(2,471,612)
Cash payments to employees and suppliers		(10,865,663)	(12,773,943)
Net cash flows from/used in operating activities		<u>(17,100,984)</u>	<u>(23,144,826)</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment		25,441	149,450
Interest on term deposits	2 (a)	1,962,172	1,633,026
Dividends received		6,453,536	6,463,151
Net rental income		2,909,393	2,463,497
Proceeds on disposal of Investments		173,244	14,728,021
Payments for investment in Investment property	7	(326,188)	(4,235,442)
Payments for investment in Property, plant and equipment	4	(825,359)	(1,662,044)
Investment in a subsidiary company	6	-	(3,135,600)
Investment in convertible notes, Airlines PNG	5	-	(7,000,000)
Net cash flows from/used in investing activities		<u>10,354,739</u>	<u>12,404,059</u>
Cash flows from financing activities			
Net savings and deposits received		9,744,194	16,450,117
Net cash flows from financing activities		<u>9,744,194</u>	<u>16,450,117</u>
Net increase in cash held		2,997,949	5,709,350
Opening cash brought forward		29,378,324	23,668,974
Closing cash carried forward		<u>32,376,273</u>	<u>29,378,324</u>
Closing cash comprises			
Cash on hand and at Bank	9	9,316,948	2,968,654
Overdrafts	9	(250,429)	(407,887)
Held to maturity investments – highly liquid	9	23,309,754	26,817,557
Total cash and cash equivalent		<u>32,376,273</u>	<u>29,378,324</u>

This statement is to be read in conjunction with the Notes on pages 18 to 29.

Not for Profit, Not for Charity, But for Service



Notes to and forming part of the financial statements

For the Year ended 31 December 2009

1. Statement of significant accounting policies

The Teachers Savings and Loan Society Limited is a co-operative financial services organisation 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.

The Society has applied the revised *IAS 1: Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires either a separate presentation of a statement of comprehensive statement or to incorporate non-owner changes in the income statement. The Society has elected to incorporate non-owner changes in the income statement, hence produced a statement of comprehensive income. Comparative information has been re-presented so as to ensure conformity with the revised standard

b) Revenue recognition

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

Investment income

Interest income is recognised on a time-proportion basis using the effective interest method. 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 the 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 derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income 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.

1. Statement of significant accounting policies (continued)

against the asset revaluation reserves; all other decreases are charged to the Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

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 amortised 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 statement of comprehensive income.

g) Investments in financial assets – quoted shares

Investments in quoted shares are measured at fair value through statement of comprehensive income. Annual changes in fair values are credited/ (charged) directly to the statement of comprehensive income at each balance date.

1. Statement of significant accounting policies (continued)

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 independent and qualified valuers: The Professional valuers of PNG Limited. Changes in fair values are recorded in the statement of comprehensive income.

i) Deposits Held to maturity

Deposits and treasury bills are held to maturity and are carried at amortised cost. Interest income is recognised on an accruals 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) Comparative figures

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

o) Changes in accounting policies

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

p) Going Concern

The Statement of financial statements reported that the current liabilities exceeded current assets by approximately K16 million (2008: K22 million). By nature of its operations, funds received from members savings have been invested in long term investment opportunities, resulting in the apparent working capital deficiency. However, this is not expected to affect the Society's ability to meet its operational and financial obligations, therefore, going concern assumption is considered appropriate in the preparation of these financial statements.

**Notes to and forming part of the financial statements
For the Year ended 31 December 2009**

2(a). Interest income	2009 K	2008 K
Interest income – members loans	9,835,264	7,967,637
Interest income – short term liquid funds	1,962,172	1,633,026
	<u>11,797,436</u>	<u>9,600,663</u>

2(b). Interest Expense

Interest expense – members savings	<u>(2,788,011)</u>	<u>5,953,136</u>
------------------------------------	--------------------	------------------

Interest expense on members' savings is accrued and credited to members' accounts at the end of each month. The interest paid for 2009 is K2,788,011 (2008: K5,953,136). This amount is included as a charge against operating surplus for the year.

2(c). Other income

Loan Processing & Account Administration Fees	2,905,379	2,526,434
Tisa & LPI insurance commission, and other	218,589	17,891
	<u>3,123,968</u>	<u>2,544,325</u>

3. Operating expenses

The surplus for the year was arrived at after charging the following items to the Statement of Comprehensive Income.

OUR VALUES:

- 1) *Deliver the best possible customer service*
- 2) *Empower staff to make and carry out decisions*
- 3) *Provide members with timely application processing*
- 4) *Maintain and uphold ethical practice*
- 5) *Commit to individual and organization's Accountability*
- 6) *Values and promote continuous learning*
- 7) *Ensure the right staff are in decision making process*

**Notes to and forming part of the financial statements
For the Year ended 31 December 2009**

	2009	2008
	K	K
Auditors remuneration: statutory audit services	110,000	100,000
: other services	-	35,000
Bank charges and interest	93,271	177,833
Depreciation	628,195	709,771
Doubtful Debts-Loans	609,000	1,634,773
Electricity	809,865	727,877
Insurance	155,864	133,310
Property expenses	861,991	1,060,057
Staff Costs	3,216,163	2,449,812
Travel, airfare and accommodation	753,849	454,638
Security costs	939,475	762,990
Rental expenses	929,783	660,645
Data processing expense	559,276	674,107
Printing and stationery	655,991	952,823
Investments management fees	1,332,938	1,798,329
General and administration expenses	194,054	193,365
Establishment Cost	317,923	110,426
Fuel	88,379	141,016
Advertising, Promotion, 35th Anniversary	474,355	107,499
Staff education	196,187	246,909
Donations	46,766	81,789
Entertainment	33,040	15,460
Telephone	222,641	271,040
Repair and maintenance	165,710	108,367
Rates and taxes	184,671	317,172
Motor vehicles	112,198	103,244
Filing & Legal Costs	211,124	171,848
Freight	191,050	143,699
Consulting	255,471	177,975
Cleaning	136,679	93,478
Other Administrative Expenses	472,211	503,248
Total Operating expenses	14,958,120	15,118,500

**Notes to and forming part of the financial statements
For the Year ended 31 December 2009**

4. Property, Plant and Equipment

	Building & Improvement	Leasehold Land	Motor Vehicle	Office Equipment	Furniture & Fitting	TOTAL
Cost or valuation		K	K	K	K	K
At 1 January 2009	1,652,000	7,743,000	1,688,578	4,025,051	810,671	15,919,300
Additions	-	-	258,150	481,195	86,014	825,359
Revaluation surplus	100,000	1,060,000	-	-	-	1,160,000
Disposals	-	-	(72,804)	(20,450)	(26,820)	(120,074)
At 31 December 2009	1,752,000	8,803,000	1,873,924	4,485,796	869,864	17,784,585
Accumulated Depreciation						
At 1 January 2009	126,368	-	733,268	1,420,188	347,355	2,627,179
Charge for the year	32,069	-	277,059	272,111	46,956	628,195
Disposals	-	-	(56,564)	(2,314)	(17,085)	(75,963)
At 31 December 2009	158,437	-	953,763	1,689,985	377,225	3,179,411
Net Book Value						
At 31 December 2009	1,593,563	8,803,000	920,161	2,795,811	492,639	4,605,174
At 31 December 2008	1,525,632	7,743,000	955,310	2,604,863	463,316	13,292,121

The valuation of land and buildings measured at 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 values 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:

	2009	2008
	K	K
Quoted shares:		
<i>Bank South Pacific Limited</i>		
Balance at the beginning of the year	179,307,981	134,504,938
Share Split in June 08 1:10 :185,268,510 shares		
DRP(2008: 3,332,625 shares @ K1.21)	-	4,032,476
Carrying value of shares sold (2008: 2,603,494 after shares split @ K0.726 per share) (2009:183,928@ K0.98)	(180,249)	(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	(23,761,842)	45,660,703
At Valuation (2009: 182,783,400 shares @ K0.85 per share) (2008: 182,967,328 shares @ K0.98 per share)	155,365,890	179,307,981
<i>Credit Corporation (PNG) Limited</i>		
Balance at the beginning of the year	121,533,750	159,251,175
Carrying value of shares sold (2008:3,600,000 shares @ K3.05 per share)	-	(10,980,000)
Fair value gain from change in net market value	(35,487,855)	(26,737,425)
At Valuation (2009: 48,613,500 shares @ K1.77 per share) (2008: 48,613,500 shares @ K2.50 per share)	86,045,895	121,533,750
<i>Airlines PNG Limited</i>		
Bought shares in July 2008 (7,000,000 shares @K1.00 per share)	7,000,000	7,000,000
Fair value gain from change in net market value	(2,660,000)	-
At Valuation (2009: 7,000,000 shares @ K0.62 per share) (2008: 7,000,000 shares @ K1.00 per share)	4,340,000	7,000,000
Sub-total of financial assets at Fair Value	245,751,785	307,841,731
<i>Mahogany Convertibles Notes</i>		
Balance at the beginning of the year	586,673	988,616
Fair value/(loss) gain from change in net market value	-	(401,943)
At Valuation (2008: (4,343 units @ AUD72.50/share @ 0.5367)	-	586,673
Less: Impairment Provision	(586,673)	-
Total financial assets at fair value through profit and loss	245,751,785	308,428,404

5. Financial assets at fair value through profit or loss – quoted shares (Continued)

The quoted shares are valued at fair value which is determined using the quoted market price per share as at 31 December 2009. Gains recognised in relation to financial assets at fair value through profit or loss:

	2009	2008
	K	K
- realised gain	37,003	1,137,210
- unrealised loss	(61,946,700)	(27,139,368)
- unrealised gain	-	45,660,703
	<u>(61,909,697)</u>	<u>19,658,545</u>

6. Unquoted shares

Capital Life Insurance Limited	5,000,000	5,000,000
Additional Investment	3,135,600	3,135,600
Provision for impairment	(5,000,000)	(5,000,000)
	<u>3,135,600</u>	<u>3,135,600</u>

In 2006, the Society acquired 100% shareholding interest in Capital Life Insurance Company Limited (CLIC) at a total cost of K5,000,000. Further investment of K3,135,600 was made in 2008. For the purpose of these financial statements, the investment has been accounted for at cost basis, less provision made for impairment. The Society liquidated K3m worth of shares in BSP and offloaded to CLICL through off market share transfer arrangement in return for additional investment in this company. Consequently, the Society interest in the CLICL has now been reduced to 35% of the Company's issued capital.

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
31/12/08				31/12/09
K23,156,000	K3,920,812	K 326,188	K -	K 27,403,000

Properties

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

8. Loans to members

Balances receivable	88,410,808	75,128,234
Provision for doubtful debts	(4,702,231)	(4,102,711)
	<u>83,708,577</u>	<u>71,025,523</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

	2009	2008
	K	K
Cash on hand and at bank	9,316,948	2,968,654
Held to maturity investments – highly liquid	23,309,754	26,817,557
	32,626,702	29,786,211
Cash at bank/(overdraft)	(250,429)	(407,887)
Net cash and cash equivalent	32,376,273	29,378,324

The Society does not have a credit facility with any bank. It operates a number of accounts through out 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:

Current	-	1,929,359
Non-Current	3,000,000	3,264,436
	3,000,000	5,193,795
less amortised premium	(1,099)	(4,287)
	2,998,901	5,198,082

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	400,312	328,984
Less: Provision for rental debtors	(70,223)	(70,223)
	330,089	258,761
Prepayments	1,167,287	268,211
Interest receivable	57,075	8,600
Other debtors	217,222	187,159
	1,771,673	722,731

**Notes to and forming part of the financial statements
For the Year ended 31 December 2009**

	2009	2008
	K	K
12. Employee provisions		
<i>Non-Current</i>		
Long Service Leave	156,015	158,128
	<u>156,015</u>	<u>158,128</u>
<i>Current</i>		
Annual Leave	161,665	189,933
	<u>161,665</u>	<u>189,933</u>
13. Members Savings		
Opening balance at 1 January	123,194,048	103,262,407
Net increase	9,744,194	19,931,641
	<u>132,938,242</u>	<u>123,194,048</u>

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

14. Creditors and Accruals

Trade creditors	97,120	233,861
Medical claims	14,461	14,461
Rental bonds	38,002	23,055
Goods and Services Tax	81,317	9,771
Group tax	160,769	46,864
Accrued expenses	786,557	915,286
Sundry creditors	199,216	488,552
	<u>1,377,442</u>	<u>1,731,850</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	68,253,288	63,227,309
Transfer from Retained Earnings	-	5,025,979
Closing balance at 31 December	<u>68,253,288</u>	<u>68,253,288</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

	2009	2008
	K	K
Opening balance at 1 January	300,000	300,000
Transfer from/(to) retained earnings	-	-
Closing balance at 31 December	300,000	300,000

In October 2007, the Society achieved its 35th anniversary and in recognition of this milestone, the Society approved 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%. (2008: 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.

Notes to and forming part of the financial statements For the Year ended 31 December 2009

(iv) Price risk

A large amount of the Society's assets are held in listed shares of (see Note 5) listed 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:

	Carrying amount 31/12/2009	Interest rate risk reduction by 5%	Increase by 5%
	K'000	Profit effect K'000	Profit effect K'000
Interest bearing deposits			
Deposits with BPNG	3,000	(6)	6
Deposits with financial	<u>23,309</u>	<u>(47)</u>	<u>47</u>
	<u>26,309</u>	<u>(53)</u>	<u>53</u>
Investment in shares			
Bank South Pacific Ltd	155,366	(7,768)	7,768
Credit Corporation (PNG) Ltd	86,046	(4,302)	4,302
Airlines PNG	<u>4,340</u>	<u>(217)</u>	<u>217</u>
	<u>245,752</u>	<u>(12,287)</u>	<u>12,287</u>

(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 136 (2008: 117).

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 K139,987 (2008: K134,077).

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 2009 is K397,302 (2008: K404,393). 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.

The Society has a 35% shareholding interest with Capital Life Insurance Company Ltd (CLIL). The Society did not undertake any significant transactions with CLIL.

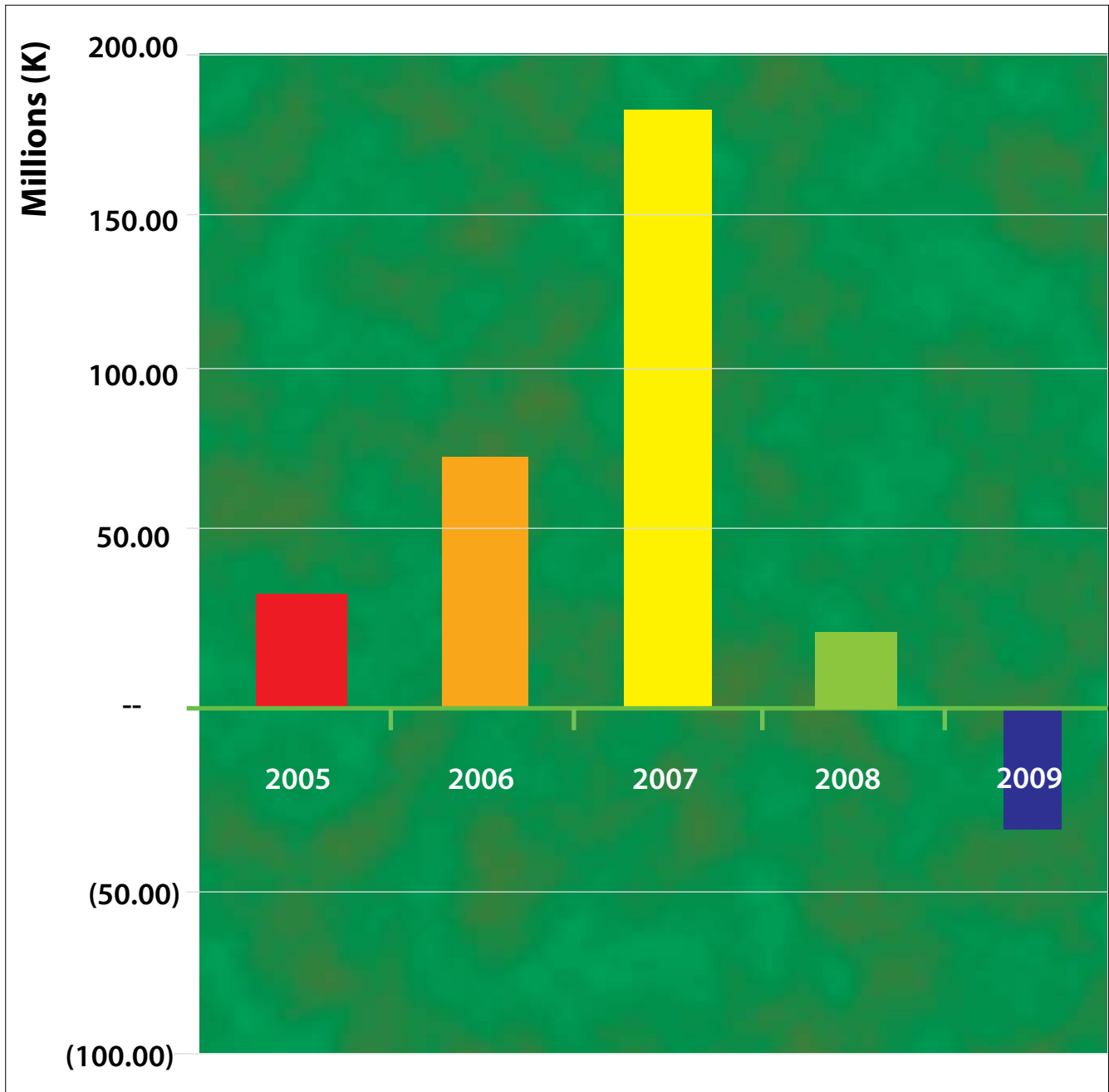
22. Contingencies and capital commitments

The Society has received a number of claims arising in the ordinary course of business. The Society has disclaimed liability and is defending the action. It is not practical to estimate the potential effect of these claims, however, legal advice indicates that any liability that may arise in the unlikely event the claims are successful is not expected to be significant. (2008: Knil).

23. Subsequent Events

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

Profit Performance

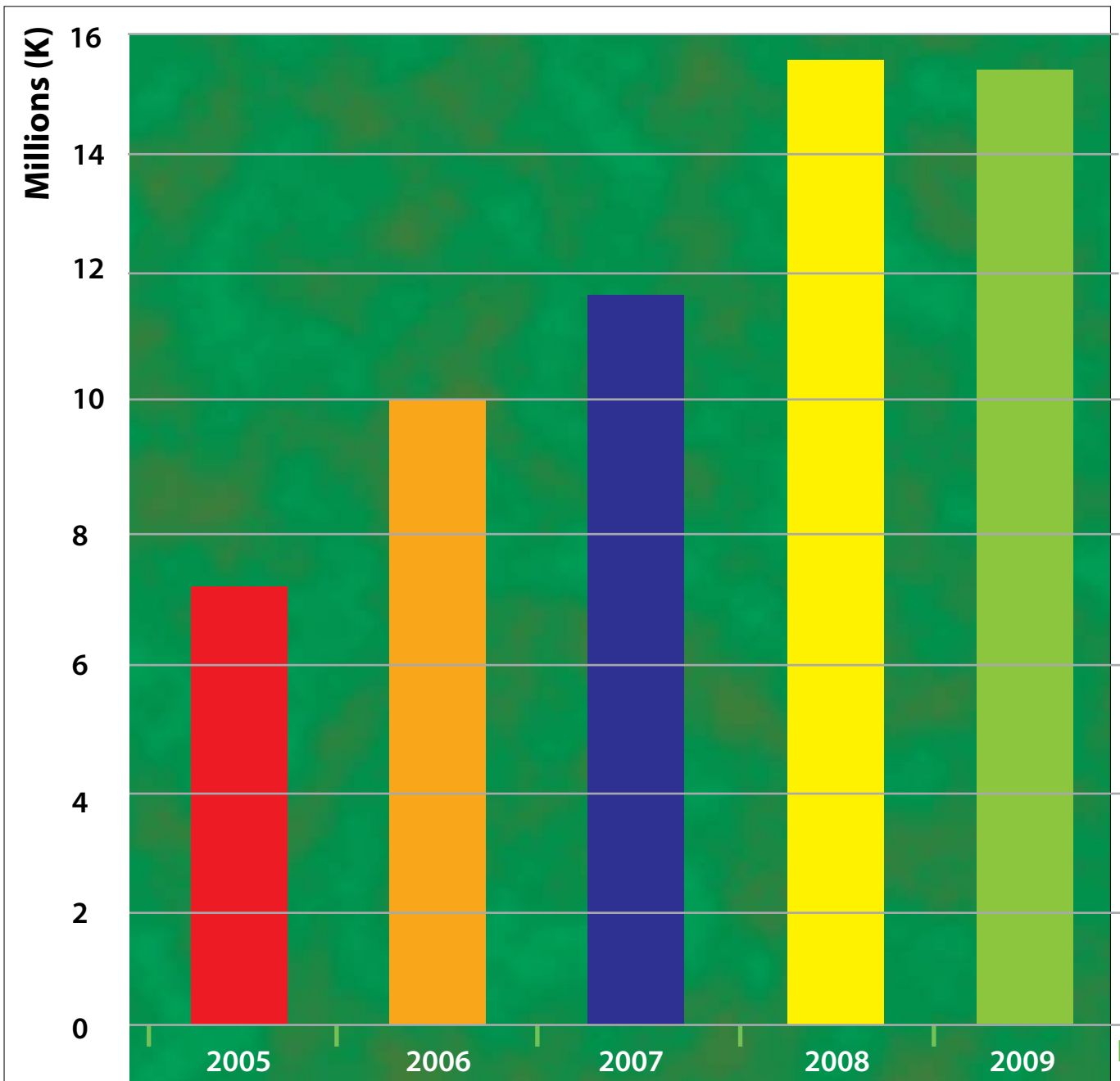


- 2009 - K52,037,356
- 2008 - K21,648,371
- 2007 - K172,186,642
- 2006 - K66,351,025
- 2005 - K28,526,378

Not for Profit, Not for Charity, But for Service



Operating Expenditure

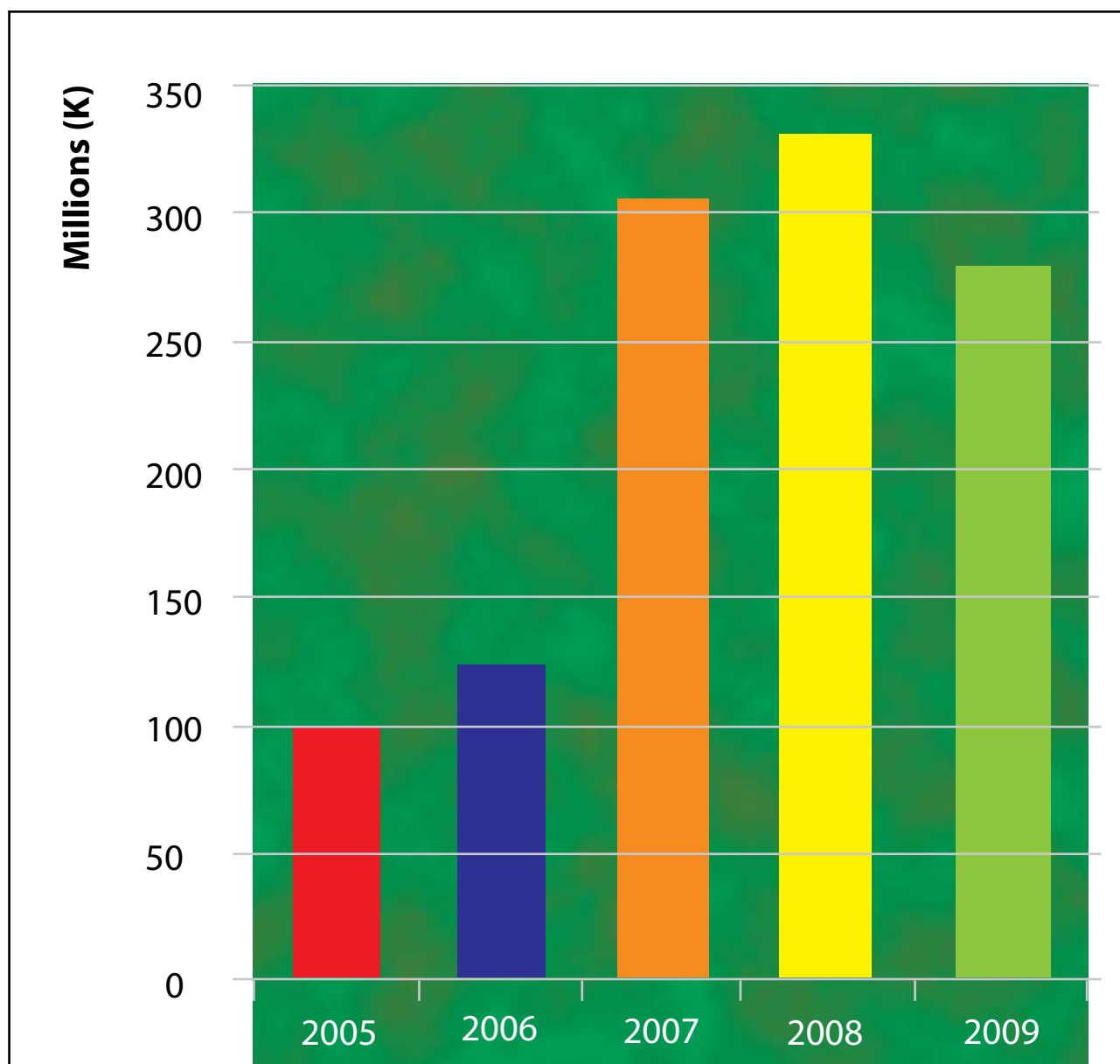


- 2009 - K14,958,120
- 2008 - K15,118,500
- 2007 - K11,350,050
- 2006 - K9,880,117
- 2005 - K7,113,045

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Equities

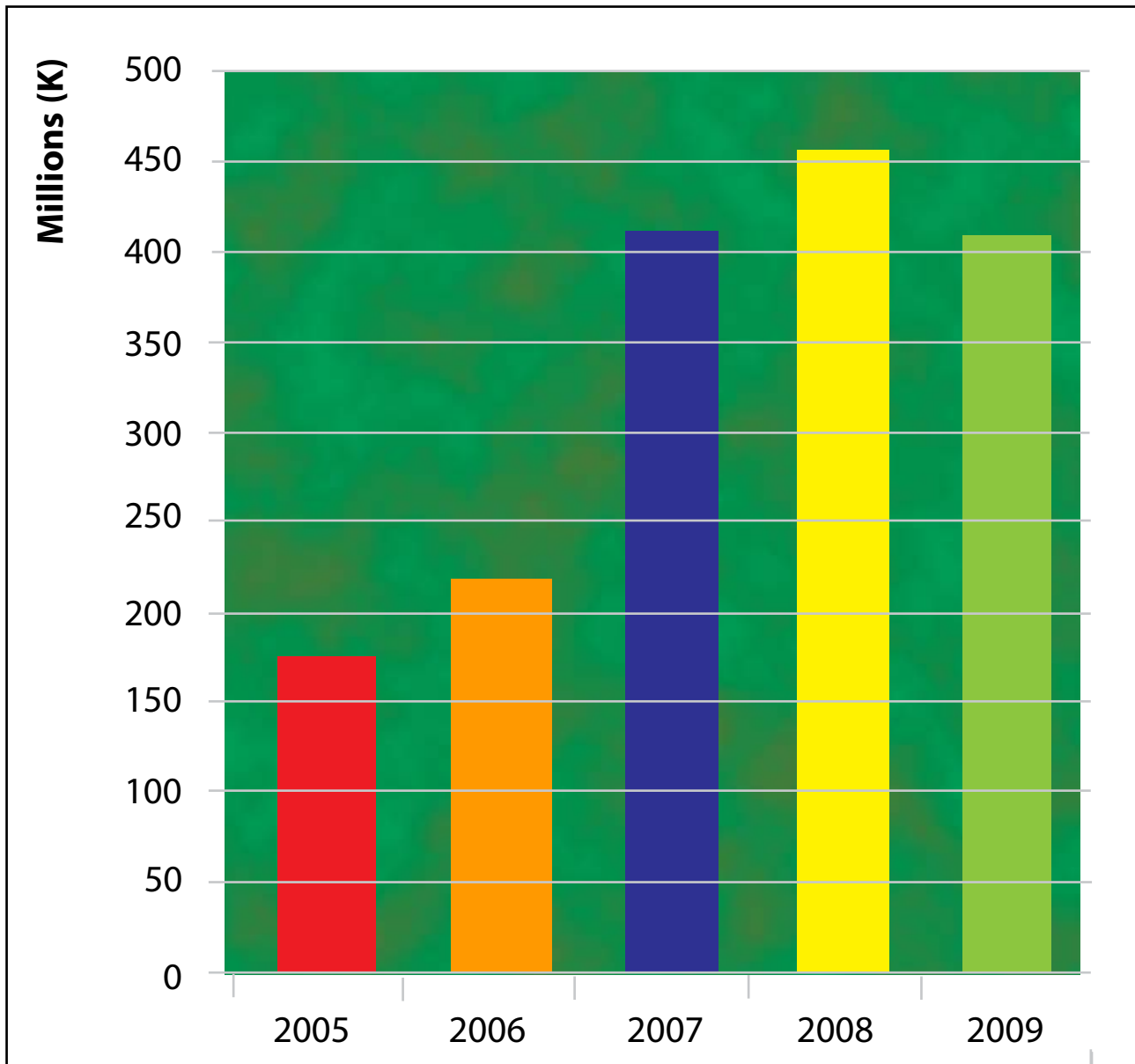


- 2009 - K279,104,860
- 2008 - K329,982,216
- 2007 - K306,595,830
- 2006 - K129,413,188
- 2005 - K100,216,382

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Asset Growth

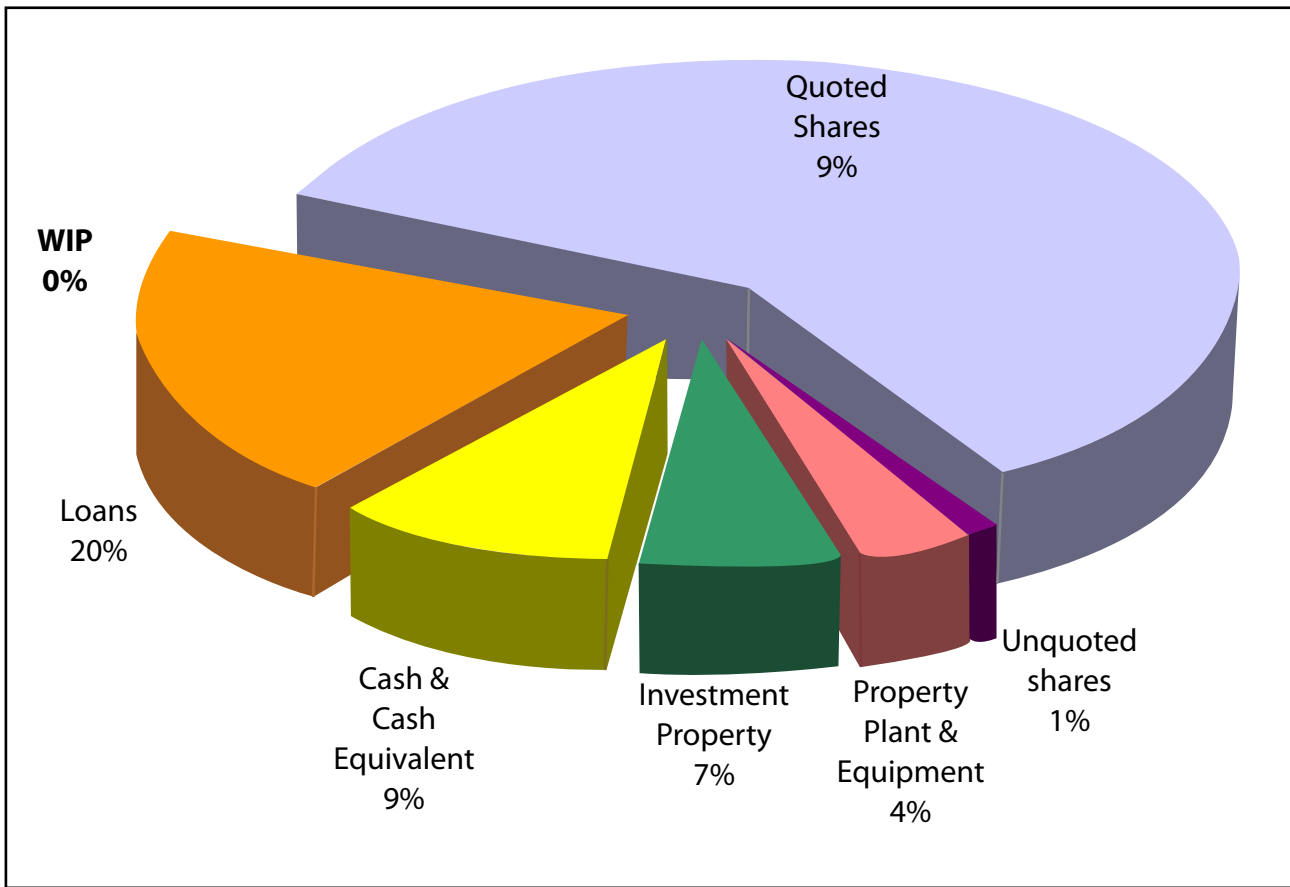


- 2009 - K413,988,653
- 2008 - K455,664,062
- 2007 - K412,593,263
- 2006 - K214,493,611
- 2005 - K175,509,558

Not for Profit, Not for Charity, But for Service



Asset



- Quoted Shares – K245,751,785**
- Loans – K83,708,577**
- Cash & Cash Equivalent – K37,461,276**
- Investment Property – K27,403,000**
- Property, Plant & Equipment – K14,605,174**
- Unquoted Shares – K3,135,600**
- WIP – K1,923,241**



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