

Sustaining Growth & Security



Annual Report 2010



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VISION STATEMENT

Not for Profit, Not for Charity, But for Service

MISSION STATEMENT

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

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

Directors



Left to Right: Francis Samoak (Director - Southern Region), Gabriel Tai (Deputy Chairman - Highlands Region), William Varmari (Chairman), Alex Peter (Director - NCD), Sam Nalong (Director - Momase Region).

Executive Management



*Back Left to Right: Dick Bart Jnr (Acting Internal Audits Manager), Morgan Sehuri (Marketing Manager), Dennis Sapak (GM - National Member Services)
Front Left to Right: Terry Mayu (GM - Corporate Services), Taita Labi (IT Manager), Rodney Hoffmann (Special Projects Manager), Grace Bayak (Human Resource Manager), Matthew Hasu (Finance & Accounts Manager), Michael Koisen (Chief Executive Officer).*

DIRECTORS REPORT

The directors of Teachers Savings & Loan Society Limited (Society) submit herewith the annual financial report of the Society for the financial year ended 31 December 2010. In order to comply with the provisions of the Companies Act 1997 and Savings and Loans Societies Act, the directors report as follows:

PRINCIPAL 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.

REVIEW OF OPERATIONS

The Society has recorded an operating Profit for the year of K 7,103,142 (2009: K 52,037,356 Loss)

PAYMENTS TO MEMBERS

Additional interest of K8,173,783 were credited to the members savings (S1 Accounts) for the year ended 31 December 2010 (2009: Knil).

- K 3,029,456 (2009: K2,788,011) in the form of interest on members savings was paid during the year.
- K8,173,783 (2009: Knil) was declared as additional interest on members savings (S1 accounts) as at year end.

DIRECTORS

The non executive 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 members 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

Deloitte Touché Tohmatsu was appointed as auditors for the year ended 31 December 2010. Details of amounts paid to the auditors for audit and other services are shown in note 3 to the financial statements.

CHANGES IN STATE OF AFFAIRS

During the financial year there was no significant change in the state of affairs of the Society other than that referred to in the financial statements or notes thereto.

CHANGES IN ACCOUNTING POLICIES

No changes in accounting policies occurred during the current year.

SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Society, the results of those operations, or the state of affairs of the Society in future financial years.

ENTRIES IN THE INTEREST REGISTER

No entries were made in the current year.

DONATIONS

Donations of K20,479 (2009: K46,766) were made during the current year.

DIRECTORS REPORT

DIRECTORS REMUNERATION

Disclosure has been made at note 21.

REMUNERATION ABOVE K100,000 PER ANNUM

Disclosure has been made at note 21.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Mr. Alex Peter

Director

Dated, 28 February 2011



Mr. William Varmari

Director

Dated, 28 February 2011

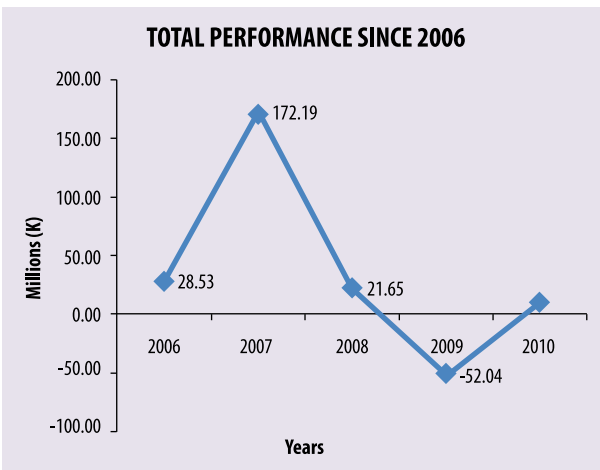


It gives me pleasure in presenting to you on behalf of the Board of Directors the affairs of Teachers Savings and Loans Society Limited including the Financial Statements for the year ended 31st December 2010.

With continued support from you all as financial members, management and other stakeholders, our Society has seen 2010 as another year of challenges, reflection and boldly taking on greater and higher challenges towards maximizing the quality of member services and overall people empowerment.

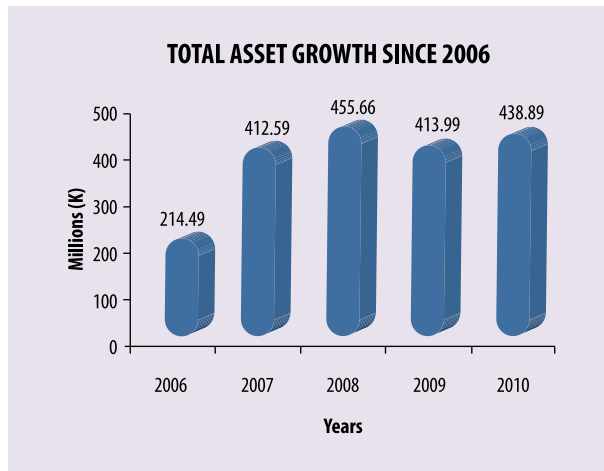
OVERVIEW OF FINANCIAL PERFORMANCE

2010 has been a challenging year for the Society due to the Society's quoted share values having dropped in the earlier year (2009) resulting in a negative movement.



But despite the 2009 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 ongoing valuable support and determination from you all as financial members, management and other stakeholders, I am delighted to inform you all on behalf of the Board of Directors that your Society has successfully

turned around to profitability level in 2010. Your Society recorded a net audited profit of K7.1m **(2009: K52m loss)** after crediting additional interest to members. Additional interest of K8.1m (6.2%) was credited to members' S1 accounts **(2009: nil, 2008: K3.4m)**. Interest paid to members throughout the year was K3m **(2009: K2.7m)**, bringing total interest paid to members in 2010 to K11.1m **(2009: K2.7)**;

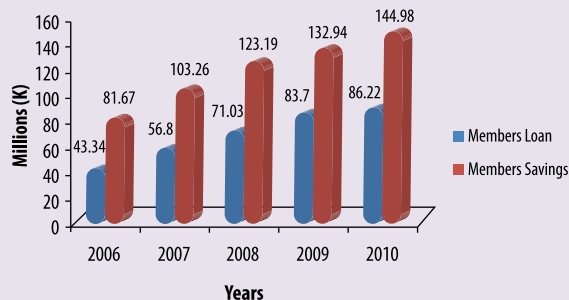


The total asset of your Society grew from K414m in 2009 to K439m in 2010, a growth of 6% (K25m). This shows that your Society has recovered from the effects of the 2008/2009 global financial crisis which had an impact on the Total Asset Value in 2009, and is on the growth path.

A further 4% (K3m) growth in General Reserve was recorded after transferring 20% of net profit to General Reserve in compliance with statutory requirements **(2009: K68.2m, 2010: K71.3m)**.

All other operational indicators for lending, savings and membership numbers also reflect continuous positive growth.

MEMBER SAVINGS & LENDING GROWTH TREND SINCE 2006



Total lending value increased from K83.7 million in 2009 to K86.22 million 2010, an increase of K2.52 million (3%) over the year. Whilst lending increased, member savings also increased from K132.94 million to K144.98 million, an increase of K12.04 million (9%). Although there were cessations of membership throughout the year due to reasons like retirement and resignation, overall membership base increased from 36,698 in 2009 to 39,371 in 2010, an increase by 2,673 (7%) new membership.

INVESTMENT PERFORMANCE HIGHLIGHTS

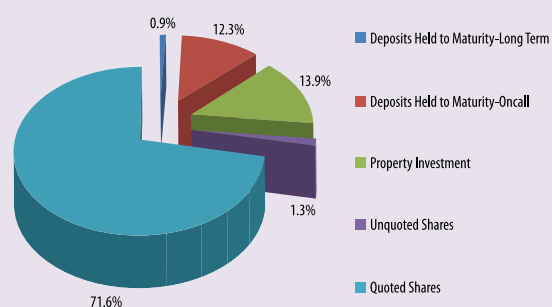
As at December 31st 2010, the Investment Management Contract which was outsourced to Kina Funds Management expired and the Board resolved to bring the function in-house, resulting in K1.2 million savings on investment management fees in 2011.

Investment Strategy

The investment strategy of TISA is focused on two objectives; to maximize long term returns and to manage business and investment risks. This strategy inherently requires the Society to pursue a balanced investment strategy which seeks capital growth over the medium to long term with moderate income streams.

The Society's investment consists of four main asset classes: Cash, Fixed Term Deposits, Equities and Property.

INVESTMENT PORTFOLIO



Cash

The Society's cash portfolio comprises of Interest Bearing Deposit (IBDs) and Treasury Bills (TBills) with maturities of up to 90 days. The Society reported a total cash portfolio of K39.98 million as at 31 December 2010 as compared to K23.31 million in 2009, representing a growth of 72%.

Fixed Interest

The Fixed Interest Portfolio comprises of government/semi government securities with maturities beyond 90 days.

Equities

The Equities Portfolio is made up of all Domestic Equities comprising of Quoted and Unquoted Shares. At December 31 2010, quoted shares which made up 71.6% of total investment portfolio was valued at K232.51 as compared to its value of K245.75 million in 2009. The negative movement of 11% in value was attributed slightly by the drop in share prices but largely by the Society's effort to sell off its holdings in BSP to mitigate concentration risk.

Property

The Society's property portfolio was valued at K45.1 million in 2010, constituting 13.9% of the total portfolio as compared to K27.4 million in 2009. Property income for the year was K3.6 million (2009:K2.9 million) representing an annual gross return on investment property of 8.1%

CONSOLIDATION AND DEVELOPMENT

The PNG Teachers S&L Society Ltd, established in 1972 and by 2010 year end it had become a well reputed and large fast growing organization, providing quality but limited financial services to its members throughout PNG.

Some 2010 other key indicators for the Society's success have been:-

- The longest established and only surviving Society (39 years) in PNG;
- Over 39,000 members;
- Extend Bond to other Public Servants and employees of Statutory bodies;
- 11 Full Branch Offices in operation;
- 3 Sub-Branch Offices in operation;
- A Fully updated computerized conversion to Ultracs 3 Banking System
- The ground work for the launch of the SMS TXT Balance Check **"Just 4 U"** Service with Digicel
- Improved quality and affordable products and member services
- Growing confidence/trust by the relevant authority and public, in the Teachers S&L Society.

GOING FORWARD

Opening up provincial offices we again see an investment in terms of membership growth and bringing of our Society's services to our members domiciled in these areas of the country. We must be seen to be living up to our vision statement **"Not for Profit, Not for Charity but for Service"**. This is the way forward in achieving our objectives.

We have 11 full branch offices with one each in Port Moresby, Alotau, Mt. Hagen, Goroka, Lae, Madang, Wewak, Manus, Kavieng, Buka and Kokopo. Popondetta, Vanimo and Kimbe Offices operated as Sub-Branches, each with a plan on the drawing board and some consultative groundwork for upgrading to full Branch Office status.

Your Society's next phase of the provincial branch rollout program is to also build one full Branch Office each in Mendi, Kiunga and Kerema. Your Board had made a policy decision that all future provincial offices are to be built as full Branches only and that the respective relevant local authorities have a key role in securing any establishment requirement or processes.

Our success can be measured in terms of membership and growth and public confidence. 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 this largest and the leading Savings and Loans Society in Papua New Guinea. We have lived up to our mission statement by bringing up-to-date quality affordable services to the doorstep of our members at the provincial levels. This must be fully and properly utilized, strengthened and sustained by our proud members.

We must also commend members who are unselfishly encouraging and inviting other fellow Papua New Guinea civil servants, Policemen/ women, CIS officers, Health workers, just to name a few of the Public Servants Machinery to join and become part of this leading and growing Society. You are demonstrating true leadership qualities towards unity in a Melanesian diverse culture.

THE PROJECT UPSCALE

As a result of such level of growth and success, and the trust bestowed upon the Society by the members, stakeholders and the relevant authorities, and the continuing changing socio-economic environment in PNG and the world, it is to be noted that over the last few years, through the number of Annual General Meetings (AGMs) and Annual Financial Report Presentation Meetings in the Province and/or Regions, you our members have been calling and challenging the Teachers Savings & Loans Society to: for instance:

- Provide additional and upgraded services and products such as:
 - Home mortgage loans
 - Personal loans
 - Full banking facilities
 - Undistributed retained earnings arising out of the changes in fair value of investments
 - Continuous membership of the Teacher S&L Society even after retirement/resigning from the Teaching Service Commission, Public Service and other Government Statutory employment
 - Others.

But TSL Society is being restricted from providing such additional services by the very outdated S&L Society Act, established in 1962, and slightly amended in 1995. This situation has unfortunately caused Teachers Savings & Loan Society to likening itself to that of a **“sleeping giant”**, and somewhat at the expense of its members.

The Registrar of S&LS and the Governor of the BPNG is aware of this situation and he is already in the process of having such S&L Act reviewed. Therefore, out of necessity, your Teachers S&L Society's Board of Directors in 2010 had to develop a proposal which it took to a special general meeting of more than 250 members in Kavieng. The proposal is to restructure and demutualize Teachers S&LS, so from being under the S&LS Act, to being a Licensed Financial Institution (LFI) under the LFI Act. The very supportive/positive decision(s) of this Special General Meeting in Kavieng was unanimous. But this is still subject to final approval by the Registrar S&LS/Governor of BPNG.

It is a very difficult, challenging yet important, significant bold proposal. Therefore I challenge you our valuable members to also support TSL Society and its Board in the proposal to move on as LFI for the better, for us the members and the wider community.

CORPORATE GOVERNANCE

In the process, be assured that we will together continue to uphold our vision, philosophy, principles and values. These are our roots, our anchor – come rain, come sunshine.

In any growing organization or developments, there are always increasing risks. Your Board has policies, plans and strategies put in place to mitigate such risks.

The Board and the organization will continue to have zero tolerance for fraud and overall corruption. Internal control measures will be stepped up further.

Your new organization, once approved, will have its “upgraded services and products available to interested former resigned/retired members, you our current members, and future members in the years ahead.

Your Board fully realizes its pending increasing and growing level of responsibility, accountability and liability as custodians of members' money, by providing sound governance, and ensuring prudent management of members' funds and the overall affairs of the Society.

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 have received from all authorities concerned.

ACKNOWLEDGEMENTS

May I, on behalf of the Board of Teachers Savings and Loan Society Ltd, acknowledge and commend our members nationwide for their confidence, loyalty and overall support to the Society over the last 39 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 our regulators, the Bank of PNG, the Teaching Service Commission, the Department of Education and the respective Provincial Education Boards such as the West New Britain Provincial Education Board for their on-going overwhelming support towards the cause of the Teachers Savings and Loans Society Ltd and its endeavors at the national, regional and provincial levels.

On the international scene, may we have in record our valuable affiliation with the World Council of Credit Unions, and acknowledge the professional and the technical cooperation that we share with neighboring credit union movements in Australia and in the Asia-Pacific Regions and other local Savings & Loan Societies, mostly through the Papua New Guinea Federation of Savings & Loan Societies.

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 Koisen, we continue to 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 nationwide, thank you so much for your contributions to complete one more chapter of our Society's successful operations and growth, in 2010.

With divine guidance and strength we pledge to continue to provide you quality, affordable financial services towards people's empowerment in the environment of mutual trust and unity, and as we move forward to the next level.

Remember let us stand, **Not for Profit, Not for Charity but for Service.**

Thank you.



Mr. William Varmari
Chairman - Board of Directors



I am pleased once again to present the affairs of Teachers Savings and Loan Society Limited for the year ended 31 December 2010.

The year 2010 has been a year of reflection and forward thinking.

A significant decision was taken by members to migrate TISA from a savings and loan society to a licensed financial institution. Following this decision, an application has been submitted with the Bank of PNG to migrate TISA to a licensed financial institution.

The year also saw a significant decision to upgrade TISA's retail banking system to ULTRACS. This is a retail banking application used widely by Australian Credit Unions. This sets TISA on par with credit unions in Australia in terms of application software. It also sets the stage for TISA's further development, migration and the provision of wider products and services to our clients.

The Chair has given you a summary of financial results for the financial period 31 December 2010.

TISA Migration to a Licensed Financial Institution

I would like to take this opportunity to discuss a very significant development in the history of TISA that in my view will also have a significant impact on the lives of our members and their families.

Your Savings and Loan Society continues to achieve significant milestones in its development. We have seen the Society grow from a mere ten thousand members in 2002 to almost forty thousand members as at the end of December 2010. With total assets of K58 Million in 2000 to

K439 Million as at the end of December 2010. With a small office in Mokohara Road Waigani NCD, to fourteen branch locations throughout the country. It operates the latest retail banking software platform provided by Ultradata, Australia, which is the same retail banking platform used by credit unions in Australia. Ultracs 3 which is the retail banking platform used by TISA has features that enable it to offer more products to members and significantly improve service delivery. It has the added feature of providing electronic banking and payment services. TISA recently launched its SMS query product, which now enables members to access their financial information using their mobile phones.

TISA Savings and Loan Society Ltd. is not only the largest savings and loan society in Papua New Guinea, it is unarguably the largest and most successful credit union in the South Pacific. Throughout the years, in many General Meetings held throughout the country, members frequently have called out for more products and services. **TISA has the financial and operational capacities to offer more to its members, "but is severely impeded by regulation."** The current legislation that TISA operates under, *the Savings and Loan Societies (Amendment) Act 1995* is:

- **Archaic, outdated and severely impedes growth and progress.**
- **Furthermore, under the current legislation substantial financial benefits due to members are locked - in, and cannot be distributed to members.**
- **TISA has outgrown the Savings and Loan Societies Act.**
- **TISA cannot continue to operate as a Savings and Loan Society.**

A member will be able to continue to hold their shares or if they wish to sell their shares, they can do so, but only to another member

MORE REASONS WHY A RESTRUCTURE IS NECESSARY

A restructure is necessary for a number of reasons and benefits accrued to members.

Additional Services

As a Savings and Loan Society, TISA is limited in the range of services it can provide to members. *The Savings and Loans Societies Act* restricts the amount of interest, which can be earned on savings and the type, and size of loans, which can be made. To ensure that TISA can grow to provide its members with a wider range of services and including home loans and interest bearing term deposits, TISA needs to change its business to a company limited by shares and to hold a licence issued under the *Banks and Financial Institutions Act 2000*.

Better Financial Supervision

Over the years, TISA has grown quite large, has many investments in real estate, and shares which are not related to its banking business. With a property company and other share investments mixed in with the banking business, financial supervision of the original core savings and financial services activities is made difficult and complex.

To ensure that the financial supervision by the Bank of Papua New Guinea is applied to the banking activities of the business, the operations need to be separated into legally separate entities to ensure that the property and investment business is not caught up in the banking business.

Demutualisation

Demutualisation is the process by which a society that has members instead of shareholders converts to a limited liability company.

As a society, the accumulated profits which are surplus to the balances of the members savings accounts are built up and the members are unable to access the benefits of these profits in the form of future dividends or to transfer them either by sale for profit or by bequeathing them to the member's spouse or children in the member's will. Demutualising and changing to a corporate structure will allow members to have the accumulated profits from trading attributed directly to them as shareholders. If demutualisation occurs future profits will flow through to members in the form of dividends and members will, if they wish, be able to deal with shares by selling them or leaving them to their spouse or children in the member's will.

The Savings and Loan Balances

The restructure and demutualisation will not affect members' current savings or loan balances. The current savings and loan balances will be transferred across and stay safe.

New products and services will be launched after the restructure and demutualisation; and members will be able to take advantage of these products and services as they wish.

WHAT DOES THE RESTRUCTURE ENTAIL

TISA has incorporated a new holding company called TISA Group Limited.

TISA Group Limited has in turn incorporated two wholly owned subsidiaries, TISA Community Finance Limited and TISA Property Limited.

The assets and liabilities of the savings and loans business of TISA and the corporate head office at Waigani will be transferred to TISA Community Finance Limited.

The real estate assets and liabilities other than the head office building will be transferred to TISA Property Limited.

Audit Committee



Mr. Wilson Walaisim
Chairman
Audit Committee



Mr. Chris Alu
Member
Audit Committee



Mr. Paul Aitsi
Member
Audit Committee

The Internal Audit Committee appointed under Section 25 (2) and empowered by Section 30 of the Savings and Loans Society (Amendment) Act 1995 had carried out its mandatory audit review of the business affairs, accounting and financial records of the Teachers Savings and Loans Society Limited for the year 2010.

The review was conducted in accordance with the Professional Practice of Internal Auditing and related standards.

The audit included the review, examination of compliance procedures, reports, testing and evaluation of financials and accounting procedures on a random basis covering the year to date operations of the Society.

Based on the audit review the Committee is of the opinion that:

- The overall management and operation of the Teachers Savings & Loan Society Limited is in compliance with the statutory requirements of the Savings and Loans Society (Amendment) Act 1995;
- The Financial Reports/Statements are prepared and presented fairly and in accordance with the Savings and Loans Society Act, International Financial Reporting Standards and Generally Accepted Accounting Practices in Papua New Guinea;
- The Balance Sheet gives a true and fair view of the financial position of the Teachers Savings and Loan Society as at 31 December, 2010 and
- Necessary remedial action was taken to address weaknesses that were identified in the normal course of audits during the financial period.



Wilson Walaisim
Chairman – Audit Committee
23rd March 2011

Deloitte Touche Tohmatsu

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

Report on the Financial Report

We have audited the accompanying financial report of Teachers Savings and Loan Society Limited which comprises the statement of financial position as at 31 December 2010, and the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of Teachers Savings and Loan Society Limited are responsible for the preparation and fair presentation of the financial report in accordance with International Financial Reporting Standards and Companies Act 1997 and with the requirements of the Savings and Loans Societies Act. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial

report 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial report 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 report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, 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 report 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 report.

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

Audit Opinion

In our opinion,

- (a) the financial report of Teachers Savings and Loan Society Limited is in accordance with the Companies Act 1997, including giving a true and fair view of the Company's financial position as at 31 December 2010, and of its performance for the year then ended; and complying with International Financial Reporting Standards and requirements of the Savings and Loans Societies Act; and
- (b) proper accounting records have been kept by Teachers Savings and Loan Society Limited.

Other Information

We do not provide any other services to Teachers Savings and Loan Society Limited.

DELOITTE TOUCHE TOHMATSU

Suzaan Theron

Registered under the Accountants Act 1996
Partner, Chartered Accountant

Port Moresby, 28th day of February 2011

DIRECTORS' DECLARATION

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Society will be able to pay its debts as and when they become due and payable
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with Savings and Loans Societies Act and accounting standards and giving a true and fair view of the financial position and performance of the Society.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Mr. Alex Peter

Director

Dated, 28 February 2011



Mr. William Varmari

Director

Dated, 28 February 2011

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 K	2009 K
Interest and similar income	2 (a)	11,898,015	11,797,436
Rental income		3,641,159	2,909,393
Dividend income		13,160,282	6,453,536
Loss arising on financial assets – fair value through profit and loss	5	(9,998,599)	(61,909,697)
Change in fair value of investment properties	7	17,706,000	3,920,812
Other income	2 (c)	6,002,161	3,123,968
Impairment on convertible notes	5	-	(586,673)
Total Income		42,409,018	(34,291,225)
Operating expenses		(24,102,637)	(14,958,120)
Operating surplus before income tax		18,306,381	(49,249,345)
Interest credited to member's account - Monthly	2 (b)	(3,029,456)	(2,788,011)
- Additional	2 (b)	(8,173,783)	-
		11,203,239	(2,788,011)
Income tax expense	1 (d)	-	-
Surplus/(deficit) for the year after crediting members' accounts		7,103,142	(52,037,356)
Other comprehensive income			
Increment on revaluation of land and buildings	4	4,642,262	1,160,000
Total comprehensive income/(loss) for the year is attributed to:			
Members of Teachers Savings and Loan Society Limited		11,745,404	(50,877,356)

This statement is to be read in conjunction with the accompanying notes to the financial statements.

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 K	2009 K
ASSETS			
Non-Current			
Property, plant and equipment	4	21,351,225	14,605,174
Capital Work in progress		2,519,442	1,923,241
Investment properties	7	45,109,000	27,403,000
Other financial assets	5, 6, 10	239,849,980	251,886,286
Total non-current assets		<u>308,829,647</u>	<u>295,817,701</u>
Current			
Cash and cash equivalent	9	42,597,982	32,626,702
Rental and other receivables	11	1,161,711	1,771,673
Loans to members	8	86,216,950	83,708,577
Other Asset		89,247	64,000
Total current assets		<u>130,065,890</u>	<u>118,170,952</u>
TOTAL ASSETS		<u>438,895,537</u>	<u>413,988,653</u>
LIABILITIES			
Non-Current			
Employee provisions	12	125,524	156,015
Total non-current liabilities		<u>125,524</u>	<u>156,015</u>
Current			
Bank overdraft	9	-	250,429
Members Savings	13	144,978,691	132,938,242
Creditors and accruals	14	2,867,232	1,377,442
Employee provisions	12	73,826	161,665
Total current liabilities		<u>147,919,749</u>	<u>134,727,778</u>
TOTAL LIABILITIES		<u>148,045,273</u>	<u>134,883,793</u>
NET ASSETS		290,850,264	279,104,860
Represented by:			
EQUITY			
Members' capital	15	-	-
Revaluation Reserve	4	13,703,409	9,061,147
General Reserve	16	71,308,673	68,253,288
Special Reserve	17	300,000	300,000
Retained earnings		205,538,182	201,490,425
Total equity		<u>290,850,264</u>	<u>279,104,860</u>

This statement is to be read in conjunction with the accompanying notes to the financial statements.

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	Note	2010 K	2009 K
Cash flows from operating activities			
Net advances to members		(2,976,525)	(13,282,574)
Interest received on loans	2 (a)	10,747,084	9,835,264
Interest paid on savings	2 (b)	(3,029,456)	(2,788,011)
Cash payments to employees and suppliers		(14,470,601)	(10,865,663)
Net cash flows from/used in operating activities		<u>(9,729,489)</u>	<u>(17,100,984)</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment			25,441
Interest on term deposits	2 (a)	1,150,931	1,962,172
Dividends received		13,160,282	6,453,536
Net rental income		3,641,159	2,909,393
Proceeds on disposal of Investments		2,689,095	173,244
Payments for investment in Investment property		-	(326,188)
Payments for investment in Property, plant and equipment	4	(4,556,744)	(825,359)
Net cash flows from/used in investing activities		<u>16,084,723</u>	<u>10,354,739</u>
Cash flows from financing activities			
Net savings and deposits received		3,866,484	9,744,194
Net cash flows from financing activities		<u>3,866,484</u>	<u>9,744,194</u>
Net increase in cash held		10,221,709	2,997,949
Opening cash brought forward		<u>32,376,273</u>	<u>29,378,324</u>
Closing cash carried forward		<u>42,597,982</u>	<u>32,376,273</u>
Closing cash comprises			
Cash on hand and at Bank	9	2,615,994	9,316,948
Overdrafts	9	-	(250,429)
Held to maturity investments – highly liquid	9	39,981,988	23,309,754
Total cash and cash equivalents		<u>42,597,982</u>	<u>32,376,273</u>

This statement is to be read in conjunction with the accompanying notes to the financial statement

1. Statement of significant accounting policies

The Teachers Savings and Loan Society Limited (Society) 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 prepared in accordance with International Financial Reporting Standards as adopted by the Accounting Standards Board of Papua New Guinea.

a) Basis of accounting

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Papua New Guinea Kina, unless otherwise noted.

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.

Movement in fair market value of investments

Changes in fair market value of investments are recognised as income and are determined between the difference between the fair market value at year end or consideration received (if sold during the year) and the fair market value as at the prior year end or cost (if the investment was acquired during the period).

1. Statement of significant accounting policies (continued)

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) Financial assets

The Society classifies its financial assets into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) 'available-for-sale' (AFS) and held-to-maturity. Management determines the appropriate classification of its investments at the time of the purchase.

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices are classified as FVTPL.

Investments are valued as at 31 December 2010 as follows:

- i. Listed shares are valued at 31 December 2010 at last sale price on that date.
- ii. Unlisted shares are carried at costs
- iii. The net movement on revaluation of listed shares is reflected in the statement of comprehensive income.

Financial assets at FVTPL are subsequently re-measured at fair value based on quoted bid prices. Gains or losses arising from changes in the fair value of securities classified as FVTPL are recognised in the statement of comprehensive income in the period in which they arise.

AFS financial assets are recognised at fair value based on an independent valuation. Gains or losses arising from the change in the fair value are recognised in the investment revaluation reserve.

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Society's management has the positive intention and ability to hold-to-maturity. Were the Fund to sell other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

Held-to-maturity investments are carried at amortised cost using effective interest rate method.

1. Statement of significant accounting policies (continued)

h) 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) Impairment of assets

At each reporting date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

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.

1. Statement of significant accounting policies (continued)

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 basis

The financial statements have been prepared on a going concern basis which assumes that the Society will be able to meet its liabilities and obligations as and when they fall due in the normal course of business for the foreseeable future. Should the Society be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Society be unable to continue as a going concern. The Statement of Financial Position reported that the current liabilities exceeded current assets by K17.8 million (2009: K16 million). Due to the nature of the Society's operations, funds received from members savings have been invested in long term investment opportunities, resulting in the apparent maturity mismatch. The most significant current liability balance consists of member savings of K144 million, which under the Savings and Loans Societies Act is required to be treated as current liabilities. Based on the actual history of the Society and member withdrawals, it is not expected that all members will fully withdraw their savings during the next 12 months as the timing of full withdrawal of savings is aligned with the standard government retirement age of 60 years and over.

The working capital deficiency as disclosed is therefore not expected to affect the Society's ability to meet its operational and financial obligations and therefore the application of the going concern assumption is considered appropriate in the preparation of these financial statements.

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - NOTES TO & FORMING PART OF THE FINANCIAL STATEMENTS
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2 (a). Interest income

	2010 K	2009 K
Interest income – members loans	10,747,084	9,835,264
Interest income – short term liquid funds	1,150,931	1,962,172
	<u>11,898,015</u>	<u>11,797,436</u>

2 (b). Interest Expense

Interest expense – members savings	(3,029,456)	(2,788,011)
Additional Interest	(8,173,783)	-
	<u>(11,203,239)</u>	<u>(2,788,011)</u>

Interest expense on members' savings is accrued and credited to members' accounts at the end of each month. The interest paid for 2010 is K3,029,456 with additional interest of K8, 173,783 credited to members account on 31 December 2010. (2009: K2, 788,011). This amount is included as a charge against operating surplus for the year.

2 (c). Other income

Net Loan processing and account administration fees	2,197,303	2,905,379
Tisa and LPI insurance commission, and other	3,804,858	218,589
	<u>6,002,161</u>	<u>3,123,968</u>

3. Operating expenses

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

	2010 K	2009 K
Auditors remuneration: statutory audit services		
: Other Services	110,000	110,000
	60,819	
Fixed Asset write off	2,273,819	-
Bank charges and interest	91,228	93,271
Depreciation	664,078	628,195
Doubtful Debts – Loans	2,395,528	609,000
Doubtful Debts – Rents	307,256	-
Electricity	794,188	809,865
Insurance	218,695	15,864
Property Expense	652,409	861,991
Staff Costs	4,712,063	3,216,163
Travel, Airfare and accommodation	767,585	753,849
Security costs	1,204,272	939,475
Rental Expenses	1,291,203	929,783
Data Processing Expenses	2,365,120	559,276
Printing and Stationery	679,944	655,991
Investment Management Fees	1,247,936	1,332,938
General and Administrative Expenses	413,856	194,054
Establishment Cost	6,070	317,923
Fuel	104,399	88,379
Advertising & Promotion, Credit Union Day	696,185	474,355
Staff education	176,704	196,187
Donations	20,479	46,766
Entertainment	55,058	33,040
Telephone	170,578	222,641
Repair and Maintenance	209,425	165,710
Rates & Taxes	324,852	184,671
Motor Vehicle Expenses	132,704	112,198
Filing and Legal Cost	325,150	211,124
Freight	126,051	191,050
Consulting	771,712	255,471
Cleaning	267,145	136,679
Other Administrative Expense	466,126	472,211
	<u>24,102,637</u>	<u>14,958,120</u>

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - NOTES TO & FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

4. Property, Plant and Equipment

Cost or Valuation	Building & Improvement K	Leasehold Land K	Motor Vehicle K	Office Equipment K	Furniture & Fitting K	Total K
At 1 January 2010	1,752,000	8,803,000	1,873,924	4,485,796	869,865	17,784,585
Additions	2,643,738	-	598,135	1,156,801	158,070	4,556,744
Revaluation surplus	142,262	4,500,000	-	-	-	4,642,262
Disposals	-	(303,000)	(182,497)	(1,325,090)	(719,187)	(2,529,774)
At 31 December 2010	4,538,000	13,000,000	2,289,562	4,317,507	308,748	24,453,817
Accumulated Depreciation						
At 1 January 2010	158,437	-	953,763	1,689,985	377,226	3,179,411
Charge for the year	-	-	268,767	274,645	46,770	590,182
Disposals	-	-	(29,511)	(372,081)	(265,409)	(667,001)
At 31 December 2010	158,437	-	1,193,019	1,592,549	158,587	3,102,592
Net Book Value						
At 31 December 2010	4,379,563	13,000,000	1,096,543	2,724,994	150,161	21,351,225
At 31 December 2009	1,593,563	8,803,000	920,161	2,795,811	492,639	14,605,174

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

Financial assets at fair value through profit or loss analyzed as follows:

	2010 K	2009 K
Quoted shares:		
<i>Bank South Pacific Limited</i>		
Balance at the beginning of the year	155,365,890	179,307,981
Carrying value of shares sold (2009:183,928 @0.98 (2010:4,109,741@K0.79)	(3,246,695)	(180,249)
Fair value gain/(loss) from change in net market value	(10,967,004)	(23,761,842)
At Valuation (2010: 178,673,659 shares @ K0.79 per share) (2009: 182,783,400 shares @ K0.85 per share)	<u>141,152,191</u>	<u>155,365,890</u>
<i>Credit Corporation (PNG) Limited</i>		
Balance at the beginning of the year	86,045,895	121,533,750
Fair value gain/(loss) from change in net market value	1,458,405	(35,487,855)
At Valuation (2010: 48,613,500 shares @ K1.80 per share) (2009: 48,613,500 shares @ K1.77 per share)	<u>87,504,300</u>	<u>86,045,895</u>
<i>Airlines PNG Limited</i>		
Balance at the beginning of the year	4,340,000	7,000,000
Fair value gain/(loss) from change in net market value	(490,000)	(2,660,000)
At Valuation (2010: 7,000,000 shares @ K0.55 per share) (2009: 7,000,000 shares @ K0.62 per share)	<u>3,850,000</u>	<u>4,340,000</u>
Sub-total of financial assets at Fair Value	<u>232,506,491</u>	<u>245,751,785</u>
<i>Mahogany Convertibles Notes</i>		
Balance at the beginning of the year	586,673	586,673
Fair value gain/(loss) from change in net market value	-	-
At Valuation	-	-
(2009: (4,343 units @ AUD72.50/share @ 0.5367)	-	-
Less: Impairment Provision	<u>(586,673)</u>	<u>(586,673)</u>
Total financial assets at fair value through profit and loss	<u>232,506,491</u>	<u>245,751,785</u>

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 2010.

Gain/(loss) recognised in relation to financial assets at fair value through profit or loss:

	2010 K	2009 K
- realised gain	-	37,003
- unrealised loss	(9,998,599)	(61,946,700)
- unrealised gain	-	-
	<u>(9,998,599)</u>	<u>(61,909,697)</u>

6. Unquoted shares

Capital Insurance Group	8,135,600	5,000,000
Additional Investment	207,889	3,135,600
Provision for impairment on unquoted shares	(4,000,000)	(5,000,000)
	<u>4,343,489</u>	<u>3,135,600</u>

In 2006, the Society acquired 100% shareholding interest in Capital Insurance Group (CIG) at a total cost of K5, 000,000. For the purpose of these financial statements, the investment has been accounted for at cost basis, less provision made for impairment. Cost basis was deemed appropriate as there were no significant influence by the Society over CIG. The Society liquidated K3m worth of shares in BSP and offloaded to CIG through off market share transfer arrangement in return for additional investment in this company. Consequently, the Society interest in the CIG has now been reduced to 35% of the Company's issued capital.

7. Investment properties

Investment Properties – Land & buildings

Fair value 31/12/09	Gain/(loss)	Additions	Disposals	Fair Value 31/12/10
27,403,000	17,706,000	-	-	45,109,000

Fair value

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

8. Loans to members

Balances receivable	90,778,334	88,410,808
Allowance for doubtful debts	(4,561,384)	(4,702,231)
	<u>86,216,950</u>	<u>83,708,577</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

	2010 K	2009 K
Cash on hand and at bank	2,615,994	9,316,948
Held to maturity investments – highly liquid	39,981,988	23,309,754
	42,597,982	32,626,702
Cash at bank/(overdraft)	-	(250,429)
	<u>42,597,982</u>	<u>32,376,273</u>

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. Account as are also kept with ANZ and Westpac Port Moresby.

Short term deposits bear interest on average of 2% 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 3% per annum.

10. Deposits held to maturity

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

Current		-
Non-Current	3,000,000	3,000,000
	<u>3,000,000</u>	<u>3,000,000</u>
		(1,099)
less Amortised Premium	<u>3,000,000</u>	<u>2,998,901</u>

Investments in Government Inscribed Stock bear interest varying between 5-12% per annum. (2009:5-12% per annum)

11. Rental and other receivables

Rental debtors	705,774	400,312
Less: Allowance for rental debtors	(377,479)	(70,223)
	<u>328,295</u>	<u>330,089</u>
Prepayments	-	1,167,287
Interest receivable	7,972	57,075
Other debtors	1,475,444	217,222
Less: Allowance for other debtors	(650,000)	-
	<u>1,161,711</u>	<u>1,771,673</u>

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - NOTES TO & FORMING PART OF THE FINANCIAL STATEMENTS
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12. Employee provisions

	2010 K	2009 K
Non-Current		
Long service leave	125,524	156,015
	<u>125,524</u>	<u>156,015</u>
Current		
Annual leave	73,826	161,665
	<u>73,826</u>	<u>161,665</u>

13. Members Savings

Opening balance at 1 January	132,938,242	123,194,048
Net increase	3,866,666	9,744,194
Additional Interest	8,173,783	-
Closing balance at 31 December	<u>144,978,691</u>	<u>132,938,242</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
Medical claims	14,461	14,461
Rental bonds	51,485	38,002
Goods and services tax	237,824	81,317
Group tax	190,992	160,769
Accrued expenses	912,281	786,557
Sundry creditors	1,183,611	199,216
Rent received in Advance	57,703	
Unearned revenue	218,875	
	<u>2,867,232</u>	<u>1,377,442</u>

15. Members' capital

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

16. General reserve)

	2010 K	2009 K
Opening balance at 1 January	68,253,288	68,253,288
Transfer from retained earnings	3,055,385	-
Closing balance at 31 December	<u>71,308,673</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.

Opening balance at 1 January	300,000	300,000
Transfer from/(to) retained earnings	-	-
Closing balance at 31 December	<u>300,000</u>	<u>300,000</u>

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%. (2009: 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.

18. Financial instruments and risk management - continued

(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:

Interest bearing deposits	Carrying amount 31 Dec 2010	interest rate risk reduction by 5%	increase by 5%
	K'000	Profit effect K'000	Profit effect K'000
Deposits with BPNG	3,000	(6)	6
Deposits with financial institutions	39,982	(47)	47
Investment in shares	<u>42,982</u>	<u>(53)</u>	<u>53</u>
Bank South Pacific Ltd	141,152	(7,768)	7,768
Credit Corporation (PNG) Ltd	87,504	(4,302)	4,302
Airlines PNG	3,850	(217)	217
	<u>232,506</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 230 (2009: 136).

20. Retirement benefits

The Society participates in the National Superannuation Fund of Papua New Guinea in respect of its national employees. The contribution rate is 8.4%. Employer contribution during the year amounted to K316,198 (2009: K139,987).

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 2010 is K309,110 (2009: K397,302). 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 Insurance Group (CIG). The Society did not undertake any significant transactions with CIG.

21. Related parties - continued

(a) Key management personnel remuneration

The number of employees or former employees, not being directors of the company, whose total remuneration and the value of other benefits received, exceeded K100,000, falls within each relevant K10,000 band of income as follows:

	2010 No.	2009 No.
K120,000 – K129,999	2	3
K130,000 – K139,999	1	-
K160,000 – K169,999	1	-
K360,000 – K389,999	-	1
K450,000 – K479,999	2	-
Total	6	4

The specified directors during the year were:

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

21. Related parties - continued

The specified executives of the Society during the year were:

Mr. Michael Koisen - CEO
Mr. Terry Mayu - General Manager, Corporate Service
Mr. Dennis Sapak - General Manager, National Member Service
Ms Grace Bayak - Manager HR
Mr. Matthew Hasu - Manager Finance & Accounting
Mr. Rodney Hoffmann - Special Projects Manager

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - NOTES TO & FORMING PART OF THE FINANCIAL STATEMENTS
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Specified directors' remuneration

2010

	Primary			Post-employment			Equity	Other benefits	Total
	Fees	Bonus	Non monetary	Super annuation	Prescribed benefits	Other	Options		
	K	K	K	K	K	K	K	K	K
William Varmari	7,000	2,500	-	-	-	-	-	-	9,500
Gabriel Tai	5,000	2,500	-	-	-	-	-	-	7,500
Francis Samoak	5,000	2,500	-	-	-	-	-	-	7,500
Alex Peter	5,000	2,500	-	-	-	-	-	-	7,500
Sam Nalong	5,000	2,500	-	-	-	-	-	-	7,500
Total	27,000	12,500	-	-	-	-	-	-	39,500

2009

	Primary			Post-employment			Equity	Other benefits	Total
	Fees	Bonus	Non monetary	Super annuation	Prescribed benefits	Other	Options		
	K	K	K	K	K	K	K	K	K
William Varmari	7,000	2,500	-	-	-	-	-	-	9,500
Gabriel Tai	5,000	2,500	-	-	-	-	-	-	7,500
Francis Samoak	5,000	2,500	-	-	-	-	-	-	7,500
Alex Peter	5,000	2,500	-	-	-	-	-	-	7,500
Sam Nalong	5,000	2,500	-	-	-	-	-	-	7,500
Total	27,000	12,500	-	-	-	-	-	-	39,500

21. Related parties - continued

Specified executives' remuneration in aggregate

	Primary			Post-employment			Equity	Other	Total
	Salary & Fees	Bonus	Non monetary	Super annuation	Prescribed benefits	Other	Options	benefits	
	K	K	K	K	K	K	K	K	K
2010	1,068,954	82,405	-	-	113,000	-	-	-	1,264,359
Total	1,068,954	82,405	-	-	113,000	-	-	-	1,264,359

	Primary			Post-employment			Equity	Other	Total
	Fees	Bonus	Non monetary	Super annuation	Prescribed benefits	Other	Options	benefits	
	K	K	K	K	K	K	K	K	K
2009	918,497	37,456	-	-	113,000	-	-	-	1,068,953
Total	918,497	37,456	-	-	113,000	-	-	-	1,068,953

(b) Transactions with directors

Other than remuneration, there were no transactions with directors during the financial year.

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. (2009: Nil).

Finance & Accounting

Finance Division works closely with other divisions to review systems and procedures and implement changes where necessary to be more effective and save costs.

A decision was also made to bring the investment management function which was formerly done by Kina Funds Management. This has saved TISA investment management fees.

Work is currently underway within Finance to fully utilize the Ultrac 3 system for financial reporting.

The year 2010 has also seen the appointment of two graduate accountants (Financial and Management), a senior accountant and finance manager.



Human Resource

TISA's Human Resource team is led by Grace Bayak (Manager), Laha Ila (Payroll Officer), Anna Leidimo (Admin Officer/Relieving HR Officer) and Jacqueline Bensir (Payroll Support Officer).

The division embraced a major change recently in the installation of new payroll software, Attache. The new software is more efficient, cutting out reporting hassles; convenient; improved reporting and more accuracy in payroll data.



Marketing

TISA participated in some national and international events this year which included:

- 3rd Pacific Credit Union Technical Congress (Port Moresby)
- National Canoe and Kundu Festival (Alotau)
- 16th Tolai Warwagira and Mask Festival (Kokopo)
- Morobe Show (Lae)
- Sepik Iron Man Competition (Wewak)

We also took part in the following community events:

- 2010 Charity Cup Soccer Tournament
- Walk Against Corruption
- Corporate Challenge Walk
- Cameron Secondary School Cultural Show

We also supported the City Mission (charity organization) by purchasing a new gas stove to replace an old stove that the boys had been using since the Mission doors opened to unfortunate young men who found themselves on the streets.

TISA also recognizes the importance of our key stakeholders in the Education Department, government and statutory organizations by hosting luncheons at the branch level to maintain that relationship.

TISA also sponsored:

- Education program on NBC on provincial radio stations
- co-sponsored the Senior Education Officers' National Conference in Goroka
- Momase Standard Officers' Conference in Madang and
- Sponsored luncheon to celebrate Teaching Service Commission's 40th Anniversary.

Staff at all branches dressed up and had lunch to celebrate International Credit Union Day in October. As part of the celebrations, cartons of books and computers were donated to schools at our branches.



Internal Audit Division

TISA Internal Audit Division is located in TISA's Head Office in Port Moresby. The Internal Audit Division reports operationally to the Chief Executive Officer and functionally to the Audit Committee.

The year 2010 was a challenging year for the division with many changes. The highlight was successfully implementing the Internal Audit Plan. The entire schedule Audits were done and reports furnished to the management in required time frames.

All the investigation cases for 2010 have been concluded from which we have received responses from members who were generally pleased with the recommendations and actions we have taken on their cases.

Going forward, the Internal Audit Division is focused on the overall goals and objectives of the organization and is also playing a role as change agents, educating staff and members alike on the current issues relating to the Society.

Security

TISA security division was established in Port Moresby (Head Office) and Lae branches in 2010.

Successfully established Lae security operations.

Successfully established Port Moresby security operations
Quick and prompt response to all emergency call out in both Port Moresby and Lae.

Various escort duties throughout the past six months were carried out in Port Moresby and Lae for senior management, Board of Directors and after hours escorts for staff working late.

Security orientation training was conducted over six months for security personnel to run 24-hour security operations.



Information Technology

In any organization, Businesses rely heavily on the IT Infrastructure to meet the business requirements and customer needs. Highlights in 2010 include:

The upgrade of the retail banking system from FACTS to Ultracs 3. FACTS is an earlier version of Ultracs and had been used by TISA since 1995.

Ultracs 3 has additional features and offers complete retail banking package which is customer based with added functions like Origen, which is used for loan processing. The Origen has more control features built into it compared to FACTS. Ultracs sets the foundation which paves the way for any future functions that can enable any new technology to ride on, for improvement to business requirements and customer services etc.

Implemented the SMS Queries which was launched in January 2011. SMS Queries gives members the option to obtain their TISA savings information via mobile phones (Digicel network).

Signature verification installed online. Member Service Officers can view members' signature online which makes processing of loans and withdrawal applications quicker. Prior to this, Member Service officers manually verified members' signatures before processing applications.

Administration

Administration Division oversees the Society's properties/assets, fleet of vehicles, office automation/equipment, stationeries, travel bookings and accommodation and other administrative functions (services/purchases).

The Admin Team consists of:

- Gabriel Paragum Jnr - Property Officer
- Anna Leidimo - Administration Officer
- Nelson Kairi - Administration Clerk
- Figa Wasa - Handyman
- Horo Tivore - Handyman



National Member Services

National Member Services oversees the operations of branches including retail operations and lending.

Highlights of 2010:

- Designed a new sales structure for Relationship Officers at the branches.
- Discussions and plans to roll out Document Management System (DMS), an automated filing and archiving system).
- Upgraded retail branches in Buka and Manus to full branch status.



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Mt. Hagen – Branch

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