

Growth & Security

LEADING TOWARDS A BRIGHTER FUTURE



Annual Report 2011



BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT

DIRECTORS



Left to Right: Francis Semovik (Director - Southern Region), Gabriel Tui (Chairman & Director - Highlands Region), William Vannucci (Director - Islands Region), Alex Peter (Director - MCO), Sami Nalung (Director - Morere Region).

EXECUTIVE MANAGEMENT



*Back Left to Right: Michael Hosen (Chief Executive Officer), Matthew Hasi (Finance & Accounts Manager), Terry Moya (GM - Corporate Services), Morgan Selert (Lending Manager), Martin Teumu (Security Manager).
Seating: Taha Lobi (IT Manager), Rodney Hoffmann (GM - Retail Financial Services), Grace Bapuk (Human Resource Manager)*

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 2011. 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 K4, 538,838 (2010: K7, 103,142). Profit before additional interest paid was K13, 038,838 (2010: K15, 276,925).

PAYMENTS TO MEMBERS

Additional interest of K8,500,000 was credited to the members savings (S1 Accounts) for the year ended 31 December 2011 (2010: K8,173,783).

- K 3,300,981 (2010: K3,029,456) in the form of interest on members savings was paid during the year.
- K 8,500,000 (2010: K8,173,783) 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 Gabriel Tai (Chairman)
- Mr Sam Nalong (Deputy Chairman)
- Mr William Varnart
- Mr Francis Samoak
- Mr Alex Peter

SOCIETY SECRETARY

The position of secretary of the Society is currently vacant.

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 2011. 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.

DIRECTORS REPORT

EVENTS AFTER BALANCE DATE

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 K23,272 (2010: K20,479) were made during the current year.

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, February 2012.



Mr. Gabriel Tai
Director
Dated, February 2012



*Gabriel Tol - Chairman
Board of Directors*

On behalf of the Board of Directors and Management of Teachers Savings and Loans Society Ltd, I have the pleasure of presenting the operational and financial affairs of Teachers Savings and Loans Society Limited for the year ended 31st December 2011.

With continued support from all financial members, management and the wider stakeholder community, our Society has seen 2011 as a year of continued stability from the impact of Global Financial Crisis in 2008/2009, and overall growth in our business operations. Our Society has reflected on experiences of the past and has taken bold steps into maximizing opportunities whilst continuing to provide quality member services.

OVERVIEW OF FINANCIAL PERFORMANCES



2011 has been another challenging year for the Society especially when the Society's quoted share values dropped again in two consecutive years resulting in a negative movement. Nevertheless, current economic outlook looks promising and will definitely have a positive impact on the value of our quoted shares.

Furthermore, despite the 2009 negative financial effects (or loss) caused by the difficult economic conditions in Papua New Guinea and elsewhere on the fair value of the Society's quoted shares, with ongoing support and determination from you all financial members,

management and other stakeholders, I am delighted to inform you on behalf of the Board of Directors that your Society has continued to report improved financial performance and position in 2011. This is highlighted as follows:

- Your Society recorded a net audit profit of K13m (2010: K15m) before crediting additional interest to members. Net profit after crediting additional interest to members was K4.5 (2010: K7.1m);
- Additional interest of K8.5m (6.635%) was credited to members' S1 accounts (2010: K8.1m, 2009: nil)
- Interest paid to members throughout the year was K3.9m (2010: K3m), bringing total interest paid to members in 2011 to K11.8m (2010: K11.2m);
- Net Asset of your Society grew from K290.8m in 2010 to K296.7m in 2011, a growth of 2% (K5.9m);
- All other operational indicators for lending, membership, etc, reflected continuous positive growth.

CONSOLIDATION AND DEVELOPMENT

The PNG Teachers Savings and Loans Society Ltd, established in 1972 and by 2011 year end, it had become a well reputed and large fast growing organisation, providing quality but limited financial services to its members throughout PNG.

Some 2001 key indicators for the Society's success have been:-

- The longest established and only surviving Society (40 years) in PNG;
- Over 40,000 members;
- Extended Bond to other Public Servants and employees of Statutory bodies;

- 12 Full Branch Offices in operation;
- 2 Sub-Branch Offices in operation;
- A Fully updated computerised conversion to Ultrac 3 Banking System;
- The successful launching and operation of the SMS TXT Balance Check "Just 4 U" Service with Digicel;
- Successful Implementation and rollout of Direct Entry System (DES);
- 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 of provincial offices is again an investment towards membership growth and bringing our Society's services to our members domicile 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 best way forward in achieving our objectives. We have 12 full branch offices with one each in Port Moresby, Alotau, Mt. Hagen, Goroka, Lae, Madang, Wewak, Manus, Kavieng, Buka, Kokopo and Kimbe being the recent upgraded sub-branch to full branch.

Popondetta and Vanimo Offices operate 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. The new TISA Haus Kavieng opened in 2011 was an example of the

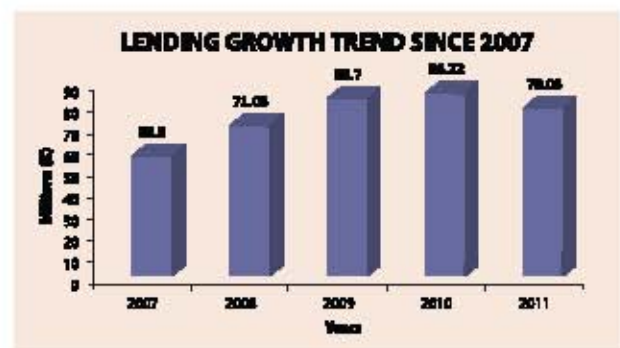
local government's assistance with land allocation for this cause.

Our success can be measured in terms of membership 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 leading Savings and Loans Society in Papua New Guinea and the region.

We have lived up to our mission statement by bringing up-to-date, quality and 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 unselfish 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 Provinces and/or Regions, 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 charges in fair value of investments;
- Continuous membership of the Teachers S&L Society even after retirement/resigning from the Teaching Service Commission, Public Service and other Government Statutory employment;
- Others.

However, 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 Saving & Loans 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 was to restructure and demutualize Teachers S&L, 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.

It is a very difficult, challenging yet important, significant bold proposal. Therefore I challenge you our valuable members in Goroka, the Eastern Highlands Province and the Highlands regions to stand with us and 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 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.

ACKNOWLEDGEMENT

May I, on behalf of the Board and Management of Teachers Savings and Loans Society Ltd, acknowledge and commend our members nationwide for their confidence, loyalty and overall support to the Society over the last 40 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 Eastern Highlands 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, we put on 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 & Loans Societies, mostly through the Papua New Guinea Federation of Savings & Loans 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 Kosen, 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 to our Society's successful operation and growth, in 2011.

With divine guidance and strength we pledge to continue to provide you quality, affordable financial services towards people's empowerment and 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. Gabriel Tal
Chairman - Board of Directors

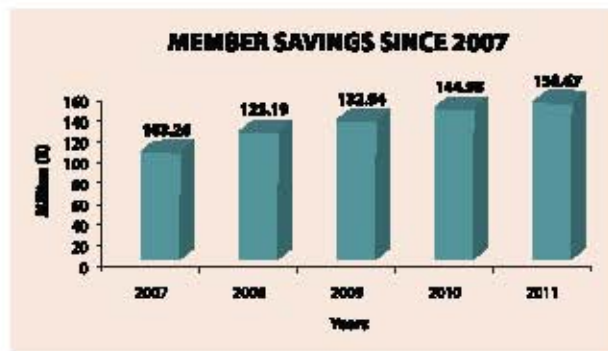


Michael O. Koisien
Chief Executive Officer

It always gives me great pleasure to report to members on the Society's operations and progress. The financial year ending 31 December 2011 has been exciting and challenging.

As reported by the Chairman, the financial results are encouraging.

- A net profit of K13 Million (2011)
- K11.8 Million in interest paid out to members
- Total Asset of K450 Million



Member Services

Member services has been an area of management's focus, as we understand this is our core function requiring high maintenance and continuous improvement.

A significant paradigm shift and business process improvement made, includes the restructure of the IT Department, where the specialized IT function has been separated from the EDP function. A major part of the EDP function and resources will be redeployed to Member Services and Finance & Accounting Department.

The Direct Entry System that fully automates the disbursement of payments to members has been tested successfully and will be rolled out to all the branches. This should result in a significant reduction of human error in process and a quicker disbursement of funds into members' bank accounts.

Savings withdrawals are now available in the branches and there has been significant improvement in the management of our loan book. A major effort was made to clean up our loan book to ensure that our K79 Million loan book represents good loans. The loan delinquency ratio currently runs at 6% acceptable by PNG standards and our loan to deposits ratio is at 55%, well below the Bank of PNG prudential guideline of 60%. Our branch operations continue to be an area of attention to ensure that the delivery of services continues with as little disruption as possible. Some disruptions particularly in communication and data linkages are beyond our control. I can assure we are vigorously seeking alternative and affordable communication and data linkage options. I have taken some hard decisions with the management of Society resources in branch offices, to control the abuse and misuse of this Society's assets.

Human Resources

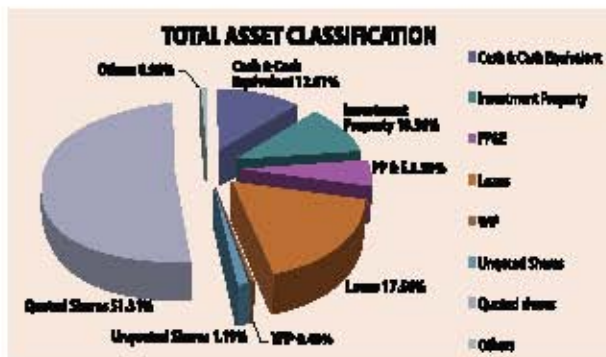
Our biggest resource of course is our human capital. As the Society grew over the years, the realization that this resource needed to be managed resulted in the establishment of a Human Resources Department. The HR Department has been working tirelessly to establish proper HRM policies, procedures and practice. Our employees are now being managed to get the best out of them and to help them achieve their personal goals and meet organizational objectives. There is still room for improvement.

We are not immune from the capacity constraints brought on by the resources boom. We are experiencing the stresses of retaining our good people and the risk of losing them. The HR market in PNG is tight and will remain that way for a while yet. Our business has become a lot more complex and we need specialist in the fields of Banking (general, lending and electronic),

IT (management, technical and business application), HR, legal, properties and security management. We face a challenge in finding and attracting suitable local candidates for these key positions. We have a strategy to seek within the region and emerging markets, for suitable expertise.

Having said that, it is important to note that we are also employing the strategy of identifying from our current HC pool, champions. These are people with talent, work ethics and promise, the Society is investing in, in terms of training and development. We currently have nine (9) such people doing a Management Certification Program run by the World Council of Credit Unions based in Madison, Wisconsin, USA. I am hopeful that these nine (9) champions will graduate in Fiji in October 2012. On completion and graduation, they will be certified by the World Council of Credit Unions and will have the basic skills and knowledge to analyze and appraise financial institutions, including mutual and credit unions in any part of the world.

Properties



Our property portfolio did remarkably well this year with more than 50% increase in rentals received. This high rate of return on our property portfolio resulting from a tight property market particularly in Port Moresby, is driven by an acute shortage in office and residential properties, again driven primarily by the requirements of international resource developers. This property valuation and rental boom will soon bust as LNG construction phase winds down and the office and residential property markets are saturated. A further revaluation of our property portfolio will be conducted in the near future.

Equities

There is an improvement in our equity portfolio performance in a post GFC environment, and the relentless effects of it, that just will not go away. We had to make a negative net adjustment of K400,000 to our total equities portfolio. We posted a dividends received of over K12 Million comprising of BSP and Credit Corporation.

We have had to book a reduction in value of BSP Shares of K8 Million, trading at time of reporting at K7.50 after a share consolidation of 1:10. We participated in a share buy-back redeeming 275,000 shares at market price of K7.35 in an effort to monetize some of this investment and reduce our expense exposure. BSP posted a consolidated operating net profit of K356 Million. The total assets of the Group now stand at K11.7 Billion. BSP continues its on-market share buy-back program. We continue to employ our strategy of responsible and controlled sale.

I am in the process of reviewing our investment in Airlines PNG, which continues to under-perform. We have had to adjust this investment on our books to reflect a reduction in value of the stock by K1 Million, trading at K0.40. While a profit of K3.9 Million was recorded, no dividends are expected.

Capital Insurance Group continues to perform well recording an unaudited profit of K1.6 Million and total equity growth of 11% to K16.2 Million. A positive adjustment of K1 Million in the value of this investment was recorded. No dividend is expected for this investment at this time.

Credit Corporation continues to do exceptionally well posting capital gains of K8.8 Million on our books and paying dividends. In financial year ended 31 December 2011, Credit Corporation report an after tax profit of K42 Million and its Group Total Assets reached K890.6 Million. This is a blue chip investment and its sterling performance is expected to continue.

Way Forward

Our branch network continues to be our main mode of service delivery. However, the establishment and maintenance of this branch network is costly. While we acknowledge this cost, we also understand that at this stage of our development and in the near future, the branch delivery systems will continue to be essential. While we have a presence in most provinces, there are some provinces where the operational and economic risks far outweigh any gains. In some provinces, the Provincial Administrations and Governments recognize the value of our services and need for investment in their provinces, and have gone out of their way to allocate land at no cost, allowing the construction of branch offices. We are indeed impressed with these provinces of their socioeconomic foresight and wisdom.

We acknowledge also the limitations of the branch network. The branch network has its limitations in reach. There are still a large number of members in remote areas, in the districts and LLG's that have access difficulties.

How are we going to reach out to these isolated Papua New Guineans?

Mobile Phone Banking

The introduction of mobile phone technology into our country has had a phenomenal effect on our lives. The way we do business and how we communicate with each other has radically changed. More people in this country have mobile phones than they have bank accounts.

The Mobile Network Operator Digicel is very aggressive in its drive for increased market share. It is reaching out as far as possible into once unreachable areas through its mobile phone network. Digicel realizes the potential of not only mobile communications service, but also a delivery service of an unlimited number of products and

services via the mobile phone technology. Digicel has now launched its E-Wallet product where people can remit money via mobile phones.

Your Society has introduced SMS balance query to you through the Digicel network. The usual teething problems have been addressed and the take up of this service has been encouraging. We are getting prepared for the next stage of our development in electronic banking.

We have commenced discussions with all parties concerned in introducing a mobile phone banking product.

Migration to a Non-Bank Financial Institution

There has been some information that has been distributed via the newspapers, our newsletter, our newsletters and other means on the proposal for the Society to migrate to a Non Bank Finance Institution license. The proposal has been driven largely by members' request for improvement in products and services, and greater benefits.

We are currently working with the Bank of Papua New Guinea to conduct a referendum this year, which will further gauge your views and confirm your support for this migration to happen.

I am indeed grateful for members' support and the confidence of Board of Directors has in me, in providing executive management leadership to my management team.

Michael O. Kosen FAMI, SA Fin, MAICD
Chief Executive Officer

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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 2011, 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 2011, 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 2012

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 the Savings and Loan 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 2012



Mr. Gabriel Tai

Director

Dated, 28 February 2012

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 K	2010 K
Interest and similar income	2 (a)	11,372,426	11,898,015
Rental income		5,468,940	3,641,159
Dividend income		12,233,140	13,160,282
Loss arising on financial assets – fairvalue through profit and loss	5	(406,266)	(9,998,599)
Change in fairvalue of investment properties	7	1,797,508	17,706,000
Other income	2 (c)	4,935,919	6,002,161
Total Income		<u>35,401,667</u>	<u>42,409,018</u>
Operating expenses	3	(19,061,848)	(24,102,637)
Operating surplus before income tax		16,339,819	18,306,381
Interest credited to member's account – Monthly	2 (b)	(3,300,981)	(3,029,456)
- Additional	2 (b)	(8,500,000)	(8,173,783)
		<u>(11,800,981)</u>	<u>(11,203,239)</u>
Surplus/(deficit) for the year after crediting members' accounts		<u>4,538,838</u>	<u>7,103,142</u>
Other comprehensive income			
Increment on revaluation of land and buildings	4	1,386,000	4,642,262
Total comprehensive income/(loss) for the year is attributed to:			
Members of Teachers Savings and Loan Society Limited		<u>5,924,838</u>	<u>11,745,404</u>

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 19 to 35.

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - STATEMENT OF CHANGES OF EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011**

		General Reserve K	Special Reserve K	Asset Revaluation Reserve K	Retained Earnings K	Total K
	Note					
Balance at 1 January 2010		68,253,288	300,000	9,061,147	201,490,425	279,104,860
Other comprehensive income		-	-	4,642,262	-	4,642,262
Net Surplus for the year		-	-	-	7,103,142	7,103,142
Transfer from Retain Earnings to General Reserve		3,055,385			(3,055,385)	-
Balance at 31 December 2010	16	71,308,673	300,000	13,703,409	205,538,480	290,850,562
Other comprehensive income	4	-	-	1,386,000	-	1,386,000
Net surplus for the year		-	-	-	4,538,838	4,538,838
Transfer from Retained Earnings		-	-	-	(2,607,768)	(2,607,768)
Transfer to Special Reserve	17	-	2,607,768	-	-	2,607,768
Balance at 31 December 2011	16	<u>71,308,673</u>	<u>2,907,768</u>	<u>15,089,409</u>	<u>207,469,550</u>	<u>296,775,400</u>

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 19 to 35.

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 K	2010 K
ASSETS			
Non-Current			
Property, plant and equipment	4	24,970,392	21,351,225
Capital work in progress		1,798,027	2,519,442
Investment properties	7	47,535,000	45,109,000
Other financial assets	5, 6, 10	239,340,964	239,849,980
Total non-current assets		313,644,383	308,829,647
Current			
Cash and cash equivalent	9	56,300,516	42,597,982
Rental and other receivables	11	1,149,861	1,161,711
Loans to members	8	79,053,267	86,216,950
Other Asset		39,748	89,247
Total current assets		136,543,392	130,065,890
TOTAL ASSETS		450,187,775	438,895,537
LIABILITIES			
Non-Current			
Employee provisions	12	354,955	125,524
Total non-current liabilities		354,955	125,524
Current			
Members Savings	13	150,668,373	144,978,691
Creditors and accruals	14	2,131,438	2,867,232
Employee provisions	12	257,609	73,826
Total current liabilities		153,057,420	147,919,749
TOTAL LIABILITIES		153,412,375	148,045,273
NET ASSETS		296,775,400	290,850,264
EQUITY			
Revaluation Reserve		15,089,409	13,703,409
General Reserve	16	71,308,673	71,308,673
Special Reserve	17	2,907,768	300,000
Retained earnings		207,469,550	205,538,182
TOTAL EQUITY		296,775,400	290,850,264

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 19 to 35.

**TEACHERS SAVINGS & LOAN SOCIETY LIMITED - STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	<u>Notes</u>	<u>2011 K</u>	<u>2010 K</u>
Cash flows from operating activities			
Net advances to members		6,801,897	(2,976,525)
Interest received on loans	2 (a)	10,112,604	10,747,084
Interest paid on savings	2 (b)	(3,300,981)	(3,029,456)
Cash payments to employees and suppliers		(15,022,328)	(14,470,601)
Net cash flows from/used in operating activities		<u>(1,408,808)</u>	<u>(9,729,498)</u>
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment			
Interest on term deposits	2 (a)	1,259,822	1,150,931
Dividends received		12,233,140	13,160,282
Net rental income		5,468,940	3,641,159
Proceeds on disposal of investments		2,021,125	2,689,095
Payments for investment in Property, plant and equipment	4	(3,061,367)	(4,556,744)
Net cash flows from/used in investing activities		<u>17,921,660</u>	<u>16,084,723</u>
Cash flows from financing activities			
Net savings and deposits received		(2,810,318)	3,866,484
Net cash flows from financing activities		<u>(2,810,318)</u>	<u>3,866,484</u>
Net increase in cash held		13,702,534	10,221,718
Opening cash brought forward		<u>42,597,982</u>	<u>32,376,273</u>
Closing cash carried forward		<u>56,300,516</u>	<u>42,597,991</u>
Closing cash comprises			
Cash on hand and at Bank	9	10,605,723	2,615,994
Held to maturity Investments – highly liquid	9	45,694,793	39,981,988
Total cash and cash equivalents		<u>56,300,516</u>	<u>42,597,982</u>

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 19 to 35.

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)

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 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 and 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.

1. Statement of significant accounting policies (continued)

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 2011 as follows:

Listed shares are valued at 31 December 2011 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.

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.

1. Statement of significant accounting policies (continued)

l) 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.

l) 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.

na) 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.

1. Statement of significant accounting policies (continued)

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 K16 million (2010: K18 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 K151 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.

	2011 <u>K</u>	2010 <u>K</u>
2 (a). Interest income		
Interest income – members loans	10,112,604	10,747,084
Interest income – short term liquid funds	1,259,822	1,150,931
	<u>11,372,426</u>	<u>11,898,015</u>
(b). Interest Expense		
Interest expense – members savings	(3,300,981)	(3,029,456)
Additional Interest	(8,500,000)	(8,173,783)
	<u>(11,800,981)</u>	<u>(11,203,239)</u>
<p>Interest expense on members' savings is accrued and credited to members' accounts at the end of each month. The interest paid for 2011 is K3,300,981 with additional interest of K8,500,000 credited to members' accounts on 31 December 2011 (2010: K8,173,783). This amount is included as a charge against operating surplus for the year.</p>		
(c). Other income		
Net Loan processing and account administration fees	2,205,773	2,197,303
Tisa and LPI insurance commission, and other	2,730,146	3,804,858
	<u>4,935,919</u>	<u>6,002,161</u>

4. Property, Plant and Equipment

	Building & Improvement	Leasehold Land	Motor Vehicle	Office Equipment	Furniture & Fitting	TOTAL
Cost or Valuation	K	K	K	K	K	K
At 1 January 2011	4,538,000	13,000,000	2,289,562	4,317,507	308,748	24,453,817
Additions	2,606,031	-	349,966	100,150	5,220	3,061,367
Revaluation surplus	386,000	1,000,000	-	-	-	1,386,000
Disposals	-	-	(180,285)	-	-	(180,285)
At 31 December 2011	7,530,031	14,000,000	2,459,243	4,417,657	313,968	28,720,899
Accumulated Depreciation						
At 1 January 2011	158,437	-	1,193,019	1,592,549	158,587	3,102,592
Charge for the year	80,871	-	317,044	263,830	14,640	676,385
Adjustment	51,641	-	38,975	15,815	978	107,409
Disposals/Adjustment	-	-	(134,179)	(1,611)	(89)	(135,879)
At 31 December 2011	290,949	-	1,414,859	1,870,583	174,116	3,750,507
Net Book Value						
At 31 December 2011	7,239,082	14,000,000	1,044,384	2,547,074	139,852	24,970,392
At 31 December 2010	4,379,563	13,000,000	1,096,543	2,724,994	150,161	21,351,225

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:

	2011 K	2010 K
Quoted shares:		
Bank South Pacific Limited		
Balance at the beginning of the year	141,152,191	155,365,890
Carrying value of shares sold (2011:275,000 @K7.35 (2010:4,109,741@K0.79) Initial Purchase Price K4.01 Share Consolidation effected in May 2011(1:10 basis)	(1,102,750)	(3,246,695)
Fair value gain/(loss) from change in net market value	(8,106,696)	(10,967,004)
At Valuation (2011: 17,592,366 shares @ K7.50 per share) (2010: 178,673,659 shares @ K0.79 per share)	<u>131,942,745</u>	<u>141,152,191</u>
Credit Corporation (PNG) Limited		
Balance at the beginning of the year	87,504,300	86,045,895
Fair value gain/(loss) from change in net market value	8,750,430	1,458,405
At Valuation (2011: 48,613,500 shares @ K1.98 per share) (2010: 48,613,500 shares @ K1.80 per share)	<u>96,254,730</u>	<u>87,504,300</u>
Airlines PNG Limited		
Balance at the beginning of the year	3,850,000	4,340,000
Fair value gain/(loss) from change in net market value	(1,050,000)	(490,000)
At Valuation (2011: 7,000,000 shares @ K0.40 per share) (2010: 7,000,000 shares @ K0.55 per share)	<u>2,800,000</u>	<u>3,850,000</u>
Sub-total of financial assets at Fair Value	<u>230,997,475</u>	<u>232,506,491</u>
Total financial assets at fair value through profit and loss	<u><u>230,997,475</u></u>	<u><u>232,506,491</u></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:

	2011 K	2010 K
◆ Bank South Pacific	(8,106,696)	(10,967,004)
◆ Credit Corporation (PNG) Ltd	8,750,430	1,458,405
◆ Airlines PNG Ltd	(1,050,000)	(490,000)
Unrealised Loss	<u>(406,266)</u>	<u>(9,998,599)</u>

6. Unquoted shares

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

In 2006, the Society acquired 100% shareholding interest in Capital Insurance Group (CIGL) 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 CIGL. The Society liquidated K3m worth of shares in BSP and offloaded to CIGL through off market share transfer arrangement in return for additional investment in this company. Consequently, the Society interest in the CIGL has now been reduced to 35% of the Company's issued capital.

7. Investment properties

Investment Properties – Land & buildings

Particulars	Fair value	Gain/(loss)	Additions	Disposals	Fair Value
	31/12/10				31/12/11
Tisa Haus, Waigani	31,778,000	870,197	296,803	-	32,945,000
Tisa Haus, Lae	6,991,000	799,000	-		7,790,000
Kouaka Place, Gordons	6,340,000	128,311	331,689		6,800,000
TOTAL	45,109,000	1,797,508	628,492		47,535,000

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

	2011	2010
	K	K
Balances receivable	83,972,850	90,778,334
Allowance for doubtful debts	(4,923,223)	(4,561,384)
	<u>79,053,267</u>	<u>86,216,950</u>

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

9. Cash and Cash equivalent

Cash on hand and at bank	10,605,723	2,615,994
Held to maturity investments – highly liquid	45,694,793	39,981,988
Net cash and cash equivalent	<u>56,300,516</u>	<u>42,597,982</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 4% per annum.

10. Deposits held to maturity

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

Non-Current	3,000,000	3,000,000
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. (2010: 5–12% per annum)

11. Rental and receivables

	2011	2010
	K	K
Rental debtors	191,816	705,774
Less: Allowance for rental debtors	(30,536)	(377,479)
	161,280	328,295
Prepayments	73,040	-
Interest receivable	115,880	7,972
Other debtors	1,449,661	1,475,444
Less: Allowance for other debtors	(650,000)	(650,000)
	1,149,861	1,161,711

12. Employee provisions

Non-Current

Long service leave	354,955	125,524
	354,955	125,524

Current

Annual leave	257,609	73,826
	257,609	73,826

13. Members Savings

Opening balance at 1 January	144,978,691	132,938,242
Net increase/ (decrease)	(2,810,318)	3,866,666
Additional Interest	8,500,000	8,173,783
Closing balance at 31 December	150,668,373	144,978,691

In accordance with Section 22 of the Savings & Loans Societies Act (Chapter 14:1), 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

Medical claims	14,461	14,461
Rental bonds	22,980	51,485
Goods and services tax	237,824	237,824
Group tax	26,674	190,992
Accrued expenses	1,412,392	912,281
Sundry creditors	127,180	1,183,611
Rent received in Advance	71,052	57,703
Unearned revenue	218,875	218,875
	2,131,438	2,867,232

15. Members' capital

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

16. General reserve

	2011	2010
	K	K
Opening balance at 1 January	71,308,673	68,253,288
Transfer from retained earnings	-	3,055,385
Closing balance at 31 December	<u>71,308,673</u>	<u>71,308,673</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	2,607,768	-
Closing balance at 31 December	<u>2,907,768</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 related costs were reported through the profit and loss account. Additional funds have been transferred to Special Reserve with a view to change the purpose of this reserve going forward.

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.

18. Financial Instruments and risk management (continued)

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%. (2010: 12%) compared to the cost of funds of 2%.

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

iv) Price risk

A large amount of the Society's assets are held in listed shares 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 Dec 2011	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	36,641	(1392)	1539
Deposits with financial institutions	9,054	(194)	214
	45,695	-1,586	1,753
Investment in shares			
Bank South Pacific Ltd	131,943	6,597	6,597
Credit Corporation (PNG) Ltd	96,255	(88,642)	98,267
Airlines PNG	2,800	228,338	-228,058
	230,998	146,293	-123,194

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 notes 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 236 (2010: 230).

20. Retirement benefits

The Society participates in the National Superannuation Fund of Papua New Guinea in respect of its national employees. The employer contribution rate is 8.4%. Employer contribution during the year amounted to K239,986 (2010: K316,198).

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 2011 is K502,508 (2010: K309,110). 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 Limited (CIGL). The Society did not undertake any significant transactions with CIGL.

(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:

	2011	2010
	No.	No.
K100,000 – K119,999	1	-
K120,000 – K129,999	-	2
K130,000 – K139,999	-	1
K140,000 – K149,999	1	-
K150,000 – K159,999	-	-
K160,000 – K169,999	1	1
K360,000 – K389,999	-	-
K390,000 – K419,999	1	-
K420,000 – K449,999	1	-
K450,000 – K479,999	-	1
	5	5

The specified executives of the Society during the year were:

- Mr. Michael Kolsen – Chief Executive Officer
- Mr. Terry Mayu – General Manager – Corporate Service
- Mr. Rodney Hoffmann – General Manager – Retail Services
- Matthew Hasu – Manager – Finance & Accounting
- Ms Grace Bayak – Manager – Human Resource & Payroll

21. Related parties (continued)

The specified Directors of the Society during the year were:

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

Specified directors' remuneration

	Primary			Post-employment			Equity Options	Other benefits	Total
	Fees	Bonus	Non monetary	Super annuation	Prescribed benefits	Other			
	K	K	K	K	K	K	K	K	K
2011									
Gabriel Tai	7,000	2,500	-	-	-	-	-	-	9,500
William Varmari	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

	Primary			Post-employment			Equity Options	Other benefits	Total
	Fees	Bonus	Non	Super monetary	Prescribed annuation	Other benefits			
	K	K	K	K	K	K	K	K	K
2010									
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

Specified executives' remuneration in aggregate

	Primary			Post-employment			Equity Options	Other benefits	Total
	Salary & Fees	Bonus	Non monetary	Super annuation	Prescribed benefits	Other			
	K	K	K	K	K	K	K	K	K
2011	1,265,816	82,405	-	-	113,000	-	-	-	1,378,816
Total	1,265,816	82,405	-	-	113,000	-	-	-	1,378,816

	Primary			Post-employment			Equity Options	Other benefits	Total
	Fees	Bonus	Non	Super monetary	Prescribed annuation	Other benefits			
	K	K	K	K	K	K	K	K	K
2010	1,068,954	82,405	-	-	113,000	-	-	-	1,068,953
Total	1,068,954	82,405	-	-	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. (2010: Nil).

Finance & Accounting



*Back row (From L-R): Matthew Hess, Solomon Uname, Godfrey Lakama, Geary Huhle, Steeden Morris, Paul Korua
Front row: Noozai Koe, Audrey Doruait, Doree Golez, Lisa Sprano*

The Division is responsible for timely and accurate production of Investment, financial and management reports to the Management and the Board.

2011 saw another challenging but rewarding year for the Finance and Accounting Division. The investment management function previously outsourced was successfully brought in-house and managed internally in 2011 with the Society's very qualified and experienced staff. This has saved the Society on average K1.2m per annum on investment management fees.

The Division has the responsibility of ensuring budgetary control and it has done so again this year, making a cost saving of 7% (K1.6m) against budget.

One major challenge in the Division has been a reporting system to effectively generate important management information. That has been addressed by the approval to purchase and install a Financial System called OneBanking

Business Solutions from Technology One Limited. The implementation process will commence in June 2012. The Division has 11 staff altogether with four (4) qualified and experienced Accountants and seven (7) officers who show great commitment and take pride in what they do.

Human Resource



(From L-R) Tabu Ahi, Jacqueline Bensir, Grace Bayak, Anna Leidimo, Laha Ila

TISA's Human Resource team is led by Grace Bayak (Manager), Laha Ila (Payroll Officer), Jacqueline Bensir (Payroll Support Officer), Tabu Ahi and Anna Leidimo (HR Administration Officers).

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

Marketing



(From L-R): Mitchell Sames, Jacqui Watt, Rodney Hoffmann, Morgan Selent

The Marketing Division's role is to promote, identify and maintain the Society's Corporate branding of its product and services to its members and the general public. The Division is made up of a three team member; Marketing Manager, Public Relations officer and a graphic artist. 2011 witnessed a number of events to which the Society has taken part in; Some of the events included;

- Walk Against Corruption
- Canoe and Kundu Festival fundraising night at the Dynasty restaurant in Vision City, Port Moresby.
- The Red Ribbon Charity dinner to support the initiative by NACs to raise funds for girls and orphans who have been left behind by their parents who have died from HIV/AIDS.
- The Seplk Iron man competition, the Society sponsored students from the Brandl Secondary School to participate in the event.
- The Young Chamber of Commerce and Industry Debate session attended by staff who participated in the event.

One of the highlights organized by the Marketing Division included

the celebration of the Credit Union Day in October. The event saw all TSL branches take part in a fun filled day to commemorate the special occasion.

Security



Representatives of the POM based Security Division

The division was established on 29th of November 2010 with a total of 64 staff. Out of this new establishment two branches were created;

- Administration, and
- Operations.



*Back (L-R standing): Neville Wiat, Neer Koo, Soken Bawa, Willie Wapikam, Peter Koko, Tobias Gomepa, Liga Raga
Front (L-R sitting): Dickson Kagi, Cleaver Fara, Graham Kahl, George Gama*

IT Division



*Back Row: Geoff Frank, Paul Guro, Joseph Lohai
Front Row: Dorothy Benge, Tatro Labi, Anthony Masimam*

In any organisation, business rely heavily on the IT Infrastructure to meet business requirements and customer needs. Previously the IT department included the Electronic Data Processing staff members, and just recently was relocated to the National Member Services Division. Electronic Data Processing (EDP) function has been part of Information Technology Division within Tisa for a number of years, since Inception. All member payroll updates, cheque prints, fund transfers, general ledger postings and all data entry tasks were done by EDP officers within the IT Division. The general ledger posting has been transferred

across to Finance and Accounting and to be followed by cheque printing function. Recently the EDP function has been transferred to the Branch within the Head Office where all customer service activities are now been centralized and expect to see Improvements in customer service. To add onto the Improvements, a new module Direct Entry System (DES) has been installed and tested, trialed and now implemented in all the branches. IT will now concentrate on IT Technical Support and upgrade and Application Support.

National Member Services (NMS)



Staff comprising Electronic Data Processing team and Member Services team

National Members Services oversees the operations of branches including the retail operation and lending. In FY2011, there were significant changes at

Head office and throughout the branch network. Below are of the highlights Highlights of 2011:

1. Successful launching of the SMS Account check that assists members to check their balances and the last transaction by using mobile phones using the Digital "the Bigger better network".
2. Upgrade of Kimbe Branch to full branch status in June
3. Opening of the Kavieng TISA Haus in August 2011
4. Implementation of the Bizdoc Document Management System
5. Relocation of the POM Branch from Level 1 to Ground floor
6. Launching of the Direct Entry system at Head office
7. Introduction of the Rotational work to enhance and upskill NMS staff

8. Introduction of Self Development Training for NMS officers.

Internal Audit



(From L-R): Dicky Bart, Ivo, Apinal Guguna, Jockete Marubadi, Jolens Jerry, Berry Egu.

Administration



*Back row (From L-R): Nelson Kaidi, Paul Rupa, Tobas Ahi, Figo Wisa, Gabriel Paragani Jr (absent - Hans Thore)
Front row: Datsy Tassale, Arno Leidano*

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

KAVIENG



2011 is a remarkable year for members and staff in Kavieng. The opening of the new state of the art branch added the much needed assurance mainly to its customers in providing professional and effective services.

The new development has contributed to increased prospective members who are now accessing and benefiting affordable services and products. The successful service of the branch is reflective to the six member team who provide ongoing quality service to our valued clients.

ALOTAU



TISA-Alotau Branch operates with a seven member staff. The Branch's priority and core function requires continuous improvement and management to which they have focused and aim to achieve. Member services continues to be their priority to enable members are served on time and services provided efficiently.

Members have been pleased with new improvements, especially on service turnaround time and accessibilities to their funds. Members are also demonstrating improved understanding on Society products demonstrated through client advocacy on products, increase in savings deposits, and embracing technology as in the SMS "Just 4 U" product. Feedback on SMS is positive and sets the platform for launching of new products from the banking software, Ultracs, in coming months.

BUKA



The Buka Branch is comprised of a seven member staff who are committed in promoting and marketing TISA products and upholding the Mission of the Society to provide the best and sustainable customer service in the Province.

One of the highlight of the Branch is reflective in the increased membership base from 2078 to 3062 after rolling out a sales and marketing program using the '3-Tier Sales Structure'.

TSL Buka was also able to create new business contacts and build relationships with a wider clientele including Autonomous Bougainville Government Divisions, Catholic Health Services, Buka General Hospital, Buka

Urban Council, Bougainville Police Service and Correctional Services.

The Branch continues its commitment in providing sound financial advice, clear product awareness and regular onsite calls and good relationship building.

WEWAK



BACK ROW (Left-Right):
 SA MISO - Mr. Sylvester Kopassol
 EOP Clerk - Mr. Sylvester Tibi
 BA - Mr. Paulang Jangoman
FRONT ROW (From Left-Right):
 MISO - Ms. Susie Joseph
 SUPPORT OFFICER - Ms. Angela Power
 MISO - Ms. Joydean Boanier

TISA's sub-branch In Wewak although has faced a very challenging year. The tireless efforts of the six member team has maintained and provided members from East Sepik and West Sepik reliable services.

One of the most challenging issues of the sub-branch regarding ground and building operation is currently being taken into consideration and examined by the Board of Directors and the Management and it is showing a promising future for the sub-branch. This will be a milestone and a new era for all clients and members by building its own State of the Art TISA Haus in East Sepik Province. A development that the Society is looking forward to.

KOKOPO



Left-Right: Alison Robert (BA),
 Renade Lukuru (EOP)
Left-Right: Agnes Nyape (GA),
 Christine Pliat (MISO), August Paining (MISO),
 Gwendy Miru (MISO) – absent LSL

The Kokopo branch is made up of five staff. The team strongly focuses on service delivery and membership recruitment.

LAE



Left - Right: Brian Eric (BA),
 Glendy Sorolita (EOP), Edjah Merator (BA),
 Walter Tirokau (MISO), Daniel Mail (MISO)

The Branch has maintained a smooth flow of business in the year. It has also noted positive comments in its business approach through keeping up with suggestions and ideas brought by members regarding services and products. It has committed to uphold its values to maintain its business relationships.

BRANCH REPORTS

MANUS



*Standing (Left - Right):
ESON POWESEU – Office Assistant 2
BALTHAZAR KAROANGA – Branch Manager
Sitting (Left - Right):
MYRA AUSTRIAI – CHAIRMAN – MSO 2
ROSA PALA WALOH – SMSO 3
SUSAN KAS PORANWAI – GDP OFFICER*

TSL Manus was established in October 26, 2006 with membership of 205.

We became a full branch in 2009 with membership of 754, also we had 4 additional staff(s) joining team Manus.

With the current membership of 1116 we continue to provide efficient and effective service within Manus Province to all our valued customer.

Mt. HAGEN



KIMBE



Tisa Kimbe Office was established in 2005 with one Member Service officer and upgraded this year, with six staffs being employed at the branch. The branch maintains its same day service to maintain the goals and vision of the Society. The branch aims to get to educate more members about the advantages of saving because when you save you future is financially secured and you won't have any more worries. TISA Kimbe is looking forward to new challenges and changes in the coming years.

VANIMO Sub-Branch

Vanimo Sub-Branch was established in 2004 and is currently manned by two staff; Julie Wai and Mr. Alex Wasua, Senior MSO. All loan and withdrawal applications are processed in Wewak and Port Moresby. Membership has grown over time and currently stands at 1454 and is continuing to grow.

MADANG



*Sitting (From left to right):
Ms. Wani (GDP), Ms. Golu (SNO) and
Ms. Bogasia (MSO)
Branch Manager: Mr. Pohanau (MSO),
Mr. Limanog (MSO), Mr. Samwel (MSO) and
Mr. Ghinawai (GM)*

TSL Madang is in operation with a seven team member. With the team motto to aim to offer the best we can, every staff is expected to perform to the best of their capabilities for the best interest of our members.

Currently with the DES system of processing applications, all members are satisfied dropping off their applications and trustingly waiting within time for normal processing to be carried out.

To conclude, our point to maintain excellent service with the following; Coming together is a Beginning, Keeping together is Progress & Working together is Success.

GOROKA



2011 has been an eventful year for the Branch. With a total of six officers. The Branch has involved itself in a number of projects following successful implementation with significant results:

- Branch Filing Project

We have successfully completed the major task of re-arranging members' records. All files were inspected, mended and recorded on a new electronic filing database created for ease of reference with an up to date electronic record of all members' files held at the branch.

- SMS Balance Check

Members have been introduced to this service which has proven very effective in saving them time and money spent in travelling to and from the branch office. We have registered a total of 1130 since the inception of this service and continue to market this product to all members.

Over the past year, we have focused on revising and improving our branch operational process including service levels to meet changing standards. Our current and future drive is in growing our membership base and we hope to achieve much of that with the help and support of our existing members who are eagerly anticipating Tisa's transition to Licensed Financial Institution (LFI).

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Mt. Hagen – Branch

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Kokopo – Branch

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Goroka – Branch

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Alotau – Branch

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Madang – Branch

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Kavieng – Branch

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Wewak – Branch

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Buka – Branch

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Manus – Branch

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Kimbe – Branch

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Vanimo – Sub Branch

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