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 Fax: 732 3170  
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 Popondetta, Oro Province  
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TEACHERS SAVINGS AND LOAN SOCIETY LIMITED



# 2012 ANNUAL REPORT



**TISA**

TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

A photograph of a man in traditional Maori attire, including a feathered headdress and white body paint, holding a silver Apple tablet. The background is a blurred crowd of people, suggesting a cultural event or festival. The image is overlaid with a semi-transparent green filter.

**MODERN TECHNOLOGY  
TRADITIONAL APPROACH**



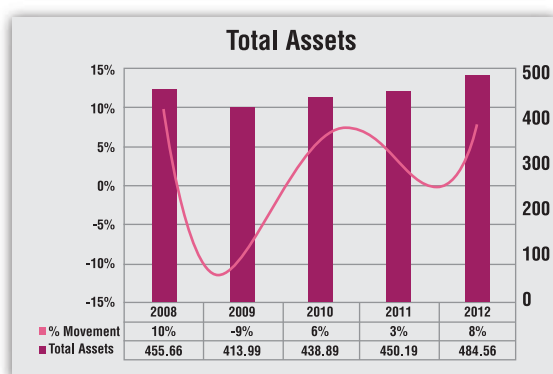
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# CHAIRMAN'S REPORT

On behalf of the Board of Directors and Management of Teachers Savings and Loan Society Limited, I have the pleasure of presenting the annual report which covers the operational and financial affairs of Teachers Savings and Loan Society Limited for the year ended 31st December, 2012.

With continued support from all financial members, management and the wider stakeholder community, our Society has seen 2012 as a year of improved performance in every aspect of our 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.

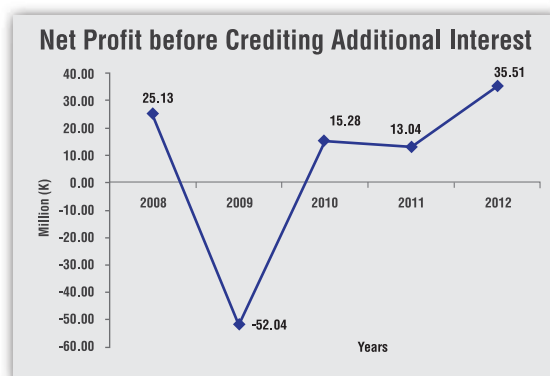
## OVERVIEW OF FINANCIAL PERFORMANCE

2012 has seen growth in most key financial and operational indicators with general improvement in the Society's quoted share values after reporting negative movement in the past three years (2009 – 2011).

With the ongoing, valuable 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 2012.

This is highlighted as follows:

- Your Society recorded a net audited profit of K35.5m (**2011: K13.0m**) before crediting additional interest to members. Net profit after crediting additional interest to members was K26.5m (**2011: K4.5m**);



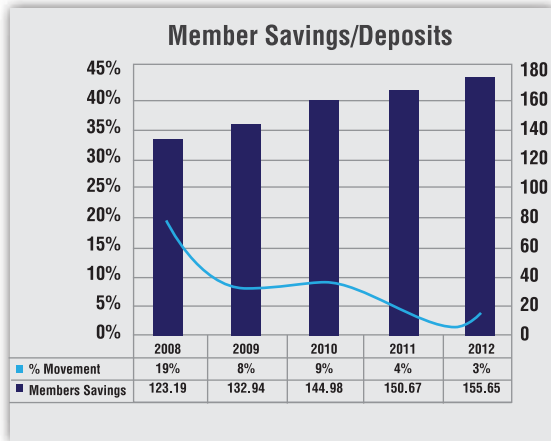
- Net Assets of your Society grew from K296.8m in 2011 to K326.1m in 2012, a growth of 10% (**K29.3m**);
- Additional interest of K9.0m (6.783%) was credited to members' S1 accounts (**2011: K8.5m, 2010: K8.1m**);
- Interest paid to members throughout the year was K3.4m (**2011: K3.3m**), bringing total interest paid in 2012 to K12.4m (**2011: K11.8m**);

	2008	2009	2010	2011	2012
Monthly Interest (K'm)	2.47	2.79	3.03	3.30	3.46
*Additional Interest (K'm)	3.48	-	8.17	8.50	9.00
Total Interest (K'm)	5.95	2.79	11.20	11.80	12.46
*% of Total Deposit	2.86%	-	5.63%	5.64%	5.78%

- 244% (K7.1m) growth in Special Reserve – Capital Improvement Reserve after transferring 20% of net profit (PBIT);



- All other operational indicators for deposits, membership etc. reflected continuous positive growth.



## SERVICE FACILITIES

Opening up of provincial offices is again an investment towards membership growth and bringing 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 continue to progress our plans to upgrade Popondetta and Vanimo Sub-Branches to full Branch status.

We also continue to explore the possibilities of Mendi, Kiunga and Kerema Branches. 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. We continue to experience challenges especially in locating suitable properties for lease or land to purchase and build Branches, in the provinces.

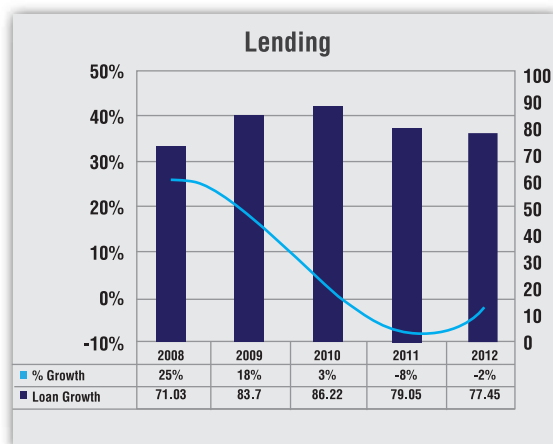
The new Tisa Haus Kavieng opened in 2011 was an example of the local government's assistance with land

allocation for this cause. The local level government authorities in Wewak have also allocated land for the construction of an office complex not to only accommodate TISA office but other institutions in Wewak as well.

Provincial Administrations and Governments that recognize the value of our services and the 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 Provincial Authorities for their socio-economic foresight and wisdom. We encourage other Provincial Authorities to do likewise.

## LENDING

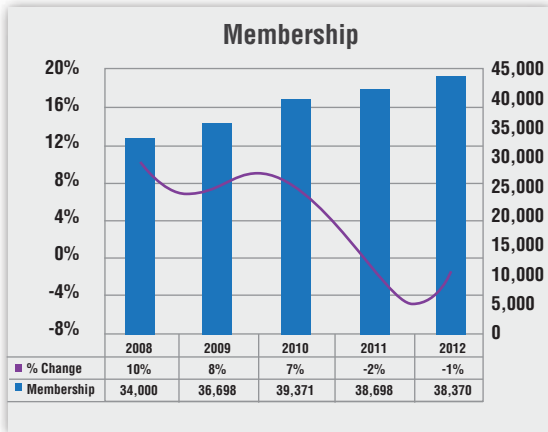
Our loan book is being managed prudently, with a loan provision of K2.1 million against a gross loan book of K79.6 million, translating to a loan delinquency rate of 2.65%. The loan to deposit ratio is at 51%, well below the Bank of Papua New Guinea prudential standard of 60%.



There are improvements being made in the loan process to ensure the fundamentals of lending are not compromised and our loan products are delivered to members conveniently, making optimum use of our modern retail banking system.

## MEMBERSHIP

The commission program for recruiting new members has been revived. I encourage all members to recruit new members and earn a commission.



## HUMAN RESOURCES

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 specialists 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.

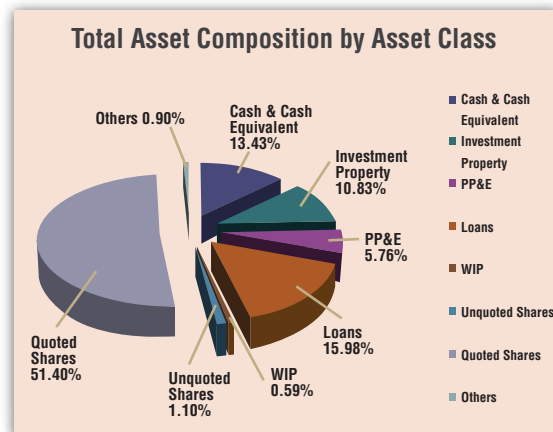
Having said that, it is important to note that we are also employing the strategy of identifying from our current human capital pool, champions. These are people with talent, work ethics and promise, the Society is investing in, in terms of training and development.

In October 2012 nine (9) of our Managers completed the Management Certification Program run by the World Council of Credit Unions based in Madison, Wisconsin,

USA and graduated at the Oceania Confederation of Credit Union Leagues Forum in Nadi, Fiji. They are now certified by the World Council of Credit Unions and will have the basic skills and knowledge to analyze and appraise financial institutions, including mutuals and credit unions in any part of the world.

## ASSETS

Total assets grew by 7.6% (K34 million) to K484.6 million from K450.2 million in 2011. Growth was driven by listed equities and cash portfolio, largely attributed to capital gains in BSP and dividends received.



Investment property and property plant and equipment portfolios also grew due to revaluations.

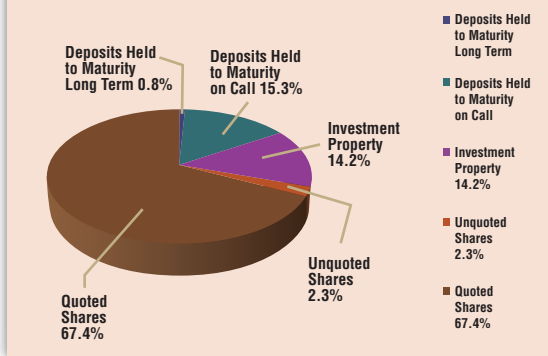
Net Assets was up by 10% to K326 million from K297 million in 2011. Total liabilities increased by 3.3% to K158.4 million from K153.4 million in 2011 driven primarily by growth in member deposits.

The Board created a new reserve called Capital Improvement Reserve, which grew by 244% to K10 million from K2.9 million in 2011.

## INVESTMENT PORTFOLIO

Total investment portfolio is at K367.8 million growing by 10% from K335.5 million in 2011.

### Investment Portfolio as at 31st December 2012



This growth was driven primarily by an 8% growth in fair value of quoted shares from K231 million to K249 million. A 24% growth in cash investments from K45 million in 2011 to K56.5 million in 2012. Gains from revaluation of investment properties from K47.5 million in 2011, to K52.5 million in 2012.

### INFORMATION TECHNOLOGY

The Society's core banking system has been upgraded to Ultracs 4 maintaining the Society's retail banking system on par with latest system developments and upgrades. A new IT infrastructure has been implemented including a new Wide Area Network (WAN) which resulted in reduced branch outages and increased processing speed.

The Society's website has been upgraded and Internet Banking is now available on the website.

Work has commenced on introducing SMS Alerts, Mobile Wallet, Document Management System and Queue Management Systems.

### 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 changes 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 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 Board of Directors in 2010 proposed to a special general meeting of more than 250 members in Kavieng, to restructure and demutualize Teachers Savings and Loan Society, and apply for a license under the Banks and Financial Institutions Act. The decision at this Special General Meeting in Kavieng was unanimously in support of the proposal.

There were unanimous resolutions in support of 2010 Kavieng Special General Meeting resolution in the 2010 Annual General Meeting in Kimbe, followed by the 2011 AGM in Goroka.

I appeal to all our valued members to give your support for Teachers Savings and Loan Society Ltd., to migrate to a licensed financial institution under the Banks and Financial Institutions Act.



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

## CORPORATE GOVERNANCE

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 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 our stakeholders.

## ACKNOWLEDGEMENTS

May I, on behalf of the Board and Management 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 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 appreciate the support we received throughout the year from our regulators, the Bank of PNG, the Teaching Service Commission, the Department of Education and the respective Provincial Education Boards. Thank you for your on-going 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, through the Papua New Guinea Federation of Savings and Loan Societies Ltd, and acknowledge the professional and the technical co-operation that we share with neighboring credit union movements in Australia and in the Asia-Pacific Regions and other local Savings and 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 2012.

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. Gabriel Tai**

Chairman – Board of Directors

## BOARD OF DIRECTORS



Left to right: **Sam Nalong** (Director - Momase Region), **William Varmari** (Director - Island Region), **Gabriel Tai** (Chairman & Director - Highlands Region), **Francis Samoak** (Director - Southern Region), **Alex Peter** (Director - NCD)

## 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 2012. 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 K26, 507,014 **(2011: K4, 538,838)**.

Profit before additional interest paid was K35, 507,014 **(2011: K13, 038,838)**.

### PAYMENTS TO MEMBERS

Monthly interest totaling K3,458,560 **(2011: K3, 300,981)** was paid to member savings during the year.

Additional interest of K9, 000,000 was credited to the members savings (S1 Accounts) for the year ended 31 December 2012 **(2011: K8, 500,000)**.

### DIRECTORS

The non executive directors as at the date of this report are:

- Mr Gabriel Tai (Chairman)
- Mr Sam Nalong (Deputy Chairman)
- Mr William Varmari
- 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 2012. 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.

## 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 K56, 558 (2011: K23, 272) 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, 28<sup>th</sup> February 2013.



**Mr. Gabriel Tai**

Director

Dated, 28<sup>th</sup> February 2013

## Suzaan Theron

Registered under the Accountants Act 1996

Partner

Port Moresby, 28th day of February 2013



Deloitte Touche Tohmatsu

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Douglas Street, Port Moresby

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National Capital District  
Papua New Guinea

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[www.deloitte.com/pg](http://www.deloitte.com/pg)

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

We have audited the accompanying financial statements of Teachers Savings and Loan Society Limited, which comprise the statement of financial position as at December 31, 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Directors' Responsibility for the Financial Report**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and the Companies Act 1997, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's 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. Those 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 of the financial report that gives a true and fair view, 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.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Teachers Savings and Loan Society Limited as at December 31, 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on Other Legal and Regulatory Requirements**

The financial report of Teachers Savings and Loan Society Limited is in accordance with the Companies Act 1997 and proper accounting records have been kept by the Company.

During the year ended December 31, 2012 we provided Corporate Finance Services to Teachers Savings and Loan Society Limited unrelated to our audit.

### **DELOITTE TOUCHE TOHMATSU**



.....  
**Suzaan Theron**

Registered under the Accountants Act 1996

Partner

Port Moresby, 28th day of February 2013

## EXECUTIVE MANAGEMENT



Left to right: **Geoff Ryan** (Manager, Information Technology), **Mathew Hasu** (Finance & Accounts Manager), **Grace Bayak** (Human Resource Manager), **Darryl Hallt** (National Business Manager), **Rodney Hoffmann** (GM - Retail Financial Services), **Terry Mayu** (GM - Corporate Services), **Morgan Sehuri** (A/Lending Manager), **Michael Koisen** (Chief Executive Officer)

## 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 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<sup>th</sup> February 2013.

**Mr. Gabriel Tai**

Director

Dated, 28<sup>th</sup> February 2013.

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 K	2011 K
Interest and similar income	2 (a)	12,364,980	11,372,426
Rental income		4,844,348	5,468,940
Dividend income		14,385,901	12,233,140
<b>Gain/(Loss) arising on financial assets – fair value through profit and loss</b>	<b>5</b>	<b>19,152,945</b>	<b>(406,266)</b>
Change in fair value of investment properties	7	3,577,667	1,797,508
Other income	2 (c)	3,247,937	4,935,919
<b>Total Income</b>		<b>57,573,778</b>	<b>35,401,667</b>
Operating expenses	3	(18,608,204)	(19,061,848)
Operating surplus before interest		38,965,574	16,339,819
Interest credited to members' accounts - Monthly	2 (b)	(3,458,560)	(3,300,981)
- Additional	2 (b)	(9,000,000)	(8,500,000)
		(12,458,560)	(11,800,981)
<b>Surplus for the year after crediting members' accounts</b>		<b>26,507,014</b>	<b>4,538,838</b>
<b>Other comprehensive income</b>			
Increment on revaluation of land and buildings	4	2,836,264	1,386,000
Total comprehensive income for the year is attributed to:			
Members of Teachers Savings and Loan Society Limited		<b>29,343,278</b>	<b>5,924,838</b>

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

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	General Reserve K	Special Reserve K	Asset Revaluation Reserve K	Retained Earnings K	Total K
<b>Balance at 1 January 2011</b>		71,308,673	300,000	13,703,409	205,538,480	290,850,562
Other comprehensive income		-	-	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	<b>17</b>	-	2,607,768	-	-	2,607,768
<b>Balance at 31 December 2011</b>		71,308,673	2,907,768	15,089,409	207,469,550	296,775,400
Other comprehensive income		-	-	2,836,264	-	2,836,264
Net surplus for the year		-	-	-	26,507,014	26,507,014
Transfer from Retained Earnings		-	-	-	(7,101,403)	(7,101,403)
Transfer to Special Reserve	<b>17</b>	-	7,101,403	-	-	7,101,403
<b>Balance at 31 December 2012</b>		<b>71,308,673</b>	<b>10,009,171</b>	<b>17,925,673</b>	<b>226,875,161</b>	<b>326,118,678</b>

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



# STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

ASSETS	Note	2012 K	2011 K
<b>Non-Current</b>			
Property, plant and equipment	4	27,887,990	24,970,392
Capital work in progress		2,879,500	1,798,027
Investment properties	7	52,500,000	47,535,000
Other financial assets	5, 6, 10	257,391,159	239,340,964
<b>Total non-current assets</b>		<b>340,658,649</b>	<b>313,644,383</b>
<b>Current</b>			
Cash and cash equivalent	9	65,077,935	56,300,516
Rental and other receivables	11	1,325,033	1,149,861
Loans to members	8	77,449,936	79,053,267
Other Asset		49,850	39,748
<b>Total current assets</b>		<b>143,902,754</b>	<b>136,543,392</b>
<b>TOTAL ASSETS</b>		<b>484,561,403</b>	<b>450,187,775</b>
<b>LIABILITIES</b>			
<b>Non-Current</b>			
Employee provisions	12	513,916	354,955
<b>Total non-current liabilities</b>		<b>513,916</b>	<b>354,955</b>
<b>Current</b>			
Members Savings	13	155,653,312	150,668,373
Creditors and accruals	14	1,955,517	2,131,438
Employee provisions	12	319,980	257,609
<b>Total current liabilities</b>		<b>157,928,809</b>	<b>153,057,420</b>
<b>TOTAL LIABILITIES</b>		<b>158,442,725</b>	<b>153,412,375</b>
<b>NET ASSETS</b>		<b>326,118,678</b>	<b>296,775,400</b>
<b>EQUITY</b>			
Revaluation Reserve		17,925,673	15,089,409
General Reserve	16	71,308,673	71,308,673
Special Reserve	17	10,009,171	2,907,768
Retained earnings		226,875,161	207,469,550
<b>TOTAL EQUITY</b>		<b>326,118,678</b>	<b>296,775,400</b>



**Mr. Alex Peter**

Director

Dated, 28<sup>th</sup> February 2013.



**Mr. Gabriel Tai**

Director

Dated, 28<sup>th</sup> February 2013.

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

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 K	2011 K
<b>Cash flows from operating activities</b>			
Net advances to members		4,412,202	6,801,897
Interest received on loans	2 (a)	9,997,376	10,112,604
Interest paid on savings	2 (b)	(3,458,560)	(3,300,981)
Cash payments to employees and suppliers		(16,525,285)	(15,022,328)
<b>Net cash flows used in operating activities</b>		<b>(5,574,267)</b>	<b>(1,408,808)</b>
<b>Cash flows from investing activities</b>			
Interest on term deposits	2 (a)	2,274,026	1,259,822
Dividends received		14,385,901	12,233,140
Net rental income		4,827,619	5,468,940
Proceeds on disposal of Investments		2,199,875	2,021,125
Payments for investment in Property, plant and equipment	4	(5,320,674)	(3,061,367)
<b>Net cash flows from investing activities</b>		<b>18,366,747</b>	<b>17,921,660</b>
<b>Cash flows from financing activities</b>			
Net withdrawals on savings		(4,015,061)	(2,810,318)
<b>Net cash flows from financing activities</b>		<b>(4,015,061)</b>	<b>(2,810,318)</b>
<b>Net increase in cash held</b>		<b>8,777,419</b>	<b>13,702,534</b>
<b>Opening cash brought forward</b>		<b>56,300,516</b>	<b>42,597,982</b>
<b>Closing cash carried forward</b>		<b>65,077,935</b>	<b>56,300,516</b>
<b>Closing cash comprises</b>			
Cash on hand and at Bank	9	8,555,039	10,605,723
Held to maturity investments – highly liquid	9	56,522,896	45,694,793
<b>Total cash and cash equivalents</b>		<b>65,077,935</b>	<b>56,300,516</b>

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## **1. Statement of significant accounting policies**

The Teachers Savings and Loan Society Limited is a co-operative financial services organisation domiciled in Papua New Guinea. These financial statements are presented in accordance with the requirements of the Savings & Loans Societies Act, the Teachers Savings and Loan Society Ltd Rules and the Papua New Guinea Companies Act 1997 and 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 as 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).

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 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.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 1. Statement of significant accounting policies (continued)

### d) Income tax

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

### e) Loans to members

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

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

### f) Receivables

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

### g) 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 2012 as follows:

Listed shares are valued at 31 December 2012 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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 1. Statement of significant accounting policies (continued)

an 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 the 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: Yagur Property Valuations. 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 1. Statement of significant accounting policies (continued)

### l) Cash and cash equivalents

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

### m) Financial instruments

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

### n) Comparative figures

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

### o) Changes in accounting policies

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

### p) Going concern 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 K14 million **(2011: K17 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 K155.7 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.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 2 (a). Interest income

	2012 K	2011 K
Interest income – members loans	9,997,376	10,112,604
Interest income – short term liquid funds	2,367,604	1,259,822
	<b>12,364,980</b>	<b>11,372,426</b>

## 2 (b). Interest Expense

Interest expense – members savings	(3,458,560)	(3,300,981)
Additional Interest	(9,000,000)	(8,500,000)
	<b>(12,458,560)</b>	<b>(11,800,981)</b>

Interest expense on members' savings is accrued and credited to members' accounts at the end of each month. The interest paid for 2012 is K3,458,560 with additional interest of K9,000,000 credited to members account on 31 December 2012. **(2011: K8,500,000)**. This amount is included as a charge against operating surplus for the year.

## 2 (c). Other income

Net Loan processing and account administration fees	2,018,235	2,205,773
Society and LPI insurance commission, and other	1,229,702	2,730,146
	<b>3,247,937</b>	<b>4,935,919</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 3. Operating expenses

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

	2012 K	2011 K
Auditors remuneration: statutory audit services	132,630	132,115
Fixed Asset write off	153,344	142,860
Bank charges and interest	115,779	153,549
Depreciation	761,380	782,094
Doubtful Debts – Loans (recovery)/write-off	(1,565,875)	1,287,566
Electricity	1,048,498	1,003,242
Insurance	355,282	238,614
Property Expense	1,143,942	901,994
Staff Costs	6,841,925	6,390,996
Travel, Airfare and accommodation	566,137	663,978
Security costs	68,687	31,038
Rental Expenses	1,966,833	1,897,236
Data Processing Expenses	773,046	886,834
Printing and Stationery	597,337	506,680
Investment Management Fees	-	17,637
Establishment Cost	195,300	348,104
Fuel	230,100	215,261
Advertising & Promotion, Credit Union Day	844,411	267,206
Staff education	60,148	83,480
Donations	56,558	23,272
Entertainment	174,883	102,116
Telephone	314,490	212,618
Repair and Maintenance	820,280	494,548
Rates & Taxes	229,162	260,944
Motor Vehicle Expenses	222,505	256,921
Filing and Legal Cost	296,434	243,898
Freight	118,893	138,793
Consulting	608,663	415,666
Cleaning	294,899	273,134
General and Administrative Expenses	1,182,533	689,454
	<b>18,608,204</b>	<b>19,061,848</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 4. Property, Plant and Equipment

Cost or Valuation	Building & Improvement	Leasehold Land	Motor Vehicle	Office Equipment	Furniture & Fitting	TOTAL
	K	K	K	K	K	K
At 1 January 2012	<b>7,530,031</b>	<b>14,000,000</b>	<b>2,459,244</b>	<b>4,417,693</b>	<b>313,966</b>	<b>28,720,934</b>
Additions	133,705	-	584,227	325,909	10,000	1,053,841
Revaluation increment	836,264	2,000,000	-	-	-	2,836,264
Disposals	-	-	(256,327)	(618,096)	-	(874,423)
<b>At 31 December 2012</b>	<b>8,500,000</b>	<b>16,000,000</b>	<b>2,787,144</b>	<b>4,125,506</b>	<b>323,966</b>	<b>31,736,616</b>
<b>Accumulated Depreciation</b>						
At 1 January 2012	<b>290,959</b>	-	<b>1,414,860</b>	<b>1,870,583</b>	<b>174,140</b>	<b>3,750,542</b>
Charge for the year	143,952	-	347,639	254,851	14,938	761,380
Disposals	-	-	(199,243)	(464,053)	-	(663,296)
<b>At 31 December 2012</b>	<b>434,911</b>	-	<b>1,563,256</b>	<b>1,661,381</b>	<b>189,078</b>	<b>3,848,626</b>
<b>Net Book Value</b>						
<b>At 31 December 2012</b>	<b>8,065,089</b>	<b>16,000,000</b>	<b>1,223,888</b>	<b>2,464,125</b>	<b>134,888</b>	<b>27,887,990</b>
<b>At 31 December 2011</b>	<b>7,239,082</b>	<b>14,000,000</b>	<b>1,044,384</b>	<b>2,547,074</b>	<b>139,852</b>	<b>24,970,392</b>

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 Yagur Property Valuations at the balance date. Consistent with the accounting policy of the Society, revaluation surplus was credited to the revaluation reserves account.

The carrying amount of land and buildings had they been recognised under the cost model are as follows:

	2012 K	2011 K
Freehold land	14,000,000	14,000,000
Buildings	7,530,031	7,663,736
	<b>21,530,031</b>	<b>21,663,736</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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

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

Quoted shares:	2012 K	2011 K
<b>Bank South Pacific Limited</b>		
Balance at the beginning of the year	131,942,745	141,152,191
Carrying value of shares sold (2012: 275,000 @K8.00 2011: 275,000@K7.35) Initial Purchase Price K4.01 Share Consolidation effected in May 2011(1:10 basis)	(1,102,750)	(1,102,750)
Fair value gain/(loss) from change in net market value	8,737,975	(8,106,696)
At Valuation (2012: 17,317,366 shares @ K8.06 per share) (2011: 17,592,366 shares @ K7.50 per share)	139,577,970	131,942,745
<b>Credit Corporation (PNG) Limited</b>		
Balance at the beginning of the year	96,254,730	87,504,300
Fair value gain/(loss) from change in net market value	10,694,970	8,750,430
At Valuation (2012: 48,613,500 shares @ K2.20 per share) (2011: 48,613,500 shares @ K1.98 per share)	106,949,700	96,254,730
<b>Airlines PNG Limited</b>		
Balance at the beginning of the year	2,800,000	3,850,000
Fair value gain/(loss) from change in net market value	(280,000)	(1,050,000)
At Valuation (2012: 7,000,000 shares @ K0.36 per share) (2011: 7,000,000 shares @ K0.40 per share)	2,520,000	2,800,000
<b>Total financial assets at fair value through profit and loss</b>	<b>249,047,670</b>	<b>230,997,475</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 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 2012.

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

	2012 K	2011 K
• Bank South Pacific	8,737,975	(8,106,696)
• Credit Corporation (PNG) Ltd	10,694,970	8,750,430
• Airlines PNG Ltd	(280,000)	(1,050,000)
<b>Unrealised Gain/(Loss)</b>	<b>19,152,945</b>	<b>(406,266)</b>

## 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)	(3,000,000)
	<b>5,343,489</b>	<b>5,343,489</b>

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 31/12/11	Gain/(loss)	Additions	Disposals	Fair value 31/12/12
Tisa Haus, Waigani	32,945,000	3,400,009	654,991	-	37,000,000
Tisa Haus, Lae	7,790,000	(290,000)	-	-	7,500,000
Kouaka Place, Gordons	6,800,000	467,658	732,342	-	8,000,000
<b>TOTAL</b>	<b>47,535,000</b>	<b>3,577,667</b>	<b>1,387,333</b>	-	<b>52,500,000</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 7. Investment properties (Continued)

### Fair value

Land & buildings fair values are based on independent valuation by Yagur Property Valuations as at the balance date. The method more appropriate and adopted was the capitalisation of the notional income stream approach. The method comprises a capitalisation of the notional income stream derived from available leasing evidence at a capitalisation rate which reflects the yields shown in relevant sales.

## 8. Loans to members

	2012 K	2011 K
Balances receivable	79,563,400	83,972,850
Allowance for doubtful debts	(2,114,352)	(4,923,223)
	<b>77,449,936</b>	<b>79,053,267</b>

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

## 9. Cash and Cash equivalent

Cash on hand and at bank	8,555,039	10,605,723
Held to maturity investments – highly liquid	56,522,896	45,694,793
Net cash and cash equivalent	<b>65,077,935</b>	<b>56,300,516</b>

The Society does not have a credit facility with any bank. It operates a number of accounts throughout the country with the main operating account used for general administration and loan payments to members. Bank accounts are held with Bank South Pacific in Port Moresby. Accounts are also kept with ANZ and Westpac Port Moresby.

Short term deposits bear interest on average of 1.25% 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 2.5% per annum.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 10. Deposits held to maturity

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

	2012 K	2011 K
Non-Current	3,000,000	3,000,000
	<b>3,000,000</b>	<b>3,000,000</b>

Investments in Government Inscribed Stock bear interest varying between 5 -12% per annum (2011: 5-12% per annum)

## 11. Rental and other receivables

Rental debtors	25,040	191,816
Allowance for doubtful rental debtors	(7,625)	(30,536)
	17,415	161,280
Prepayments	3,800	73,040
Interest receivable	290,129	115,880
Other debtors	1,702,189	1,449,661
Allowance for other doubtful debtors	(688,500)	(650,000)
	<b>1,325,033</b>	<b>1,149,861</b>

## 12. Employee provisions

<b>Non-Current</b>		
Long service leave	513,916	354,955
	<b>513,916</b>	<b>354,955</b>
<b>Current</b>		
Annual leave	319,980	257,609
	<b>319,980</b>	<b>257,609</b>

## 13. Members Savings

Opening balance at 1 January	150,668,373	144,978,691
Net decrease	(4,015,061)	(2,810,318)
Additional Interest	9,000,000	8,500,000
Closing balance at 31 December	<b>155,653,312</b>	<b>150,668,373</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 13. Members Savings (Continued)

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	2012 K	2011 K
Medical claims	14,461	14,461
Rental bonds	21,529	22,980
Goods and services tax	237,824	237,824
Group tax	98,512	26,674
Accrued expenses	835,395	1,412,392
Sundry creditors	490,539	127,180
Rent received in advance	38,382	71,052
Unearned revenue	218,875	218,875
	<b>1,955,517</b>	<b>2,131,438</b>

## 15. Members' capital

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

## 16. General reserve

Opening balance at 1 January	71,308,673	71,308,673
Transfer from retained earnings	-	-
Closing balance at 31 December	<b>71,308,673</b>	<b>71,308,673</b>

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 – Capital Improvement Reserve

Opening balance at 1 January	2,907,768	300,000
Transfer from retained earnings	7,101,403	2,607,768
Closing balance at 31 December	<b>10,009,171</b>	<b>2,907,768</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## **17. Special Reserve – Capital Improvement Reserve** (Continued)

What used to be “Special Reserve” for directors’ training costs was renamed “Capital Improvement Reserve”. This resulted from the decision to accommodate all directors’ training in the operating budget and create a separate reserve to cater for future plans to develop and/or improve properties and land the Society owns. The statutory minimum of 20% allocation of net earnings per annum to General Reserve (Note 16) has also been diverted to Capital Improvement Reserve since required level to cover bad loans in General Reserve has been reached.

## **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%. (2011: 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 these interest rate risks.

### **(iv) Price risk**

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 18. Financial instruments and risk management (Continued)

### 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 2012 K'000	Price risk reduction by 5% Profit effect K'000	Price risk increase by 5% Profit effect K'000
<b>Interest bearing deposits</b>			
Deposits with BPNG	50,512	(1,200)	1,326
Deposits with financial institutions	6,011	(71)	79
	<b>56,523</b>	<b>(1,271)</b>	<b>1,405</b>
<b>Investment in shares</b>			
Bank of South Pacific Ltd	139,578	6,321	7,706
Credit Corporation (PNG) Ltd	106,950	(89,846)	99,568
Airlines PNG	2,520	246,521	(246,255)
	<b>249,048</b>	<b>162,996</b>	<b>(138,981)</b>

Companies	31-Dec-12				31-Dec-11	
	Market Price K	Units	Market Value 31/12/2012 Kina	Shareholding as a % of net assets of the Society	Market Value 31/12/2011 Kina	Shareholding as a % of net assets of the Society
Airlines PNG	0.36	7,000,000	2,520,000	1%	2,800,000	1%
Credit Corporation (PNG) Ltd	2.20	48,613,500	106,949,700	33%	96,254,730	32%
Bank of South Pacific Ltd	8.06	17,317,366	139,577,970	43%	131,942,745	44%
			<b>249,047,670</b>		<b>230,997,475</b>	

### (v) Fair values

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

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 19. Employees

The number of people employed by the Society during the year was 209 (2011: 215).

## 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%, and contributions during the year amounted to K419, 035 (2011: K239, 986).

## 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 2012 is K520, 628 (2011: K502, 508). 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 band of income as follows:

	2012	2011
K120,000 – K129,999	-	2
K130,000 – K139,999	-	1
K140,000 – K149,999	1	-
K150,000 – K159,999	-	-
K160,000 – K359,999	3	1
K360,000 – K389,999	1	-
K390,000 – K419,999	-	-
K420,000 – K449,999	-	-
K450,000 – K479,999	-	1
K480,000 – K529,999	1	-
	<b>6</b>	<b>5</b>

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 21. Related parties (Continued)

### The specified executives of the Society during the year were:

- Mr. Michael Koisen – 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
- Mr Geoff Ryan - Manager – Information Technology

### 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	Other benefits	Total
	Fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	
<b>2012</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
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
<b>Total</b>	<b>27,000</b>	<b>12,500</b>	-	-	-	-	-	<b>39,500</b>

	Primary		Post-employment			Equity	Other benefits	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	
<b>2011</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
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
<b>Total</b>	<b>27,000</b>	<b>12,500</b>	-	-	-	-	-	<b>39,500</b>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

## 21. Related parties (Continued)

### Specified executives' remuneration in aggregate

	Primary			Post-employment			Equity	Other benefits	Total
	Fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options		
<b>2012</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
	2,065,311	82,405	-	-	207,534	-	-	-	2,355,250
<b>Total</b>	<b>2,065,311</b>	<b>82,405</b>	<b>-</b>	<b>-</b>	<b>207,534</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,355,250</b>

	Primary			Post-employment			Equity	Other benefits	Total
	Salary & fees	Bonus	Non-monetary	Super-annuation	Prescribed benefits	Other	Options		
<b>2011</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>	<b>K</b>
	1,265,816	82,405	-	-	113,000	-	-	-	1,461,221
<b>Total</b>	<b>1,265,816</b>	<b>82,405</b>	<b>-</b>	<b>-</b>	<b>113,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,461,221</b>

### (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. (2011: Knil).

# PHOTOGRAPHS OF EVENTS



**From left - right:** Director (Momase Region) Sam Naloug, Director (NGF Region) William Varmani & Director (Southern Region) Francis Samok.



**Standing:** Manager Finance Matthew Hasu, GM Corporate Services Terry Mayu, Manager Business Daryl Hall, CEO Michael Kolsen, Manager IT Geoff Ryan, Manager Marketing Morgan Sehuri, GM Retail Services Rodney Hoffmann. **Sitting:** PA to CEO Carol Malua, Internal Auditor Jacinta Maludu. **Time out after AGM on the Jetty of Alotau Hotel.**



**From left - right:** TISA Board of Directors having a chilling arvo by the Jetty - Alotau.



Teachers from Hagita Primary School presenting an item to close the AGM at Alotau.



Tisa Management visit to Fiji Public Service Credit Union in Suva, Fiji.



TISA Executive Team in Alotau.



TISA marketing campaign at National Forest Authority Office.



Part of TISA Executive Team posing before Board meeting in Alotau.



# PHOTOGRAPHS OF EVENTS



Tisa Managers in Suva, Fiji 2012.



Tisa Managers graduate with certificates on management certificate program run by World Council of Credit Unions WCCU in Fiji 2012.



Pacific Credit Union Technical Congress - Nadi Fiji 2012.



Manager Finance Matthew Hasu trying the new Accounts software package 'techone' as (standing) CEO Michael Kolsen, (far right) Manager IT Geoff Ryan & (front of camera) Project Manager Poni Korua looks on.



From left - right: CEO Michael Kolsen, National Business Manager Daryl Hait and Manager IT Geoff Ryan, posing for the camera before proceeding to the AGM in Alotau.



Chairman Mr. Gabriel Tai addressing attentive members during the AGM at Alotau.



CEO Mr. Michael Kolsen, being presented by a loyal member a gift upon closure of AGM, as token of appreciation, in Alotau.



Members Chamber in Head Office (POM) being decorated to commemorate Credit Union Day in October, 2012.



# PHOTOGRAPHS OF EVENTS



Participants of the 2012 Branch Managers Conference, at Lamana Hotel.



Tisa Managers outside the conference venue at Lamana Hotel, pose for a group shot after a session during the Branch Managers Conference in October, 2012.



Tisa members during the AGM in Alotau in 2012.



Director (NGI Region) (Far right and standing) Mr. William Warmari addressing members during AGM in Alotau.



Tisa representatives cooling off after their walk in Walk Against Corruption Campaign.



Alotau Branch Manager Maranuf Tataeng, presenting a Computer to head Mistress of a Primary School in Alotau.



Primary School in Alotau are all smiles, after receiving donation of library books (in box) from TISA Alotau.



TISA CEO, Mr Michael Koisen presenting the donation of K1000 to POMCRS Administrator. The Society contributed a total of K1,550 towards the fundraising event.

