TISA

TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

YOUR TRUST IS OUR STRENGTH

GROW, THRIVE, TRANSFORM

ANNUAL REPORT 2019

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VISION STATEMENT

Not for Profit, Not for Charity, But for Service

MISSION STATEMENT

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

CHAIRMAN'S REPORT

TO OUR VALUED MEMBERS

On behalf of the Board of Directors and Management,

It gives me great pleasure to present the annual report covering the affairs of the Society for the year ended 31st December 2019, on behalf of the Board of Directors and Management.

The 2019 year was again challenging for businesses. A change in Government and Prime Minister, two controversial budgets and stalled resource projects brought further uncertainties to existing challenging economic conditions. Never the less, the Society remained focused on providing the best possible service it can to you, its Members, and remained focused on delivering its business strategy and key projects.

The main focus leading out from 2018, was meeting the transitional requirements of the new Savings & Loan Societies Act 2015. I am pleased to advise that the Society is now incorporated under the Companies Act and is now licenced under the new Act. A new constitution for the Society was also adopted by the Members during the last Annual General Meeting, and two independent directors were appointed to the Board.

The Society also completed Project Halivim - the acquisition of the former Police Savings & Loan Society Limited, and finalised the design, tender and awarding phases of the new multi-complex building project – TISA Rua, which is scheduled to start in 2020.

Financial Result

The Group and Society reported another positive annual result. Total assets for the Group grew by 13% to **K834.18 million** and net audited profit was **K74.40 million.** The result was primarily due to dividends and capital gains from shares in listed equities - BSP and Credit Corporation and new pricing on lending products.

Interest Payment to Members

The Board approved an additional interest payment for the 2019 financial year, totalling **K24.77 million** credited to Members Yumi Accounts. In total **K33.26 million** has been credited to Members' accounts for the 2019 financial year, inclusive of monthly interest totalling **K8.80 million.** This is an increase of 25% from previous year's total of **K26.68 million.** Over the last 10 years (2009 to 2019),

Gabriel TAI

TISA has paid interest to its Members in the amount of **K188 million.** Members Savings as at 31st December 2019, was **K400.25 million,** a growth of 8% **(or K29.11 million)** from previous year.

Service Delivery

The Society introduced a new transaction product during the year, adding to its existing suite of products offered to Members. The new product, the Yumi Account, allows Members to pay for goods and services and withdraw cash on demand, using their YumiCard at any BSP ATM and EFTPoS device in the country. TISA is pleased to be the first Savings & Loans Society to introduce a transaction account product in PNG. Members who do not have a YumiCard are advised to apply for one at their nearest TISA Branch.

Acknowledgements

On behalf of the Board and Management of Teachers Savings and Loan Society Limited, I would like to thank you, our valued Members nationwide for your support and trust. Your trust is our Strength. Your Board and Management is committed as always to building the Society for the long-term and building wealth for you and your family. We look forward to your continued support and trust in 2020.

Gabriel Tai
Chairman – Board of Directors

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

Michael KOISEN, OBE ML

I am pleased to announce that TISA Group, and in particular, the Society's financial performance has been strong in 2019 despite global and domestic economic uncertainties.

Our lending activities returned strong results with your continued support. Our long term investment in equities, particularly BSP Ltd, continued its strong growth performance. Credit Corporation (PNG) share price also rebounded in 2019. Overall, the Society received good dividends and revaluation capital gains from these two key investments. Our revenue from Properties dropped in 2019, attributed primarily to the subdued property market in PNG and vacancies in the former Police and State Services Savings Societies Ltd (PSSL) properties and TISA Haus in Lae.

With this exceptional performance, your Board of Directors resolved to pay a Bonus Interest of 7%, which translates to **K24.77 million.** I am proud to say that this Bonus Interest payment in Kina terms has been consistently increasing over the past few years. The bonus interest will be paid into members' YUMI accounts and is immediately available using your YUMI Card.

In 2019, the Society also had its first full year of operations under the new Savings and Loan Societies Act 2015. The Society is now operating as a company under the Companies Act 1997 to conduct the savings and loan business, in which a licence was granted by the Bank of PNG. You as members previously are now recognised as mutual shareholders.

We continue to upgrade our systems and update our processes to improve our service delivery to you. I am pleased to announce that the Society's core banking system has been upgraded to a newer version in 2019. System enhancements to support our efficient delivery of service has commenced in 2019 and will be completed in 2020.

Our careful management of the transition and assimilation of former PSSL Balance sheet with TISA's balance sheet in 2019 has been a success.

At this juncture, I would like to thank and commend all you valuable members of TISA for your brave and whole-hearted support for the Society to take-over PSSL. Not only did your support save **K54 million** of your fellow Papua New Guineans hard earned savings which would have being lost, but they now also benefit from better service, monthly and bonus interest payments they had not received as members of PSSL.

I am pleased to highlight the key financial performance for financial year ended 31 December 2019 in the pages overleaf.

GCEO, Mr Michael Koisen conducting the electronic draw to select winners for the Yumi Promotion.

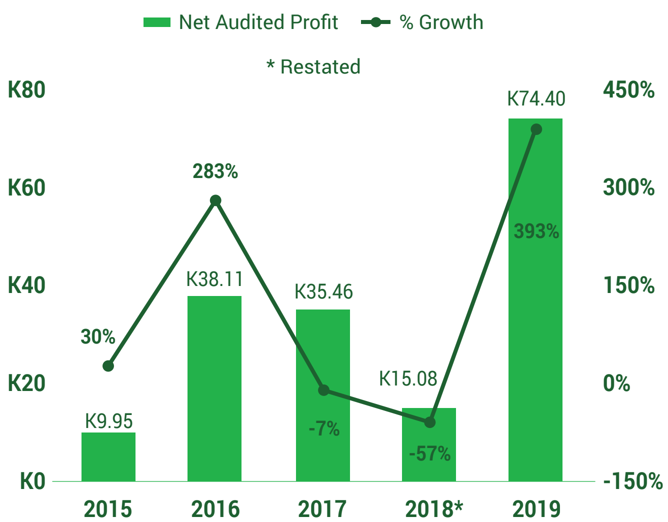
GROUP CHIEF EXECUTIVE OFFICER'S REPORT

TISA Group reports highest profit for the last decade as at end of 31 December 2019

Consolidated Net Profit Performance

The Group recorded an annual Comprehensive net income on Consolidation of **K74.40 million.**

Net Profit Performance (K'm)



The Group's strategy to maintain profitability and create wealth for its members and their families remained being its focus.

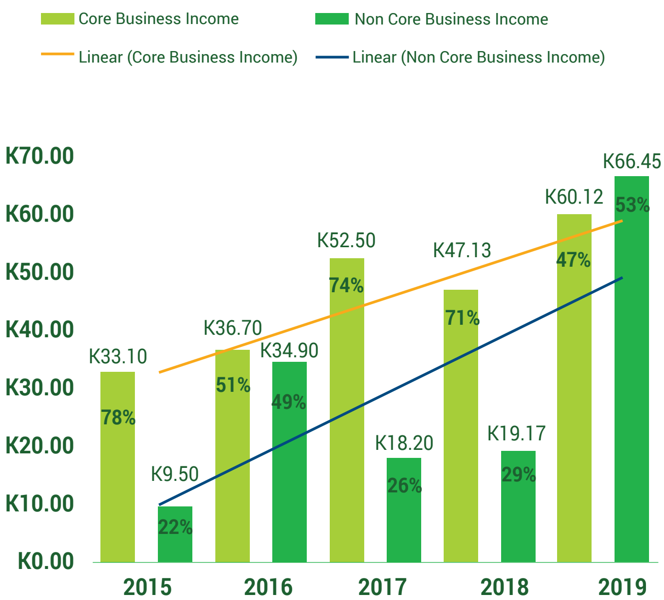
The key contributors to the Group's profits were attributed to the following factors:

Core Business Income

Core business income from major portfolios in lending, properties, other direct income and short-term investments constitute 47% **(K60.12 million)** of 2019 total group net revenue of **K126.57 million.**

Income from loan book and related loan processing fees and commissions **(of K49.07 million)** grew by 37% from last year. The Lending interest rates on offer have remained consistent for both TISA (at 12% per annum) and its subsidiary, TCF (at 25% per annum). The increase in the loan revenue was commensurate with the growth in loan volumes and successful data migration of former PSSL members.

Core Business Performance (K'm)



The loan delinquency for the group remained at a low 2%.

Income from properties recorded **K5.09 million** down by 28% from last year rentals with an asset base of **K115.05 million.** The decrease is attributed to adjustments to rental market prices and vacancies in TISA Haus and former PSSSL properties in Lae. In line with Group policy, independent valuations were not performed this financial year and internal market assessments made were not considered to vary materially to the prevailing carrying market values.

Income from other short-term financial instruments held-to-maturity performed to expectations closing at **K5.96 million.** This portfolio recorded these results on the backdrop of short-term Fixed Term Deposits interest rates being as low as 1.2% interest per annum on 30 days up to 8% interest per annum on 365 days and long-term deposits, including Treasury and Central Bank Bills and Inscribed Stock at 12% interest per annum.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

Non-Core Business Income

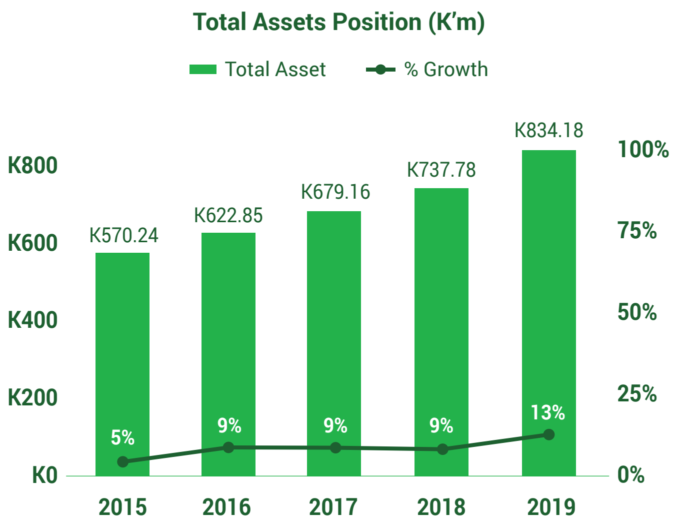
Quoted Equity portfolio contributed **K31.0 million** in Dividends contributing to gross revenue turnover of 24.5%.

Listed equities further contributed a net capital gain on revaluation of **K35.44 million.** Our investment in Credit Corporation Limited shares has seen an improvement in price earning capital gains of 18.5% or **K12.15 million (2018: K14.58 million** write down / capital loss) The volatility on these investments continued to be monitored in line with our capital requirements and investment policy.

The Society's investment in its Associate, Capital Insurance Group (CIG) restated its 2018 financial statement. This restatement has affected the Group's comparative information in this year's financial statement. Overall, TISA Group directly influenced core business and gross revenue turnover of 47% and non-core business and related investments from capital gains contributed 53%.

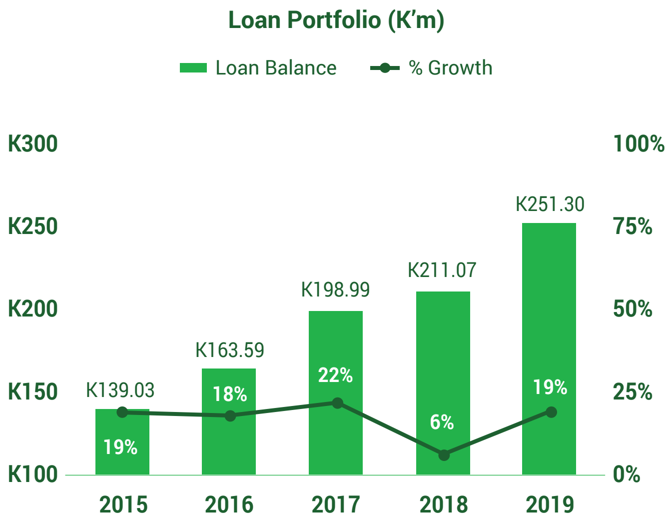
Total Assets

Total Assets grew by **K96.4 million** to **K834.18 million** a growth of 13%.



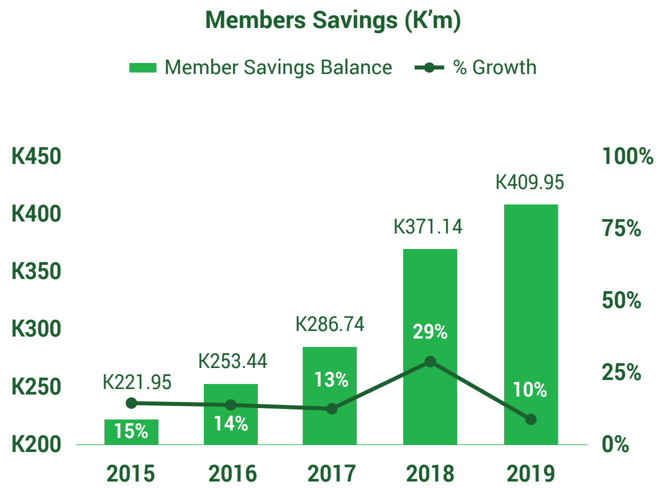
Loan Portfolio

Loan book grew by **K40.23 million** to **K251.30 million,** a growth of 19% ending with a strong performance and contributing 39% of the Society's gross revenue turnover.



Member Savings

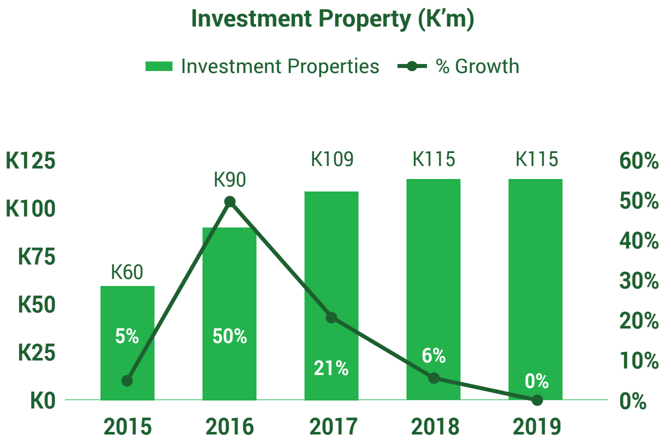
Deposits grew by **K38.80 million** to **K409.95 million,** a growth of 10%



Investment Property

The property portfolio remained at **K115.05 million** with no movement even after conducting internal desktop valuation.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

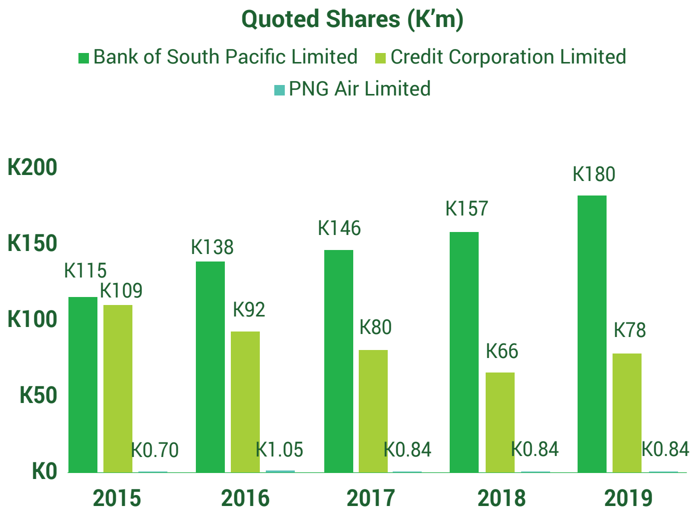


Deposits-Held-To-Maturity

The Group also manages short and long -term liquid investments with Licensed Financial Institutions and Bank of PNG. An increase of 27% on short term deposit to **K80.60 million** and long-term investments remained at **K21.75 million.**

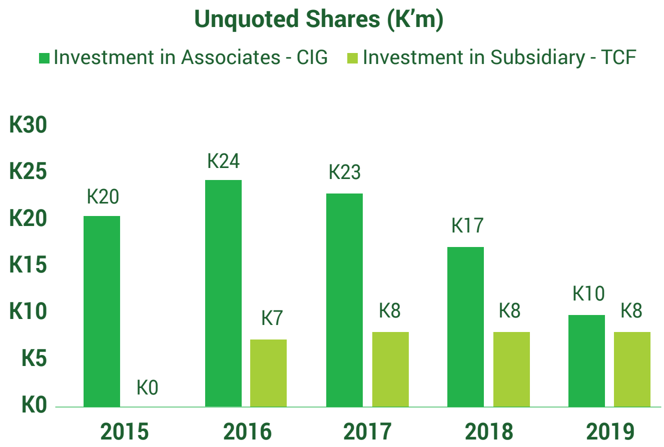
Quoted Shares

Society's quoted shares in Bank of South Pacific and Credit Corporation delivered positive results. BSP Shares increased by 14.8% closing at **K180.44 million** whilst CCP shares increased by 18.5% and up to **K78.78 million.**



Unquoted Shares

TISA has equity interest in TISA Community Finance Limited (TCF), a 100% subsidiary of TISA Group, and CIG an associate.



Wholly Owned Subsidiary, TISA Community Finance Limited

I am also pleased to report key operational and financial results for TISA Community Finance Limited as at 31 December 2019:-

- Offered 100% unsecured personal loan products (with interest rates varying from 15% to 25%) to teachers, public servants and employees of State-owned Enterprises, Statutory Authorities and employees of private companies.
- A total of 48 employers (private companies, State-owned Enterprises and Statutory Authorities) have signed a Salary Deduction Agreement. This Agreement requires employers of employees that are not on Department of Finance and Department of Education payroll to sign the agreement before a loan can be provided to their employees.
- Customer numbers grew from 967 in January 2019 to 2,100 by end of December 2019, a growth of almost 117%.

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

- Gross Loan Portfolio grew from **K8.37 million** in January 2019 to **K24.85 million** by end of December 2019, a very significant growth of 197%.
- 93.23% of the loan book was classified as "pass or acceptable" while the Non-Performing Loans was 4.87% as at end of December 2019.
- Payroll collection per month grew from **K0.50 million** in January 2019 to **K1.26 million** by end of December 2019, with a total payroll collection of **K10.41 million** recorded for the 12 months.
- Total Assets grew from **K24.60 million** to **K45.33 million** by end of December 2019, a growth of 84%.
- Total liabilities grew from **K17.70 million** to **K38.74 million** by end of December 2019. Liabilities mainly comprises of the **K33.22 million** term deposit placement from TISA.
- Net Assets declined from **K6.93 million** to **K6.55 million** by end of December 2019. A net operating profit before tax of **K1.37 million** was recorded as at end of December 2019.
- Net profit before tax registered a growth of 130%.
- Capital Adequacy levels remain well above the prudential limits.
- During the year 2019 TCF started accepting term deposits from public.

Overall, it has been a challenging year preparing the Group for greater market opportunities and embracing the implementation of the *new Savings and Loan Societies Act* whist capitalising on the use of advanced technologies to remain relevant.

Whilst there was a growth from the previous financial year, would like to remind members that TISA Group's profit performance is subject to economic conditions and market volatility therefore the Board and management will continue to remain vigilant to ensure the steady growth of TISA and the consistent returns to members in the form of affordable products and services and bonus interest.

I would like to take this opportunity to thank all our valued members, clients, the Board of Directors, management and staff, the Governor of the Bank of PNG and his staff, Education Department, Divisions, Provincial Education Authorities, Public Servants, State-Owned Enterprises and Private Sector employers and employees for your trust and continued support towards the growth of TISA Group.

Michael O Koisen OBE ML
Group Chief Executive Officer

TISA MANAGEMENT

Back row: **Ms. Bibian Barreng** - Manager Marketing & Media Relations | **Ms. Dallas Kila** - Manager Internal Audit | **Mr. Francis Pahun** - TCF Head of Recovery
Mr. Edward Toliman - Head of Information Technology | **Ms. Venus Cajiles** - Manager Properties & Facilities | **Mr. Telavika Faite** - Head of Human Resources
Mr. Steward Tito - Manager Lending Operations | **Mr. Kisakiu Poawai** - Team Leader Audits & Risk | **Ms. Lama Orea** - Manager Branch Support
Mr. Lawes Omeri - Manager National Sales | **Ms. Jennifer Galindo** - Manager Finance & Accounting | **Mr. Giles Piriri** - Manager Special Projects
Mr. Michael Aldan - Manager Security
Front row: **Ms. Kathreena Maidang** - Senior Legal Officer | **Mr. John Topal** - Chief Risk Officer | **Mr. Igimu Momo** - Chief Strategic Officer
Mr. Michael Koisen - Group Chief Executive Officer | **Mr. Luke Kaul** - Chief Operating Officer | **Mr. Karai Morea** - TCF Head of Commercial Lending
Mr. Michael Malara - Chief Finance Officer
Absent: **Mr. Ashokkumar Valechha** - TCF Chief Executive Officer | **Mr. Philip Hehonah** - Company Secretary & Head of Legal

CORPORATE GOVERNANCE STATEMENT AS AT 31 DECEMBER 2019

This corporate governance statement describes the principles and obligations enshrined in the governance of Teachers Savings and Loan Society Ltd (the "Society") and its controlled entity (the "Group"). It defines the roles and relationship between the Board of Directors (including Board committees) and management of the Group.

In 2019, the Board and management have ensured that the Group's corporate governance supports our core values of delivering the best possible customer service, empowering our staff, maintaining and upholding ethical practice, promote and value continuous learning, and accountability.

The Board and management have demonstrated its commitment to act responsibly, ethically and with the highest standard of integrity to ensure that the Group is managed prudently. The Group continues to maintain and develop good corporate governance standards and practices by closely monitoring developments in corporate governance principles and practices (standards) locally and globally.

The Group expects the Directors and employees at all levels to observe the highest standards of ethical behavior while being a Director or an employee of the Group.

The Board of Directors and their Roles

The Board is responsible and accountable to its members for the overall governance and management of the Group's activities and performance. The Board operates in accordance with the powers and functions set out in the Society's Constitution and exercises its powers by performing the following functions:

- Develop the overall business strategy of the Society, including asset and investment management, risk management and operational matters;
- Approve the overall business strategy and annual budgets of the Society,
- Provide proper oversight to accounting, fiduciary, regulatory and operational practices of the Society;
- On an ongoing basis, critically monitor the effectiveness of the business strategies and the effectiveness of management in delivering those strategies;
- Appoint, assess the performance and if necessary, remove the Group Chief Executive Officer;
- Appoint and remove the Company Secretary
- Appoint Board of Directors to the Board of the Society's subsidiaries
- Develop and set policies on lending, investment, procurement and capital expenditure;
- Develop and set policies on essential human resources issues such as hiring and dismissal, terms of employment, minimum standards of conduct, performance expectations, occupational health and safety, training and development; and
- Perform other functions and duties consistent with the Society's Constitution.

The Board has delegated the responsibility of administering the Group's day-to-day business operations to the Group Chief Executive Officer and has ensured that it does not encroach upon those areas of day-to-day operational activities that are clearly the responsibility of management.

The Board is also committed to upholding the World Council of Credit Unions Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations".

Board composition and eligibility

The size and composition of the Board is determined by the Constitution, which prescribes a total maximum of no more than 7 Directors, consisting up to four (4) directors, each being a shareholders of the Society and up to three (3) Independent Directors. Each Director serves for a term of three (3) years with the eligibility for re-appointment.

Further, the Board has carefully considered and has complied with the "fit and proper" framework in accordance with the Bank of Papua New Guinea issued regulatory instructions. Directors and Senior Management of the Society must be a fit and proper person to lead the organization. The "fit and proper" framework deals with matters such as minimum competencies, Director Development, Independence, Director Refreshment and Renewal and Performance.

The Directors of the Board during the year are provided in financial note 28.1.

CORPORATE GOVERNANCE STATEMENT AS AT 31 DECEMBER 2019

All Directors have met the requirements for the purpose of eligibility of being a Director of the Society. No Director had any material interest in any contract or arrangement with the Society or any related entity during the year.

The new *Savings and Loan Societies Act* 2015 (new Act) commenced on 24 August 2018 and repealed and replaced the former *Savings and Loan Societies Act* 1971 (Chapter 141) and *Savings and Loan Societies Regulation* (Chapter 141A). However, any acts or decisions that were made under the former (repealed) Act remained valid under the new Act until the transition period ended in August 2019. A significant reform under the new Act was the requirement for all existing societies to incorporate as companies under 'the *Companies Act 1997* and apply to the Central Bank for a savings and loan society license to conduct the savings and loan business. The Board and Management have successfully achieved both requirements having incorporated the Society as a company on the 21 February 2019 and received its license on the 23 August 2019.

Board Committee

The TISA Board currently has one standing Committee established to strengthen the effectiveness of its operations and deliberations. The Board Audit and Risk Compliance Committee (BARCC) was established to review and monitor the following areas:

- Integrity of financial statements and the independent audit thereof;
- Adherence to the BPNG's financial Reporting Requirements (Monthly and Quarterly Returns);
- The Societies Internal Audit Processes;
- The effectiveness of internal controls and management of all risks (Operational, Credit, Market risk, etc.);
- The processes involving approval and monitoring of expenditures including capital expenditures;
- The Processes for monitoring the implementation of Board decisions by Management;
- Compliance to BPNG's prudential standards (*Savings and Loans Societies Act* 2015 and the various directives as well as the *Banks and Financial Institutions Act* 2000 and the various prudential standards); and
- Any other functions as delegated by the Board.

The function and powers of BARCC are prescribed by the prudential standard BPS 300 (Corporate Governance) which was issued by the regulator under Section 27 of the *Banks and Financial Institutions Act* 2000.

The operations of the BARCC is governed by the BARCC Charter which was approved by the Board in 2013 and covers its purpose, authority, roles and responsibilities.

The current BARCC members are Mr. William Varmari (as Chairman) and Mr. Sam Nalong (as member), The Group's Company Secretary also serves as secretary to the BARCC.

The Board may establish ad hoc Committees from time to time to consider matters of special importance or to exercise the delegated authority of the Board.

Board and Committee Meetings

The Board usually meets as it resolves or the Chairman determines, provided it meets at least once every quarter. A minimum of four (4) meetings are required be held in a financial year. Special Meetings of the Board are held as and when required.

A total of four (4) scheduled meetings were held by the Board in the financial year 2019 and Directors' record of attendance is set out below:

Director	Meetings Held in 2019	Attended in 2019
Mr. Gabriel Tai Board Chairman	4	4
Mr. Sam Nalong Deputy Chairman	4	4
Mr. William Varmari Director, NGI	4	4
Mr. Francis Samoak Director, Southern	4	4
Mr. Peter Mason Independent Director	4	4
Mr. Stirling Tavener Independent Director	4	2

A total of four (4) Special Board Meetings were held by the

CORPORATE GOVERNANCE STATEMENT AS AT 31 DECEMBER 2019

Board in the financial year 2019 and the Directors' record of attendance is set out below:

Director	Meetings Held in 2019	Attended in 2019
Mr. Gabriel Tai Board Chairman	4	4
Mr. Sam Nalong Deputy Chairman	4	4
Mr. William Varmari Director, NGI	4	4
Mr. Francis Samoak Director, Southern	4	4
Mr. Peter Mason Independent Director	4	3
Mr. Stirling Tavener Independent Director	4	2

The Board Audit, Risk and Compliance Committee also held four (4) meetings in the financial year 2019. A record of attendance at committee meetings during the year are detailed in the table below.

Director	Meetings Held in 2019	Attended in 2019
Mr. William Varmari Director, NGI	4	4
Mr. Sam Nalong Deputy Chairman	4	4

Board Access to Information and Advice

All Directors have unrestricted access to the Group's records and information and receive quarterly detailed financial and operational reports to enable them to carry out their duties.

Divisional reports are presented to the Board on a quarterly basis. The Chairman and Directors also have the opportunity to meet with the Group Chief Executive Officer and other members of the Executive Management team for further consultation to discuss issues associated with the fulfilment of their roles as Directors.

Remuneration of Directors

Directors are paid an annual stipend consistent with the Society's Constitution, but are not entitled to, separation or termination benefits or any another payments. A Director appointed to a Board committee is also entitled to an annual stipend for any committee meetings held. The specified Directors fee aggregates for the financial report as at 31st December 2019 are indicated below:

(I) Board Fees Aggregates

The aggregate of fees paid to the Board of Directors during the financial year are as follows:

Director	2019 K	2018 K
Mr. Gabriel Tai Board Chairman	23,750	5,000
Mr. Sam Nalong Deputy Chairman	16,125	4,500
Mr. William Varmari Director, NGI	16,000	4,000
Mr. Francis Samoak Director, Southern	16,000	4,000
Mr. Peter Mason Independent Director	16,000	-
Mr. Stirling Tavener Independent Director	15,000	-
TOTAL	**102,875**	**17,500**

(II) BARCC Fees Aggregates

The aggregate of fees paid to the BARCC members during the financial year are as follows:

Director	2019 K	2018 K
Mr. William Varmari Director, NGI	8,750	5,000
Mr. Sam Nalong Deputy Chairman	8,000	4,000
TOTAL	**16,750**	**9,000**

Disclosure of Material Interest by Directors

A Director is required to disclose any material interest in a matter under consideration, or about to be considered, by the Board at a duly constituted Board meeting in order for

CORPORATE GOVERNANCE STATEMENT AS AT 31 DECEMBER 2019

the Board to determine if a Director has a direct or indirect material interest.

This disclosure is recorded in the minutes and the Director is physically excused from any deliberations or decisions by the Board on this matter. The Director will also be disregarded for purposes of constituting a quorum of the Board in regard to the deliberations or decisions by the Board on this matter.

A material interest exists, without limitation, where a Director:

a. is a party to, or will or may derive a material financial benefit from, a transaction involving the Group or a business enterprise in which the Group has an interest; or

b. has a material financial interest in another party to a transaction involving the Society or a business enterprise in which the Group has an interest; or

c. Has a close relative who is such a party or who will or may derive a material financial benefit, or has such a material financial interest.

The Group has a "Conflict of Interest & Gifts Policy", which was approved by the Board in 2015. This Policy complements the Code of Conduct for Directors and Executive Management and related prudential standards issued by the Bank of PNG.

The Policy is designed to protect the Group's interest when it is contemplating entering into a contract or transaction that might benefit any personal interest of a member of the Board, Management, staff and Service Providers of the Group or might result in a possible excess benefit transaction.

The Policy requires that in connection with any actual or perceived Conflict of Interest, an Interested Person must disclose the existence of all interest or circumstances that may give rise to a Conflict of Interest and be given the opportunity to disclose all material facts to the Board and Management of the Society of which would influence his/her role considering a proposed Contract or Transaction.

The duty to disclose is carried out by way of completing a Conflict of Interest Disclosure Form on an annual basis or as a requirement of participating in a meeting. This form is completed by all members of the Board, Management and Staff.

External Auditor

The Group's policy is to appoint external auditors who can clearly demonstrate quality and independence with respect to audit & assurance. External auditors are requested to submit proposal for three-year term of external audit services, and selection of the external auditor is based on the assessment of their performance in other entities, existing value, experience, knowledge of the sector and the industry and tender costs. The performance of the external auditor is reviewed annually by the BARCC and recommendations are made to the Board regarding their continuation during their term of appointment.

KPMG were appointed as the Group's external auditor in 2016 for a period of three years up to the year ended 2019, their appointment was extended for a further two (2) years after approval was sought from the Bank of PNG and also from shareholders. The extension of the engagement of KPMG ensured that the Group was compliant with the prudential standard BPS 7/2005 (External Auditors) issued by the regulator.

Internal Audit

The Audit and Risk Department is dedicated to providing management with value-added services, as well as reasonable assurance to the Board and the Group Chief Executive Officer in the following categories:

- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations;
- Compliance with all applicable laws, regulations, and contracts; and
- Safeguarding of assets.

Each year, Audit & Risk develops an audit plan utilizing risk analysis to identify the major areas needing audit attention. The plan is reviewed by the Group Chief Executive Officer and is submitted to the BARCC for consideration and recommendation to the Board for approval.

The Department's function is supported by the Audit Charter which ensures no unjustified restrictions or limitations are placed upon the independent role of the Department.

CORPORATE GOVERNANCE STATEMENT AS AT 31 DECEMBER 2019

Compliance

The BARCC is responsible for ensuring compliance with all legal and regulatory obligations as well as the Constitution and Standard Operating Procedures of the Group.

The BARCC, together with the Management, ensures that any prudential and compliance issues that may be raised by the Registrar of Savings and Loan Societies and other statutory or regulatory bodies are promptly addressed.

The BARCC meets quarterly and separately with the internal auditors to discuss any matters that the committee or the internal auditors believe should be discussed independently. The committee ensures that significant findings and recommendations made by the internal auditors are received and discussed promptly, and that management responds to recommendations by the internal auditors on timely basis.

The Manager Internal Audit has direct access to the BARCC while the Chairman of the Committee has direct access to the full Board.

Risk Management

The Board is responsible for the overall risk management of the Group and ensures that risks are monitored and managed on a regular basis. The Board has delegated the risk management function to the BARCC, which is responsible for providing quarterly reports and recommendations to the Board on the risk management activities of the Group. The executive management is responsible for risk identification, analysis and evaluation and provides quarterly reports to BARCC.

The Board and management have ensured that efficient and effective risk management framework and adequate reporting systems, operational and financial internal controls and their associated review functions (including internal audit) are in place to effectively monitor and manage the broad risk areas of strategic, financial and operational risks. The specific risk areas identified and monitored in 2019 include strategic risk, credit risk, liquidity risk, interest rate risk, market risk, operational risk and compliance risk.

The Board has also established a Risk Appetite Statement, which describes the *"amount and types of risk, on a broad level, that the Society is willing to take in order to achieve its Strategic Objectives"*. In general, the Group accepts a low to moderate risk appetite for all its risk categories. The Risk Appetite Statement aligns the risk profile of the Society to its business and capital management plans by identifying the potential risks that the Group is exposed to and determines the appropriate level of appetite to each risk category. A risk management framework is in place to ensure these initiatives are prioritized appropriately and are managed and reported on a monthly management and quarterly Board meetings.

Code of Conduct

The Group's Vision, Mission and Values contain principles that guide all employees in the day to day discharge of their individual functions within the Society. The Board has adopted a statement of values and a Code of Conduct (The Code) which has been incorporated into the Society's Standard Operating Procedure and applies to all directors and employees.

The Code requires that, at all times all Group personnel act with the highest integrity, objectivity and in compliance with the related regulations governing the Society. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standard of behavior and professionalism and the practices necessary to maintain a reputable institution.

Executive Management and Remuneration

The disclosure has been made at note 28.1 of the audited financial statement as at 31st December 2019.

Shareholder Communications

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

Legal matters and Society Lawyers

The Group has established an in-house Legal Department. Legal matters are outsourced as and when required. The Group engaged Albatross Law, O'Brien's Lawyers and Les Gavara-Nanu Jnr (Legal Consultant) for most of its outsourced legal matters in 2019.

DIRECTORS' REPORT

The Directors of Teachers Savings and Loan Society Limited ("TISA" or "the Society") and it's subsidiary company, Tisa Community Finance Limited ("TCF") (together "the Group") submit herewith the annual financial report of the Group for the financial year ended 31 December 2019. In order to comply with the provisions of the *Companies Act 1997 and Savings and Loan Societies Act 2015*, the directors report as follows:

Principal activities

The nature of operations and principal activities of the Group are maintaining membership of teachers, public service and private sector members and clients; processing member contributions and managing client deposits; processing member and client loans; and managing the investments of the Group.

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 a total comprehensive income after taxation of **K73,092,679 (2018 (Restated): K14,126,404).** The Group's total comprehensive income after taxation is **K74,401,62 (2018 (Restated): K15,083,218).**

Payments to TISA members

Additional interest of **K24,766,272** was credited to the members YumiAccount for the year ended 31 December **2019 (2018: K19,619,184).**

During the year **K8,490,333 (2018: K7,059,594)** of interest on members savings was paid.

Directors

The directors for the 2019 year were:

Mr. Gabriel Tai (Chairman)	Director Highlands
Mr. Sam Nalong (D/Chairman)	Director Momase
Mr. William Varmari	Director NGI
Mr. Francis Samoak	Director Southern
Mr. Peter Mason	Appointed on 21 February 2019
Mr. Stirling Tavener	Appointed on 11 May 2019 (ceased 24 January 2020)

Directors' remuneration

Disclosure has been made at note 28.1

Remuneration above K100,000 per annum

Disclosure has been made at note 28.1

Group secretary

The TISA Company Secretary is Philip Hehonah.

Directors' eligibility

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

Changes in State of Affairs

During the year, the previously enacted Savings and Loan Societies (Amendment) Act 1995 was repealed and replaced with a new one, the Savings and Loan Societies Act (2015) on 1 July 2019. As part of the requirements and transition to the new act, the Society was incorporated as a company under the *Companies Act 1997* and was issued a new licence by the Bank of Papua New Guinea (BPNG).

Events after the Reporting Period

Subsequent to balance sheet date, the Society's Board of Directors has resolved to restructure and reorganise the Group. This process has been done in preparation for the legal transformation from a mutually owned company to a company owned by shares, with legal status of the members (currently mutual shareholders) changing to shareholders ("Demutualisation").

On the 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected.

DIRECTORS' REPORT

Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates. Restrictions in movement of people and public transport, lockdown measures and contact with people will affect how the Society will conduct its business going forward.

For the Society's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Society cannot reasonably estimate the impact these events will have on its financial position, results of operations or cash flows in the future.

Auditor

KPMG was appointed as auditor for the year ended 31 December 2019. Details of amounts paid to the auditor for audit and other services are shown in note 9.1 to the financial statements.

Donations

During the year, the group made donations totalling **K172,879 (2018: K94,712).**

Signed at Port Moresby, NCD this 1st day of May 2020.

Signed in accordance with a resolution of the Directors.

____
Mr. Gabriel Tai
Director

____
Mr. Sam Nalong
Director

TISA Chairman - Gabriel Tai (third from right) with other Savings and Loan Society representatives receiving their licences from BPNG Assistant Governor Elison Pidik (centre front row).

STATEMENT BY DIRECTORS

In the opinion of the Directors of Teachers Savings & Loan Society Limited and the Group:

1. (a) the statements of profit or loss and other comprehensive income of the Society and the Group are drawn up so as to give a true and fair view of the results of the Society and the Group for the year ended 31 December 2019;

   (b) the statements of changes in equity of the Society and the Group are drawn up so as to give a true and fair view of the changes in equity of the Society and the Group for the year ended 31 December 2019;

   (c) the statements of financial position of the Society and the Group are drawn up so as to give a true and fair view of the state of affairs of the Society and the Group as at 31 December 2019;

   (d) the statements of cash flows of the Society and the Group are drawn up so as to give a true and fair view of the cash flows of the Society and the Group for the year ended 31 December 2019;

   (e) at the date of this statement there are reasonable grounds to believe the Society and the Group will be able to pay its debts as and when they fall due; and

   (f) all related party transactions have been adequately disclosed in the attached financial statements.

2. The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted in Papua New Guinea and the Papua New Guinea Companies Act 1997 and have been drawn up in accordance with the requirements of the Savings and Loan Societies Act 2015.

Signed at Port Moresby, NCD this 1st day of May 2020.

Signed in accordance with a resolution and on behalf of the Directors.

Mr. Gabriel Tai
Director

Mr. Sam Nalong
Director

Front row: **William Varmari** - Director Islands Region | **Gabriel Tai** - Chairman, Director Highlands Region | **Francis Samoak** - Director Southern Region
Sam Nalong - Deputy Chairman, Director Momase Region.
Back row: **Stirling Tavener** - Independent Director | **Dr. Peter Mason** - Independent Director | **Michael Koisen** - TISA Group Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Teachers Savings and Loan Society Limited

Report on the audits of the Financial Reports

Opinion

We have audited the consolidated Financial Report of Teachers Savings and Loan Society Limited (the Group Financial Report). We have also audited the Financial Report of Teachers and Savings and Loan Society Limited (the Company Financial Report).

In our opinion, each of the accompanying Group Financial Report and Company Financial Report of Teachers Savings and Loan Society Limited are in accordance with the Savings and Loans Societies Act 2015 and the *Companies Act 1997*, including:

- giving a true and fair view of the Group's and Company's financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- complying with *International Financial Reporting Standards.*

The Financial Reports of the Group and the Company comprise:

- statements of financial position as at 31 December 2019;
- statements of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and
- notes including a summary of significant accounting policies.
- The Group consists of the Company and the entities it controlled at the year-end or from time to time during the financial year

Basis for opinions

We conducted our audits in accordance with the *International Standards on Auditing*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the Financial Report in Papua New Guinea. We have fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that we have remained independent as required by the Code throughout the period of our audits and to the date of this Auditor's Report.

INDEPENDENT AUDITOR'S REPORT

Emphasis of matter - restatement of comparative balances

We draw attention to Note 31 to the financial statements, which states that amounts reported in the previously issued 31 December 2018 financial statements have been restated and disclosed as comparatives in these financial reports. Our opinion is not modified in respect of this matter.

Other Information

Other Information is financial and non-financial information in Teachers Savings and Loan Society Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information. The Other Information that we obtained prior to the date of this Auditor's report was the Directors' Report.

Our opinions on the Financial Reports does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Reports

The Directors are responsible for:

- preparing the Financial Reports that give a true and fair view in accordance with the *International Financial Reporting Standards* and the *Companies Act 1997;*
- implementing necessary internal control to enable the preparation of Financial Reports that give a true and fair view and are free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *International Standards on Auditing* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Reports.

INDEPENDENT AUDITOR'S REPORT

Auditor's responsibilities for the audit of the Financial Report (continued)

As part of the audit in accordance with *International Standards on Auditing*, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit 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 Group and Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of Those Charged with Governance (TCWG)'s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the group financial report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

The auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

Report on other legal and regulatory requirements

The *Companies Act 1997* requires that in carrying out our audits we consider and report on the following matters. We confirm in relation to our audits of the Financial Reports for the year ended 31 December 2019:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Group as far as appears from an examination of those records.

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby
7 May 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

		Consolidated Group		Society	
	Note	2019	2018 Restated*	2019	2018 Restated*
		K	K	K	K
Interest and similar income	8	46,196,544	32,486,174	40,687,153	28,898,351
Interest expense	8.1	(8,606,091)	(7,059,594)	(8,490,333)	(7,059,594)
Net Interest income		**37,590,453**	**25,426,580**	**32,196,820**	**21,838,757**
Rental income		5,088,448	7,107,624	5,088,448	7,084,826
Dividend income		31,013,839	27,743,990	31,013,839	27,743,990
Change in fair value of financial assets	12	35,435,771	(2,942,852)	35,435,771	(2,942,852)
Change in fair value of investment properties	13	-	-	-	-
Other income	8.2	8,835,622	7,538,142	8,122,414	7,538,142
Total income		**117,964,133**	**64,873,484**	**111,857,292**	**61,262,863**
Staff costs		(19,928,864)	(16,860,505)	(18,060,447)	(16,275,066)
Impairment losses on loans to members	9	(3,295,231)	(828,841)	(3,531,939)	(1,126,907)
Operating expenses	9.1	(19,410,360)	(19,792,702)	(16,656,027)	(17,339,354)
Share of loss of equity accounted investee	11.b	(516,200)	(12,395,132)	(516,200)	(12,395,132)
Total Expenses		**(43,150,655)**	**(49,877,180)**	**(38,764,613)**	**(47,136,459)**
Profit from operations		**74,813,478**	**14,996,304**	**73,092,679**	**14,126,404**
Income tax (expense) / benefit		(411,857)	86,914	-	-
Profit for the year		**74,401,621**	**15,083,218**	**73,092,679**	**14,126,404**
Other comprehensive income					
Increment on revaluation of land and buildings		-	-	-	-
Total comprehensive income for the year		**74,401,621**	**15,083,218**	**73,092,679**	**14,126,404**

* See note 31 for details of restatement

The notes on pages 25 to 68 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	Consolidated Group		Society	
		2019	2018 Restated*	2019	2018 Restated*
		K	K	K	K
Assets					
Cash and cash equivalents	15	36,588,161	49,731,723	30,014,697	34,610,086
Interest bearing deposits	15	4,209,011	25,305,325	27,737,011	40,245,325
Net loans to members	14	251,301,835	211,065,275	227,411,045	204,571,140
Other financial assets	11	366,105,692	292,884,269	353,567,130	292,884,269
Rental and other receivables	16	7,312,331	5,417,280	12,202,840	7,278,191
Investment in subsidiary	11c	-	-	8,000,000	8,000,000
Investment properties	13	115,053,000	115,053,000	115,053,000	115,053,000
Property and equipment	10	32,758,303	15,741,058	30,493,224	15,393,228
Capital work in progress	10.1	20,852,551	22,184,930	20,941,700	21,964,135
Deferred tax asset		-	401,193	-	-
Total assets		**834,180,884**	**737,784,053**	**825,420,647**	**739,999,374**
Liabilities					
Savings and deposits	18	409,946,800	371,136,980	400,248,200	371,136,980
Creditors and accruals	19	10,916,438	3,286,265	11,233,797	3,449,554
Employee provisions	17	3,268,744	3,294,654	3,174,971	3,255,771
Deferred tax liabilities		10,664	-		-
Total liabilities		**424,142,646**	**377,717,899**	**414,656,968**	**377,842,305**
Net assets		**410,038,238**	**360,066,154**	**410,763,679**	**362,157,069**
Equity					
Assets revaluation reserve	21	5,603,567	5,603,567	5,603,567	5,603,567
General reserve	22	33,534,306	33,534,306	33,534,306	33,534,306
Additional interest reserve	24	49,879,664	38,099,597	49,879,664	38,099,597
Business combination reserve	23	(16,849,175)	(16,849,175)	(16,849,175)	(16,849,175)
Retained earnings		337,869,876	299,677,859	338,595,317	301,768,774
Total equity		**410,038,238**	**360,066,154**	**410,763,679**	**362,157,069**

* See note 31 for details of restatement

The notes on pages 25 to 68 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

		Consolidated Group					
	Note	Asset Revaluation Reserve	General Reserve Fund	Additional Interest Reserve	Business Combination Reserve	Retained Earnings Restated*	Total
		K	K	K	K	K	K
Balance at 1 January 2018		**5,603,567**	**29,356,884**	**41,009,102**	**-**	**306,624,848**	**382,594,401**
Opening adjustment for initial application of IFRS 9 provisions		-	-	-	-	(1,143,107)	(1,143,107)
Restated total equity at 1 January 2018		**5,603,567**	**29,356,884**	**41,009,102**	**-**	**305,481,741**	**381,451,294**
Net surplus for the year		-	-	-	-	15,083,218	15,083,218
Transfer from retained earnings to general reserve	22	-	4,177,422	-	-	(4,177,422)	-
Transfer to members from additional interest reserve fund	23	-	-	(19,619,184)	-	-	(19,619,184)
Transfer from general reserve to additional interest reserve		-	-	16,709,679	-	(16,709,679)	-
Acquisition of PolSav recognised in equity		-	-	-	(16,849,175)	-	(16,849,175)
Balance at 31 December 2018		**5,603,567**	**33,534,306**	**38,099,597**	**(16,849,175)**	**299,677,859**	**360,066,154**
Opening adjustment for initial application of IFRS 16 leases	5.1 a iv	-	-	-	-	336,735	336,735
Restated total equity at 1 January 2019		**5,603,567**	**33,534,306**	**38,099,597**	**(16,849,175)**	**300,014,594**	**360,402,889**
Net surplus for the year		-	-	-	-	74,401,621	74,401,621
Transfer to members from additional interest reserve fund	24	-	-	(24,766,272)	-	-	(24,766,272)
Transfer to members from retained earnings to additional interest reserve fund		-	-	36,546,339	-	(36,546,339)	-
Balance at 31 December 2019		**5,603,567**	**33,534,306**	**49,879,664**	**(16,849,175)**	**337,869,876**	**410,038,238**

* See note 31 for details of restatement

The notes on pages 25 to 68 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2019

		Society					
	Note	Asset Revaluation Reserve	General Reserve Fund	Additional Interest Reserve	Business Combination Reserve	Retained Earnings Restated*	Total
		K	K	K	K	K	K
Balance at 1 January 2018		**5,603,567**	**29,356,884**	**41,009,102**	**-**	**308,443,296**	**384,412,849**
Opening adjustment for initial application of IFRS 9 provisions		-	-	-	-	86,172	86,172
Restated total equity at 1 January 2018		**5,603,567**	**29,356,884**	**41,009,102**	**-**	**308,529,468**	**384,499,021**
Net surplus for the year		-	-	-	-	14,126,404	14,126,404
Transfer from retained earnings to general reserve	22	-	4,177,422	-	-	(4,177,422)	-
Transfer to members from additional interest reserve fund	23	-	-	(19,619,184)	-	-	(19,619,184)
Transfer from general reserve to additional interest reserve		-	-	16,709,679	-	(16,709,679)	-
Acquisition of PolSav recognised in equity		-	-	-	(16,849,175)	-	(16,849,175)
Balance at 31 December 2018		**5,603,567**	**33,534,306**	**38,099,597**	**(16,849,175)**	**301,768,774**	**362,157,069**
Opening adjustment for initial application of IFRS 16 leases	5.1 a iv	-	-	-	-	280,203	280,203
Restated total equity at 1 January 2019		**5,603,567**	**33,534,306**	**38,099,597**	**(16,849,175)**	**302,048,977**	**362,437,272**
Net surplus for the year		-	-	-	-	73,092,679	73,092,679
Transfer to members from additional interest reserve fund	24	-	-	(24,766,272)	-	-	(24,766,272)
Transfer to members from retained earnings to additional interest reserve fund		-	-	36,546,339	-	(36,546,339)	-
Balance at 31 December 2019		**5,603,567**	**33,534,306**	**49,879,664**	**(16,849,175)**	**338,595,317**	**410,763,679**

* See note 31 for details of restatement

The notes on pages 25 to 68 are an integral part of these financial statements.

STATEMENT OF CASH FLOW AS AT 31 DECEMBER 2019

	Note	Consolidated Group		Society	
	Note	2019	2018	2019	2018
		K	K	K	K
Cash flows from operating activities					
Interest received on loans		38,074,864	28,355,181	32,565,473	24,331,331
Net rental and other income		13,924,070	9,386,600	13,210,862	8,431,243
Interest on IBDs and debt securities		6,884,213	4,125,076	6,884,213	4,567,020
Dividends received		31,013,839	27,743,990	31,013,839	27,743,990
Net loans to members		(43,531,791)	(5,499,131)	(26,371,844)	(10,484,153)
Net members savings deposited		14,043,548	22,823,901	4,344,948	23,782,272
Interest paid to members		(8,606,091)	(7,059,594)	(8,490,333)	(7,059,594)
Payments to employees and suppliers		(35,530,792)	(37,046,380)	(35,806,382)	(31,365,685)
Net cash flow from /(used in) operating activities		**16,271,860**	**42,829,642**	**17,350,776**	**39,946,424**
Cash flows from investing activities					
Net purchase of Government Securities		(38,301,851)	(891,536)	(25,763,289)	(891,536)
Change in term deposit		21,096,314	(25,305,325)	12,508,314	(35,285,325)
Payments for investment in investment property, property and equipment		(10,399,666)	(14,609,714)	(7,530,422)	(14,550,853)
Cash from acquisition		-	13,745,557	-	13,745,557
Net cash flow from/ (used in) investing activities		**(27,605,203)**	**(27,061,018)**	**(20,785,397)**	**(36,982,158)**
Cash flows from financing activities					
Lease payments ROU-Asset		(1,810,219)	-	(1,160,768)	-
Net cash flow from/(used in) financing activities		**(1,810,219)**	**-**	**(1,160,768)**	**-**
Net (decrease)/increase in cash and cash equivalents		**(13,143,562)**	**15,768,624**	**(4,595,389)**	**2,964,266**
Cash and cash equivalents at the beginning of the year		49,731,723	33,963,099	34,610,086	31,645,820
Cash and cash equivalents at the end of the year	15	**36,588,161**	**49,731,723**	**30,014,697**	**34,610,086**

The notes on pages 25 to 68 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

1. Reporting

Teachers Savings and Loan Society ("TISA" or "the Society") is domiciled in Papua New Guinea. The Society's registered office is TISA Haus, Waigani, NCD, Papua New Guinea. The Group financial statements as at and for the year ended 31 December 2019 comprise the Society and its subsidiary, Tisa Community Finance ("TCF") (both "the Group"). The Group is primarily involved in the provision of financial services which include receiving savings, deposits and issuing loans.

The Group financial statements have been authorised for issue by the Board of Directors on 1 May 2020.

2. Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the Accounting Standards Board of Papua New Guinea ("ASB"), the requirements of the Papua New Guinea Companies Act 1997 and Savings and Loan Societies Act 2015.

Basis of measurement

Fair value accounting is used for investments at fair value through profit and loss, investment properties and land and buildings. In all other cases, a historical cost basis of accounting is used. Revenues and expenses are brought to account on an accrual basis.

This is the first set of the Group's financial statements in which IFRS 16, *Leases* has been applied. The related changes to the significant accounting policies are described in Note 5.1.

Comparative Figures

The prior year comparative figures have been restated wherever necessary to conform to the current year's presentation of financial statements.

3. Functional currency

The financial statements are presented in the Papua New Guinea currency, the Kina, which is the Group's functional currency.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Group makes judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The areas involving significant estimates or judgements are:
(1) Significant increase in credit risk
(2) Estimated expected credit loss allowance for loans to members
(3) Estimated fair value of assets (land and buildings and investment property) held at fair value

Going concern basis

The financial statements have been prepared on a going concern basis which assumes that the Society and the Group will be able to meet its liabilities and obligations as and when they fall due in the normal course of the business.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

5. Accounting policies and disclosures

5.1 Changes in accounting policies and disclosures

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

A. IFRS 16 Leases

The Group has adopted IFRS 16 Leases with a date of initial application of 1 January 2019.

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated. The details of the changes in accounting polices are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not been generally applied to comparative information.

i. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under IFRIC 4, *Determining whether an arrangement contains a lease*. The Group now assesses whether the contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

ii. As a lessee

As a lessee, the Group leases some branch and office premises. The Group previously classified these as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and reward incidental to ownership of the underlying assets to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of branch and office premises.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019.

Right-of-use of assets are measured at their carrying amount as IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group: -

- relied on its assessment whether leases are onerous under IAS 27 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing impairment review,
- did not recognise right-of-use of assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application,
- did not recognise right-of-use of assets and liabilities for leases of low-value assets,
- excluded initial direct costs from measuring the right-of-use of asset at the date of initial application, and
- used hindsight when determining the lease term.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

5. Accounting policies and disclosures (continued)

5.1 Changes in accounting policies and disclosures (continued)

A. IFRS 16 Leases (continued)

iii. As a lessor

The Group leases out certain property and the leases are classified as operating leases of investment property.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor. The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

iv. Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use of assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	1 January 2019	
	Consolidated Group	Society
	K	K
Right-of-use of assets presented in property and equipment	5,497.564	4,579,508
Deferred tax asset	173,948	-
Lease liabilities presented in creditors and accrials	5,160,829	4,299,304
Retained earnings	336,735	280,204

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 6.25%.

	1 January 2019	
	Consolidated Group	Society
	K	K
Operating lease commitments at 31 December 2018	5,837,933	5,837,933
Discounted using the incremental borrowing rate at 1 January 2019	5,497,564	4,299,304
Recognition exemption for leases with less than 12 months of lease term at transition	-	-
Lease liabilities recognised at 1 January 2019	5,160,829	4,299,304

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

6. Other standards

A number of new standards and amendments to standards are effective for accounting periods beginning 1 January 2020 and earlier application are permitted, however, the Group has not adopted them in preparing this financial statement.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements:

- Business Combinations (Amendments to IFRS 3)
- Amendments to Reference to Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Definition of Material (Amendments to IAS 1 and IAS 8)

7. Significant accounting policies

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in the financial statements from the date on which control commences up till the date on which control ceases.

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of the purchase. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Investments in subsidiaries are accounted for at cost in the financial statements of the Society.

To determine the amount of goodwill in a business combination in which no consideration is transferred, the Group shall use the acquisition-date fair value of the Group's interest in the subsidiary in place of the acquisition-date fair value of the consideration transferred.

The Group in a combination of mutual entities shall recognise the subsidiary's net assets as a direct addition to capital or equity in its statement of financial position, not as an addition to retained earnings.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost or acquisition is less than fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Changes in the holding company's ownership interest in a subsidiary company that does not result in the holding company losing control of the subsidiary are equity transactions (i.e. transactions with owners in their capacity as owners) and accordingly reflected directly in the equity of the group.

The financial statements for the subsidiary TCF Community Finance Ltd have been consolidated based on 31 December 2019 results.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

i. Subsidiaries (continued)

Transactions eliminated on consolidation

Inter-group transactions, balances and any unrealised income and expenses are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(b) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

Revenue was recognised as follows:

i. Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income using the effective interest method includes interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

ii. Fees and commission

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including account servicing fees and sales commission are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(b) Revenue recognition (continued)

iii. Change in Fair Value of Financial Assets

Change in fair value of financial assets comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes.

iv. Dividend income

Dividend income is recognised when the right to receive income is established, usually this is the ex-dividend date for equity securities.

(c) Leases

Policy applicable before 1 January 2019
i. Lease payments - lessee

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

ii. Lease assets - lessee

The leased asset is initially measured at an amount equal to the lower of its fair value and present value of the minimum lease payments. Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the statement of financial position.

iii Lease assets - lessor

If the Society is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the new investment in the lease is recognised and presented within loans and advances.

Policy applicable from 1 January 2019
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The policy is applied to contracts entered into (or changed) on or after 1 January 2019.

Group acting as a lessee
At commencement or on modification of a contract that contains a lease component, the Group allocates consideration

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(c) Leases (continued)

iii Lease assets - lessor (continued)

in the contract to each lease component on the basis of its relative stand alone price. However, for leases of branches and office premises, the Group has elected not to separate non - lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use of asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use of asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use of asset is periodically reduced by impairment losses, if any, adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following: -
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

The lease liability is measured at an amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the profit or loss if the carrying amount of the right-of-use of asset has been reduced to zero. The Group presents right-of-use assets in Property and Equipment and lease liabilities in Creditors and Accruals.

Group acting as a lessor
At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying assets. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the de-recognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investments in the lease.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(d) Tax exemption

Under the Income Tax Act 1959, the Society is exempt from Income Tax (Section 40A) whilst the subsidiary, TCF is subject to income tax.

(e) Financial instruments

i Recognition and initial measurement

The Group initially recognises loans and advances and deposits on the date on which they are originated. All other financial instruments including regular way purchases and sales of financial assets are recognised on the trade date which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair Value through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Financial assets
On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:
– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by any impairment losses. Interest income and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Classification and subsequent measurement

Debt investments at FVOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) De-recognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise the asset. This will occur when the rights are realised, expired or surrendered. A financial liability shall be derecognised when it is extinguished.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(v) Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received.

(vi) Fair value measurement

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Financial instruments
The Group recognises loss allowances for expected credit losses ('ECL') on financial assets measured at amortised cost and loan commitments issued. No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(vi) Fair value measurement (continued)

– debt securities that are determined to have low credit risk at the reporting date; and
– other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:
– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
– the financial asset is more than 90 days past due.

(vii) Identification and measurement of impairment

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Expected credit loss impairment model
The Group's allowance for credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either
(i) over the following twelve months or
(ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

The impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination.

Stage 1 - a 12 month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

Stage 2 - When a financial asset experiences a SICR subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Credit loss allowances are higher in this stage because of an increase in risk and impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 - Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. They are measured as follows:
The probability of default (PD), exposure at default (EAD) and loss given default (LGD) inputs used to estimate expected credit losses are modelled based on macroeconomic variables that are closely related with credit losses in the relevant portfolio. Details of key statistical parameters/inputs are as follows: -

Probability of Default (PD) - is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the remaining estimated life, if the facility has not been previously derecognised and is still in the portfolio.

Exposure at Default (EAD) - is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities and accrued interest from missed payments.

Loss Given Default (LGD) - is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Forward- looking information
The estimation of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information may require significant judgement.

Macroeconomic factors
The recovery of the Society's loan book is predominantly payroll deduction and recovery through savings offsets if loans go into arrears. For the purpose of the IFRS 9 model assumptions the following macro-economic activities that affect payroll deductions and therefore loan book recovery and quality are: -
- fiscal deficit and its ability to pay its employees
- investment in public sector especially education
- salary budgets which include salary adjustments
- government sector employment growth
- inflation
- personal income tax, and
- teachers annual auto-suspension exercise

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

Multiple forward - looking scenarios
The Group determines its allowance for credit losses using three probability-weighted forward-looking scenarios. The Group considers both internal and external sources of information and data in order to achieve unbiased projections and forecasts.

The weightings assigned to each economic scenario are as follows: -

	Probability of Default Weighing		
	Base Case	Base Case	Base Case
Society	70%	20%	10%
Subsidiary	70%	20%	5%

The 'base case' represents the most likely outcome. The upturn scenario represents more optimistic outcome while the downturn represents more pessimistic outcomes. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio or financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses.

Assessment of significant increase in credit risk
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The assessment considers borrower-specific quantitative and qualitative information and the impact of forward-looking macroeconomic factors.

Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(viii) Reversal of impairment and write-offs

The Group writes off a loan or an investment debt security either partially or in full and any related allowance for impairment losses, when the Group determines that there is no realistic prospect of recovery.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, cash at bank, and other short-term highly liquid investments with initial maturities of less than three months.

Cash and cash equivalents are carried at amortised cost in the Statements of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(g) Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable repayment terms that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances and initially recognised at fair value plus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

(h) Investment securities

Investment securities are accounted for in the following manner:

i. Fair value through profit or loss:
The Group designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

ii. At cost:
Unquoted equity securities whose fair value cannot be measured reliably are carried at cost.

iii. Other fair value changes, other than impairment losses are recognised in Other Comprehensive Income and presented in the fair value reserve within equity. When the investment is sold, the gain or loss accumulated in equity is reclassified to profit or loss.

(i) Property and equipment

i. Recognition and measurement
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses except land and buildings which are required to be revalued based on the Group's policy every three years. After recognition as an asset, an item of land and building, which fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluation changes shall be accounted for as follows: -

- if an asset's carrying amount increased, it shall be recognised in other comprehensive income and accumulated in equity under the heading of asset revaluation reserve, the increase shall be recognised in profit and loss to the extent that it requires a revaluation decrease of the same asset previously recognised in profit or loss.

- if an asset's carrying amount decreased as a result of a revaluation, the decrease shall be recognised in profit and loss, or the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the asset revaluation reserve in respect of that asset. The decrease is recognised in other comprehensive income reduces the amount of accumulated equity under the heading of asset revaluation reserve.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(i) Property and equipment (continued)

ii. Subsequent costs
Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation
Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

Classes of assets	Useful lives
Motor Vehicles	4-5 years
Office equipment	4-5 years
Furniture and fittings	5-10 years
Property (excluding land)	20-40 years
Computer software	3-5 years
Right of Use of Asset	2-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(j) Investment properties

Investment property is initially measured at cost and subsequently at fair value, with any change therein recognised in profit or loss within change in fair value of investment. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

(k) Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development the capitalised costs of internally developed software include all costs directly attributable to developing the software and are amortised over its useful life.

Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is 3-5 years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(l) Impairment of Non-Financial Assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

For impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from a continuing use that is largely independent of the cash inflows of other assets or CGUs.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Deposits

Deposits are initially measured at fair value minus incremental direct transaction costs and subsequently measured at their amortised cost using the effective interest method.

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(o) Employee benefits

i. Defined contribution plans
Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. This benefit is earned as part of salaries and wages.

ii. Other long-term employee benefits
The Group's net obligation in respect of long term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

iii. Termination benefits
Termination benefits are expensed as at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs from a restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

iv. Short term employee benefits
Short term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

7. Significant accounting policies (continued)

(p) Reserves

The Group maintains the following equity positions:

i. General reserve / statutory reserve represents a statutory minimum of twenty percent (20%) of each year's profit. If the reserve is greater than 10% of total liabilities then 20% of net earnings is not required to be transferred. This was a requirement of the now repealed Savings and Loan Societies Act (Amendment) 1995 which has now been replaced with the Savings and Loan Societies Act 2015 which does not have a similar requirement therefore in the current year, no transfer has been made.

ii. Asset revaluation reserve captures any appreciation in property and equipment accounted for under the revaluation model over the initial cost of acquiring the item.

8. Interest and similar income

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Interest income - loans	40,238,764	28,361,098	33,802,940	24,331,331
Interest income - IBDs and debt securities	5,957,780	4,125,076	6,884,213	4,567,020
Total interest income	**46,196,544**	**32,486,174**	**40,687,153**	**28,898,351**

8.1 Interest expense

Interest expense - members savings	(8,606,091)	(7,059,594)	(8,490,333)	(7,059,594)
Additional interest distribution made from additional interest reserves	(24,766,272)	(19,619,184)	(24,766,272)	(19,619,184)
Total interest credited and distributed to members	(33,372,363)	(26,678,778)	(33,256,605)	(26,678,778)
Interest expense on lease liability	(458,431)	-	(410,585)	-
Total interest expense	**(33,830,794)**	**(26,678,778)**	**(33,667,190)**	**(26,678,778)**

Interest expense on member savings is accrued and credited to member accounts at the end of each month. The total monthly interest charges credited to member accounts during the year amounted to Society: **K8,490,333 (2018: K7,059,594)** and Group: **K8,606,091 (2018: K7,059,594)** with additional interest of **K24,766,272 (2018: K19,619,184)** credited to members as a distribution from Additional Interest Reserve Account.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

8.2 Other income

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Net Loan processing and account administration fees	7,066,543	6,435,716	7,066,543	6,435,716
Tisa and LPI insurance commission, and other income	1,769,079	1,102,426	1,055,871	1,102,426
Total other income	**8,835,622**	**7,538,142**	**8,122,414**	**7,538,142**

9. Impairment of financial assets at amortised cost

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Impairment on loans to members at amortised cost	(3,295,231)	(828,841)	(3,531,939)	(1,126,907)
	(3,295,231)	**(828,841)**	**(3,531,939)**	**(1,126,907)**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

9.1 Operating expenses

Surplus for the year was arrived at after charging (crediting) the following items to the statement of profit or loss and other comprehensive income.

	Consolidated Group		Society	
	2019 K	**2018 K**	**2019 K**	**2018 K**
Auditor's remuneration - statutory audit services	334,007	387,382	334,007	387,382
Bank charges and interest	92,618	100,807	88,079	100,807
Depreciation	4,126,486	1,506,815	3,045,326	1,506,815
Electricity	1,610,444	1,736,787	1,559,398	1,736,787
Insurance	512,205	490,771	491,785	490,771
Property expense	(332,196)	415,486	318,135	248,630
Travel, airfare and accommodation	896,195	536,427	795,337	536,427
Security costs	459,005	416,767	458,125	416,767
Data processing expenses	1,412,638	1,482,028	1,412,638	1,482,028
Printing and stationery	577,460	265,503	524,144	265,503
Establishment cost	205,179	1,184,195	205,179	2,217,660
Fuel	210,249	172,597	194,185	172,597
Advertising & promotion, Credit Union Day	1,730,576	770,740	1,108,226	770,740
Donations	172,879	94,712	172,879	25,979
Entertainment	156,713	66,984	156,713	66,984
Telephone	293,238	342,525	293,210	342,525
Repair and maintenance	756,819	906,672	712,563	906,672
Rates & taxes	175,651	209,570	175,651	209,570
Motor vehicle expenses	190,909	146,655	183,506	146,655
Filing and legal cost	73,062	102,043	73,062	102,043
Freight	59,872	82,460	59,872	82,460
Consulting	387,505	844,293	351,507	844,293
Cleaning	336,234	326,429	329,288	326,429
Board fees and allowances	161,146	4,087	8,735	4,087
General and administrative expenses	4,811,467	7,199,967	3,604,480	3,948,743
Total operating expenses	**19,410,360**	**19,792,702**	**16,656,027**	**17,339,354**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

10. Property and equipment

	Consolidated Group							
	ROU-Asset	Land & Buildings	Furniture & Fittings	Office Equipment	Motor Vehicle	Computer Software	Other equipment	Total
	K	K	K	K	K	K	K	K
Cost or valuation								
Balance at 1 January 2019	5,497,564	9,100,000	3,341,513	3,142,916	3,219,601	4,069,275	603,688	28,974,557
Additions	4,630,296	200,473	4,675,666	2,301,911	1,468,033	3,662,903	1,211,722	18,151,004
Disposals	-	-	(3,017,547)	(237)	(1,198,460)	-	-	(4,216,244)
Balance at 31 December 2019	**10,127,860**	**9,300,473**	**4,999,632**	**5,444,590**	**3,489,174**	**7,732,178**	**1,815,410**	**42,909,317**
Accumulated depreciation and impairment losses								
Prior Year Adjustments								
Balance at 1 January 2019	-	-	831,194	1,451,418	2,649,188	2,497,235	306,902	7,735,937
Depreciation for the year	1,872,521	434,771	32,015	482,063	899,857	287,608	117,651	4,126,486
Disposals	-	-	(593,938)	-	(1,117,471)	-	-	(1,711,409)
Balance at 31 December 2019	**1,872,521**	**434,771**	**269,271**	**1,933,481**	**2,431,574**	**2,784,843**	**424,553**	**10,151,014**
Carrying amounts at 31 December 2019	**8,255,339**	**8,865,702**	**4,730,361**	**3,511,109**	**1,057,600**	**4,947,335**	**1,390,857**	**32,758,303**
Cost or valuation								
Balance at 1 January 2018	-	9,100,000	912,365	3,355,012	2,658,047	4,069,275	603,688	20,698,387
Additions	-	-	-	211,536	223,437	-	-	434,973
Acquisition through business combinations	-	-	2,485,643	-	587,052	-	-	3,072,695
Disposals	-	-	(56,494)	(423,632)	(248,935)	-	-	(729,061)
Balance at 31 December 2018	**-**	**9,100,000**	**3,341,514**	**3,142,916**	**3,219,601**	**4,069,275**	**603,688**	**23,476,994**
Accumulated depreciation and impairment losses								
Balance at 1 January 2018	-	-	322,404	1,425,465	1,815,735	2,272,961	264,868	6,101,433
Depreciation for the year	-	215,710	308,542	244,615	614,964	224,274	42,033	1,650,138
Acquisition through business combinations	-	-	256,742	-	452,066	-	-	708,808
Disposals	-	-	(56,494)	(434,372)	(233,577)	-	-	(724,443)
Balance at 31 December 2018	**-**	**215,710**	**831,194**	**1,235,708**	**2,649,188**	**2,497,235**	**306,901**	**7,735,936**
Carrying amounts at 31 December 2018	**-**	**8,884,290**	**2,510,320**	**1,907,208**	**570,413**	**1,572,040**	**296,787**	**15,741,058**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

10. Property and equipment (continued)

	Society							
	ROU-Asset	Land & Buildings	Furniture & Fittings	Office Equipment	Motor Vehicle	Computer Software	Other equipment	Total
	K	K	K	K	K	K	K	K
Cost or valuation								
Balance at 1 January 2019	4,579,507	9,100,000	2,753,115	3,298,715	3,336,045	4,069,275	614,852	27,751,509
Additions	4,630,296	200,473	3,312,775	1,782,599	804,664	3,662,902	1,190,219	15,583,928
Disposals	-	-	(2,485,406)	-	(1,103,583)	-	-	(3,588,989)
Balance at 31 December 2019	**9,209,803**	**9,300,473**	**3,580,484**	**5,081,314**	**3,037,126**	**7,732,177**	**1,805,071**	**39,746,448**
Accumulated depreciation and impairment losses								
Prior Year Adjustments								
Balance at 1 January 2019	-	-	699,714	1,443,347	2,830,881	2,499,154	305,677	7,778,773
Depreciation for the year	1,292,695	434,771	13,028	460,481	442,642	285,688	116,021	3,045,326
Disposals	-	-	(444,580)	-	(1,126,296)	-	-	(1,570,876)
Balance at 31 December 2019	**1,292,695**	**434,771**	**268,162**	**1,903,828**	**2,147,227**	**2,784,842**	**421,698**	**9,253,223**
Carrying amounts at 31 December 2019	**7,917,108**	**8,865,702**	**3,312,322**	**3,177,486**	**889,899**	**4,947,335**	**1,383,373**	**30,493,225**
Cost or valuation								
Balance at 1 January 2018	-	9,100,000	323,966	3,601,943	2,300,995	4,069,275	593,348	19,989,527
Additions	-	-	-	120,404	696,933	-	21,504	838,841
Acquisition through business combinations	-	-	2,485,643	-	587,052	-	-	3,072,695
Disposals	-	-	(56,494)	(423,632)	(248,935)	-	-	(729,061)
Balance at 31 December 2018	**-**	**9,100,000**	**2,753,115**	**3,298,715**	**3,336,045**	**4,069,275**	**614,852**	**23,172,002**
Accumulated depreciation and impairment losses								
Balance at 1 January 2018	-	-	245,299	1,424,710	1,876,093	2,274,880	264,678	6,085,660
Depreciation for the year	-	-	254,167	453,009	534,366	224,274	40,999	1,506,814
Acquisition through business combinations	-	-	256,742	-	452,066	-	-	708,809
Disposals	-	-	(56,494)	(434,372)	(31,644)	-	-	(522,510)
Balance at 31 December 2018	**-**	**-**	**699,714**	**1,443,347**	**2,830,881**	**2,499,154**	**305,677**	**7,778,773**
Carrying amounts at 31 December 2018	**-**	**9,100,000**	**2,053,401**	**1,855,368**	**505,164**	**1,570,121**	**309,175**	**15,393,228**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

10. Property and equipment (continued)

Land and buildings are 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 Valuers in December 2017 as the fair value assessment is undertaken in every three years.

During the year, **K2,582,856** of the total disposals of **K4,216,245** related to PolSav and a loss of **K2,188,110** was recognised from these.

10.1 Work in Progress

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Opening balance	22,184,930	8,005,570	21,964,135	8,005,570
Additions during the year	10,183,401	14,179,360	10,183,401	13,958,565
Reclassification during the year	(11,515,780)	-	(11,205,836)	-
Closing balance	20,852,551	22,184,930	20,941,700	21,964,135

Capital work in progress ('WIP') relates to major refurbishment and construction work on the Group's land and building assets and investment properties. The current work in progress predominantly relates to construction and improvements to the Branch Network, New Westpac Waigani fit outs, TISA Haus, Waigani Refurbishments and Vacant Land Developments around Waigani.

11. Other financial assets

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Quoted shares (note 11a)	259,060,172	223,624,400	259,060,171	223,624,400
Unquoted shares (note 11b)	9,825,176	10,308,076	9,825,176	10,308,076
Government debt securities (note 11d)	97,220,344	58,951,793	84,681,782	58,951,793
Total other financial assets	**366,105,692**	**292,884,269**	**353,567,130**	**292,884,269**

* See note 31 for details of restatement

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

11a. Quoted share

Quoted shares are financial assets classified as Fair Value through Profit and Loss with any changes in the fair value of the assets recorded in the statement of profit or loss and other comprehensive income.

	Society	
	2019 K	2018 K
Quoted shares:		
Bank South Pacific Limited		
Balance at the beginning of the year	157,156,175	145,514,977
Fair value gain from change in net market value	23,282,397	11,641,198
Valuation (2019: 15,317,366 shares @ K11.78 per share)	**180,438,572**	**157,156,175**
(2018: 15,317,366 shares @ K10.26 per share)		
Credit Corporation (PNG) Limited		
Balance at the beginning of the year	65,628,225	80,212,275
Fair value gain/(loss) from change in net market value	12,153,375	(14,584,050)
At Valuation (2019: 48,613,500 shares @ K1.60 per share)	**77,781,600**	**65,628,225**
(2018: 48,613,500 shares @ K1.35 per share)		
PNG Air Limited		
Balance at the beginning of the year	840,000	840,000
Fair value gain/(loss) from change in net market value	-	-
At Valuation (2019: 7,000,000 shares @ K0.12 per share)	**840,000**	**840,000**
(2018: 7,000,000 shares @ K0.12 per share)		
Total financial assets at fair value through profit or loss	**259,060,172**	**223,624,400**

11b. Unquoted shares

At 31 December 2019, the Society's interest holding in Capital Insurance Group ("CIG") stands at 29% (2018: 29%). The entity is a provider of life and general insurance products. The entity is headquartered in Port Moresby however has operations across the Pacific. For consolidation purposes the investment is classified as an associate and the equity method has been applied in the consolidated financial statements.

As at 31 December 2019, the Society's interest holding in Credit & Data Bureau Limited (CDB) is 6.66%, the shares are classified as unquoted equity investments held at cost.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

11b. Unquoted shares (continued)

	Consolidated Group		Society	
	2019 K	2018 Restated* K	2019 K	2018 Restated* K
Unquoted shares:				
Credit & Data Bureau Limited	33,300	-	33,300	-
Capital Insurance Group (associate)	9,791,876	10,308,076	9,791,876	10,308,076
	9,825,176	**10,308,076**	**9,825,176**	**10,308,076**

The table below is a reconciliation of the equity accounting for CIG at a consolidated level.

	Consolidated	
	2019 K	2018 Restated* K
Reconciliation of investment in associate at consolidated level		
Balance at beginning of year	10,308,076	22,703,208
Share of net loss	(516,200)	(12,395,132)
Total investment in associate	**9,791,876**	**10,308,076**

*See note 31 for details of restatement

11c. Investment in Subsidiary

The Society holds controlling stake in a company involved in the financial sector as follows:

	2019 % Holding	2018 % Holding	Nature of Business	Status
TISA Community Finance Ltd	100%	100%	Financial	Active

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

11c. Investment in Subsidiary (continued)

	Society	
	2019 K	**2018 K**
Unquoted shares:		
TCF (subsidiary)	**8,000,000**	**8,000,000**

TCF commenced operations in the fourth quarter of the 2016 financial year. On a standalone basis, the Society's investment in TCF is accounted for at cost.

The summarised financial information of TCF based on amounts before inter-company eliminations that arise during group consolidation is provided below:

	2019 K	**2018 K**
Interest and similar income	6,544,386	4,046,647
Interest expense	(1,150,753)	(441,944)
Net interest income	**5,393,632**	**3,604,703**
Other Income	679,980	-
Operating expenses	(4,352,814)	3,269,555
Profit/(loss) before tax	**1,720,799**	**335,148**
Property and Equipment	2,265,079	549,763
Work in Progress	(89,147)	-
Cash and Cash Equivalents	6,573,456	15,121,637
Government Debt Securities	12,538,570	-
Receivables	111,483	-
Net loans to customers	23,890,789	7,656,443
Loans to customers	24,750,509	9,459,702
Impairment loss allowances on loans to customers	(859,720)	(1,803,259)
Income tax benefit	-	401,193
Deposits from customers	(33,226,600)	(14,866,922)
Payables and accruals	(5,516,836)	(2,107,360)
Net Assets	**6,546,795**	**6,754,755**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

11d. Government debt security

Investments in Government securities are classified as loans and receivables and are accounted for at amortized cost method using the effective interest method.

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Government debt securities				
Treasury bill – cost at acquisition	76,393,192	38,349,926	63,854,630	38,349,926
Inscribed stock – face value on maturity	21,750,000	21,750,000	21,750,000	21,750,000
Net discount on Inscribed Stock	(922,848)	(1,148,133)	(922,848)	(1,148,133)
Total government debt securities	**97,220,344**	**58,951,793**	**84,681,782**	**58,951,793**

Investments in Government Inscribed Stock bear interest varying between 9.5% - 12% per annum. (2018: 5-12% per annum). Also included in Government debt securities investments are treasury bills that have maturity of no more than 90 days from the balance date and provide a return ranging from 2.50% to 6.96% per annum.

Interest receivables have been recorded in note 16.

12. Changes in fair value of financial assets

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Changes in fair value of shares				
Bank South Pacific Limited	23,282,396	11,641,198	23,282,396	11,641,198
Credit Corporation (PNG) Limited	12,153,375	(14,584,050)	12,153,375	(14,584,050)
PNG Air Limited	-	-	-	-
Total changes in fair value of shares	**35,435,771**	**(2,942,852)**	**35,435,771**	**(2,942,852)**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

13. Investment properties

Properties	Fair Value 31-Dec-18 K	Additions/ Transfers K	Gain/ (loss) K	Fair Value 31-Dec-19 K
Tisa Haus, Waigani	50,000,000	-	-	50,000,000
Tisa Haus, Lae	7,000,000	-	-	7,000,000
Tisa Haus, Madang	4,500,000	-	-	4,500,000
Kouaka Place, Gordons	6,500,000	-	-	6,500,000
Land adjacent to NDB, Waigani	18,000,000	-	-	18,000,000
Land adjacent to TISA, Waigani	12,800,000	-	-	12,800,000
Alotau Lot 5, Section 10, Alotau	10,000,000	-	-	10,000,000
Office (Lae)	3,430,000	-	-	3,430,000
4 Unit Flat (Lae)	1,960,000	-	-	1,960,000
Residential (POM)	863,000	-	-	863,000
Total	**115,053,000**	**-**	**-**	**115,053,000**

The fair value of investment property was based on a valuation carried out by independent property valuer, Yagur Property Valuers in February 2018. Yagur Property Valuers are members of the Papua New Guinea Institute of Valuers and Land Administrators, and they have appropriate qualifications and vast experience in the valuations of properties in Papua New Guinea. The valuation methodologies used to value the assets were the capitalization method and comparable sales method. The directors do not consider there to be material change in the fair value since the previous valuation.

The fair value of investment property is reviewed every three years.

14. Loans to Members

The interest rates charged by the Society on loans to members was 12% per annum irrespective of the loan type. These loans are repayable over various periods, as pre-approved by the Board, but not exceeding 5 years. Interest receivable on loans is capitalized in to the loan balance.

TCF commenced lending during the fourth quarter of the 2016 financial year. Interest rates charged to customers vary from 15% to 25% per annum depending on the loan type. These loans are repayable over various periods. Interest receivable on loans is capitalized to the loan balance.

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Member loans and provisioning				
Loans receivable to members	256,349,467	225,362,392	231,598,958	217,400,246
ECL Allowance for impairment losses	(5,047,632)	(14,297,117)	(4,187,913)	(12,829,106)
Net member loans	**251,301,835**	**211,065,275**	**227,411,045**	**204,571,140**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

14. Loans to Members (continued)

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Allowance for impairment losses				
Opening balance	14,297,117	5,183,794	12,829,106	2,917,502
Increase/(Decrease) in provisions	(1,522,794)	8,402,538	(1,252,012)	9,911,604
Bad debts written off	(7,726,691)	710,786	(7,389,181)	-
Closing balance	**5,047,632**	**14,297,118**	**4,187,913**	**12,829,106**

15. Cash and cash equivalents and interest bearing deposits (IBD)

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Cash and cash equivalents				
Cash on hand and at bank	24,588,161	49,731,723	18,014,697	34,610,086
IBDs with maturities of less than 3 months	12,000,000	-	12,000,000	-
Total cash and cash equivalents	**36,588,161**	**49,731,723**	**30,014,697**	**34,610,086**
IBDs with maturities of more than 3 months	**4,209,011**	**25,305,325**	**27,737,011**	**40,245,325**

IBDs earn an interest ranging from 1.39% to 6.25% per annum. Investments in short term government treasury bills have been disclosed in Note 11d.

As at 31 December 2019, the Society has a total of **K16,209,010** of IBD placement in Kina Bank.

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

16. Rental and other receivables

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Rental and other receivables				
Rental debtors	8,245,118	541,390	8,245,118	2,463,392
Less: Allowance for rental debtors	(426,930)	(333,647)	(426,930)	(333,647)
Net rental debtors	**7,818,188**	**207,743**	**7,818,188**	**2,129,745**

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Other debtors	(2,972,892)	4,088,929	1,986,738	4,048,337
Less: Allowance for other debtors	(34,589)	(34,589)	(34,589)	(34,589)
Net other debtors	**(3,007,481)**	**4,054,340**	**1,952,150**	**4,013,748**
Prepayments	341,159	232,199	272,038	211,699
Interest receivable	2,160,465	922,998	2,160,465	922,998
Subtotal prepayments, interest and member receivables	**2,501,624**	**1,155,197**	**2,432,503**	**1,134,697**
Total rental and other receivables	**7,312,331**	**5,417,280**	**12,202,840**	**7,278,191**

17. Employees provisions

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Employee provisions				
Annual leave	1,102,370	1,256,161	1,047,641	1,217,278
Long service leave	2,166,374	2,038,493	2,127,330	2,038,493
Total employee provisions	**3,268,744**	**3,294,654**	**3,174,971**	**3,255,771**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

18. Savings and deposits

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Member savings				
Members' savings pre-additional interest	385,180,528	351,517,796	375,481,928	351,517,796
Additional interest distributed	24,766,272	19,619,184	24,766,272	19,619,184
Total members' savings	**409,946,800**	**371,136,980**	**400,248,200**	**371,136,980**

19. Creditors and accruals

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Creditors and accruals				
Medical claims	14,461	14,461	14,461	14,461
Rental bonds	125,114	115,855	125,114	115,855
Goods and services tax	58,102	290,819	84,600	307,009
Group tax	(105,884)	(90,478)	19,514	18,788
Accrued expenses	2,230,353	2,404,101	1,953,470	1,632,347
Sundry creditors	477,276	363,672	679,311	1,173,260
Lease liability	7,914,183	-	8,151,494	-
Rent received in advance	36,959	18,959	36,959	18,959
Unearned revenue	168,875	168,875	168,875	168,875
Total creditors and accruals	**10,919,438**	**3,286,265**	**11,233,797**	**3,449,553**

20. Member's Capital

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

21. Asset revaluation reserve

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Asset revaluation reserve reconciliation				
Opening balance at 1 January	5,603,567	5,603,567	5,603,567	5,603,567
Transfers out to retained earnings	-	-	-	-
Change in fair value of land and buildings	-	-	-	-
Reserve balance at 31 December	**5,603,567**	**5,603,567**	**5,603,567**	**5,603,567**

22. General reserve

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
General reserve reconciliation				
Opening balance at 1 January	33,534,306	29,356,884	33,534,306	29,356,884
Transfers in from retained earnings	-	4,177,422	-	4,177,422
Transfer out to additional interest reserve	.	-	-	-
Reserve balance at 31 December	**33,534,306**	**33,534,306**	**33,534,306**	**33,534,306**

There was a requirement under the now repealled Savings and Loan Societies Act 1995 to transfer up to 20% of the earned profit in the financial year to the general reserve fund. The new act does not have a similar requirement, therefore no transfer in the current year.

23. Business Combination Reserve

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Business combination reconciliation				
Opening balance at 1 January	(16,849,175)	(16,849,175)	(16,849,175)	(16,849,175)
Reserve balance at 31 December	**(16,849,175)**	**(16,849,175)**	**(16,849,175)**	**(16,849,175)**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

23. Business Combination Reserve (continued)

IFRS 3, B47 states that the acquirer in a combination of mutual entities shall recognise the acquiree's net assets as a direct addition to capital or equity in its statement of financial position.

24. Additional interest reserve

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Additional interest reserve reconciliation				
Opening balance at 1 January	38,099,597	41,009,102	38,099,597	41,009,102
Transfers in from Retained Earnings	36,546,339	16,709,679	36,546,339	16,709,679
Transfer out to Members' Savings	(24,766,272)	(19,619,184)	(24,766,272)	(19,619,184)
Reserve balance at 31 December	**49,879,664**	**38,099,597**	**49,879,664**	**38,099,597**

Notwithstanding the changes in the Savings and Loan Societies Act, the Society's Board of Directors has resolved to declare and pay bonus interest at 7% of members general savings. This amounts to **K24,766,272** and has been directly taken out of the Additional Interest Reserve. The Board has also resolved to transfer 50% of the current year earned profit **(K36,546,339)** to replenish the reserve. With the planned changes in the Society's structure and legal status as referred to in Note 32, this reserve will be converted into a dividend reserve fund and the determination of dividend will be based on requirements of the Companies Act 1997.

The additional interest is considered a distribution to members of the fund. The amount of the distribution is contingent and dependent on the profits earned by the Society. Hence, it is recorded through equity.

This differs from the monthly interest income paid to contributing members which is deemed a cost of attracting deposit capital and maintaining it in the Society. Hence, it is recorded as an expense in the statement of profit and loss and other comprehensive income.

25. 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.

Financial risk factors

Risk management is carried out by executive management under policies approved by the individual Group entities' Board of Directors. TISA caters for the funding of its members and invests to cater for this. The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25.1 Credit risk

Credit risk is the potential risk of loss arising from failure of a debtor or counterparty to meet their contractual obligations. The Group is subject to credit risk through its lending and investing and provision of goods and services on credit terms. The Group's primary exposure to credit risk arises through the provision of lending facilities. The amount of credit exposure in this regard is represented by the carrying amounts of the loans and advances on the statement of financial position. In addition, the Group is exposed to off balance sheet credit risk through commitments to extend credit.

Deposits are only made with banks known to have sound financial standing. Loans and advances are made after appropriate credit and security checks and they are monitored and reviewed.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated Group		Society	
	2019 K	2018 Restated* K	2019 K	2018 Restated* K
Assets bearing credit risk				
Cash and cash equivalents	36,588,161	49,731,723	30,014,697	34,610,086
Interest bearing deposits	4,209,011	25,305,325	27,737,011	40,245,325
Rental and other receivables	7,312,331	5,417,280	12,202,840	7,278,191
Net Loans to members	251,301,835	211,065,275	227,411,045	204,571,140
Quoted shares	259,060,172	223,624,400	259,060,172	223,624,400
Unquoted shares	9,825,176	10,308,076	9,825,176	10,308,076
Government debt securities	97,220,334	58,951,793	84,681,782	59,951,793
Total assets	**665,517,020**	**584,403,872**	**650,932,723**	**580,589,011**

Loans to members:
The Society's policy requires all loans to be either fully or partially secured by members' savings. In cases where loans are partially secured, additional security may be deemed necessary in accordance with the Rules of the Society.

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Member loans				
Loans backed by deposits	218,104,007	177,513,764	218,139,562	177,492,671
Loans without deposit backing	38,245,460	47,848,628	13,459,396	39,907,575
Total assets	**256,349,467**	**225,362,392**	**231,598,958**	**217,400,246**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.1 Credit risk (continued)

The followng table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Stage 1-12 month ECL	218,627,382	190,194,515	196,153,510	186,345,016
Stage 2 - Life time ECL	29,179,242	26,531,150	28,053,133	23,737,514
Stage 3 - Life time ECL	8,542,843	8,636,727	7,392,315	7,317,716
Gross carrying amount	256,349,467	225,362,392	231,598,958	217,400,246
Allowance for credit loss	(5,047,632)	(14,297,117)	(4,187,913)	(12,829,106)
Net carrying amount	251,301,835	211,065,275	227,411,045	204,571,140

The followng table shows reconciliations from opening to the closing balances of the allowance for credit loss. The basis for determining transfers due to changes in credit risk is set out in the accounting policy, see Note 7, (e), (vi)

	Consolidated Group			
	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Balance as at 1 January 2019	1,763,470	1,259,739	11,256,308	14,279,517
Transfer to Stage 1	(402,014)	201,150	200,864	-
Transfer to Stage 2	97,870	(362,535)	264,665	-
Transfer to Stage 3	10,067	26,366	(36,433)	-
Net remeasurements	(912,581)	(418,541)	(1,181,334)	(2,512,456)
New financial assets purchased or originated	1,007,262	-	-	1,007,262
Write-offs	-	-	(7,726,691)	(7,726,691)
Balance as at 31 December 2019	**1,564,074**	**706,179**	**2,777,379**	**5,047,632**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.1 Credit risk (continued)

	Society			
	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Balance as at 1 January 2019	1,384,511	740,361	10,704,235	12,829,107
Transfer to Stage 1	(356,556)	195,519	161,037	-
Transfer to Stage 2	82,097	(252,191)	170,094	-
Transfer to Stage 3	8,448	10,463	(18,911)	-
Net remeasurements	(1,403,835)	(80,098)	(1,268,969)	(2,752,902)
New financial assets purchased or originated	1,500,889	-	-	1,500,889
Write offs	-	-	(7,389,181)	(7,389,181)
Balance as at 31 December 2019	**1,215,554**	**614,054**	**2,358,305**	**4,187,913**

25.2 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace member funds when they are withdrawn. The consequence may be the failure to meet obligations to repay members and fulfill commitments to lend.

The Group is restricted by the exchange controls of BPNG in terms of offshore investments (BPNG has imposed limits on amounts that can be invested offshore). As PNG's capital market is not mature, the majority of the Group's local investments do not have any significant sizable trading activities. These investments include PNG Government and quasi government securities which are held to maturity and there is very little opportunity for the Group to dispose or trade these investments.

The Society maintains a mix of investments on call and with a spread of maturity terms from 2 months to 6 months. This ensures the Society maintains liquid capability and limits its exposure to interest rate risks due to market fluctuations.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.2 Liquidity risk (continued)

The table below summaries the maturity profile of the Group's financial assets and liabilities as at 31 December 2019 based on contractual repayment obligations.

	Consolidated Group						
	Total	At Call	0-3 mnths	3 mnths-1 Yr	1-5 Yrs	More than 5 Yrs	Weighted Average Rate p.a
	K	K	K	K	K	K	K
2019							
Assets							
Cash and cash equivalents	36,588,161	24,588,161	12,000,000	-	-	-	2%
Interest bearing deposits	4,209,011	-	-	4,209,011	-	-	5%
Rental and other receivables	7,312,331	-	7,312,331		-	-	nil
Net Loans to members	251,301,835	-	2,922,643	7,230,674	236,111,358	5,037,160	26%
Quoted shares	259,060,171	-	-	-	-	259,060,171	nil
Unquoted shares	9,825,176	-	-	-	-	9,825,176	nil
Government debt securities	97,220,344	-	-	76,393,192	20,827,152	-	11%
Total undiscounted cash inflows	**665,517,029**	**24,588,161**	**22,234,974**	**87,832,877**	**256,938,510**	**273,922,507**	
Liabilities							
Members' Savings*	(409,946,800)	(409,946,800)	-	-	-	-	2.0%
Creditors and accruals	(10,916,438)	-	(10,916,438)	-	-	-	nil
Employee provisions	(4,362,626)	-	-	(4,362,626)	-	-	nil
Total undiscounted cash outflows	**(425,225,864)**	**(409,946,800)**	**(10,916,438)**	**(4,362,626)**	**-**	**-**	
2018							
Restated*							
Assets							
Cash and cash equivalents	49,731,723	49,731,723	-	-	-	-	2%
Interest bearing deposits	25,305,325	-	-	25,305,325	-	-	3%
Rental and other receivables	5,417,280	-	5,417,280	-	-	-	nil
Net Loans to members	211,065,275	-	1,085,604	9,060,144	200,919,527	-	12%
Quoted shares	223,624,400	-	-	-	-	223,624,400	nil
Unquoted shares	10,308,076	-	-	-	-	10,308,076	nil
Government debt securities	58,951,793	-	32,951,793	10,000,000	16,000,000	-	10%
Total undiscounted cash inflows	**584,403,872**	**49,731,723**	**40,602,810**	**44,365,469**	**216,919,527**	**240,693,169**	
Liabilities							
Members' Savings	(371,136,980)	(371,136,980)	-	-	-	-	1.5%
Creditors and accruals	(4,434,398)	-	(4,434,398)	-	-	-	nil
Employee provisions	(3,294,654)	-	-	(1,256,161)	-	(2,038,493)	nil
Total undiscounted cash outflows	**(378,866,032)**	**(371,136,980)**	**(4,434,398)**	**(1,256,161)**		**(2,038,493)**	
Net exposure 2019	**240,291,165**	**(385,358,639)**	**11,318,536**	**83,470,251**	**256,938,510**	**273,922,507**	
Net exposure 2018	**205,537,840**	**(321,405,257)**	**36,168,412**	**43,109,308**	**216,919,527**	**238,654,676**	

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.2 Liquidity risk (continued)

	Society						
	Total	At Call	0-3 mnths	3 mnths-1 Yr	1-5 Yrs	More than 5 Yrs	Weighted Average Rate p.a
	K	K	K	K	K	K	K
2019							
Assets							
Cash and cash equivalents	30,014,697	18,014,697	12,000,000	-	-	-	2%
Interest bearing deposits	27,737,011	-	-	27,737,011	-	-	5%
Rental and other receivables	12,202,840	-	12,202,840	-	-	-	nil
Net Loans to members	227,411,045	-	2,917,401	7,180,358	212,241,172	5,072,115	17%
Quoted shares	259,060,171	-	-	-	-	259,060,171	nil
Unquoted shares	9,825,176	-	-	-	-	9,825,176	nil
Government debt securities	84,681,782	-	-	63,854,630	20,827,152	-	10%
Total undiscounted cash inflows	**650,932,722**	**18,014,697**	**27,120,241**	**98,771,998**	**233,068,324**	**273,957,462**	
Liabilities							
Members' Savings*	(400,248,200)	(400,248,200)	-	-	-	-	2%
Creditors and accruals	(11,233,797)	-	(11,233,797)	-	-	-	nil
Employee provisions	(3,405,159)	-	-	(3,174,971)	-	-	nil
Total undiscounted cash outflows	**(414,887,156)**	**(400,248,200)**	**(11,233,797)**	**(3,174,971)**	**-**	**-**	
2018							
Assets							
Cash and cash equivalents	34,610,086	34,610,086	-	-	-	-	2%
Interest bearing deposits	40,245,325	-	-	40,245,325	-	-	3%
Rental and other receivables	7,278,191	-	7,278,191	-	-	-	nil
Net Loans to members	204,571,140	-	83,443	11,933,690	192,554,007	-	12%
Quoted shares	223,624,400	-	-	-	-	223,624,400	nil
Unquoted shares	10,308,076	-	-	-	-	17,068,769	nil
Government debt securities	58,951,793	-	32,951,793	10,000,000	16,000,000	-	10%
Total undiscounted cash inflows	**579,589,011**	**34,610,086**	**40,313,427**	**62,179,015**	**208,554,007**	**240,693,169**	
Liabilities							
Members' Savings	(371,063,902)	(371,063,902)	-	-	-	-	1.5%
Creditors and accruals	(4,597,687)	-	(4,597,687)	-	-	-	nil
Employee provisions	(3,255,771)	-	-	-	-	(3,255,771)	nil
Total undiscounted cash outflows	**(378,917,360)**	**(371,063,902)**	(4,597,687)	-	-	(3,255,771)	
Net exposure 2019	**236,045,565**	**(382,233,503)**	**15,886,444**	**95,597,027**	**233,068,324**	**273,957,462**	
Net exposure 2018	**200,671,651**	**(336,453,816)**	**35,715,740**	**62,179,015**	**208,554,007**	**237,437,398**	

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.2 Liquidity risk (continued)

Deposits and other borrowings comprise of member savings. Member Savings are secured fully or partially against Loans to members (where members have taken out loans).

While member savings are at call, members are only allowed to withdraw 50% of their net savings (being any excess of member savings over loans taken out with the Society). Furthermore, there is a waiting period upon withdrawal as applications are reviewed to ensure compliance with withdrawal policies. The Society has not had a history of significant member withdrawals.

25.3 Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

At reporting date, the interest rate profile of the Society's interest-bearing financial instruments was:

Fixed rate instruments (financial assets)

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Treasury bills	76,393,192	37,201,793	63,854,630	37,201,793
Government inscribed stock	21,750,000	21,750,000	21,750,000	21,750,000
Loans to members	251,301,835	211,065,275	227,411,045	204,571,140
Total interest-bearing assets	**349,445,027**	**270,017,068**	**313,015,675**	**263,522,933**

The above instruments are all held to maturity and are revalued on an amortized cost basis and consequently there is no interest rate risk associated with these instruments.

Fixed rate instruments (financial liabilities)

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
Member savings	409,946,800	371,136,980	400,248,200	371,136,980
Total interest-bearing liabilities	**409,946,800**	**371,136,980**	**400,248,200**	**371,136,980**

Member Savings earn fixed interest at 2% to 6% per annum depending on the savings type. Directors evaluate the financial performance of the Society at the end of the year and declare bonus (additional) interest to members. Consequently, the interest paid to members are not directly affected by the movement of general market interest rates.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.4 Other market price risk

Other market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than the interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

As the Society's financial instruments are carried at fair value with changes recognized in the statement of comprehensive income, changes in market conditions affecting fair value will be recognized.

(a) Sensitivity analysis

With all other variables held constant, the Society's exposure to share price risk is measured by sensitivity analysis. The following table demonstrates the effect on profit of a 5% change in fair value on financial instruments measured at fair value:

(i) Financial instrument

	Consolidated Group		Society	
	2019 K	2018 K	2019 K	2018 K
+ 5% change in fair value	12,953,009	11,181,220	12,953,009	11,181,220
- 5% change in fair value	(12,953,009)	(11,181,220)	(12,953,009)	(11,181,220)

The following table demonstrates the effect on profit of a change in capitalisation rates, rentals and sales price of the Society's Investment properties:

(ii) Investment

	Effect on Profit or Loss Increase/(Decrease)	
	2019 K	2018 K
Increase of 1% in capitalisation rates	(4,545,455)	(3,636,364)
10% increase in rentals	503,723	540,976
10% increase in sales prices and/or replacement costs	6,505,300	1,930,000

A decrease in any of the above unobservable inputs would have the opposite but similar effect to profit or loss

25.5 Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:
- Cash, deposits, investments and loans to members - the carrying amount of these is equivalent to their fair value;
- For investments refer note 7;
- Member deposits are recognized at inception at fair value and subsequently at amortized cost.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.5 Fair value of financial instruments (continued)

The Society uses the following hierarchy for determining and disclosing the fair value of financial instruments and investment assets by valuation techniques:

- Level 1: derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs)

The table below demonstrates the Group's fair value hierarchy for financial instruments and investment assets measured at fair value:

	Consolidated Group					
		2019			2018	
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Quoted shares (Note 11.a)	259,060,171	-	-	223,624,400	-	-
Unquoted shares (Note 11.b)	-	9,825,176	-	-	17,068,769	-
Investment properties (Note 13)	-	-	115,053,000	-	-	115,053,000
Totals	**259,060,171**	**9,825,176**	**115,053,000**	**223,624,400**	**17,068,769**	**115,053,000**

	Society					
		2019			2018	
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Quoted shares	259,060,171	-	-	223,624,400	-	-
Unquoted shares	-	9,825,176	-	-	30,703,208	-
Investment properties	-	-	115,053,000	-	-	108,800,000
Totals	**259,060,171**	**9,825,176**	**115,053,000**	**223,624,400**	**30,703,208**	**108,800,000**

There has been no observed movements in the fair value hierarchy within the group of assets. The sensitivity analysis for Investment Properties is disclosed on Note 25.4 Other Market Price Risk (a) (ii)

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

25. Financial instruments and risk management (continued)

25.6 Capital risk management

The capital of the Society is represented by the net assets available to pay benefits to its members. The amount of net assets available to pay benefits to its members can change significantly as the Society receives contributions and pays benefits to members on a daily basis. The Society's objective when managing capital is to safeguard the Society's ability to continue as a going concern in order to provide returns and benefits to its members and to maintain a strong capital base to support the development of the investment activities of the Society.

In order to maintain or adjust the capital structure, the Society's policy is to monitor the level of monthly contributions income and benefits payable relative to the assets it expects to be able to liquidate and adjust the amount for investments and interest credited to the members account at the end of each reporting period. The Board members and executive management monitor capital on the basis of the value of net assets available to pay benefits.

26. Employees

The number of people employed by the Society as at 31 December 2019 is 321 (2018: 255).
The number of people employed by the Group as at 31 December 2019 is 351 (2018: 267).

27. 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 12%. Employer contribution during the year amounted to **K1,998,822 (2018: K1,108,617).**

28. 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 2019 is **K2,288,940 (2018: K1,045,039).** 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. As disclosed in Note 11c, TISA owns 100% of the share capital in subsidiary TCF. Intercompany transactions, including a loan deposit of **K23,528,000 (2018: K14,960,000)** made from TISA to TCF, have been eliminated on consolidation.

Total savings by directors and staff amounted to **K1,369,933 (2018 K1,262,597).**

28.1 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 receive, exceeded K100,000, falls within each relevant K50,000 band of income as follows:

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

28. Related parties (continued)

28.1 Key management personnel remuneration (continued)

	Group		Society	
	2019 No.	2018 No.	2019 No.	2018 No.
K100,000 – K149,999	-	1	-	-
K150,000 – K199,999	1	-	-	-
K200,000 – K249,999	1	1	1	1
K250,000 – K299,999	3	3	3	3
K300,000 – K349,999	-	-	-	-
K350,000 – K399,999	2	-	1	2
K400,000 – K449,999	2	2	2	-
K450,000 – K499,999	-	1	-	-
K500,000 – K549,999	1	-	1	-
K550,000 – Above	2	1	1	1
	12	9	9	7

The specified executives of the Society during the year were:

- Mr Michael Koisen – Group Chief Executive Officer
- Mr Luke Kaul – Chief Operating Officer
- Mr Igimu Momo – Chief Strategic Officer
- Mr John Topal - Chief Risk Officer
- Mr Michael Malara – Chief Finance Officer
- Mr Edward Toliman - Head of Information Technology
- Mr Philip Hehonah – Head of Legal and Company Secretary
- Mr Telavika Faite – Head of Human Resource
- Mr Vilikesa Nawaqaliva - Head of E-Channels, resigned 6 February 2020

The specified Directors of TISA during the year were:

- Mr. Gabriel Tai (Chairman)
- Mr. Sam Nalong (Vice Chairman)
- Mr. Francis Samoak
- Mr. William Varmari
- Dr. Peter Mason
- Mr. Stirling Tavener

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

28. Related parties (continued)

28.1 Key management personnel remuneration (continued)

The specified executives of TCF during the year were:

- Ashokkumar Valechha – Chief Executive Officer
- Karai Morea - Head of Commercial Lending
- Francis Pahun – Head of Recovery & Retail Lending

The specified Directors of TCF during the year were:

- Mr. Moses Koiri (Chairman)
- Mr. Michael Koisen (Vice Chairman)
- Ms. Karo Lelai
- Mr. Materua Kapi
- Dr. Peter Mason
- Mr. Simon Woolcott

Specified executives and directors' remuneration in aggregate:

	Primary			Post-employment			Equity	Other	
	Salary & Fees	Bonus	Non-Monetary	Super Annuation	Prescribed Benefits	Other	Options	Benefits	Total
	K	K	K	K	K	K	K	K	K
	Specified Executive								
2019	4,585,883	-	-	454,815	1,066,800	-	-	-	6,107,498
2018	2,577,926	-	-	308,056	162,286	-	-	-	3,048,268
	Specified Executive								
2019	130,830	-	-	-	-	-	-	26,050	156,880
2018	17,500	-	-	-	-	-	-	-	17,500

28.2 Transactions with directors

Other than remuneration, the directors of the Society had an aggregate savings balance of **K63,057 (2018: K73,938),** and aggregate loan balance of **K56,514 (2018: K57,909).** The directors are subject to the normal lending policy requirements of the Society.

29. 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. The estimated contingent liability is not deemed material for the purposes of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

30. Segment information

The Society operates as one segment and in one geographical location being PNG.

On 31 December 2019, the Group declared an additional bonus interest distribution to members with S1 general savings accounts of **K24,766,272.** The distribution was deemed material to the financial statements and hence has been adjusted for in the figures in the financial statements and associated disclosures included.

31 Restatement

In 2019, the management of the Society's associate, Capital Insurance Group ("CIG") discovered a prior period error relating to recording the incorrect total claims liability from the 2018 CIG actuarial valuation and effected a change in accounting policy which have both resulted in the 2018 audited financial statements being restated. Given the Society has significant influence over the associate and consequently equity accounts for its share in profit, the error and change in accounting policy have resulted in the Society's Investment in associate balance previously reported at 31 December 2018 being materially misstated. These have been treated as a prior period error and corrected by restating the comparative information in the year ended 31 December 2018. The opening balances for the year ended 31 December 2018 were not restated as the error only affected the balance at end of the period and the change in accounting policy was deemed immaterial and corrected in the same period.

The following tables summaries the impact of the prior period error on the financial statements of the Group for the year ended 31 December 2018.

	Consolidated Group		
	As Reported	Adjustments for associate restatements	Restated*
Statement of Financial Position - Extract	K	K	K
Assets			
Other financial assets	299,644,962	(6,760,693)	292,884,269
Total assets	**744,544,746**	(6,760,693)	**737,784,053**
Net assets	**366,826,847**	(6,760,693)	**360,066,154**
Equity			
Retained earnings	306,438,552	(6,760,693)	299,677,859
Total equity	**366,826,846**	(6,760,692)	**360,066,154**
Statement of Comprehensive Income - Extract			
Expenses			
Share of loss of equity acounted investee	5,634,440	6,760,693	12,395,133
Total expenses	**43,116,486**	6,760,693	**49,877,179**
Profit for the year	**21,843,911**	(6,760,693)	**15,083,218**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

31 Restatement (continued)

	Society		
	As Reported	Adjustments for associate restatements	Restated*
Statement of Financial Position - Extract	K	K	K
Assets			
Other financial assets	299,644,962	(6,760,693)	292,884,269
Total assets	**746,760,067**	(6,760,693)	**739,999,374**
Net assets	**368,917,762**	(6,760,693)	**362,157,069**
Equity			
Retained earnings	308,529,467	(6,760,693)	301,768,774
Total equity	**368,917,761**	(6,760,692)	**362,157,069**
Statement of Comprehensive Income - Extract			
Expenses			
Share of loss of equity acounted investee	5,634,440	6,760,693	12,395,133
Total expenses	**40,375,766**	6,760,693	**47,136,459**
Profit for the year	**20,887,097**	(6,760,693)	**14,126,404**

32 Subsequent Events

Subsequent to balance sheet date, the Society's Board of Directors has resolved to restructure and reorganise the Group. This process has been done in preparation for the legal transformation from a mutually owned company to a company owned by shares, with legal status of the members (currently mutual shareholders) changing to shareholders ("Demutualisation"").

On the 11 March 2020, the World Health Organization declared the Coronavirus (COVID-19) outbreak to be a pandemic in recognition of its rapid spread across the globe, with over 150 countries now affected. Many governments are taking increasingly stringent steps to help contain or delay the spread of the virus. Currently, there is a significant increase in economic uncertainty which is, for example, evidenced by more volatile asset prices and currency exchange rates. Restrictions in movement of people and public transport, lockdown measures and contact with people will affect how the Society will conduct its business going forward.

For the Society's 31 December 2019 financial statements, the Coronavirus outbreak and the related impacts are considered non-adjusting events. Consequently, there is no impact on the recognition and measurement of assets and liabilities. Due to the uncertainty of the outcome of the current events, the Society cannot reasonably estimate the impact these events will have on its financial position, results of operations or cash flows in the future.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature other than the matters above that in the opinion of the Directors of the Group, are likely to significantly affect the operations of the Group, the results of those operations, and the state of affairs of the Group, in future financial years.

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YOUR TRUST IS OUR STRENGTH

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