INSTITUTION BY ORDINARY
PAPUA NEW GUINEANS

2017 Annual Report

TISA

TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

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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.

THE NEW LOOK
TISA HAUS HEAD OFFICE

CHAIRMAN'S REPORT

TO OUR VALUED MEMBERS

It again gives me great pleasure to present the annual report covering the affairs of the Society, for the year ended 31st December 2017, on behalf of the Board of Directors and Management.

The 2017 year was a year of continuity and sustained growth for the Society. The core savings and loan business continued to strengthen while at the same time transformation strategies, initiated in 2016 as part of the Society's business plan, continued to be implemented despite challenging economic conditions. Your Board and Management remains focused on building the Society for the long-term whilst also being mindful of the need to adapt to changes occurring around us during this transformation and transition period, where necessary.

The Society reported another positive financial result. Total assets grew by 9% **(K56.3 million)** to **K679.2 million,** whilst net audited profit was **K35.5 million,** down by 7% from previous year. The drop was mainly attributed to the Society's equity portfolio performing below expectation.

All other key operational indicators reflected steady growth during the year.

INTEREST PAYMENT TO MEMBERS

A total of **K5.9 million** in monthly interest was paid to Member's accounts during the year, an increase of 11% from previous year. I am pleased to advise that the Board again approved an additional interest payment of **K17.4 million** to Members' S1 accounts for the 2017 financial year. In total **K23.3 million** has been credited to Members' savings accounts, an increase of 14% from previous year's total of **K20.5 million.**

SERVICE DELIVERY

The Society has built its success on a simple but fundamental principle of delivering the best possible service to its Members. Apart from the Board's strategy to reach out to Members through a nationwide branch network, digital disruption in the PNG market is also reshaping the way Members want services and products delivered. The Society has anticipated this and has strategies in place to cater for this growing segment of Members.

The Board, Management, and staff will continue to strive to provide the best service and products it can for you, the Members.

NEW SAVINGS AND LOAN SOCIETIES LEGISLATION

The new Savings & Loans Societies Act 2015 is yet to be made effective. The new Act, amongst other things, removes restrictions on Membership eligibility and allows for demutualisation. Necessary steps have been progressed by Management during the year, in preparation.

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 loyalty and support. We are indeed grateful and look forward to the continued support in 2018.

Thank you also to the management team and all our staff for your valued contributions to the Society's successful operations and growth in 2017.

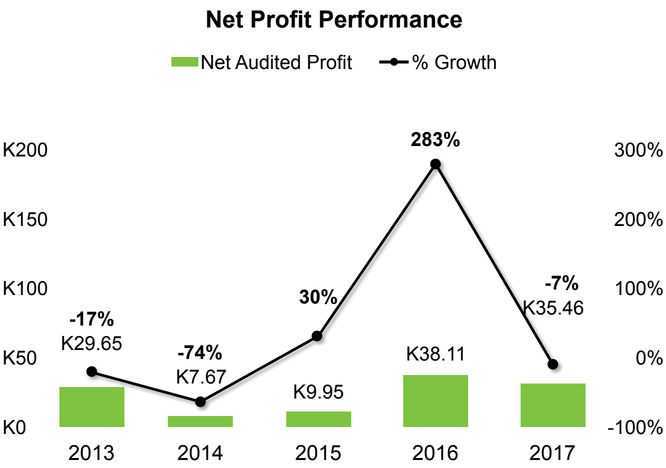
Gabriel Tai
Chairman – Board of Directors

GROUP CHIEF EXECUTIVE OFFICER'S REPORT

I am pleased to report the results for TISA Group for the 12 months financial year ended 31 December 2017.

I am happy to report that the Group recorded a Comprehensive net income on Consolidation of **K35.5 million** for 2017.

This consolidated profit performance was achieved on the backdrop of a very challenging year for TISA Group, the financial sector and the economy.



General economic and market conditions evident during the year appeared subdued, however TISA Group was not paralysed by the general outlook, instead remained focused and actively worked on its core business to deliver on its strategic vision of creating wealth and adding value to the lives of its members and their families.

TISA Group comprises of Teachers Savings and Loan Society Ltd (Parent Entity) and its wholly owned Subsidiary - Tisa Community Finance Limited. Both operations' core activities are in retail finance.

The business activities of TISA Group during the year were in primarily in retail finance; property, investment in short to medium term financial instruments held-to-maturity and equity investments.

Those business activities gave rise to four main different Business Asset Classes.

The Assets classes were defined into Portfolios and these Portfolios were categorised to High growth, Defensive growth, and Balanced growth asset portfolios based on the returns/rewards and risks and volatility of value proposition offered in each asset class.

High Growth Asset Portfolio is market sensitive and promises a higher yield/ return with a higher risk value proposition. TISA Group's assets under this class are Investment Property and Equities. These assets have an exposure on volatility of share and rental price movements' marked-to-market.

Defensive Growth Asset Portfolio offers low returns and is risk averse. The Group's Asset class covered under this Portfolio were investment in short to medium term held-to-maturity financial instruments.

Balanced Growth Asset Portfolio relates to the retail finance business assuming moderate rewards/ returns with a moderate risk appetite.

The Group has adopted approved prescribed investment and risk profile and appetite policies to manage these portfolios through its Asset and Liability Committee (ALCO) and Board Audit, Risk and Compliance Committee (BARCC).

TISA Group focused on key drivers and variables within its core business to ensure sustainability of return on investment (ROI). Gross revenue turnover by TISA Group's core business is a key indicator to establish and maintain that measure of performance management.

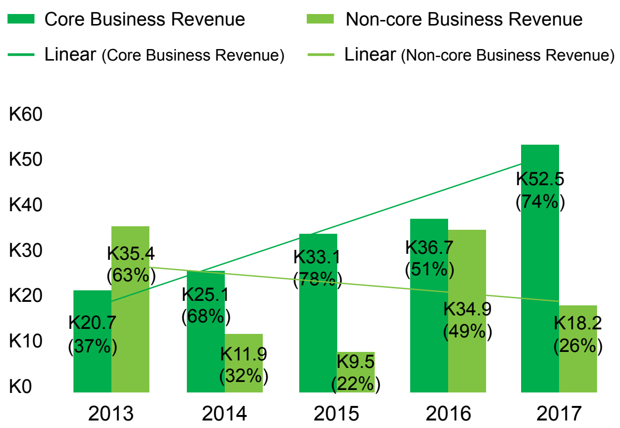
Equity investments although a significant portfolio is non - core business activity and TISA Group's direct influence on dividends and share price movement is limited.

TISA Group directly influenced a net of 74% gross revenue turnover on its core business.

We managed our core business to achieve this result.

TISA Group's non - core revenue contributed net of 26% to consolidated revenue.

Revenue Composition

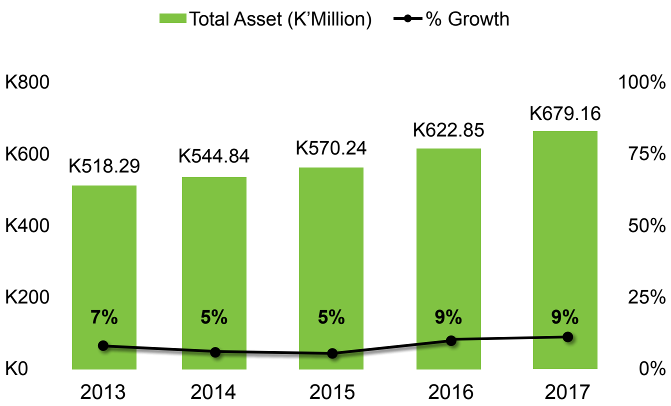


Note: % represent percentage of total revenue

Total Assets

Total Assets grew by **K56.3 Million** to **K679.2 Million,** a growth of 9%.

Total Assets Position



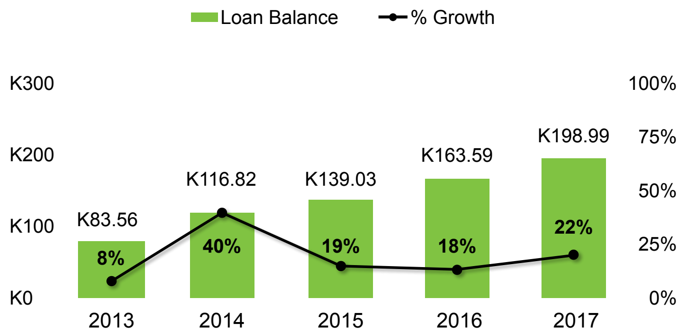
TISA Board Chairman, Mr. Gabriel Tai, Deputy Prime Minister & Alotau MP, Mr. Charles Abel & Group CEO, Mr. Michael Koisen standing infront of the new TISA Haus Alotau building.

Loan Portfolio

The Loan book grew by **K35.4 Million** to **K198.9 Million,** a growth of 22% continuing its strong performance contributing 42% of the Society's gross revenue turnover.

Loan book quality was maintained at a delinquency ratio of less than 2%, well below internal and industry benchmarks.

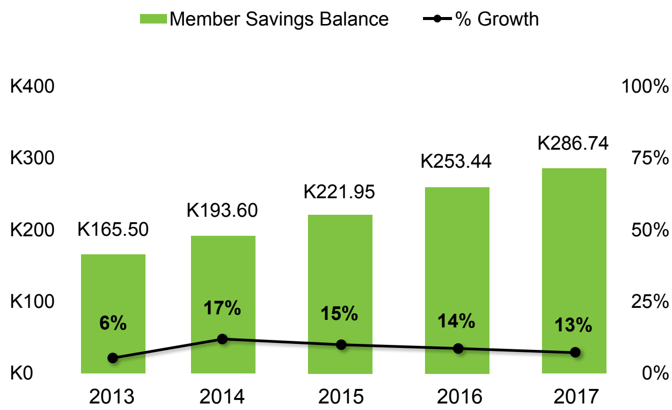
Loan Portfolio



Deposits

Deposits grew by **K33.3 Million** to **K286.7 Million,** a growth of 13%.

Members Savings



Investment Property – High Growth Asset Portfolio

The property portfolio contributed 20% to gross revenue turnover driven primarily by net gains on revaluation.

The property portfolio endured significant challenges both internally and externally. The rental market remained subdued and a decline in occupancy levels, increased cost of maintenance and improvements continued to bear upon results.

Other Financial Assets-Held-To-Maturity – Defensive Growth Asset Portfolio

The Society also manages short to medium term liquid investments. This segment of the Portfolio delivered **K5.4 million** of gross revenue turnover translating to 8% and adding to the overall contribution of core business earning assets.

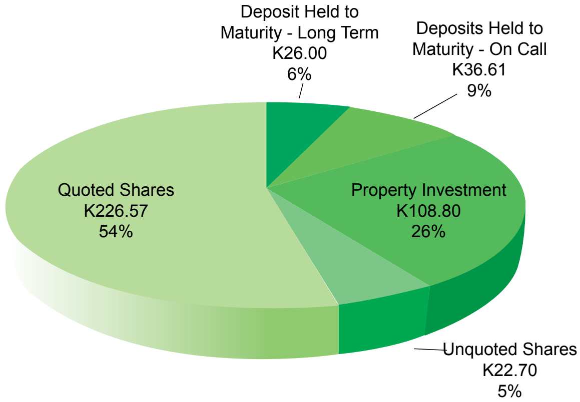
Non-Core Investment – High Growth Portfolio

The quoted shares portfolio contributed **K23.8 million** in dividend netting a gross revenue turnover of 34%.

TISA Group booked a net deficit on revaluation of **K4.7 million.** Credit Corporation Limited share price continues to drag on TISA Group's balance sheet resulting in yet another capital erosion, this time of **K12.2 million** (2016:K17.0 million write down/ capital loss). The continued downward pressure on Credit Corporation stock cannot be sustained. Credit Corporation's declining performance is a cause for serious concern.

TISA Group also booked a deficit of **K0.9 million** in unquoted equity investment in associate, Capital Insurance Group. This write down was due to a write off of impairment of goodwill on acquisition on Capital Insurance Group's balance sheet as a result of acquisition of Dominion Insurance Limited, Fiji, a Subsidiary of Capital Insurance Group. This write down accounts for 3% of TISA Group's total asset portfolio.

Investment Portfolio



Key Operational Highlights

The major operational highlights and contribution by various divisions within TISA Group were:

Properties and Facilities Division

- the Construction of the new TISA Haus Office Building in Alotau,
- refurbishment of TISA Haus, Waigani and improvements to vacant freehold land win Port Moresby,

Projects Division

- successful embedding and 12 months of full operations for Tisa Community Finance Limited,
- established shared services arrangement internally with subsidiary company

Retail Financial Services Division

- opening and trading of TISA Wabag Branch office to serve our members in Enga,
- growth in membership due to improved services and conversion of first time borrowers to new members through L3 product

Information Technology Division

- Website upgrade to show case our product offerings,
- Successful roll out of Cisco telephone systems to the branch network to improve business communication,

Human Resources Division

- Employment recruitment drives to build resource capacity to serve our members and clients both at front-end member/client services and back office technical and specialist support services,

Audit and Risk Division

- Lead review and amend business Standing Operating Procedures to emphasis awareness and compliance.

Legal Division

- In-house legal division was established and a Head of Legal was appointed to also assume the Company Secretarial Functions of TISA Group.

Wholly Owned Subsidiary, TISA Community Finance Limited

TISA Community Finance Ltd, a wholly owned subsidiary of Teachers Savings and Loan Society Ltd., was established because of your desire and request for a financial institution that will provide affordable financial products and services for you after retirement from active employment, your family members, and the community at large.

TISA Community Finance Limited was established in 2010 under the Companies Act and granted a licence to operate as a licenced financial institution by the Bank of PNG in February 2017.

I am pleased to highlight some of the key operational and financial results for TISA Community Finance Limited as at 31 December 2017:-

- Offered personal loan products (with interest rates varying from 15% to 25%) to teachers, public servants, and employees of State-Owned Enterprises, Statutory Authorities and private companies.

- 28 employers (private companies, State-owned Enterprises and Statutory Authorities) signed a Salary Deduction Agreement.

- Customer numbers grew from 326 in January 2017 to 1,813 by end of December 2017, a growth of almost 456%.

- Gross Loan Portfolio grew from **K296,000** in January 2017 to **K11.5 million** by end of December 2017, an exponential growth.

- Payroll collection per month grew from **K101,000** in January 2017 to **K623,000** by end of December 2017, with a total payroll collection of **K4.4 million** recorded for the 12 months.

- Total Assets grew from **K5.3 million** to **K13.1 million** by end of December 2017, a growth of 147%.

- Total liabilities grew from **K0.2 million** to **K6.8 million** by end of December 2017 composing mainly a deposit from TISA Group.

- Net Assets grew from **K5.0 million** to **K6.3 million** by end of December 2017.

- A net operating loss before tax of **K327,001** was recorded as at end of December 2017.

- Capital Adequacy levels remain well above the prudential limits.

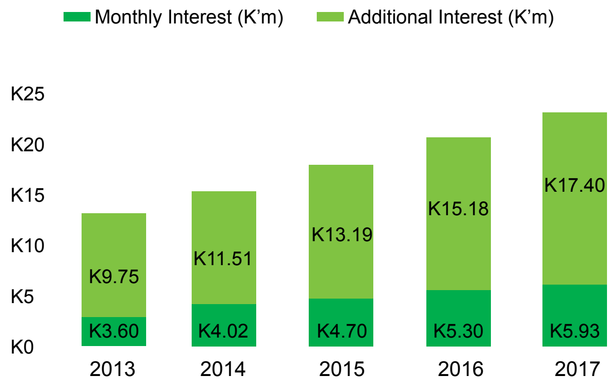
The results are positive and indicate a promising future for TISA Community Finance Limited.

TISA Group plans to roll out TISA Community Finance Limited to other centres of the country where Teachers Savings and Loan Society Ltd.'s branches are located. This will be staged over the next 2-3 years subject to other key indicators.

Overall, it has been a challenging and a busy year for TISA Group. We would like to consolidate on our efforts and results thus far and reach out to our existing and new members as well as our clients offering affordable, convenient and realistic financial solutions through our 17 Branch Network.

I am pleased to reaffirm our Board's passion to do our best for our members and, confirm the Board's Resolution to Credit Additional Bonus Interest of 7%, maximum allowed by the Savings and Loans (Amendment) Act 1995, to all our members S1 Savings Accounts. In kina terms, this translates to **K17,397,587.**

Interest Paid to Members



I would like to remind members that TISA Group's profit performance is subject to market volatility and therefore we should not expect positive returns every year. While we have paid out another peak in additional interest rate allowed under statutory limits, this was achieved from a combination of profits and current and prior accumulation of reserves over the regulatory limits during times of positive returns. Members are guaranteed additional interest payouts at least for the next few years. To ensure sustainability of returns to members beyond these years, profits are essential.

I would like to take this opportunity to thank all the members and clients of the Teacher Savings and Loan Society Ltd and TISA Group for your continued support. The Board of Directors for their trust and support, my management team and staff, the Governor of the Bank of PNG and his staff, Education Department, Divisions, Provincial Authorities, Public Servants and Private Sector employers and workers for your continued support to TISA Group.

Michael O Koisen ML OBE
Group Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017, 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, timely processing of applications, 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 practice (standards) locally and globally.

The Board and management is pleased to announce that the Group's Standard Operating Procedures (SOP) manual was fully updated, consolidated and endorsed by the Board in 2017 for implementation. The SOP is now a fully operational and working document which will be reviewed on an annual basis.

The Group expects the Directors and employees at all levels to observe the highest standards of ethical behaviour 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 Sections 28 and 28A of the Savings and Loan Societies (Amendment Act) 1995 and exercises its powers by performing the following functions:

- Develop and implement the overall business strategy of Tisa, including asset and investment management, risk management and operational matters;
- Provide proper oversight to accounting, fiduciary, regulatory and operational practices of Tisa;
- On an ongoing basis, critically monitor the effectiveness of the business strategies and the effectiveness of management in delivering those strategies;
- Appoint, assess performance and if necessary, removal of Chief Executive Officer;
- Develop and set policies covering lending, investment, procurement and capital expenditure;
- Develop and set policies covering 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 such other functions and duties consistent with the Act.

The Board has delegated the responsibility of administering the Group's day-to-day business operations to the 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 requires a minimum of 5 Directors who must be members. One Director is elected from each of the Momase Region, NGI Region, Highlands Region, Southern Region, and NCD and serves for a term of three (3) years with 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. The Savings and Loan Societies (Amendment) Act 1995 importantly requires that Directors and Senior Management of the Society are appropriate persons to lead the organisation.

The "fit and proper" framework deals with matters such as minimum competencies, Director Development, Independence, Director Refreshment and Renewal and Performance.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors of the Board as at 31 December 2017 were:

There was a vacancy for Director NCD in 2017.

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

Parliament has enacted the Savings and Loan Societies Act 2015 (new Act) to reform and modernize the law governing Savings and Loan Societies in PNG and to repeal the existing Savings and Loan Societies (Amendment) Act 1995. The new Act, which will require the Society to be incorporated as a body corporate under the Companies Act 1997, is yet to be effective. Upon commencement of the new Act, the appointment of a Director onto the Board of the Society will be subject to the fit and proper criteria under the new Act, as well as the fit and proper requirements prescribed by the Companies Act. Any Regulation that is made pursuant to the new Act may enable and provide for further requirements in respect of board composition, required skill set and the overall process and procedure surrounding the appointment of Directors.

Secretary of the Board

The position of Secretary to the Board has been filled in June 2017.

Board Committee

The Board currently has one standing Committee established to strengthen the effectiveness of its operations and deliberations. The Board, Audit, Risk and Compliance Committee (BARCC) is 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 for monitoring the implementation of Board decisions by Management;
- Compliance to BPNG's prudential standards (Savings & Loan Act 1995 and the various directives); and
- Any other functions as delegated by the Board.

The function and powers of BARCC are prescribed by the Savings and Loan Societies (Amendment) Act 1995 under section 25, (1) b, as the Supervisory Committee.

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 BARCC is required to have 3 Directors; however currently it comprises of two Directors namely, Mr. William Varmari (BARCC Chairman) and Mr. Sam Nalong, while the third Director has left in 2014, which created a vacancy. The election of the third Director is dependent on the commencement of the new Act. The Group's Audit, Risk & Compliance Department provides secretarial function to this Committee.

Board and Board 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 to 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 2017 and Directors' record of attendance is set out on the next page:

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

Director	Meetings Held in 2017	Attended in 2017
Mr. Gabriel Tai **Chairman**	4	4
Mr. Sam Nalong	4	4
Mr. William Varmari	4	4
Mr. Francis Samoak	4	4
Vacant	NA	NA

A total of two (2) Special Meetings were held by the Board in the financial year 2017 and the Directors' record of attendance is set out below:

Director	Meetings Held in 2017	Attended in 2017
Mr. Gabriel Tai **Chairman**	2	2
Mr. Sam Nalong	2	2
Mr. William Varmari	2	2
Mr. Francis Samoak	2	2
Vacant	NA	NA

The Board Audit, Risk and Compliance Committee also held four (4) committee meetings in the financial year 2017. A record of attendance at committee meetings during the year are detailed in the table below.

Director	Meetings Held in 2017	Attended in 2017
Mr. William Varmari	4	4
Mr. Sam Nalong	4	4
Vacant	NA	NA

Board Access to Information and Advice

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

The heads of departments make quarterly presentations to the Board on their areas of responsibilities. The Chairman and Directors do have the opportunity to meet with the Group Chief Executive Officer, Heads of Departments and other managers for further consultation to discuss issues associated with the fulfilment of their roles as Directors.

Remuneration of Directors

Directors are paid an annual stipend and attendance allowances consistent with the Savings and Loan Societies (Amendment) Act 1995, but are not entitled to, separation or termination benefits or allowances. A Director appointed to a Board committee is also entitled to attendance allowance for any committee meetings held. The specified Directors fee aggregates for the financial report as at 31st December 2017 are indicated below;

(I) Board Fees Aggregates.

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

Director	2017 K	2016 K
Mr. Gabriel Tai **Chairman**	5,000	5,000
Mr. Sam Nalong	4,500	4,500
Mr.William Varmari	4,000	4,000
Mr. Francis Samoak	4,000	4,000
Total	**17,500**	**17,500**

(II) BARCC Fees Aggregates

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

Director	2017 K	2016 K
Mr. William Varmari	5,000	3,750
Mr. Sam Nalong	4,000	3,000
Total	**9,000**	**6,750**

Disclosure of Material Interest by Directors

A Director of the Group is required to provide information to the Board disclosing any material interest in order for the Board to determine if a Director has a direct or indirect material interest in a matter under consideration, or about to be considered, by the Board at a duly constituted Board meeting.

This disclosure must be recorded in the minutes and the Director shall physically excuse himself from any deliberations or decisions by the Board on this matter. The Director shall 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 developed a "Conflict of Interest 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 Registrar of Savings and Loans Society.

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 possible 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 and the performance of the external auditor is reviewed annually. 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.

KPMG were appointed as the external auditors in 2016 and their appointment will continue for up to three (years). A new notice for External Audit Services will be required at the end of 2018.

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 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 approved by the CEO and is submitted to the BARCC for consideration and recommendation to the Board for approval

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

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 Internal Auditor 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 2016 include credit risk, liquidity risk, interest rate risk, market risk and operational 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 prioritised 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 should 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 behaviour and professionalism and the practices necessary to maintain a reputable institution.

Executive Management and Remuneration

The disclosure has been made at note 27 of the audited financial statement as at 31st December 2017.

Shareholder Communications

The Group publishes an annual newsletter together with the release of annual reports for members' interests. The newsletter provides for the 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 Lawyers & O'Brien's Lawyers for most of its legal requirements in 2017.

DIRECTORS' REPORT

The directors of TISA Group (the 'Group') submit herewith the annual financial report of the Group for the financial year ended 31 December 2017. In order to comply with the provisions of the Companies Act 1997 and Savings and Loan Societies (Amendment) Act 1995, 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; and processing member and client loans; and managing the investments of the Group.

REGISTERED OFFICE

The TISA 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 Group has recorded a total comprehensive income of **K35,460,791 (2016: K38,115,025).**

PAYMENTS TO MEMBERS

Additional interest of **K17,397,587** was credited to the members savings (S1 Accounts) for the year ended 31 December 2017 **(2016: K15,178,287).**

During the year **K5,929,632 (2016: K5,286,799)** interest on members savings were paid.

DIRECTORS

The directors for the 2017 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

DIRECTORS' REMUNERATION

Disclosure has been made at note 27.1

REMUNERATION ABOVE K100,000 PER ANNUM

Disclosure has been made at note 27.1

GROUP SECRETARY

The TISA Company Secretary is Darren Ninkama.

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 fourth quarter of the 2016 financial year, TISA Community Finance Ltd ('TCF') commenced operations.

Construction of the Alotau branch commenced and was completed in the financial year.

There were no other significant changes in the state of affairs of the Group other than that referred to in the financial statements or notes thereto.

EVENTS AFTER THE REPORTING PERIOD

On the 22nd March 2018, the Directors declared an additional bonus interest distribution to members of **K17,397,587 (2016: K15,178,287).** This material event subsequent to the balance date has been adjusted for in the figures in the financial statements; and associated disclosures included.

There were no other matters or circumstance that have arisen since the end of the reporting period that have significantly affected; or may significantly affect the financial position or operations of the Group as at 31 December 2017 or the year then ended.

AUDITOR

KPMG was appointed as auditor for the year ended 31 December 2017. Details of amounts paid to the auditor for audit and other services are shown in note 9 to the financial statements.

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

Mr. Gabriel Tai, MAICD
Director
Dated 28 March 2018

Mr. Sam Nalong
Director
Dated 28 March 2018

EXECUTIVE MANAGEMENT

Front row: **Mr Elijah Meakoro** - Acting Manager Lending Operations, **Ms Dallas Kila** - Manager Internal Audits, **Mr Michael Koisen** - Chief Executive Officer, **Mr Poni Korua** - Head of Corporate Services,

Back row: **Mr Michael Malara** - Manager Finance & Accounting, **Mr Telavika Faite** - Head of Human Resources, **Mr Kisakiu Poawai** - Acting Head of Audits & Risk, **Mr Darren Ninkama** - Company Secretary & Head of Legal, **Mr. Igimu Momo** - Head of Special Projects, **Mr. Luke Kaul** - Head of Retail Financial Services, **Mr. Michael Aldan** - Manager Security, **Mr. Morgan Sehuri** - Head of Marketing.

Absent: **Mr Edward Toliman** - Head of Information Technology, **Mr Francis Pahun** - Head of Lending TCF

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated **financial statements** of the **Society.**

In our opinion the accompanying consolidated financial statements of the Society are in accordance with the reporting requirements of the Savings and Loan Societies (Amendment) Act 1995 and Companies Act 1997, including

- giving a true and fair view of the Society's financial position as at 31 December 2017 and of its financial performance for the year ended on that date;
- complying with the International Financial Reporting Standards; and
- proper accounting records have been kept by the Society as far as it appears from our examination of those records.

The consolidated financial statements comprise the:

- statement of financial position as at 31 December 2017;
- statement of 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.

Basis for Opinion

We conducted our audit 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 opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the Audit of the financial statements section of our report.

We are independent of the Society in accordance the Companies Act 1997, the relevant ethical requirements of CPA Papua New Guinea. We do not provide any other services to the Society. We have fulfilled our other ethical responsibilities in accordance with the ethical requirements of CPA Papua New Guinea.

We confirm that we have remained independent as required by the Companies Act 1997, during the time of our audit to the date of this Auditor's Report.

Other Information

Other Information is financial and non-financial information in the Society's annual reporting which is provided in addition to the financial statements and the Auditor's Report. This includes, the Society Information and Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the financial statements 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 audit of the financial statements, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the financial statements 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 Directors for the Financial Statements

The Directors are responsible for:

- preparing the consolidated financial statements 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 statements that give a true and fair view and are free from material misstatement, whether due to fraud or error; and

- assessing the Society's ability to continue as a going concern. 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 Society's or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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 these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 control.

- 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 Society'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 management'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 Society'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 statements 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 Society to cease to continue as a going concern.

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

We communicate 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 we identify during our audit.

KPMG
Chartered Accountants

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby

Date: 28 March 2018

DIRECTORS' DECLARATION

The directors declare that:

(a) In the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

(b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Companies Act 1997, including compliance with Savings and Loan Societies (Amendment) Act 1995 and International Financial Reporting Standards and giving a true and fair view of the financial position and performance of the Group.

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

Mr. Grabriel Tai, MAICD
Director
Dated 28 March 2018

Mr. Sam Nalong
Director
Dated 28 March 2018

BOARD OF DIRECTORS

Left - Right: **Mr William Varmari** - Director Islands Region | **Mr Gabriel Tai** - Chairman, Director Highlands Region
Mr Sam Nalong - Director Momase Region | **Mr Francis Samoak** - Director Southern Region

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

		Consolidated Group		Society	
	Note	2017 K	2016 K	2017 K	2016 K
Interest and similar income	**8**	29,532,606	24,605,356	26,936,674	24,526,383
Rental income		6,493,223	6,964,093	6,493,223	6,964,093
Dividend income		23,820,604	22,236,622	23,820,604	22,526,755
Change in fair value of financial assets	**12**	(4,704,692)	6,311,324	(5,609,018)	10,081,191
Change in fair value of investment properties	**13**	7,827,820	1,996,041	7,827,820	1,996,041
Other income	**8.2**	7,728,378	9,637,070	8,632,704	5,536,993
Total Income		**70,697,939**	**71,750,506**	**68,102,007**	**71,631,456**
Staff Costs		(14,866,052)	(13,952,538)	(14,136,807)	(13,442,345)
Operating expenses	**9**	(17,599,167)	(14,569,854)	(15,305,347)	(13,255,403)
Interest credited to member's account – Monthly	**8.1**	(5,929,632)	(5,286,799)	(5,929,632)	(5,286,799)
Total Expenses		**(38,394,851)**	**(33,809,191)**	**(35,371,786)**	**(31,984,547)**
Profit before income tax		32,303,088	37,941,315	32,730,221	39,646,909
Income tax benefit / (expense)		98,101	216,178	-	-
Profit after tax		**32,401,189**	**38,157,493**	**32,730,221**	**39,646,909**
Other comprehensive income					
Increment on revaluation of land and buildings	**10**	3,059,602	(42,468)	3,059,602	(42,468)
Total comprehensive income/(loss) for the year is attributed to members		**35,460,791**	**38,115,025**	**35,789,823**	**39,604,441**

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 23 to 61.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Consolidated Group					
	Note	Asset Revaluation Reserve K	General Reserve K	Additional Interest Reserve K	Retained Earnings K	Total
Balance at 1 January 2016	**21**	**21,526,515**	**21,902,255**	**44,169,082**	**253,996,607**	**341,594,459**
Other comprehensive income		(42,468)	-	-	-	**(42,468)**
Net surplus for the year		-	-	-	38,157,493	**38,157,493**
Transfers from revaluation reserve to retained earnings	**21**	(18,940,082)	-	-	18,940,082	**-**
Transfer from Retained Earnings/to General Reserve	**22**	-	7,929,382	-	(7,929,382)	**-**
Transfer to members from Additional Interest Reserve Fund	**23**	-	-	(15,178,287)	-	**(15,178,287)**
Transfer from General Reserve/to Additional Interest Reserve		-	(4,064,169)	4,064,169	-	**-**
True-up of equity investment		-	-	-	-	**-**
Balance at 31 December 2016		**2,543,965**	**25,767,468**	**33,054,964**	**303,164,800**	**364,531,197**
Other comprehensive income	**21**	3,059,602	-	-	-	**3,059,602**
Net surplus for the year		-	-	-	32,401,189	**32,401,189**
Transfers from revaluation reserve to retained earnings	**21**	-	-	-	-	**-**
Transfer from Retained Earnings/to General Reserve	**22**	-	3,589,416	-	(3,589,416)	**-**
Transfer to members from Additional Interest Reserve Fund	**23**	-	-	(17,397,587)	-	**(17,397,587)**
Transfer from General Reserve/to Additional Interest Reserve		-	-	25,351,725	(25,351,725)	**-**
Balance at 31 December 2017		**5,603,567**	**29,356,884**	**41,009,102**	**306,624,848**	**382,594,401**

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 23 to 61.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Society					
	Note	Asset Revaluation Reserve K	General Reserve K	Additional Interest Reserve K	Retained Earnings K	Total
Balance at 1 January 2016		**21,526,515**	**21,902,256**	**44,169,082**	**253,996,607**	**341,594,460**
Other comprehensive income		(42,468)	-	-	-	**(42,468)**
Net surplus for the year		-	-	-	39,646,909	**39,646,909**
Transfers from revaluation reserve to retained earnings		(18,940,082)	-	-	18,940,082	**-**
Transfer from Retained Earnings/to General Reserve	**22**	-	7,929,382	-	(7,929,382)	**-**
Transfer to members from Additional Interest Reserve Fund	**23**	-	-	(15,178,287)	-	**(15,178,287)**
Transfer from General Reserve/to Additional Interest Reserve	**22,23**	-	(4,064,169)	4,064,169	-	**-**
Balance at 31 December 2016		**2,543,965**	**25,767,468**	**33,054,964**	**304,654,216**	**366,020,614**
Other comprehensive income		3,059,602	-	-	-	**3,059,602**
Net surplus for the year		-	-	-	32,730,221	**32,730,221**
Transfer from Retained Earnings/to General Reserve	**22**	-	3,589,416	-	(3,589,416)	**-**
Transfer to members from Additional Interest Reserve Fund	**23**	-	-	(17,397,587)	-	**(17,397,587)**
Transfer from General Reserve/to Additional Interest Reserve	**22,23**	-	-	25,351,725	(25,351,725)	**-**
Balance at 31 December 2017		**5,603,567**	**29,356,884**	**41,009,102**	**308,443,296**	**384,412,849**

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 23 to 61.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2017

		Consolidated Group		Society	
	Note	2017 K	2016 K	2017 K	2016 K
ASSETS					
Cash and cash equivalents	**15**	33,963,099	31,611,818	31,645,819	28,857,340
Interest bearing deposits	**15**	-	5,000,000	4,960,000	5,000,000
Rental and other receivables	**16**	5,747,204	6,332,696	6,675,555	6,501,312
Net Loans to members	**14**	198,990,350	163,588,323	187,511,193	161,927,234
Other financial assets	**11**	308,744,219	306,017,981	316,478,850	312,791,216
Property, plant and equipment	**10**	14,596,954	15,404,589	13,903,867	14,534,119
Capital work in progress	**10.1**	8,005,570	4,683,018	8,005,570	4,652,747
Investment properties	**13**	108,800,000	89,992,000	108,800,000	89,992,000
Deferred tax assets		314,279	216,178	-	-
TOTAL ASSETS		**679,161,675**	**622,846,604**	**677,980,854**	**624,255,969**
LIABILITIES					
Savings and deposits	**18**	286,738,498	253,441,419	286,738,498	253,441,419
Creditors and accruals	**19**	6,876,915	2,704,437	3,904,171	2,654,385
Employee provisions	**17**	2,951,861	2,169,550	2,925,335	2,139,551
TOTAL LIABILITIES		**296,567,274**	**258,315,406**	**293,568,004**	**258,235,355**
NET ASSETS		**382,594,401**	**364,531,198**	**384,412,850**	**366,020,614**
EQUITY					
Asset Revaluation Reserve	**21**	5,603,567	2,543,965	5,603,567	2,543,965
General Reserve	**22**	29,356,884	25,767,468	29,356,884	25,767,468
Additional Interest Reserve	**23**	41,009,102	33,054,964	41,009,102	33,054,964
Retained earnings		306,624,848	303,164,800	308,443,297	304,654,216
TOTAL EQUITY		**382,594,401**	**364,531,198**	**384,412,850**	**366,020,614**

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 23 to 61.

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated Group		Society	
		2017 K	2016 K	2017 K	2016 K
Cash flows from operating activities					
Interest received on loans		24,154,257	19,101,795	21,558,325	19,022,822
Interest on IBDs and debt securities		4,865,032	4,775,819	4,865,032	4,775,819
Dividends received		23,820,604	22,126,755	23,820,604	22,126,755
Net rental and other income		13,736,830	11,091,481	12,975,065	11,091,481
Net Proceeds on disposal/acquisition of Investments		5,000,000	(5,000,000)	(1,186,765)	(11,773,235)
Net Purchase of Government Securities		(6,539,980)	9,135,008	(6,539,980)	9,135,008
Net loans to members		(34,670,718)	(25,931,812)	(24,546,946)	(23,969,849)
Payments to employees and suppliers		(26,961,293)	(27,147,566)	(27,073,135)	(25,974,975)
Net cash flows from/used in operating activities		**3,404,731**	**8,151,480**	**3,872,200**	**4,433,826**
Cash flows from investing activities					
Payments for investment in Property, plant and equipment / investment property		(11,530,965)	(4,425,998)	(11,561,236)	(3,462,822)
Net cash flows from/used in investing activities		**(11,530,965)**	**(4,425,998)**	**(11,561,236)**	**(3,462,822)**
Cash flows from financing activities					
Net members savings deposited		10,477,515	11,021,348	10,477,515	11,021,348
Net cash flows from financing activities		**10,477,515**	**11,021,348**	**10,477,515**	**11,021,348**
Cash & cash equivalents at the beginning of the year		31,611,818	16,864,988	28,857,340	16,864,988
Net decrease in cash and cash equivalent		2,351,281	14,746,830	2,788,479	11,992,352
Cash and cash equivalent at the end of the year	**15**	**33,963,099**	**31,611,818**	**31,645,819**	**28,857,340**

This statement is to be read in conjunction with the accompanying notes to the financial statements on page 23 to 61.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. Reporting:

TISA Group (The 'Group') is domiciled in Papua New Guinea. The Group's registered office is at TISA Haus Waigani, NCD, Papua New Guinea. The Group is primarily involved in retail banking activities including receiving deposits and issuing loans.

2. Basis Of Accounting:

These financial statements have been prepared in accordance with IFRS. They were authorised for issue by the Group's board of directors on 31 March 2018.

All amounts are expressed in Kina unless otherwise stated. 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.

Statement of compliance
The financial statements of the Group are general purpose financial statements which have been prepared in accordance with the accounting provisions of the International Financial Reporting Standards (IFRS), the Savings and Loans Societies (Amendments) Act 1995 and the Companies Act 1997. IFRS are Standards and Interpretations adopted by the International Accounting Standards Board (IASB). The Group's application of IFRS and its Interpretations ensures that its financial statement complies with IFRS.

3. Functional Currency

The financial statements are presented in Kina.

4. Critical Accounting Judgements And Key Sources Of Estimation Uncertainty

In the application of the Group's accounting policies, the directors of the Group are required to make 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.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

4.1.1 Investments in Government bonds and Treasury bills

The Directors have reviewed the Group's investments in government debt securities in the light of its capital

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

4. Critical Accounting Judgements And Key Sources Of Estimation Uncertainty (continued)

4.1.1 Investments in Government bonds and Treasury bills (continued)

maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. Government debt securities are classified as loans and receivables due to lack of a secondary market and quoted active market prices.

4.1.2 Significant influence over Capital Life Insurance

Capital Life Insurance Group Ltd is an associate of the Group. The Group owns a 29% ownership interest in Capital Life Insurance Group Ltd and has significant influence over CIG by virtue of its shareholding.

4.1.3 Financial assets at FVTPL – Quoted and Unquoted shares

Quoted and unquoted equity investments have been classified as fair value through profit and loss. Quoted prices have been obtained from Port Moresby Stock Exchange ('PomSOX'). Unquoted equity investments have been valued using valuation techniques.

4.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4.2.1 Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period.

4.2.2 Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes.
In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent where it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation.

4.3 Going concern basis

The financial statements have been prepared on a going concern basis which assumes that the Group will be able to meet its liabilities and obligations as and when they fall due in the normal course of business. As at 31 December 2017 had an at call liquidity net deficit of **K77 million (2016:K231million).** This net deficiency is predominantly due to member deposits being fully categorized as liability exposure at call.

Funds received from members savings have been invested in long term investment opportunities, resulting in the apparent maturity mismatch. The savings are fully secured or partially secured against loans to members (where members have taken out loans with the Group) as such those savings secured to loans cannot be fully withdrawn.

4. Critical Accounting Judgements And Key Sources Of Estimation Uncertainty (continued)

4.3 Going concern basis (continued)

While member savings are at call, members are only allowed to withdraw 50% of their net savings (being any excess of the member savings over loans taken out with the Group). Withdrawals also have a wait period as applications are reviewed to ensure compliance with withdrawal policies.

Having assessed the Group's ability to generate positive cash flows as well as the likely timing of member withdrawals, of which there has been no history of significant withdrawals, the at call liquidity net deficiency is not expected to affect the Group's ability to meet its operational and financial obligations and the going concern assumption is considered appropriate in the preparation of these financial statements.

5. Changes in accounting policies and disclosures, and Standards issued but not yet effective

5.1 Changes in accounting policies and disclosures

There was no change in the accounting policy in 2017.

5.2 Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2017 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these financial statements.

The following standards issued but not yet effective, up to the date of issuance of the Group's financial statements, are expected to have an impact on the Group's financial statements in the period of initial application.

Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has not yet completed its assessment of the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its financial statements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The Group has not early adopted IFRS 9 in its financial statements for the year ended 31 December 2017.

Transition
The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

5. Changes in accounting policies and disclosures, and Standards issued but not yet effective (continued)

5.2 Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Transition
The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases. The Group has not yet commenced completed an initial assessment of the potential impact on its financial statements.

Transition
As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is yet to commence its assessment of the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

6. Other standards

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

- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).
- Transfers of Investment Property (Amendments to IAS 40).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.
- IFRIC 23 Uncertainty over Income Tax Treatments.

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-assess 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 controls commences up till the date on which control ceases.

B. 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 of 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 include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

7. Significant Accounting Policies (continued)

C. Fees and Commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset of 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.

D. 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.

E. Dividend Income

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

F. Leases

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.

Asset 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 Group 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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

7. Significant Accounting Policies (continued)

F. Leases (continued)

new investment in the lease is recognised and presented within loans and advances.

G. Tax Exemption

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

The subsidiary, TISA Community Finance Ltd ('TCF') is subject to income tax under the Income Tax Act 1959.

H. Financial assets and liabilities:

i Recognition
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 FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii Classification
The Group classified its financial instruments into the following categories;

- Fair value through profit and loss and within this category as:
  - o designated at FVTPL; and
- Loans and receivables

The Group classifies its financial liabilities as measured at amortised cost.

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 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

7. Significant Accounting Policies (continued)

H. Financial assets and liabilities (continued)

effective interest method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment.

vi Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in it absence the most advantageous market to the which the Group has access at that date.

When available the Group measures the fair value of an instrument using the quoted price in an active market for the instrument. A market is regarded as active if transaction for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market then the Group uses calculation techniques that maximise the use of relevant observable inputs and minimises the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that the market participants would take into account in pricing a transaction.

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.

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.

vii Identification and measurement of impairment

a) Objective evidence of impairment:

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at FVTPL are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flow of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- Significant financial difficulty of the borrower or issuer;
- Default or delinquency by a borrower;
- Indications that a borrower or issuer will enter bankruptcy; and
- The disappearance of an active market for a security.

For an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In making an assessment of whether an investment in sovereign debt is impaired, the Group considers the following factors:

7. Significant Accounting Policies (continued)

H. Financial assets and liabilities (continued)

- The market's assessment of the creditworthiness of the issuer and security
- The rating agencies' assessments of creditworthiness
- The country's ability to access the capital markets for new debt issuance

b) Individual and collective assessment:
The Group considers evidence of impairment for loans and advances and held to maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held to maturity investment securities are assessed for specific impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held to maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to maturity investment securities with similar risk characteristics.

The individual component of the total allowance for impairment applies to the financial assets evaluated individually for impairment and found to be individually impaired and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Assets and Liabilities Committee.

c) Measurement:
Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in the profit or loss and reflected in an allowance account against loans and receivables or held to maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised because the amount of impairment loss to decrease then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available for sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

d) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

7. Significant Accounting Policies (continued)

I. Cash and cash equivalent

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 Statement of Financial Position.

J. 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.

K. Investment securities

Investment securities are accounted for in following manners:

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 reliable are carried at cost.

iii Other fair value changes, other than impairment losses are recognised in OCI 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.

L. Property and equipment

i Recognition and measurement:
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

7. Significant Accounting Policies (continued)

L. Property and equipment (continued)

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
Plant & Equipment	5-10 years

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

M. 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.

N. Investment property rental income

Rental income from investment property is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

O. 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 reliable 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

7. Significant Accounting Policies (continued)

O. Software (continued)

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 reviews at each reporting date and adjusted if appropriate.

P. 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 am continuing use that is largely independence 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 cost 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.

Q. 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.

R. 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 reliable 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 finance cost.

S. 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. Prepaid contributions are recognised as an asset to the extent that a

7. Significant Accounting Policies (continued)

S. Employee benefits (continued)

cash refund or reduction in future payments is available.

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.

T. 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.

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

8. Interest and similar income

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Interest income – loans	24,154,257	19,101,795	21,558,325	19,022,822
Interest income – IBDs and debt securities	5,378,349	4,950,813	5,378,349	4,950,813
Amortization of discount on debt securities	-	552,748	-	552,748
Total interest income	**29,532,606**	**24,605,356**	**26,936,674**	**24,526,383**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

8. Interest and similar income (continued)

8.1 Interest expense

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Interest expense – members savings	(5,929,632)	(5,286,799)	(5,929,632)	(5,286,799)
Additional interest distribution made from additional interest reserves	(17,397,587)	(15,178,287)	(17,397,587)	(15,178,287)
Total interest credited and distributed to members	**(23,327,219)**	**(20,465,086)**	**(23,327,219)**	**(20,465,086)**

Interest expense on members' savings is accrued and credited to members' accounts at the end of each month. The total monthly interest charges credited to member accounts during the year amounted to Parent: **K5,929,632 (2016: K5,286,799)** and Group: **K5,929,632 (2016: K5,286,799)** with additional interest of **K17,397,587 (2016: K15,178,287)** credited to members as a distribution from Additional Interest Reserve Account.

8.2 Other income

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Net Loan processing and account administration fees	5,746,050	5,469,903	5,746,050	5,429,826
CIG associate profit/(loss) share	(904,326)	4,060,000	-	-
Tisa and LPI insurance commission, and other income	2,886,654	101,621	2,886,654	101,621
Net reversal of doubtful debts	-	5,546	-	5,546
Total other income	**7,728,378**	**9,637,070**	**8,632,704**	**5,536,993**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

9. 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		Society	
	2017 K	2016 K	2017 K	2016 K
Auditor's Remuneration - Statutory audit services	205,350	150,000	175,350	150,000
Bank charges and interest	133,074	86,783	84,616	85,600
Depreciation	1,351,289	1,163,328	1,208,393	1,103,846
Doubtful Debts – Loans	1,831,167	-	1,525,463	-
Electricity	1,706,362	1,771,188	1,678,063	1,758,507
Insurance	485,353	492,438	467,794	492,438
Property Expense	415,486	277,809	282,999	277,809
Travel, Airfare and accommodation	554,860	684,430	512,318	681,489
Security costs	350,088	190,405	281,759	190,405
Data Processing Expenses	1,516,192	1,078,600	1,152,923	1,077,322
Printing and Stationery	334,128	450,977	318,792	433,599
Establishment Cost	1,184,195	479,761	1,177,430	442,585
Fuel	170,734	173,062	156,440	172,263
Advertising & Promotion, Credit Union Day	1,074,298	802,998	680,246	800,849
Donations	94,712	54,767	92,926	54,767
Entertainment	45,581	126,758	45,581	126,623
Telephone	278,076	477,430	269,541	476,991
Repair and Maintenance	862,368	612,121	856,668	608,821
Rates & Taxes	364,957	532,839	364,957	532,839
Motor Vehicle Expenses	237,738	166,269	210,250	158,160
Filing and Legal Cost	203,384	267,106	203,384	267,106
Freight	61,749	80,202	61,598	80,202
Consulting	327,455	113,800	310,065	104,875
Cleaning	313,205	312,652	313,205	312,652
General and Administrative Expenses	3,497,366	4,024,131	2,874,586	2,865,655
Total other operating expenses	**17,599,167**	**14,569,854**	**15,305,347**	**13,255,403**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

10. Property, Plant and Equipment

	Consolidated							
	Freeholds Land K	Land & Building K	Furniture & Fittings K	Office Equipment K	Motor Vehicles K	Computer Software K	Plant & Equipment K	Total
Cost or valuation								
Balance as at 1 January 2017		**8,947,804**	**912,365**	**3,338,982**	**2,555,548**	**4,069,275**	**583,967**	**20,407,941**
Additions	-	-	-	83,735	128,049	-	19,721	**231,505**
Valuations	-	3,059,602	-	-	-	-	-	**3,059,602**
Disposals	-	-	-	(67,705)	(25,550)	-	-	**(93,255)**
Depreciation reversals	-	(168,602)	-	-	-	-	-	**(168,602)**
Transfers outs	-	2,738,804)	-	-	-	-	-	**(2,738,804)**
Balance at 31 December 2017	**-**	**9,100,000**	**912,365**	**3,355,012**	**2,658,047**	**4,069,275**	**603,688**	**20,698,387**
Accumulated depreciation								
Balance as at 1 January 2017	**-**	**-**	**258,196**	**1,182,091**	**1,290,956**	**2,048,687**	**223,421**	**5,003,351**
Charge for the year	-	168,602	64,208	243,374	524,779	224,274	41,447	**1,266,684**
Disposals	-	-	-	-	-	-	-	**-**
Reversals	-	(168,602)	-	-	-	-	-	**(168,602)**
Balance at 31 December 2017	**-**	**-**	**322,404**	**1,425,465**	**1,815,735**	**2,272,961**	**264,868**	**6,101,433**
Cost or valuation								
Balance as at 1 January 2016	**25,648,766**	**11,604,762**	**323,966**	**3,166,986**	**1,997,675**	**4,069,275**	**583,967**	**47,395,397**
Additions	-	-	588,399	182,068	629,974	-	-	**1,400,441**
Valuations	-	(42,468)	-	-	-	-	-	**(42,468)**
Disposals	-	-	-	(10,072)	(72,101)	-	-	**(82,173)**
Depreciation reversals	-	(914,491)	-	-	-	-	-	**(914,491)**
Transfers outs	(25,648,766)	(1,700,000)	-	-	-	-	-	**(27,348,766)**
Balance at 31 December 2016	**-**	**8,947,804**	**912,365**	**3,338,982**	**2,555,548**	**4,069,275**	**583,967**	**20,407,941**
Accumulated depreciation								
Balance as at 1 January 2016	**-**	**661,199**	**225,633**	**952,594**	**987,571**	**1,826,332**	**183,360**	**4,836,689**
Charge for the year	-	253,292	32,563	239,569	375,486	222,356	40,061	**1,163,327**
Disposals	-	-	-	(10,072)	(72,101)	-	-	**(82,173)**
Reversals	-	(914,491)	-	-	-	-	-	**(914,491)**
Balance at 31 December 2016	**-**	**-**	**258,196**	**1,182,091**	**1,290,956**	**2,048,687**	**223,421**	**5,003,351**
Net book value								
Balance at 31 December 2017	**-**	**9,100,000**	**589,961**	**1,929,547**	**842,312**	**1,796,314**	**338,820**	**14,596,954**
Balance at 31 December 2016	**-**	**8,947,804**	**654,169**	**2,156,891**	**1,264,592**	**2,020,588**	**360,546**	**15,404,589**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

10. Property, Plant and Equipment (continued)

	Society							
	Freeholds Land K	Land & Building K	Furniture & Fittings K	Office Equipment K	Motor Vehicles K	Computer Software K	Plant & Equipment K	Total
Cost or valuation								
Balance as at 1 January 2017		**8,947,803**	**323,966**	**3,585,913**	**2,287,155**	**4,069,275**	**583,967**	**19,798,079**
Additions	-	-	-	83,735	128,049	-	9,381	**221,165**
Valuations	-	3,059,602	-	-	-	-	-	**3,059,602**
Disposals	-	-	-	(67,705)	(114,209)	-	-	**(181,914)**
Depreciation reversals	-	(168,602)	-	-	-	-	-	**(168,602)**
Transfers outs	-	(2,738,804)	-	-	-	-	-	**(2,738,804)**
Balance at 31 December 2017	**-**	**9,099,999**	**323,966**	**3,601,943**	**2,300,995**	**4,069,275**	**593,348**	**19,989,526**
Accumulated depreciation								
Balance as at 1 January 2017	**-**	**-**	**235,466**	**1,188,652**	**1,431,832**	**2,050,606**	**224,019**	**5,130,575**
Charge for the year	-	168,602	9,833	236,058	444,261	224,274	40,659	**1,123,687**
Disposals	-	-	-	-	-	-	-	**-**
Reversals	-	(168,602)	-	-	-	-	-	**(168,602)**
Balance at 31 December 2017	**-**	**-**	**245,299**	**1,424,710**	**1,876,093**	**2,274,880**	**264,678**	**6,085,660**
Cost or valuation								
Balance as at 1 January 2016	**25,648,766**	**11,604,762**	**323,966**	**3,487,077**	**1,997,675**	**4,069,275**	**583,967**	**47,715,488**
Additions	-	-	-	108,908	361,581	-	-	**470,489**
Valuations	-	(42,468)	-		-	-	-	**(42,468)**
Disposals	-	-	-	(10,072)	(72,101)	-	-	**(82,173)**
Depreciation reversals	-	(914,491)	-	-	-	-	-	**(914,491)**
Transfers outs	(25,648,766)	(1,700,000)	-	-	-	-	-	**(27,348,766)**
Balance at 31 December 2016	**-**	**8,947,803**	**323,966**	**3,585,913**	**2,287,155**	**4,069,275**	**583,967**	**19,798,079**
Accumulated depreciation								
Balance as at 1 January 2016	**-**	**661,199**	**225,633**	**952,594**	**987,571**	**1,826,332**	**183,360**	**4,836,689**
Charge for the year	-	253,292	9,833	236,511	341,793	222,356	40,061	**1,103,846**
Disposals	-	-	-	(10,072)	(72,101)	-	-	**(82,173)**
Reversals	-	(914,491)	-	-	-	-	-	**(914,491)**
Balance at 31 December 2016	**-**	**-**	**235,466**	**1,179,034**	**1,257,263**	**2,048,687**	**223,421**	**4,943,871**
Net book value								
Balance at 31 December 2017	**-**	**9,100,000**	**78,667**	**2,177,233**	**424,902**	**1,794,395**	**328,670**	**13,903,866**
Balance at 31 December 2016	**-**	**8,947,804**	**88,500**	**2,083,836**	**1,029,892**	**2,020,588**	**360,546**	**14,854,208**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

10. Property, Plant and Equipment (continued)

Land and building is 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 (2016: The Professional Valuers of PNG Ltd). Accumulated depreciation on land and building assets have been fully reversed. During the year, three assets were reclassified from property, plant and equipment to investment properties. These were two vacant blocks of land in Waigani, Port Moresby and one block of land in Madang on which contains an investment property.

10.1 Work in Progress

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 of Branch Network upgrades, New Westpac Waigani fit outs, TISA Haus, Waigani Refurbishments and Vacant Land Developments around Waigani.

TISA Haus Alotau has been transferred out of WIP during the year to investment properties. Refer to note 13 for further details.

11. Other financial assets

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Quoted shares (note 11a)	226,567,252	231,271,944	226,567,252	231,271,944
Unquoted shares (note 11b)	22,968,577	23,955,058	30,703,208	30,728,293
Government debt securities (note 11c)	59,208,390	50,790,978	59,208,390	50,790,978
Total other financial assets	**308,744,219**	**306,017,981**	**316,478,850**	**312,791,216**

11a. Quoted shares

TISA Community Finance Limited does not hold quoted shares; hence the table below is applicable for both the consolidated group and for the Society on a standalone basis.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

11. Other financial assets (continued)

11a. Quoted shares (continued)

	Consolidated and Society	
	2017	**2016**
	K	**K**
Quoted shares:		
Bank South Pacific Limited		
Balance at the beginning of the year	137,856,294	114,880,245
Fair value gain/(loss) from change in net market value	7,658,683	22,976,049
At Valuation (2017: 15,317,366 shares @ K9.50 per share)	**145,514,977**	**137,856,294**
(2016: 15,317,366 shares @ K9.00 per share)		
Credit Corporation (PNG) Limited		
Balance at the beginning of the year	92,365,650	109,380,375
Fair value gain/(loss) from change in net market value	(12,153,375)	(17,014,725)
At Valuation (2017: 48,613,500 shares @ K1.65 per share)	**80,212,275**	**92,365,650**
(2016: 48,613,500 shares @ K1.90 per share)		
PNG Air Limited		
Balance at the beginning of the year	1,050,000	700,000
Fair value gain/(loss) from change in net market value	(210,000)	350,000
At Valuation (2017: 7,000,000 shares @ K0.12 per share)	**840,000**	**1,050,000**
(2016: 7,000,000 shares @ K0.15 per share)		
Total financial assets at fair value through profit or loss	**226,567,252**	**231,271,944**

11b. Unquoted shares of subsidiary and associate

At 31st December 2017, the Society's interest holding in Capital Insurance Group Ltd ('CIG') stands at 29% (2016: 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.

For the Society's standalone financial statements, the CIG 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

11. Other financial assets (continued)

11b. Unquoted shares of subsidiary and associate (continued)

TISA Community Finance ('TCF') commenced operations in the fourth quarter of the 2016 financial year. The entity is wholly owned and is controlled by the Society. Hence consolidated financial statements are prepared for the Group. On a standalone basis, the Society's investment in TCF is accounted for at cost. No indicators of impairment have been identified by management.

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Unquoted shares:				
Capital Insurance Group (associate)	22,703,208	23,955,058	22,703,208	23,955,058
TISA Community Finance (subsidiary)	-	-	8,000,000	6,773,235
Total unquoted shares	**22,703,208**	**23,955,058**	**30,703,208**	**30,728,293**

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

	Consolidated	
	2017 K	2016 K
Reconciliation of investment in associate at consolidated level		
Balance at beginning of year	23,955,058	20,185,191
Additional Investment	-	-
(Provision)/reversal for impairment of associate	-	-
Equity profits true-up	-	-
Dividend Received	(347,524)	(290,133)
Share of the associate's net profit (loss)	(904,326)	4,060,000
Total investment in associate	**22,703,208**	**23,955,058**

11. Other financial assets (continued)

11c. Government debt securities

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

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Government debt securities				
Treasury bill – cost at acquisition	33,208,390	26,668,410	33,208,390	26,668,410
Inscribed stock – face value on maturity	26,000,000	26,000,000	26,000,000	26,000,000
Net discount on Inscribed stock	-	(1,877,431)	-	(1,877,431)
Total government debt securities	**59,208,390**	**50,790,979**	**59,208,390**	**50,790,979**

Investments in Government Inscribed Stock bear interest varying between 5-12% per annum. (2016:5-12% per annum). Also included in held to maturity investments are treasury bills that have maturity of no more than 90 days from the balance date and provide a return of approximately 7% per annum.

Interest receivables have been recorded in note 16 as interest receivables.

12. Changes in fair value of financial assets

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Changes in fair value of shares				
Bank South Pacific Limited	7,658,683	22,976,049	7,658,683	22,976,049
Credit Corporation (PNG) Limited	(12,153,375)	(17,014,725)	(12,153,375)	(17,014,725)
PNG Air Limited	(210,000)	350,000	(210,000)	350,000
Capital Insurance Group	-	-	(904,326)	3,769,867
Total changes in fair value of shares	**(4,704,692)**	**6,311,324**	**(5,609,018)**	**10,081,191**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

12. Changes in fair value of financial assets (continued)

On a standalone basis for the Society, CIG is accounted for as a financial asset classified as Fair Value through Profit and Loss. For consolidation purposes, CIG is classified as an associate and the equity accounting method is applied, hence there are no changes in fair value in the consolidated financial statements.

13. Investment Properties

Properties	Fair Value 31-Dec-16 K	Additions/ Transfer K	Gain/(loss) K	Fair Value 31-Dec-17 K
Tisa Haus, Waigani	40,884,000	-	9,116,000	50,000,000
Tisa Haus, Lae	7,228,000	-	(228,000)	7,000,000
Tisa Haus, Madang	4,630,000	-	(130,000)	4,500,000
Kouaka Place, Gordons	8,756,000	-	(2,256,000)	6,500,000
Land adjacent to NDB, Waigani	18,000,000	-	-	18,000,000
Land adjacent to TISA, Waigani	10,494,000	-	2,306,000	12,800,000
Alotau Lot 5, Section 10, Alotau	-	11,422,000	(1,422,000)	10,000,000
Totals	**89,992,000**	**11,422,000**	**7,386,000**	**108,800,000**

Properties	Fair Value 31-Dec-15 K	Additions/ Transfer K	Gain/(loss) K	Fair Value 31-Dec-16 K
Tisa Haus, Waigani	42,205,554	641,833	(1,963,388)	40,884,000
Tisa Haus, Lae	7,777,267	(74,367)	(474,900)	7,228,000
Tisa Haus, Madang	2,096,905	1,700,000	833,095	4,630,000
Kouaka Place, Gordons	8,000,000	-	756,000	8,756,000
Land adjacent to NDB, Waigani	-	16,648,765	1,351,234	18,000,000
Land adjacent to TISA, Waigani	-	9,000,000	1,494,000	10,494,000
Totals	**60,079,726**	**27,916,231**	**1,996,041**	**89,992,000**

13. Investment Properties (continued)

The fair value of the investment property was based on a valuation carried out by Yagur Property Valuers (2016: The Professional Valuers of PNG Ltd), independent 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 experiences in the valuations of properties in the recent locations. The valuation methodologies used to value the assets were capitalization method and sales comparison method.

In 2016, transfers to investment property from property, plant and equipment included the land on which the Tisa Haus, Madang was situated on, and two blocks of land in Waigani, Port Moresby. During 2017, Lot 5, Section 10, Alotau was added.

Further, air conditioning system improvements to the Tisa Haus, Waigani were transferred from work in progress to investment property during the year.

14. Loans to Members

The interest rates charged by the Society on loans to members during the year was 1% per month or 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.

TISA Community Finance 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 in to the loan balance.

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Member loans and provisioning				
Loans receivable to members	202,299,728	169,308,710	190,514,866	167,045,875
Allowance for doubtful debts (note 14.1)	(3,309,378)	(4,040,687)	(3,003,674)	(4,040,687)
Loan repayments relating to year end received after year end	-	(1,077,954)	-	(1,077,954)
Net member loans	**198,990,350**	**163,588,323**	**187,511,193**	**161,927,234**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

14. Loans to Members (continued)

14.1 Impairment losses on loans to members

Impairment allowances on loans to members represent management's best estimate of losses incurred in the loan portfolios at the end of the reporting period. Management is required to exercise judgment in making assumptions and estimations when calculating impairment allowances on both individually and collectively assessed loans to members.

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Reconciliation of loan provisioning				
Balance at the beginning of the year	4,040,687	4,046,233	4,040,687	4,046,233
Net write offs and reversals	(2,562,476)	(1,569,222)	(2,562,476)	(1,569,222)
Charges to profit and loss	1,831,167	1,563,676	1,525,463	1,563,676
Provision level at the end of the year	**3,309,378**	**4,040,687**	**3,003,674**	**4,040,687**

15. Cash and Cash Equivalent and interest-bearing deposits

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Cash and cash equivalents				
Cash on hand and at bank	25,157,735	21,551,429	24,534,765	18,796,951
IBDs with maturities of less than 3 months	8,805,365	10,060,389	7,111,054	10,060,389
Total cash and cash equivalents	**33,963,100**	**31,611,818**	**31,645,819**	**28,857,340**

In addition to the above, the Society also had an interest-bearing deposit of **K4,960,000** and **K5,000,000** with an initial maturity exceeding 3 months in 2017 and 2016, respectively. This interest-bearing deposits classified in a separate financial statement caption in the statement of financial position.

15. Cash and Cash Equivalent and interest-bearing deposits (continued)

IBDs earn an interest of approximately 2% per annum. Investments in short term government treasury bills have been disclosed in note 11c.

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

16. Rental and other Receivables

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Rental and other receivables				
Rental debtors	1,541,948	1,904,400	2,488,918	1,904,400
Less: Allowance for rental debtors	(333,646)	(333,646)	(333,646)	(333,646)
Net rental debtors	**1,208,302**	**1,570,754**	**2,155,272**	**1,570,754**
Other debtors	2,639,744	1,798,488	2,624,624	1,967,103
Less: Allowance for other debtors	(34,589)	(34,589)	(34,589)	(34,589)
Net other debtors	**2,605,155**	**1,763,899**	**2,590,035**	**1,932,514**
Prepayments	367,124	359,127	363,624	359,127
Interest receivable	1,566,624	1,053,307	1,566,624	1,053,307
Member contributions relating to year end received after year end	-	1,585,609	-	1,585,609
Subtotal prepayments, interest and member receivables	**1,933,748**	**2,998,043**	**1,930,248**	**2,998,043**
Total Rental and other receivables	**5,747,204**	**6,332,696**	**6,675,555**	**6,501,311**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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17. Employee provisions

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Employee provisions				
Annual leave	1,279,646	753,401	1,253,120	723,402
Long service leave	1,672,215	1,416,149	1,672,215	1,416,149
Total employee provisions	**2,951,861**	**2,169,550**	**2,925,335**	**2,139,551**

18. Savings and deposits

Member savings				
Members' savings pre-additional interest	269,340,768	237,755,477	269,340,768	237,755,477
Additional interest distributed	17,397,730	15,178,287	17,397,730	15,178,287
Members' contributions relating to year end received after year end	-	507,655	-	507,655
Total members' savings	**286,738,498**	**253,441,419**	**286,738,498**	**253,441,419**

19. Creditors and Accruals

Creditors and accruals				
Medical claims	14,461	14,461	14,461	14,461
Rental bonds	19,314	19,314	19,314	19,314
Goods and services tax	258,655	247,820	288,878	247,820
Group tax	170,152	118,406	217,975	118,406
Accrued expenses	1,379,127	817,959	866,522	817,959
Sundry creditors	3,615,744	1,467,518	1,077,559	1,417,466
Rent received in advance	18,959	18,959	18,959	18,959
Unearned revenue	168,875	-	168,875	-
Inscribed Stock Discount	1,231,628	-	1,231,628	-
Total creditors and accruals	**6,876,915**	**2,704,437**	**3,904,171**	**2,654,385**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

20. Members' Capital

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

21. Asset Revaluation Reserve

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Asset Revaluation Reserve Reconciliation				
Opening balance at 1 January	2,543,965	21,526,515	2,543,965	21,526,515
Transfers out to retained earnings	-	(18,940,082)	-	(18,940,082)
Change in fair value of land and buildings	3,059,602	(42,468)	3,059,602	(42,468)
Reserve balance at 31 December	**5,603,567**	**2,543,965**	**5,603,567**	**2,543,965**

In 2016, three blocks of land were reclassified from land and buildings under property, plant and equipment to investment properties. There is one block of land in Madang and two vacant blocks of land in Waigani, Port Moresby. Refer to notes 10 and 13 for further details.

22. General Reserve

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
General Reserve Reconciliation				
Opening balance at 1 January	25,767,469	21,902,256	25,767,469	21,902,256
Transfers in from Retained Earnings	3,589,416	7,929,382	3,589,416	7,929,382
Transfer out to Additional Interest Reserve	-	(4,064,169)	-	(4,064,169)
Reserve balance at 31 December	**29,356,885**	**25,767,469**	**29,356,885**	**25,767,469**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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23. Additional Interest Reserve

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Additional Interest Reserve Reconciliation				
Opening balance at 1 January	33,054,964	44,169,082	33,054,964	44,169,082
Transfers in from Retained Earnings	25,351,725	4,064,169	25,351,725	4,064,169
Transfer out to Members' Savings	(17,397,587)	(15,178,287)	(17,397,587)	(15,178,287)
Reserve balance at 31 December	**41,009,102**	**33,054,964**	**41,009,102**	**33,054,964**

Pursuant to the Savings and Loan Societies (Amendment) Act 1995, the Board of Directors approved for the establishment of the Additional Interest Reserve Fund for the purpose of maintaining a steady flow of returns to members in the form of additional interest and to ensure all future additional interest is paid to members from this fund. Under the provisions of the Act, a Society is permitted to pay members a maximum additional interest of 7% per annum on savings accounts. The Society pays additional interest to S1 General Savings accounts.

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.

24. 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

24. Financial instruments and risk management (continued)

24.1 Maximum credit risk and concentration of credit risk

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

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Assets bearing credit risk				
Cash and cash equivalents	33,963,099	31,611,818	31,645,819	28,857,340
Interest bearing deposits	-	5,000,000	4,960,000	5,000,000
Rental and other receivables	5,747,204	6,332,696	6,675,555	6,501,312
Net Loans to members	198,990,350	163,588,323	187,511,193	161,927,234
Quoted shares	226,567,252	231,271,944	226,567,252	231,271,944
Unquoted shares	22,968,577	23,955,058	30,703,208	30,728,293
Government debt securities	59,208,390	50,790,978	59,208,390	50,790,978
Total assets	**547,444,872**	**512,550,817**	**547,271,417**	**515,077,101**

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

24. Financial instruments and risk management (continued)

24.1 Maximum credit risk and concentration of credit risk (continued)

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Member loans				
Loans backed by deposits	146,269,027	149,772,875	146,177,975	149,772,875
Loans without deposit backing	52,721,323	19,234,963	41,333,218	17,273,000
Total assets	**198,990,350**	**169,007,838**	**187,511,193**	**167,045,875**

24.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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.

The table below summaries the maturity profile of the Group's financial assets and liabilities as at 31 December 2017 based on contractual repayment obligations.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial instruments and risk management (continued)

24.2 Liquidity risk (continued)

	Consolidated						
	Total K	At Call K	0 - 3 mths K	3 mths - 1 Yr K	1-5 Yrs K	More than 5 Yrs K	Weighted Average Rate p.a.
2017							
Cash and cash equivalents	33,963,099	25,157,735	8,805,365				**2%**
Interest bearing deposits	-	-	-	-	-	-	**3%**
Rental and other receivables	5,747,204	-	5,747,204	-	-	-	**nil**
Net Loans to members	198,990,350	-	129,475	8,322,191	190,538,684	-	**12%**
Quoted shares	226,567,252	-	-	226,567,252	-	-	**nil**
Unquoted shares	22,968,577	-	-	22,968,577	-	-	**nil**
Government debt securities	59,208,390		33,208,390	10,000,000	16,000,000		**10%**
Total Undiscounted Cash Inflows	**547,444,872**	**25,157,735**	**47,890,434**	**267,858,020**	**206,538,684**	**-**	
Liabilities							
Members' Savings*	286,738,498	286,738,498	-	-	-	-	**1.5%**
Creditors and accruals	6,720,172	-	6,720,172	-	-	-	**nil**
Employee provisions	2,951,861	-	-	713,868	171,241	2,066,752	**nil**
Total Undiscounted Cash Outflows	**296,410,531**	**286,738,498**	**6,720,172**	**713,868**	**171,241**	**2,066,752**	
2016							
Cash and cash equivalents	31,611,818	21,551,459	10,060,359	-	-	-	**2%**
Interest bearing deposits	5,000,000	-	-	5,000,000	-	-	**3%**
Rental and other receivables	6,332,696	-	6,332,696	-	-	-	**nil**
Net Loans to members	163,588,323	-	8,574,874	28,828,296	126,185,153	-	**12%**
Quoted shares	231,271,944	-	-	231,271,944	-	-	**nil**
Unquoted shares	23,955,058	-	-	23,955,058	-	-	**nil**
Government debt securities	50,790,978	-	14,142,060	2,949,890	19,656,808	14,042,220	**10%**
Total Undiscounted Cash Inflows	**512,550,817**	**21,551,459**	**39,109,989**	**292,005,188**	**145,841,961**	**14,042,220**	
Liabilities							**1.5%**
Members' Savings*	253,441,419	253,441,419	-	-	-	-	**nil**
Creditors and accruals	2,704,437	-	2,704,437	-	-	-	**nil**
Employee provisions	2,169,550	-	-	753,401	-	1,416,149	
Total Undiscounted Cash Outflows	**258,315,406**	**253,441,419**	**2,704,437**	**753,401**	**-**	**1,416,149**	
Net exposure 2017	**251,034,341**	**(261,580,763)**	**41,170,262**	**267,144,152**	**206,367,443**	**(2,066,752)**	
Net exposure 2016	**254,235,411**	**(231,889,960)**	**36,405,552**	**291,251,787**	**145,841,961**	**12,626,071**	

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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24. Financial instruments and risk management (continued)

24.2 Liquidity risk (continued)

	Consolidated						
	Total K	At Call K	0 - 3 mths K	3 mths - 1 Yr K	1-5 Yrs K	More than 5 Yrs K	Weighted Average Rate p.a.
2017							
Cash and cash equivalents	31,645,819	24,534,765	7,111,054				**2%**
Interest bearing deposits	4,960,000	-	-	4,960,000	-	-	**3%**
Rental and other receivables	6,675,555	-	6,675,555	-	-	-	**nil**
Net Loans to members	187,511,193	-	127,296	8,025,881	179,358,016	-	**12%**
Quoted shares	226,567,252	-	-	226,567,252	-	-	**nil**
Unquoted shares	30,703,208	-	-	30,703,208	-	-	**nil**
Government debt securities	59,208,390			33,208,390	10,000,000	16,000,000	**10%**
Total Undiscounted Cash Inflows	**547,271,417**	**24,534,765**	**13,913,905**	**303,464,731**	**189,358,016**	**16,000,000**	
Liabilities							
Members' Savings*	286,738,498	286,783,498	-	-	-	-	**1.5%**
Creditors and accruals	3,904,171	-	3,904,171	-	-	-	**nil**
Employee provisions	2,925,335			687,342	171,241	2,066,752	**nil**
Total Undiscounted Cash Outflows	**293,568,004**	**286,783,498**	**3,904,171**	**687,342**	**171,241**	**2,066,752**	
2016							
Cash and cash equivalents	28,857,340	18,796,981	10,060,359	-	-	-	**2%**
Interest bearing deposits	5,000,000	-	-	5,000,000	-	-	**3%**
Rental and other receivables	6,501,312	-	6,501,312	-	-	-	**nil**
Net Loans to members	161,927,234	-	8,574,874	28,828,296	124,524,064	-	**12%**
Quoted shares	231,271,944	-	-	231,271,944	-	-	**nil**
Unquoted shares	30,728,293	-	-	30,728,293	-	-	**nil**
Government debt securities	50,790,978	-	14,142,060	2,949,890	19,656,808	14,042,220	**10%**
Total Undiscounted Cash Inflows	**515,077,101**	**18,796,981**	**39,278,605**	**298,778,423**	**144,180,872**	**14,042,220**	
Liabilities							
Members' Savings*	253,441,419	253,441,419	-	-	-	-	**1.5%**
Creditors and accruals	2,654,385	-	2,654,385	-	-	-	**nil**
Employee provisions	2,139,551	-	-	723,402	-	1,416,149	**nil**
Total Undiscounted Cash Outflows	**258,235,355**	**253,441,419**	**2,654,385**	**723,402**	**-**	**1,416,149**	
Net exposure 2017	**253,703,413**	**(262,248,733)**	**10,009,734**	**302,777,389**	**189,186,775**	**13,933,248**	
Net exposure 2016	**256,841,746**	**(234,644,438)**	**36,624,220**	**298,055,021**	**144,180,872**	**12,626,071**	

24. Financial instruments and risk management (continued)

24.2 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) as such the liquidity is matched against the corresponding loan.

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.

24.3 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		Society	
	2017 K	2016 K	2017 K	2016 K
Treasury bills	33,208,390	26,668,410	33,208,390	26,668,410
Government inscribed stock	26,000,000	24,122,569	26,000,000	24,122,569
Loans to members	198,990,350	163,588,323	187,511,193	161,927,234
Total interest-bearing assets	**258,198,740**	**214,379,302**	**246,719,583**	**212,718,213**

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

24. Financial instruments and risk management (continued)

24.3 Interest rate risk (continued)

Fixed rate instruments (financial liabilities)

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
Member Savings	286,738,498	253,441,419	286,738,498	253,441,419
Total interest-bearing liabilities	**286,738,498**	**253,441,419**	**286,738,498**	**253,441,419**

Member Savings earn fixed interest at 2%. 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.

24.4 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 values with changes recognized in the statement of comprehensive income, changes in market conditions affecting fair value will be recognized.

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

	Consolidated		Society	
	2017 K	2016 K	2017 K	2016 K
+ 5% change in fair value	12,476,791	12,761,350	12,863,523	13,100,010
- 5% change in fair value	(12,476,791)	(12,761,350)	(12,863,523)	(13,100,010)

24. Financial instruments and risk management (continued)

24.5 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 5;
- Accounts payable and sundry payables are carried at fair value; and
- Member deposits are recognized at inception at fair value and subsequently at amortized cost.

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					
	2017			2016		
	Lvl 1	Lvl 2	Lvl 3	Lvl 1	Lvl 2	Lvl 3
Quoted shares	226,567,252	-	-	231,271,944	-	-
Unquoted shares	-	22,703,208	-	-	23,955,058	-
Investment properties	-	-	108,800,000	-	-	89,992,000
Totals	**226,567,252**	**22,703,208**	**108,800,000**	**231,271,944**	**23,955,058**	**89,992,000**

24. Financial instruments and risk management (continued)

24.5 Fair value of financial instruments (continued)

	Society					
	2017			2016		
	Lvl 1	Lvl 2	Lvl 3	Lvl 1	Lvl 2	Lvl 3
Quoted shares	226,567,252	-	-	231,271,944	-	-
Unquoted shares	-	30,703,208	-	-	30,728,293	-
Investment properties	-	-	108,800,000	-	-	89,992,000
Totals	**226,567,252**	**30,703,208**	**108,800,000**	**231,271,944**	**30,728,293**	**89,992,000**

25. Employees

The number of people employed by the Society as at 31 December 2017is 258 (2016: 260).

The number of people employed by TCF as at 31 December 2017 is 7 (2016: 8).

The number of people employed by the Group as at 31 December 2017 is 265 (2016: 268).

26. 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 **K892,677 (2016:K904,215).**

27. 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 2017 is **K1,922,042 (2016: K1,567,662).** 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 11g, TISA owns 100% of the share capital in subsidiary TCF. Intercompany transactions, including a loan deposit of **K4,960,000 (2016:Nil)** made from TISA to TCF, have been eliminated on consolidation.

Total savings by Directors and Staff amounted to **K1,435,769 (2016: K1,606,193).**

27.1 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 received, exceeded K100,000, falls within each relevant K50,000 band of income as follows:

27. Related parties (continued)

27.1 Key management personnel remuneration (continued)

	Group		Society	
	2017	**2016**	**2017**	**2016**
	No.	**No.**	**No.**	**No.**
K100,000 – K149,999	2	4	2	4
K150,000 – K199,999	-	-	-	-
K200,000 – K249,999	1	1	1	1
K250,000 – K299,999	3	3	3	3
K300,000 – K349,999	1	-	1	-
K350,000 – K399,999	-	-	-	-
K400,000 – K449,999	-	-	-	-
K450,000 – K499,999	-	-	-	-
K500,000 – K549,999	-	1	-	-
K550,000 – Above	1	1	1	1
	8	**10**	**8**	**9**

The specified executives of the Society during the year were:

- Mr Michael Koisen – Chief Executive Officer
- Mr Poni Korua – Head of Corporate Services
- Mr Luke Kaul–Head of Retail Financial Services
- Mr Igimu Momo – Head of Special Projects
- Mr Anania Jonathan – Acting Head of Audit & Risks (resigned)
- Mr Tabu Airi – Acting Head of Human Resources
- Mr Edward Toliman – Head of Information Technology
- Mr Darren Ninkama – Head of Legal Services / Company Secretary

27. Related parties (continued)

27.1 Key management personnel remuneration (continued)

The specified Directors of the Society during the year were:

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

The specified executives of TCF during the year were:

- Vacant – Chief Executive Officer

The specified Directors of TCF during the year were:

- Mr. Moses Koiri (Chairman)
- Mr. Michael Koisen (Vice Chairman)
- Ms. Karo Lelai
- Mr. Materua Kapi

Specified executives and directors' remuneration in aggregate:

	Primary			Post-employment			Equity	Other	
	Salary & fees K	Bonus K	Non-monetary K	Super-annuation K	Prescribed benefits K	Other K	Options K	Bene-fits* K	Total K
Specified Executives									
2017	1,578,467	162,293	-	286,359	998,551	-	-	-	**3,025,670**
2016	1,922,364	162,293	-	230,682	505,548	-	-	-	**2,820,886**
Specified Directors									
2017	26,500	10,000	-	-	-	-	-	-	**36,500**
2016	26,500	10,000	-	-	-	-	-	-	**36,500**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

27. Related parties (continued)

27.2 Transactions with directors

Other than remuneration, the Directors of the Society had an aggregate savings balance of **K158,549 (2016: K302,796),** and aggregate loan balance of **K114,884 (2016: K262,134).** The Directors are subject to the normal lending policy requirements of the Society.

28. 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 estimate contingent liability is not deemed material for the purposes of the financial statements.

The Group had capital commitments predominantly in relation to construction of the TISA Alotau branch.

29. Segment information

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

30. Events after the reporting period

On 22nd March 2018, the Group declared an additional bonus interest distribution to members with S1 general savings accounts of **K17,397,587 (2016: K15,178,287).** 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.

There were no other material events occurring after the reporting period that impact the financial position of the Group as at 31 December 2017 or the year then ended.

GRAND OPENING OF NEW TISA HAUS ALOTAU

TISA Haus Alotau construction phase.

Deputy Prime Minister & Alotau MP, Mr. Charles Abel & TISA Board of Directors.

Invited guests listening attentively.

EMTV crew capturing the event as invited guests and public look on.

Deputy Prime Minister & Alotau MP, Mr. Charles Abel and TISA Chairman, Mr. Gabriel Tai officially cutting the ribbon of the new TISA Haus Alotau Building.

Members and interested public inspecting the new TISA Haus Alotau building.

GRAND OPENING OF NEW TISA HAUS ALOTAU

Completed TISA Haus Alotau building.

Governor for Milne Bay, Mr. John Luke Critton speaking to the invited guests and the general public.

Local dancers leading invited guests to the new TISA Haus Alotau building.

Decorated TISA Haus Alotau building.

Deputy Prime Minister & Alotau MP, Mr. Charles Abel making a speech before officially opening the new TISA Haus Alotau building.

TISA Management & Members inspecting the new TISA Haus Alotau building.

GRAND OPENING OF NEW TISA HAUS ALOTAU

TISA Management

Deputy Prime Minister & Alotau MP, Mr. Charles Abel and TISA Chairman, Mr. Gabriel Tai officially cutting the ribbon of the new TISA Haus Alotau Building.

Deputy Prime Minister & Alotau MP, Mr. Charles Abel & TISA Management.

Deputy Prime Minister & Alotau MP, Mr. Charles Abel & TISA Board of Directors.

TISA's Chief Executive Officer, Mr. Michael Koisen.

TISA Board of Directors & Chief Executive Officer, Mr. Michael Koisen.

Not for Profit, Not for Charity, But for Service

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TISA
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