YOUR TRUST IS OUR STRENGTH

Annual Report 2018

TISA

TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

TABLE OF CONTENT

Page No.

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.

YUMICARD LAUNCH

Michael Koisen OBE ML (Group CEO – TISA) and TISA Board of Directors, Francis Samoak, Sam Nalong (Deputy Chairman) and Gabriel Tai (Chairman) unveiling TISA YumiCard at the Stanley Hotel.

TISA Group Chief Executive Officer & Board of Directors with traditional dancers during the launch of TISA YumiCard at the Stanley Hotel.

CHAIRMAN'S REPORT

GABRIEL TAI

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 2018, on behalf of the Board of Directors and Management.

The 2018 year was the "year of transformation" for the Society. The year marked the start of the Society's transformation specifically with regards to complying with the requirements of the new Savings & Loans Societies Act 2015 and progressing its strategies to change the way the Society delivers its services to its members and remains relevant in a highly competitive and changing finance industry.

The year also saw the successful acquisition of the Police and State Services Savings & Loan Society Limited under Project Halivim and its consolidation to the Society's balance sheet. As the name suggests TISA members have lent a helping hand to 4,000 plus ordinary Papua New Guineans who would have lost their savings. This is a great example of "people helping people". We welcome the former POLSAV members to the TISA fraternity. You are now a TISA member.

The Society reported another positive financial result. Total assets grew by 10% to **K747.9 million**, whilst net audited profit was **K20.9 million**, compared to **K35.8 million** from previous year. The drop was due to capital losses on equities, primarily in Credit Corporation share price. The Society has investments in equities and is affected by movements in this portfolio.

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

INTEREST PAYMENT TO MEMBERS

I am pleased to advise that the Board approved an additional interest payment, totalling **K19.6 million** to Members' S1 accounts for the 2018 financial year. This is in addition to a total of **K7.1 million** credited to member's savings accounts during the year. In total **K26.7 million** has been credited to Members' savings accounts, an increase of 10% from previous year's total of **K23.3 million**.

Over the last 10 years, TISA has paid over **K150 million** in interest on savings to its members. TISA has over the years demonstrated its ability to generate and create wealth for its members and their families by encouraging a savings culture and consistently returning interest on members savings. As at 31 December 2018 Members savings was **K371.1 million**, a growth of 29% from previous year.

Members should continue to build their savings and encourage others to join the savings culture here at TISA.

SERVICE DELIVERY

For over 45 years, TISA has strived to provide the best possible service to its members. This is enshrined in TISA's mission statement, values and strategic objectives of providing affordable financial products and efficient and quality service to its members.

In August 2018, the Society successfully launched its Debit Card, called the YumiCard. TISA is the first Savings and Loan Society in PNG to deliver an electronic banking channel in the Savings and Loans industry. The introduction of the debit card is TISA's first significant step into the electronic banking and digital space and changes how the Society delivers its services to its members.

The Society also recognises that its members, at times, require immediate funds to meet their financial needs but should not be burdened by it. During the 2018 year, members were financially assisted with a total of **K121.35 million** in low cost loans to meet their financial needs.

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 commenced in 2018. The Society started working on meeting the requirements of the new Act before the end of the transition period in August 2019. The new Act, amongst other things, requires the Society to be incorporated as a company under the Companies Act and requires the Society to have a license to operate a savings and loans business.

The new Act also removes the restrictions on Membership eligibility and allows for demutualisation.

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. Your Board and Management remains focused on building the Society for the long-term and building wealth for you and your family. We look forward to the continued support in 2019.

Thank you also to the management team and all our staff for your valued contributions to the Society's successful operations and growth in 2018.

Gabriel Tai
Chairman – Board of Directors

(L-R): POLSAV Administrator Stephen Beach, TISA Chairman Gabriel Tai & TISA Director William Varmari after the signing of the Heads of Agreement (HOA) at TISA Haus.

GROUP CHIEF EXECUTIVE OFFICER'S *REPORT*

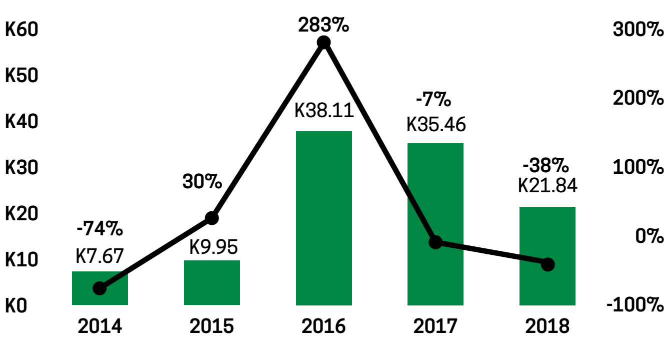
MICHAEL
KOISEN OBE ML

The TISA Group reports another year of profit as at end of 31 December 2018.

Consolidated Net Profit Performance

The Group recorded an annual Comprehensive net income on Consolidation of **K21.84m**.

Net Profit Performance



General industry outlook and market conditions remained challenging throughout the year however the Group continued its focus on its core business in line with its strategic vision to create wealth for its members and their families.

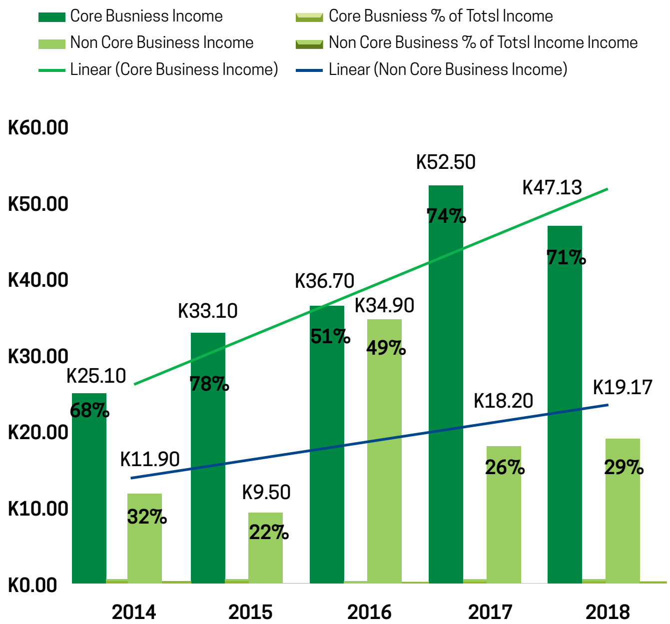
The Group's resilience to maintain profitability over recent times is a testament to its commitment to optimum utilization of assets.

The Group also acquired former Police and State Services Savings and Loan Society in June 2018. Whilst the acquisition was for a Net Asset deficit of **K17m** on its balance sheet and at 'no consideration'; the Group was focused to give hope to 4,000 plus ordinary Papua New Guineans who were at the brink of losing their hard-earned savings and further, take advantage of the obvious synergies that existed between both businesses. The key contributors to the Group's profits were attributed to:-

Core Business Income

Core business income from major portfolios in lending, properties, other direct income and short term investments constitute 71% **(K47.13m)** of 2018 total group net revenue of **K66.30m**.

Core Business Performance (K'm)



Income from loan book and related loan processing income and commissions (of **K35.90m**) grew by 9% from last year. The Lending interest rates on offer have remained consistent for both TISA (at 12% per annum) and its subsidiary, TCF (at 25% per annum). The increase in the loan book revenue was commensurate to growth in loan volumes throughout the TISA Branch Network and acquisition of new membership from former Police and State Services Savings and Loan Society. Although, the subsidiary's loan book had not had a good run in the year due to office relocation and addressing and building manpower; all three loan revenue portfolios in summary performed well on consolidation.

The adoption and impact of the new IFRS 9 standard was also realised in the year resulting in loan impairment of **K0.83m** bearing on the profits of the Group.

The loan delinquency for the group was at 6% and the increase is largely attributed to significant provisioning inherited from the loan portfolio acquired from former Police Society.

It is pleasing to note that the growth in the total loan book through the acquisition has a direct correlation to the growth in loan revenue.

Income from properties recorded **K7.11m** up by 9% from last year rentals and on an asset base of **K115m**. The increase is attributed to additional income from the Alotau Property and improvement on billing for recoveries. Further, the acquisition of Police and State Services Savings and Loan Society brings additional property value on the asset base of **K6.25m** on the balance sheet. In line with Group policy, the independent valuation was not undertaken this financial year and internal market assessments made were not considered to vary materially to the underlying market carrying values.

Changes in rental prices of property continue to bear upon the performance and results of this portfolio.

Income from other short term financial instruments held-to-maturity performed below expectations closing at **K4.12m**. The interest rates offered for on-call deposits including government debt securities vary between 1% and 7% in the market. A large part of the deposits are held with the Bank of PNG in Treasury Bills and Inscribed Stocks.

Non-Core Business Income

Dividend income from equity investments constitutes 41% **(K27.74m)** of total revenue turnover.

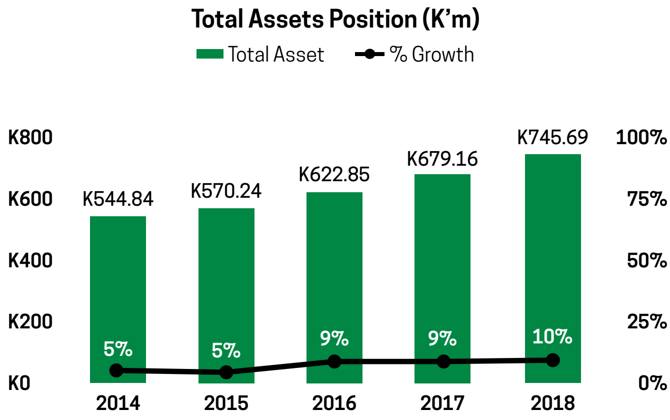
Whilst there is notable increase of income by 16% **(K3.92m)** compared to last year; the Group continues to succumb to the revaluation losses due to capital erosion of **K14.58m** from Credit Corporations share price and value in the year.

Further challenge was noted with bringing to account impairment of **K5.63m** write down on our investment in Capital Insurance Group.

Overall, TISA Group directly influenced a 71% gross revenue turnover on its core business. We managed our core business to achieve this result. TISA Group's non - core revenue contributed 29% to consolidated revenue.

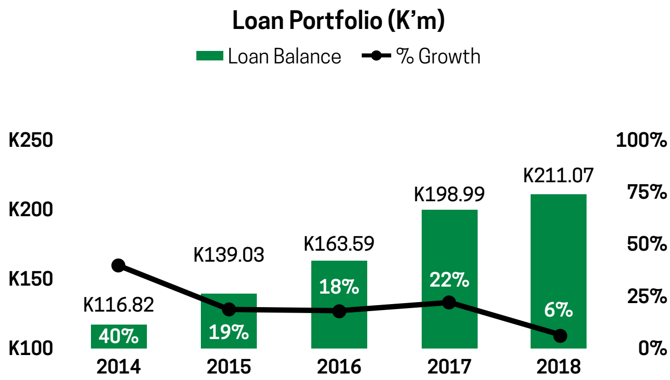
Total Assets

Total Assets grew by **K66.5m** to **K745.7m** a growth of 10%.



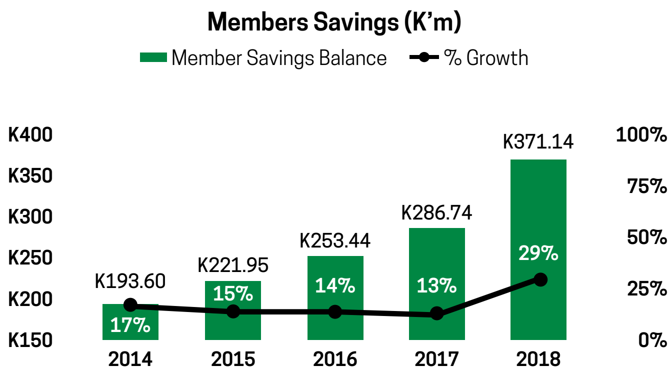
Loan Portfolio

Loan book grew by **K12.8m** to **K211.07m** a growth of 6% with strong performance contributing to 49% of the Society's gross revenue turnover.



Member Savings

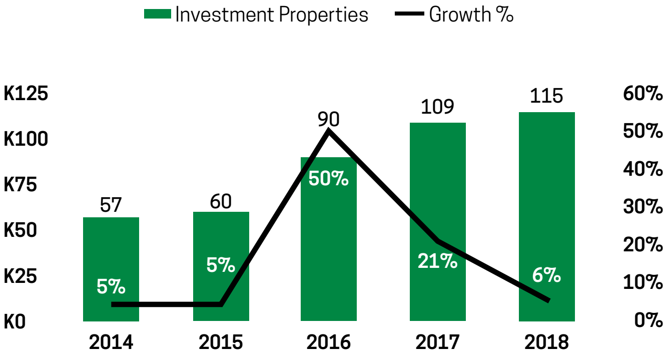
Deposits grew by **K84.3m** to **K371.1m**, a growth of 29%.



Investment Property

The property portfolio increased by 6% and closed at **K115m** due to acquisition of POLSAV Investment Properties.

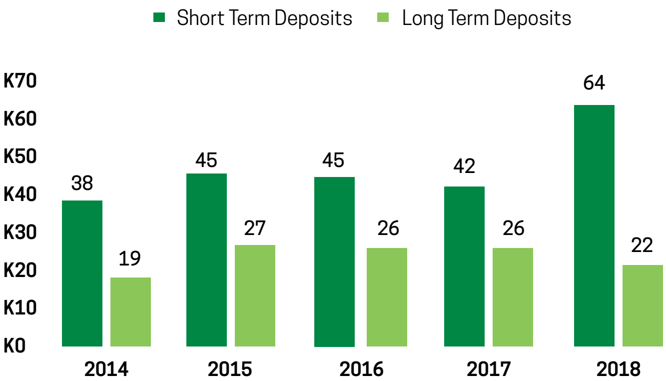
Investment Property (K'm)



Deposits-Held-To-Maturity

The Society also manages short to medium term liquid investments deposited with Licensed Financial Institutions and BPNG. An increase of 52% on short term deposit to **K64m** and dropped in long term investments by 16% to **K22m**.

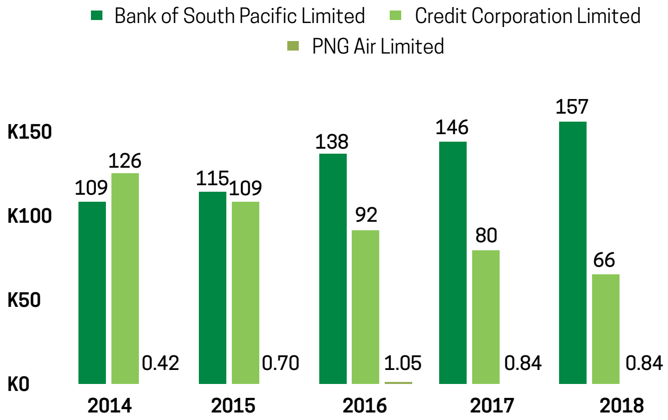
Deposits Held to Maturity (K'm)



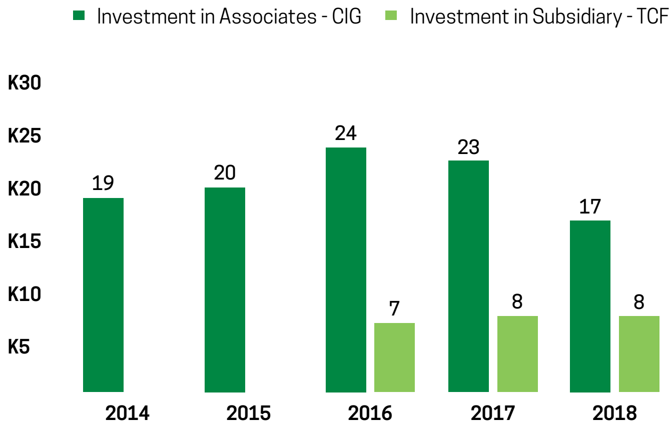
Quoted Shares

Society's quoted shares in Bank of South Pacific and Credit Corporation provided mixed results. BSP Shares increased by 8% closing at **K157m** whilst CCP shares declined by 18% and down to **K66m**.

Quoted Shares (K'm)



Unquoted Shares (K'm)



Unquoted Shares

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

At 31st December 2018, the Society's interest holding in CIG remained at 29% (2017: 29%). Impairment on CIG investment by **K5.63m** reducing the investment value to **K17m**. A decline of 25%.

Key Operational Highlights

The major operational highlights within TISA Group:-

For TISA (Parent)

- Successful Acquisition of former Police and State Services Savings and Loan Society on the 29th June, 2018.
- Successful launching and roll out of YUMI Card (the TISA Debit Card) to our Members.

For TCF (Subsidiary)

- Successful recommencing of business after office relocation to Waigani, near Westpac Bank.
- Appointment of new Chief Executive Officer
- Obtained license from Bank of PNG to take public deposits.

Wholly Owned Subsidiary, TISA Community Finance Limited

I am also pleased to report key operational and financial results for TISA Community Finance Limited as at 31 December 2018:-

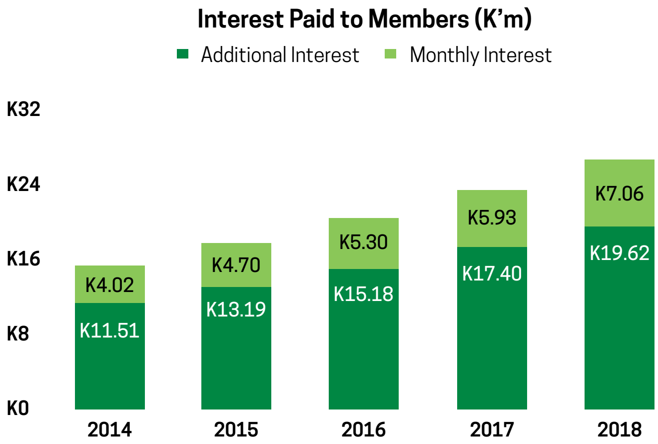
- Offered personal loan products (with interest rates varying from 15% to 25%) to teachers, public servants, and employees of State-Owned Enterprises, Statutory Authorities and private companies.
- Continued to service 28 employer payrolls covering (private companies, State-owned Enterprises and Statutory Authorities) following signing of Salary Deduction Agreement.
- Customer numbers grew from 1,813 in January 2018 to 2,118 by end of December 2018, a growth of 17%. Much of the focus in the growth was attributed to Public Service Clients.
- Gross Loan Portfolio reduced from **K11.54 million** in January 2018 to **K8.37 million** by end of December 2018, as lending slowed in the year to address internal capacity constraints and new office relocation.
- Although Payroll collection per month saw a decline from **K623, 000** in January 2018 to **K516, 000** by end of December 2018; a total payroll collection of K7.751 million was recorded for the 12 months.
- Total Assets grew from **K12.9 million** to **K22.8 million** by end of December 2018, a growth of 77%.
- Total liabilities grew from **K5.5 million** to **K14.9 million** by end of December 2018 composing mainly a deposit from TISA Group.
- Net Assets declined from **K7.1 million** to **K6.0 million** by end of December 2018.
- A net operating surplus before tax of **K0.870 million** was recorded as at end of December 2018.

The results are positive and indicate potential growth 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 year of consolidation, implementation and preparing the group for greater market opportunities in light of the new savings and loan legislation.

I am pleased to reiterate our Board's vision to do our best for our members and, confirm the Board's Resolution to Credit Additional Bonus Interest of 7%, the maximum allowed by the Savings and Loans (Amendment) Act 1995, to all our members S1 Savings Accounts. In kina terms, this translates to **K19, 619,183.**



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 OBE ML
Group Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT
AS AT 31 DECEMBER 2018

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 2018, the Board and management have ensured that the Group's corporate governance supports our core values of delivering the best possible customer service, empowering our staff, maintaining and upholding ethical practice, promote and value continuous learning, and accountability.

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

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

The Board of Directors and their Roles

The Board is responsible and accountable to its members for the overall governance and management of the Group's activities and performance. The Board operates in accordance with the powers and functions set out in Sections 28 and 28A of the Savings and Loan Society's (Amendment) Act 1995 (the "Act") and the Society's Constitution and exercises its powers by performing the following functions:

- Develop the overall business strategy of the Society, including asset and investment management, risk management and operational matters;
- Approve the overall business strategy and annual budgets of the Society,
- Provide proper oversight to accounting, fiduciary, regulatory and operational practices of the Society;
- On an ongoing basis, critically monitor the effectiveness of the business strategies and the effectiveness of management in delivering those strategies;
- Appoint, assess performance and if necessary, removal of Group Chief Executive Officer;
- Appoint the Company Secretary
- 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 other functions and duties consistent with the Act and the Constitution.

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

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

Board composition and eligibility

The size and composition of the Board is determined by the Constitution, which requires a minimum of 5 Directors who must be financial 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. Directors and Senior Management of the Society must be a fit and proper person to lead the organization. The "fit and proper" framework deals with matters such as minimum competencies, Director Development, Independence, Director Refreshment and Renewal and Performance.

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

CORPORATE GOVERNANCE STATEMENT
AS AT 31 DECEMBER 2018

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.

The *new Savings and Loan Societies Act* 2015 (new Act) finally commenced on 24 August 2018 and repeals and replaces the former *Savings and Loan Societies Act* (Chapter 141) and *Savings and Loan Societies Regulation* (Chapter 141A). However, any acts or decisions made under the former (repealed) Act remain valid under the new Act until the transition period ends in August 2019. A significant reform under the new Act is the requirement for all existing societies to incorporate as a company under the *Companies Act* 1997 and apply to the Central Bank for a savings and loan society license to conduct the savings and loan business. The Board and Management will endeavor to ensure that the Society complies with all the requirements of the new Act.

Board Committee

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

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

The function and powers of BARCC are prescribed by the *Savings and Loans 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 current BARCC members are Mr. William Varmari (Chairman) and Mr. Sam Nalong (as member), The Group's Audit, Risk & Compliance Department provides secretarial function to the BARCC.

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

Board and Board Committee Meetings

The Board usually meets as it resolves or as and when 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 2018 and Directors' record of attendance is set out below:

Director	Meetings Held in 2018	Attended in 2018
Mr. Gabriel Tai **Chairman**	4	4
Mr. Sam Nalong	4	4
Mr. William Varmari	4	4
Mr. Francis Samoak	4	4
Vacant	NA	NA

Only one Special Meeting was held by the Board in the financial year 2018 and the Directors' record of attendance is set out in the next page:

CORPORATE GOVERNANCE STATEMENT
AS AT 31 DECEMBER 2018

Director	Meetings Held in 2018	Attended in 2018
Mr. Gabriel Tai **Chairman**	1	1
Mr. Sam Nalong	1	1
Mr. William Varmari	1	1
Mr. Francis Samoak	1	1
Vacant	NA	NA

The Board Audit, Risk and Compliance Committee also held four (4) meetings in the financial year 2018. A record of attendance at committee meetings during the year are detailed in the table below.

Director	Meetings Held in 2018	Attended in 2018
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 the 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 consistent with the *Savings and Loan Societies (Amendment Act)* 1995, but are not entitled to, separation or termination benefits or any another payments. A Director appointed to a Board committee is also entitled to an annual stipend for any committee meetings held. The specified Directors fee aggregates for the financial report as at 31st December 2018 are indicated below:

(I) Board Fees Aggregates.

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

Director	2018 K	2017 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 financial year are as follows:

Director	2018 K	2017 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 is required to disclose any material interest in a matter under consideration, or about to be considered, by the Board at a duly constituted Board meeting in order for the Board to determine if a Director has a direct or indirect material interest.

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

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

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

CORPORATE GOVERNANCE STATEMENT
AS AT 31 DECEMBER 2018

interest; or

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

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

The Group has a "Conflict of Interest 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 Societies.

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

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

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

External Auditor

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

KPMG was appointed as the Group's external auditor in 2016 for a period of three years up to the year ended 2018, an external auditor will be appointed for 2019 onwards.

Internal Audit

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

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

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

The 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

CORPORATE GOVERNANCE STATEMENT
AS AT 31 DECEMBER 2018

internal auditors on timely basis.

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

Risk Management

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

The Board and management have ensured that efficient and effective risk management framework and adequate reporting systems, operational and financial internal controls and their associated review functions (including internal audit) are in place to effectively monitor and manage the broad risk areas of strategic, financial and operational risks. The specific risk areas identified and monitored in 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 prioritized appropriately and are managed and reported on a monthly management and quarterly Board meetings.

Code of Conduct

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

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

Executive Management and Remuneration

The disclosure has been made at note 28.1 of the audited financial statement as at 31st December 2018.

Shareholder Communications

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

Legal matters and Society Lawyers

The Group has established an in-house Legal Department. Legal matters are outsourced as and when required. The Group engaged Albatross Law, O'Brien's Lawyers and Les Gavara-Nanu Jnr (Legal Consultant) for most of its outsourced legal matters in 2018.

Philip Hehonah - Company Secretary & Head of Legal

DIRECTORS' REPORT

The Directors of Teachers Savings and Loan Society ("TISA" or "the Society") and its subsidiary company, TCF Community Finance Ltd (together "the Group") submit herewith the annual financial report of the Group for the financial year ended 31 December 2018. 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; 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 **K21,843,912 (2017: K35,460,791)**.

Payments to members

Additional interest of **K19,619,183** was credited to the members savings (S1 Accounts) for the year ended 31 December 2018 **(2017: K17,397,587)**.

During the year **K7,059,594 (2017: K5,929,632)** of interest on members savings was paid.

Directors

The Directors for the 2018 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 28.1

Remuneration above K100,000 per annum

Disclosure has been made at note 28.1

Group secretary

The TISA Corporate Secretary is Philip Hehonah.

Director's 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

TISA acquired Police and State Services Savings and Loan Society ("PolSav") as at 30 June 2018 under a Merger and Sale Agreement at nil consideration. PolSav had a net liability position of **PGK16,849,175** as at the date of acquisition hence this was taken up directly against the equity of TISA thereby reducing TISA's equity by 5.5% at the date of acquisition. 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

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 2018 or the year then ended.

Auditor

KPMG was appointed as auditor for the year ended 31 December 2018. 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 29th March 2019

Mr. Sam Nalong
Director
Dated 29th March 2019

EXECUTIVE MANAGEMENT

Front row (L-R): **Ms. Lama Orea** - Manager Branch Support | **Mr. Luke Kaul** - Chief Operating Officer | **Ms. Kathreena Maidang** - Senior Legal Officer
Mr. Ashokkumar Valechha - TCF Chief Executive Officer | **Mr. Michael Koisen** - Group Chief Executive Officer
Ms. Venus Cajiles - Manager Properties & Facilities | **Mr. Michael Malara** - Chief Finance Officer
Mr. Igimu Momo - Chief of Strategic Projects

Back row (L-R): **Mr. Telavika Faite** - Head of Human Resources | **Mr. Vilikesa Nawaqaliva** - Manager Electronic Channels
Mr. Michael Aldan - Manager Security | **Mr. Kisakiu Poawai** - Acting Head of Audits & Risk
Ms. Bibian Barreng - Manager Marketing & Media Relations | **Mr. Lawes Omeri** - Manager National Sales
Mr. Joe Kudada - Manager I.T Operations | **Mr. Francis Pahun** - TCF Head of Recovery
Mr. Edward Toliman - Head of Information Technology | **Mr. Giles Piriri** - Manager Special Projects
Mr. Steward Tito - Manager Lending Operations

Absent: **Mr. Philip Hehonah** - Company Secretary and Head of Legal | **Ms. Dallas Kila** - Manager Internal Audit

STATEMENT BY DIRECTOR'S

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

1. (a) the statements of profit or loss and other comprehensive income of the Society and the Group are drawn up so as to give a true and fair view of the results of the Society and the Group for the year ended 31 December 2018;

   (b) the statements of changes in members' funds of the Society and the Group are drawn up so as to give a true and fair view of the changes in equity of the Society and the Group for the year ended 31 December 2018;

   (c) the statements of financial position of the Society and the Group are drawn up so as to give a true and fair view of the state of affairs of the Society and the Group as at 31 December 2018;

   (d) the statements of cash flows of the Society and the Group are drawn up so as to give a true and fair view of the cash flows of the Society and the Group for the year ended 31 December 2018;

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

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

2. The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted in Papua New Guinea and the Papua New Guinea Companies Act 1997.

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

Director
Mr. Gabriel Tai
Dated 29th March 2019

Director
Mr. Sam Nalong
Dated 29th March 2019

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

KPMG

Independent Auditor's Report

To the shareholders of Teachers Savings and Loan Society Limited and its subsidiary company TCF Community Finance Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Teachers Savings and Loan Society and its subsidiary company, TCF Community Finance Ltd (together "the Group").

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

- giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year ended on that date;
- complying with the International Financial Reporting Standards;
- proper accounting records have been kept by the Group as far as it appears from our examination of those records.

The financial statements comprise of the:

- statement of financial position as at 31 December 2018;
- 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 Group in accordance the Companies Act 1997 and the relevant ethical requirements of CPA Papua New Guinea. We have fulfilled our other ethical responsibilities in accordance with the ethical requirements of CPA Paua 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 Group'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 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 Group'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 Group 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 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 International Standards on Auditing, 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial 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 Group 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

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby
Date: 29 March 2019

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2018

		Consolidated Group		Society	
		2018	2017	2018	2017
	Note	K	K	K	K
Interest and similar income	8	32,486,174	29,532,606	28,898,351	26,936,674
Interest expense	8.1	(7,059,594)	(5,929,632)	(7,059,594)	(5,929,632)
Net Interest income		**25,426,580**	**23,602,974**	**21,838,757**	**21,007,042**
Rental income		7,107,623	6,493,223	7,084,826	6,493,223
Dividend income		27,743,990	23,820,604	27,743,990	23,820,604
Change in fair value of financial assets	12	(2,942,852)	(4,704,692)	(2,942,852)	(5,609,018)
Change in fair value of investment properties	13	-	7,827,820	-	7,827,820
Other income	8.2	1,903,703	7,728,378	1,903,703	8,632,705
Total income		**59,239,045**	**64,768,307**	**55,628,424**	**62,172,375**
Staff costs		(16,860,504)	(14,866,052)	(16,275,065)	(14,136,807)
Impairment losses on loans to members	9.1	(828,841)	(1,831,167)	(1,126,907)	(1,525,463)
Operating expenses	9	(19,792,702)	(15,768,000)	(17,339,354)	(13,779,884)
Total Expenses		**(37,482,047)**	**(32,465,219)**	**(34,741,326)**	**(29,442,154)**
Profit from operations		**21,756,998**	**32,303,088**	**20,887,098**	**32,730,221**
Income tax benefit		86,914	98,101	-	-
Profit for the year		**21,843,912**	**32,401,189**	**20,887,098**	**32,730,221**
Other comprehensive income					
Increment on revaluation of land and buildings		-	3,059,602	-	3,059,602
Total comprehensive income for the year		**21,843,912**	**35,460,791**	**20,887,098**	**35,789,823**

The notes on pages 12 to 51 are an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

		Consolidated Group		Society	
		2018	2017	2018	2017
	Note	K	K	K	K
Assets					
Cash and cash equivalents	15	49,731,723	33,963,099	34,610,086	31,645,819
Interest bearing deposits	15	25,305,325	-	40,245,325	4,960,000
Net loans to members	14	211,065,275	198,990,350	204,571,140	187,511,193
Other financial assets	11	300,793,095	308,744,219	300,793,095	308,478,850
Rental and other receivables	16	5,417,280	5,747,204	7,278,191	6,675,555
Investment in subsidiary	11c	-	-	8,000,000	8,000,000
Investment properties	13	115,053,000	108,800,000	115,053,000	108,800,000
Property, plant and equipment	10	15,741,058	14,596,954	15,393,228	13,903,867
Capital work in progress	10.1	22,184,930	8,005,570	21,964,135	8,005,570
Deferred tax assets		401,193	314,279	-	-
Total assets		**745,692,879**	**679,161,675**	**747,908,199**	**677,980,854**
Liabilites					
Savings and deposits	18	371,136,980	286,738,498	371,136,980	286,738,498
Creditors and accruals	19	4,434,398	6,876,915	4,597,687	3,904,171
Employee provisions	17	3,294,654	2,951,861	3,255,771	2,925,335
Total liabilities		**378,866,032**	**296,567,274**	**378,990,438**	**293,568,004**
Net assets		**366,826,847**	**382,594,401**	**368,917,761**	**384,412,850**
Equity					
Asset revaluation reserve	21	5,603,567	5,603,567	5,603,567	5,603,567
General reserve	22	33,534,306	29,356,884	33,534,306	29,356,884
Additional interest reserve	24	38,099,597	41,009,102	38,099,597	41,009,102
Business combination reserve	23	(16,849,175)	-	(16,849,175)	-
Retained earnings	25	306,438,553	306,624,848	308,529,467	308,443,297
Total equity		**366,826,847**	**382,594,401**	**368,917,761**	**384,412,850**

The notes on pages 12 to 51 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2018

		Consolidated Group					
	Note	Asset Revaluation Reserve K	General Reserve Fund K	Additional Interest Reserve K	Business Combination Reserve K	Retained Earnings K	Total
Balance at 1 January 2017		**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 retained earnings to additional interest reserve		-	-	25,351,725	-	(25,351,725)	-
Balance at 31 December 2017			**29,356,884**	**41,009,102**	**-**	**306,624,848**	**382,594,401**
Opening adjustment for initial application of IFRS 9 provisions		-	-	-	-	(1,143,107)	(1,143,107)
Restated total equity at 01 January 2018		**5,603,567**	**29,356,884**	**41,009,102**	-	**305,481,741**	**381,451,294**
Net surplus for the year		-	-	-	-	21,843,912	21,843,912
Transfers from revaluation reserve to retained earnings		-	-	-	-	-	-
Transfer from retained earnings to general reserve		-	4,177,422	-	-	(4,177,422)	-
Transfer to members from additional interest reserve fund		-	-	(19,619,184)	-	-	(19,619,184)
Transfer from retained earnings to additional interest reserve		-	-	16,709,679	-	(16,709,679)	-
Acquisition of PolSav recognised in equity		-	-	-	(16,849,175)	-	(16,849,175)
Balance at 31 December 2018		**5,603,567**	**33,534,306**	**38,099,597**	**(16,849,175)**	**306,438,553**	**366,826,847**

The notes on pages 12 to 51 are an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2018

		Society					
	Note	Asset Revaluation Reserve K	General Reserve Fund K	Additional Interest Reserve K	Business Combination Reserve K	Retained Earnings K	Total
Balance at 1 January 2017		**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 retained earnings to additional interest reserve	23	-	-	25,351,725	-	(25,351,725)	-
Balance at 31 December 2017		**5,603,567**	**29,356,884**	**41,009,102**	**-**	**308,443,296**	**384,412,850**
Opening adjustment for initial application of IFRS 9 provisions		-	-	-	-	86,172	86,172
Restated total equity at 01 January 2018		**5,603,567**	**29,356,884**	**41,009,102**	**-**	**308,529,469**	**384,499,022**
Net surplus for the year		-	-	-	-	20,887,098	20,887,098
Transfers from revaluation reserve to retained earnings		-	-	-	-	-	-
Transfer from retained earnings to general reserve		-	4,177,422	-	-	(4,177,422)	-
Transfer to members from additional interest reserve fund		-	-	(19,619,184)	-	-	(19,619,184)
Transfer from retained earnings to additional interest reserve		-	-	16,709,679	-	(16,709,679)	-
Acquisition of PolSav recognised in equity		-	-	-	(16,849,175)	-	(16,849,175)
Balance at 31 December 2018		**5,603,567**	**33,534,306**	**38,099,597**	**(16,849,175)**	**308,529,467**	**368,917,762**

The notes on pages 12 to 51 are an integral part of these financial statements.

STATEMENTS OF CASH FLOW
AS AT 31 DECEMBER 2018

	Note	Consolidated Group 2018 K	Consolidated Group 2017 K	Society 2018 K	Society 2017 K
Cash flows from operating activities					
Interest received on loans		28,361,098	24,154,257	24,331,331	21,558,325
Interest on IBDs and debt securities		4,125,076	4,865,032	4,567,020	4,865,032
Dividends received		27,743,990	23,820,604	27,743,990	23,820,604
Net rental and other income		3,752,161	13,736,830	2,796,804	12,975,065
Net proceeds on disposal/acquisition of Investments		-	-	-	(1,186,765)
Change in term deposit		(25,305,325)	5,000,000	(35,285,325)	40,000
Net purchase of Government Securities		(891,536)	(6,539,980)	(891,536)	(6,539,980)
Net loans to members		(16,486,870)	(28,741,085)	(20,003,881)	(18,617,314)
Interest paid to members		(7,059,594)	(5,929,633)	(7,059,594)	(5,929,632)
Payments to employees and suppliers		(36,453,971)	(26,961,293)	(31,276,999)	(27,073,135)
Income tax		-	-	-	-
Net cash (used)/received in operating activities		**(22,214,972)**	**3,404,731**	**(35,078,191)**	**3,912,200**
Cash flows from investing activities					
Payments for investment in PPE/WIP		(14,609,714)	(11,530,965)	(14,550,853)	(11,561,236)
Cash from acquisition of PolSav		13,745,557	-	13,745,557	-
Net cash (used)/received in investing activities		**(864,157)**	**(11,530,965)**	**(805,296)**	**(11,561,236)**
Cash flows from financing activities					
Net members savings deposited		38,847,753	10,477,515	38,847,753	10,437,516
Net cash from financing activities		**38,847,753**	**10,477,515**	**38,847,753**	**10,437,516**
Net increase in cash and cash equivalents		**15,768,624**	**2,351,281**	**2,964,266**	**2,788,480**
Cash and cash equivalents at the beginning of the year		33,963,099	31,611,818	31,645,820	28,857,340
Cash and cash equivalents at the end of the year	15	49,731,723	33,963,099	34,610,086	31,645,820

The notes on pages 12 to 51 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

1. Reporting

Teachers Savings and Loan Society ("TISA" or "the Society") is domiciled in Papua New Guinea. The Society's registered office is TISA Haus, Waigani, NCD, Papua New Guinea. The Group financial statements of the Society as at and for the year ended 31 December 2018 comprise the Society and its sibsidiary, TCF Community Finance Ltd (both "the Group). The Group is primarily involved in the provision financial services which include receiving savings, deposits and issuing loans.

The Group financial statements have been authorised for issue by the Board of Directors on 29th of March 2019.

2. Basis of Accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the Accounting Standards Board of Papua New Guinea ("ASB"), the requirements of the Papua New Guinea Companies Act 1997 and Savings and Loan Societies (Amendment) Act 1995.

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

3. Functional Currency

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

4. Critical Accounting Judgements And Key Sources Of Estimation Uncertainty

In the application of the Group's accounting policies, the 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 maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets to maturity. Government debt securities are measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

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

4.1.2 Significant influence over Capital Insurance Group (CIG)

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 Fair Value Through Profit or Loss (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 cost approach valuation technique.

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 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 Society and the Group will be able to meet its liabilities and obligations as and when they fall due in the normal course of the business.

5. Accounting policies and disclosures

5.1 Accounting policies and disclosures

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

A. IFRS 9 Financial Instruments

The Society and the Group has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement.*

The nature and effects of the key changes to the Society and the Group's accounting policies resulting from its adoption of IFRS 9 are summarised on the next page.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

5. Accounting policies and disclosures (continued)

5.1 Accounting policies and disclosures (continued)

A. IFRS 9 Financial Instruments (continued)

As a result of the adoption of IFRS 9, the Society and the Group adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income (OCI). Additionally, the Society and the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures for 2018 but generally have not been applied to comparative information.

i. Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Society and the Group's accounting policies for financial liabilities.

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, debt investments at FVOCI and loan commitments issued, but not to investments in equity instruments.

iii. Transition

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following table summarises the impact, net of tax, of transition to IFRS 9 on retained earnings at 1 January 2018.

Retained earnings	Consolidated K	Society K
Recognition of expected credit losses under IFRS 9 - Opening adjustment	1,143,107	(86,172)

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

5. Accounting policies and disclosures (continued)

5.1 Accounting policies and disclosures (continued)

A. IFRS 9 Financial Instruments (continued)

iv. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 January 2018.

Group	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Debt securities	Available-for-sale	Amortised cost
Equity securities	Available-for-sale	FVTPL - equity instrument
Loan, advances and receivables	Loans and receivables	Amortised cost
Cash and cash equivalents	Loans and receivables	Amortised cost
Financial liabilities		
Payables	Other financial liabilities	Other financial liabilities
Borrowings	Other financial liabilities	Other financial liabilities

B. IFRS 15 Revenue from Contracts with Customers

The Society and the Group has adopted IFRS 15 Revenue from Contracts with Customers with a date of initial application of 1 January 2018.

The adoption of IFRS 15 had minial impact on the timing or amount of fee and commission income from contracts with customers and related assets and liabilities recognised by the Group. Accordingly, the impact on comparative information is limited to new disclosure requirements.

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.

5.2 Standards issued but not yet effective

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

5. Accounting policies and disclosures (continued)

5.2 Standards issued but not yet effective (continued)

IFRS 16 Leases

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 relevant standards and interpretation that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

i. Subsidiaries (continued)

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.

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

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

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

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

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

The financial statements for the subsidiary TCF Community Finance Ltd have been consolidated based on 31 December 2018 results and the financial statements for the mutual entity acquired in 2018, Police and State Services Savings and Loan Society ("PolSav") have been consolidated based on the financial position as at the date of acquisition as permitted by IAS 27.

Transactions eliminated on consolidation

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

Loss on control

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

ii. Acquisition of mutual entity

On 30 June 2018, the Group acquired 100% interest in Police and State Services Savings and Loan Society ("PolSav") under a Merger and Sale Agreement for nil consideration. PolSav had a net liability position of **PGK16,849,175** as at the date of the merger which was taken up directly against the equity of TISA thereby reducing TISA equity by 5.5% at the time of acquisition.

A. Consideration transferred

The Group paid nil consideration for the merger. Hence in accordance with IFRS 3.B47 the Group has recognised PolSav's net liabilities as a direct deduction to business combinations reserve in its statement of financial position.

B. Acquisition related costs

The Group incurred acquisition related costs of **K175,772** on legal fees and due diligence costs. These costs have been included in operating expenses.

C. Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Note	K
Investment property	13	6,253,000
Property, plant and equipment	10	2,363,887
Loans to members	14	6,575,794
Rental and other receivables	16	45,350
Cash & cash equivalents	15	13,745,557
Member savings	18	(45,550,729)
Employee provisions	17	(134,500)
Creditors and accruals	19	(147,534)
Total identifiable net liabilities acquired		**(16,849,175)**

No goodwill was recognised as a result of the merger transaction.

If new information obtained within one year of the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

The Group has applied IFRS 15 using the cumulative effect method and therefore the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of accounting policies under IAS 18 and IAS 11 are disclosed separately if they are different from those under IFRS 15 and the impact of changes is disclosed in Note 5.1.B.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(b) Revenue recognition

a. Significant accounting policy

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

In the comparative period, revenue was measured at the fair value of the consideration received or receivable, net of value added tax, rebates and discounts and for the consolidated financial statements, after eliminating sale transactions within the Group. Revenue was recognised as follows:

i. Interest

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

ii. Fees and commission

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

iii. Change in Fair Value of Financial Assets

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

iv. Dividend income

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

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

(d) Tax exemption

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

The subsidiary, TCF, is subject to income tax under the Income Tax Act 1959.

(e) Financial instruments

(i) Recognition and initial measurement

Policy applicable before 1 January 2018
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 and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Financial assets: Subsequent measurement and gains and losses – Policy applicable from 1 January 2018

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

Financial assets at amortised cost
These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

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

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(ii) Classification and subsequent measurement (continued)

OCI and are never reclassified to profit or loss.

(iii) De-recognition

Policy applicable before 1 January 2018

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 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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(vi) Fair value measurement (continued)

Policy applicable after 1 January 2018

Financial instruments
The Group recognises loss allowances for ECL's on financial assets measured at amortised cost and loan commitments issued.

No impairment loss is recognised on equity investment.
The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL:

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

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

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

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

The Group considers a financial asset to be in default when:

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

(vii) Identification and measurement of impairment

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

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

The maximum period considered when estimating ECL's is the maximum contractual period over which the Group is exposed to credit risk."

Measurement of ECL's
ECL's are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(e) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive.

ECL's are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or being more than 90 days past due;
– the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
– it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

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

(viii) Reversal of impairment and write-offs:

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

(f) Cash and cash equivalents

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

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

(g) Loans and Advances

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(g) Loans and Advances (continued)

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

(h) Investment securities

Investment securities are accounted for in the following manner:

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

ii. At cost:
Unquoted equity securities whose fair value cannot be measured 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.

(i) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(j) Investment properties

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

(k) Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can 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.

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.

(l) Impairment of Non-Financial Assets

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

For impairment testing assets are grouped together into the smallest group of assets that generates cash inflows from 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.

(m) Deposits

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

7. Significant accounting policies (continued)

(n) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated 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.

(o) Employee benefits

i. Defined contribution plans:
Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a 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.

(p) Reserves

The Group maintains the following equity positions:
i. General reserve / statutory reserve represents a statutory minimum of twenty percent (20%) of each year's profit. If the reserve is greater than 10% of total liabilities then 20% of net earnings is not required to be transferred.

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	
	2018 K	2017 K	2018 K	2017 K
Interest income - loans	28,361,098	24,154,257	24,331,331	21,558,325
Interest income - IBDs and debt securities	4,125,076	5,378,349	4,567,020	5,378,349
Total interest income	**32,486,174**	**29,532,606**	**28,898,351**	**26,936,674**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

8.1 Interest expense

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Interest expense – members savings	(7,059,594)	(5,929,632)	(7,059,594)	(5,929,632)
Additional interest distribution made from additional interest reserves	(19,619,184)	(17,397,587)	(19,619,184)	(17,397,587)
Total interest credited and distributed to members	**(26,678,777)**	**(23,327,219)**	**(26,678,777)**	**(23,327,219)**

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: **K7,059,594 (2017: K5,929,632)** and Group: **K7,059,594 (2017: K5,929,632)** with additional interest of **K19,619,184 (2017: K17,397,587)** credited to members as a distribution from Additional Interest Reserve Account.

8.2 Other income

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Net Loan processing and account administration fees	6,435,716	5,746,050	6,435,716	5,746,050
CIG associate profit/(loss) share	(5,634,439)	(904,326)	(5,634,439)	-
Tisa and LPI insurance commission, and other income	1,102,426	2,886,654	1,102,426	2,886,654
Total other income	**1,903,703**	**7,728,378**	**1,903,703**	**8,632,704**

9 Impairment of financial assets at amortised

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Impairment on loans to members at amortised cost	(828,841)	-	(1,126,907)	-
	(828,841)	**-**	**(1,126,907)**	**-**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

9.1 Operating expenses

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

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Auditor's remuneration - statutory audit services	447,382	205,350	387,382	175,350
Bank charges and interest	58,032	133,074	100,807	84,616
Depreciation	1,650,138	1,351,289	1,506,815	1,208,393
Electricity	1,778,207	1,706,362	1,736,787	1,678,063
Insurance	490,771	485,353	490,771	467,794
Property expense	250,530	415,486	248,630	282,999
Travel, airfare and accommodation	610,539	554,860	536,427	512,318
Security costs	350,213	350,088	416,767	281,759
Data processing expenses	1,897,438	1,516,192	1,482,028	1,152,923
Printing and stationery	300,498	334,128	265,503	318,792
Establishment cost	2,210,895	1,184,195	2,217,660	1,177,430
Fuel	184,549	170,734	172,597	156,440
Advertising & promotion, Credit Union Day	770,940	1,074,298	770,740	680,246
Donations	25,979	94,712	25,979	92,926
Entertainment	66,984	45,581	66,984	45,581
Telephone	346,185	278,076	342,525	269,541
Repair and maintenance	914,984	862,368	906,672	856,668
Rates & taxes	209,570	364,957	209,570	364,957
Motor vehicle expenses	191,289	237,738	146,655	210,250
Filing and legal cost	102,043	203,384	102,043	203,384
Freight	82,460	61,749	82,460	61,598
Consulting	853,158	327,455	844,293	310,065
Cleaning	328,848	313,205	326,429	313,205
Board fees and allowances	211,718	215,742	4,087	-
General and administrative expenses	5,459,351	3,281,624	3,948,743	2,874,586
Total operating expenses	**19,792,702**	**15,768,000**	**17,339,354**	**13,779,884**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

10. Property, plant and equipment

	Consolidated							
	Freehold land K	Land & buildings K	Furniture & Fittings K	Office equipment K	Motor vehicles K	Computer software K	Plant & equipment K	Total K
Cost or valuation								
Balance at 1 January 2018	-	9,100,000	912,365	3,355,012	2,658,047	4,069,275	603,688	20,698,387
Additions	-	-	-	211,536	223,437	-	-	434,973
Acquisition through business combinations	-	-	2,485,643	-	587,052	-	-	3,072,695
Disposals	-	-	(56,494)	(423,632)	(248,935)	-	-	(729,061)
Reversal of depreciation	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-
Revaluation						-		-
Balance at 31 December 2018	**-**	**9,100,000**	**3,341,514**	**3,142,916**	**3,219,601**	**4,069,275**	**603,688**	**23,476,994**
Accumulated depreciation and impairment losses								
Balance at 1 January 2018	-	-	322,404	1,425,465	1,815,735	2,272,961	264,868	6,101,433
Depreciation for the year	-	-	308,542	460,325	614,964	224,274	42,033	1,650,138
Acquisition through business combinations	-	-	256,742	-	452,066	-	-	708,809
Disposals	-	-	(56,494)	(434,372)	(233,577)	-	-	(724,443)
Reclassification	-	-	-	-	-	-	-	-
Reversal of depreciation	-	-	-	-	-	-	-	-
Balance at 31 December 2018	**-**	**-**	**831,194**	**1,451,418**	**2,649,188**	**2,497,235**	**306,901**	**7,735,936**
Carrying amounts at 31 December 2018	**-**	**9,099,999**	**2,053,401**	**1,855,368**	**505,164**	**1,570,121**	**309,175**	**15,741,058**
Cost or valuation								
Balance 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 and impairment losses								
Balance at 1 January 2017	-	-	258,196	1,182,091	1,290,956	2,048,687	223,421	5,003,351
Depreciation for the year	-	168,602	64,208	243,374	524,779	224,274	41,447	1,266,684
Disposals	-	-	-	-	-	-	-	-
Reversal of depreciation	-	(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**
Carrying amounts at 31 December 2017	**-**	**9,100,000**	**589,961**	**1,929,547**	**842,312**	**1,796,314**	**338,820**	**14,596,954**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

10. Property, plant and equipment (continued)

	Society							
	Freehold land K	Land & buildings K	Furniture & Fittings K	Office equipment K	Motor vehicles K	Computer software K	Plant & equipment K	Total K
Cost or valuation								
Balance at 1 January 2018	-	9,099,999	323,966	3,601,943	2,300,995	4,069,275	593,348	19,989,526
Additions	-	-	-	120,404	696,933	-	21,504	838,841
Acquisition through business combinations	-	-	2,485,643	-	587,052	-	-	3,072,695
Disposals	-	-	(56,494)	(423,632)	(248,935)	-	-	(729,061)
Reclassification	-	-	-	-	-	-	-	-
Transfers outs	-	-	-	-	-	-	-	-
Balance at 31 December 2018	**-**	**9,099,999**	**2,753,115**	**3,298,715**	**3,336,045**	**4,069,275**	**614,852**	**23,172,001**
Accumulated depreciation and impairment losses								
Balance at 1 January 2018	-	-	245,299	1,424,710	1,876,093	2,274,880	264,678	6,085,660
Depreciation for the year	-	-	254,167	453,009	534,366	224,274	40,999	1,506,814
Acquisition through business combinations	-	-	256,742	-	452,066	-	-	708,809
Disposals	-	-	(56,494)	(434,372)	(31,644)	-	-	(522,510)
Reclassification	-	-	-	-	-	-	-	-
Reversal of depreciation	-	-	-	-	-	-	-	-
Balance at 31 December 2018	**-**	**-**	**699,714**	**1,443,347**	**2,830,881**	**2,499,154**	**305,677**	**7,778,773**
Carrying amounts at 31 December 2018	**-**	**9,099,999**	**2,053,401**	**1,855,368**	**505,164**	**1,570,121**	**309,175**	**15,393,228**
Cost or valuation								
Balance 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 and impairment losses								
Balance at 1 January 2017	-	-	235,466	1,188,652	1,431,832	2,050,606	224,019	5,130,575
Depreciation for the year	-	168,602	9,833	236,058	444,261	224,274	40,659	1,123,687
Disposals	-	-	-	-	-	-	-	-
Reversal of depreciation		(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**
Carrying amounts at 31 December 2017	**-**	**9,099,999**	**78,667**	**2,177,233**	**424,902**	**1,794,395**	**328,670**	**13,903,866**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

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) as the fair value assessment is prepared in every three years.

As at 30 June 2018, Police & State Services Savings and Loan Society Ltd merged into the Society. The Society acquired PPE in a total value of **K2,363,887** as a result of the merger.

10.1 Property, plant and equipment

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

11. Other financial assets

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Quoted shares (note 11a)	223,624,400	226,567,252	223,624,400	226,567,252
Unquoted shares (note 11b)	17,068,769	22,968,577	17,068,769	30,703,208
Government debt securities (note 11d)	60,099,926	59,208,390	60,099,926	59,208,390
Total other financial assets	**300,793,095**	**308,744,219**	**300,793,095**	**316,478,850**

11a. Quoted shares

TCF Community Finance Ltd does not hold quoted shares; hence the table below is only applicable for the TISA Society.

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

	Society	
	2018 K	2017 K
Bank South Pacific Limited		
Balance at the beginning of the year	145,514,977	137,856,294
Fair value gain/(loss) from change in net market value	11,641,198	7,658,683
At Valuation (2018: 15,317,366 shares @ K10.26 per share)	**157,156,175**	**145,514,977**
(2017: 15,317,366 shares @ K9.50 per share		

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

11. Other financial assets (continued)

11a. Quoted Shares (continued)

	Society	
	2018 K	**2017 K**
Credit Corporation (PNG) Limited		
Balance at the beginning of the year	80,212,275	92,365,650
Fair value gain/(loss) from change in net market value	(14,584,050)	(12,153,375)
At Valuation (2018: 48,613,500 shares @ K1.35 per share)	**65,628,225**	**80,212,275**
(2017: 48,613,500 shares @ K1.65 per share)		
PNG Air Limited		
Balance at the beginning of the year	840,000	1,050,000
Fair value gain/(loss) from change in net market value	-	(210,000)
At Valuation (2018: 7,000,000 shares @ K0.12 per share)	**840,000**	**840,000**
(2017: 7,000,000 shares @ K0.12 per share)		
Total financial assets at fair value through profit or loss	**223,624,400**	**226,567,252**

11b. Unquoted Shares of associate

At 31st December 2018, the Society's interest holding in CIG stands at 29% (2017: 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.

	Consolidated		Society	
	2018 K	**2017 K**	**2018 K**	**2017 K**
Capital Insurance Group (associate)	17,068,769	22,703,208	17,068,769	22,703,208

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

11. Other financial assets (continued)

11b. Unquoted Shares of associate (continued)

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

	Consolidated	
	2018 K	2017 K
Reconciliation of investment in associate at consolidated level		
Balance at beginning of year	22,703,208	23,955,058
Additional investment	-	-
(Provision)/reversal for impairment of associate net of share of profits	(5,634,439)	(904,326)
Equity profits true-up	-	-
Dividend received	-	(347,524)
Total investment in associate	**17,068,769**	**22,703,208**

11c. Investment in Subsidiaries

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

	2018 % Holding	2017 % Holding	Nature of Business	Status
TISA Community Finance (subsidiary)	100%	100%	Financial Services	Active

	Society	
	2018 K	2017 K
Unquoted shares:		
TISA Community Finance (subsidiary)	8,000,000	8,000,000
	8,000,000	**8,000,000**

TISA Community Finance ('TCF') commenced operations in the fourth quarter of the 2016 financial year. On a standalone basis, the Society's investment in TCF is accounted for at fair value through profit and loss.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

11. Other financial assets (continued)

11c. Investment in Subsidiaries (continued)

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

	Society	
	2018 K	2017 K
Interest and similar income	4,046,647	2,618,729
Interest expense	(441,944)	(109,777)
Net interest income	**3,604,703**	**2,508,952**
Operating expenses	3,269,555	3,653,344
Profit/(loss) before tax	**335,148**	**(1,144,392)**
Property and Equipment	549,763	693,087
Cash and Cash Equivalents	15,121,637	2,317,280
Net loans to customers	7,656,443	11,173,454
Loans to customers	9,459,702	11,479,158
Impairment loss allowances on loans to customers	(1,803,259)	(305,704)
Deferred tax assets	401,193	216,178
Deposits from customers	(14,866,922)	(2,825,285)
Payables and accruals	(2,107,360)	(3,924,198)
Net Assets	**6,754,755**	**7,650,516**

11d. 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	
	2018 K	2017 K	2018 K	2017 K
Government debt securities				
Treasury bill – cost at acquisition	38,349,926	33,208,390	38,349,926	33,208,390
Inscribed stock – face value on maturity	21,750,000	26,000,000	21,750,000	26,000,000
Net discount on Inscribed Stock	-	-	-	-
Total government debt securities	**60,099,926**	**59,208,390**	**60,099,926**	**59,208,390**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

11. Other financial assets (continued)

11d. Government debt securities (continued)

Investments in Government Inscribed Stock bear interest varying between 5-12% per annum. (2017: 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 at amortised cost.

12. Changes in fair value of financial assets

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Changes in fair value of shares				
Bank South Pacific Limited	11,641,198	7,658,683	11,641,198	7,658,683
Credit Corporation (PNG) Limited	(14,584,050)	(12,153,375)	(14,584,050)	(12,153,375)
PNG Air Limited	-	(210,000)	-	(210,000)
Total changes in fair value of shares	**(2,942,852)**	**(4,704,692)**	**(2,942,852)**	**(4,704,692)**

13. Investment properties

Properties	Fair Value 31-Dec-16	Additions/ Transfers	Gain/ (loss)	Fair Value 31-Dec-17
	K	K	K	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
Total	**89,992,000**	**11,422,000**	**7,386,000**	**108,800,000**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

13. Investment properties (continued)

Properties	Fair Value 31-Dec-17	Additions/ Transfers	Gain/ (loss)	Fair Value 31-Dec-18
	K	K	K	K
Tisa Haus, Waigani	50,000,000	-	-	50,000,000
Tisa Haus, Lae	7,000,000	-	-	7,000,000
Tisa Haus, Madang	4,500,000	-	-	4,500,000
Kouaka Place, Gordons	6,500,000	-	-	6,500,000
Land adjacent to NDB, Waigani	18,000,000	-	-	18,000,000
Land adjacent to TISA, Waigani	12,800,000	-	-	12,800,000
Alotau Lot 5, Section 10, Alotau	10,000,000	-	-	10,000,000
Office (Lae)	-	3,430,000	-	3,430,000
4 Unit Flat (Lae)	-	1,960,000	-	1,960,000
Residential (POM)	-	863,000	-	863,000
Total	**108,800,000**	**6,253,000**	**-**	**115,053,000**

The fair value of investment property was based on a valuation carried out by independent property valuer, Yagur Property Valuers (2016: The Professional Valuers of PNG Ltd), in February 2018. Yagur Property Valuers are members of the Papua New Guinea Institute of Valuers and Land Administrators, and they have appropriate qualifications and vast experience in the valuations of properties in Papua New Guinea. The valuation methodologies used to value the assets were the capitalization method and comparable sales method. The directors do not consider there to be material change in the fair value since the previous valuation.

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

Through the merger with PovSal, the Society acquired three further investment properties for a total fair value of **K6,250,000**. The properties as determined by the directors are at fair value as at the date of the merger.

For further details please refer to Note 30.

During the year, there were no transfers from work in progress to investment property.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

14. Loans to Members (continued)

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Member loans and provisioning				
Loans receivable to members	225,362,392	202,299,728	217,400,246	190,514,867
ECL Allowance for impairment losses	(14,297,117)	(3,309,378)	(12,829,106)	(3,003,674)
Net member loans	**211,065,275**	**198,990,350**	**204,571,140**	**187,511,193**

Through the merger of the Police & State Services Savings and Loan Society Ltd, the Society's net members loan increased by **K6,575,794.**

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

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Cash and cash equivalents				
Cash on hand and at bank	49,731,723	25,157,734	34,610,086	24,534,765
IBDs with maturities of less than 3 months	-	8,805,365	-	7,111,054
Total cash and cash equivalents	**49,731,723**	**33,963,099**	**34,610,086**	**31,645,819**
IBDs with maturities of more than 3 months	**25,305,325**	**-**	**40,245,325**	**4,960,000**

Through the merger of the Police & State Services Savings and Loan Society Ltd, the Society's cash and cash equivalents are increased by **K13,745,557.**

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 Limited with the main operating account used for general administration and loan payments to members. Accounts are also kept with Australia and New Zealand Banking Limited and Westpac Limited Port Moresby.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

16. Rental and other receivables

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Rental and other receivables				
Rental debtors	541,390	1,541,948	2,463,392	2,488,918
Less: Allowance for rental debtors	(333,647)	(333,647)	(333,647)	(333,647)
Net rental debtors	**207,743**	**1,208,302**	**2,129,745**	**2,155,272**
Other debtors	4,088,929	2,639,743	4,048,337	2,624,623
Less: Allowance for other debtors	(34,589)	(34,589)	(34,589)	(34,589)
Net other debtors	4,054,340	2,605,154	4,013,748	2,590,034
Prepayments	232,199	367,124	211,699	363,624
Interest receivable	922,998	1,566,624	922,998	1,566,624
Member contributions relating to year end received after year end	-	-	-	-
Subtotal prepayments, interest and member receivables	**1,155,197**	**1,933,748**	**1,134,697**	**1,930,248**
Total rental and other receivables	**5,417,280**	**5,747,204**	**7,278,191**	**6,675,555**

17. Employee provisions

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Employee provisions				
Annual leave	1,256,161	1,279,646	1,217,278	1,253,120
Long service leave	2,038,493	1,672,215	2,038,493	1,672,215
Total employee provisions	**3,294,654**	**2,951,861**	**3,255,771**	**2,925,335**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

18. Savings and deposits

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Member savings				
Members' savings pre-additional interest	351,517,796	269,340,768	351,517,796	269,340,768
Additional interest distributed	19,619,184	17,397,730	19,619,184	17,397,730
Total members' savings	**371,136,980**	**286,738,498**	**371,136,980**	**286,738,498**

19. Creditors and accruals

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Creditors and accruals				
Medical claims	14,461	14,461	14,461	14,461
Rental bonds	115,855	19,314	115,855	19,314
Goods and services tax	290,819	258,655	307,009	288,878
Group tax	(90,478)	170,152	18,788	217,975
Accrued expenses	2,404,101	1,379,127	1,632,347	866,522
Sundry creditors	363,672	3,615,744	1,173,260	1,077,558
Rent received in advance	18,959	18,959	18,959	18,959
Unearned revenue	168,875	168,875	168,875	168,875
Inscribed stock discount	1,148,133	1,231,628	1,148,133	1,231,628
Total creditors and accruals	**4,434,398**	**6,876,915**	**4,597,687**	**3,904,170**

20. Members' Capital

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

21. Asset revaluation reserve

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Asset revaluation reserve reconciliation				
Opening balance at 1 January	5,603,567	2,543,965	5,603,567	2,543,965
Transfers out to retained earnings	-	-	-	-
Change in fair value of land and buildings	-	3,059,602	-	3,059,602
Reserve balance at 31 December	**5,603,567**	**5,603,567**	**5,603,567**	**5,603,567**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

22. General reserve

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
General reserve reconciliation				
Opening balance at 1 January	29,356,884	25,767,469	29,356,884	25,767,469
Transfers in from retained earnings	4,177,422	3,589,416	4,177,422	3,589,416
Transfer out to additional interest reserve	-	-	-	-
Reserve balance at 31 December	**33,534,306**	**29,356,885**	**33,534,306**	**29,356,885**

The Savings and Loan Societies (Amendment) Act 1995, requires a Society to transfer 20% of its profits earned in a financial year to the general reserve fund. The purpose of the general reserve fund is to absorb bad loans or lending losses and shall not be used for any other purpose except on the winding up of the Society. The Society is not required to maintain in the general reserve fund at any one time a balance of funds that exceeds 10% of total liabilities.

23. Business Combination Reserve

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Business combination reconciliation				
Opening balance at 1 January	-	-	-	-
Acquisition of PolSav	(16,849,175)	-	(16,849,175)	-
Reserve balance at 31 December	**(16,849,175)**	**-**	**(16,849,175)**	**-**

As part of the acquisition of Police & State Services Savings and Loan Society Ltd, the Society did not pay any consideration, but took over the net liability on fair value of **K16,849,175.**

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

24. Additional interest reserve

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Additional interest reserve reconciliation				
Opening balance at 1 January	41,009,102	33,054,964	41,009,102	33,054,964
Transfers in from Retained Earnings	16,709,679	25,351,725	16,709,679	25,351,725
Transfer out to Members' Savings	(19,619,184)	(17,397,587)	(19,619,184)	(17,397,587)
Reserve balance at 31 December	**38,099,597**	**41,009,102**	**38,099,597**	**41,009,102**

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

24. Additional interest reserve (continued)

Pursuant to the Savings and Loan Society (Amendment) Act 1995, the Board of Directors approved for the establishment of the Additional Interest Reserve Fund for the purpose of maintaining a consistent 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.

25. Financial instruments and risk management

The Society's activities expose it to a variety of financial risks, including the effects of changes in market prices and interest rates. The Society monitors these financial risks and seeks to minimize the potential adverse effects on the financial performance of the Society. The Society does not use any derivative financial instruments to hedge these exposures.

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

25.1 Credit risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

25. Financial instruments and risk management (continued)

25.1 Credit risk (continued)

	Consolidated		Society	
	2018 K	**2017 K**	**2018 K**	**2017 K**
Assets bearing credit risk				
Cash and cash equivalents	49,731,723	33,963,099	34,610,086	31,645,819
Interest bearing deposits	25,305,325	-	40,245,325	4,960,000
Rental and other receivables	5,417,280	5,747,204	7,278,191	6,675,555
Net Loans to members	211,065,275	198,990,350	204,571,140	187,511,193
Quoted shares	223,624,400	226,567,252	223,624,400	226,567,252
Unquoted shares	17,068,769	22,968,577	17,068,769	30,703,208
Government debt securities	60,099,926	59,208,390	60,099,926	59,208,390
Total assets	**592,312,699**	**547,444,872**	**587,497,837**	**547,271,417**

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

	Consolidated		Society	
	2018 K	**2017 K**	**2018 K**	**2017 K**
Member loans				
Loans backed by deposits	175,497,819	146,269,027	175,497,819	146,177,975
Loans without deposit backing	47,848,628	52,721,323	39,907,575	41,333,218
Total assets	**223,346,447**	**198,990,350**	**215,405,394**	**187,511,193**

25.2 Liquidity risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

25. Financial instruments and risk management (continued)

25.2 Liquidity risk (continued)

The table below summaries the maturity profile of the Group's financial assets and liabilities as at 31 December 2018 based on contractual repayment obligations.

	Consolidated						
	Total	At Call	0-3 mnths	3 mnths-1 Yr	1-5 Yrs	More than 5 Yrs	Weighted Average Rate p.a
2018	K	K	K	K	K	K	K
Assets							
Cash and cash equivalents	49,731,723	49,731,723	-	-	-	-	2%
Interest bearing deposits	25,305,325	-	-	25,305,325	-	-	3%
Rental and other receivables	5,417,280	-	5,417,280	-	-	-	nil
Net Loans to members	211,065,275	-	1,085,604	9,060,144	200,919,527	-	12%
Quoted shares	223,624,400	-	-	-	-	223,624,400	nil
Unquoted shares	17,068,769	-	-	-	-	17,068,769	nil
Government debt securities	60,099,926	-	34,099,926	10,000,000	16,000,000	-	10%
Total undiscounted cash inflows	**592,312,699**	**49,731,723**	**40,602,810**	**44,365,469**	**216,919,527**	**240,693,169**	
Liabilities							
Members' Savings*	371,136,980	371,136,980	-	-	-	-	1.5%
Creditors and accruals	4,434,398	-	4,434,398	-	-	-	nil
Employee provisions	3,294,654	-	-	-	-	3,294,654	nil
Total undiscounted cash outflows	**378,866,032**	**371,136,980**	**4,434,398**	**-**	**-**	**3,294,654**	
2017							
Assets							
Cash and cash equivalents	33,963,100	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	**547,444,873**	**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**	
Net exposure 2018	**213,446,667**	**(321,405,257)**	**36,168,413**	**44,365,469**	**216,919,527**	**237,398,515**	
Net exposure 2017	**251,034,342**	**(261,580,763)**	**41,170,262**	**267,144,152**	**206,367,443**	**(2,066,752)**	

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

25. Financial instruments and risk management (continued)

25.2 Liquidity risk (continued)

	Society						
	Total	**At Call**	**0-3 mnths**	**3 mnths-1 Yr**	**1-5 Yrs**	**More than 5 Yrs**	**Weighted Average Rate p.a**
2018	**K**	**K**	**K**	**K**	**K**	**K**	**K**
Assets							
Cash and cash equivalents	34,610,086	34,610,086	-	-	-	-	2%
Interest bearing deposits	40,245,325	-	-	40,245,325	-	-	3%
Rental and other receivables	7,278,191	-	7,278,191	-	-	-	nil
Net Loans to members	204,571,140	-	83,443	11,933,690	192,554,007	-	12%
Quoted shares	223,624,400	-	-	-	-	223,624,400	nil
Unquoted shares	17,068,769	-	-	-	-	17,068,769	nil
Government debt securities	60,099,926	-	34,099,926	10,000,000	16,000,000	-	10%
Total undiscounted cash inflows	**587,497,838**	**34,610,086**	**41,461,560**	**62,179,015**	**208,554,007**	**240,693,169**	
Liabilities							
Members' Savings*	371,063,902	371,063,902	-	-	-	-	1.5%
Creditors and accruals	4,597,687	-	4,597,687	-	-	-	nil
Employee provisions	3,255,771	-	-	-	-	3,255,771	nil
Total undiscounted cash outflows	**378,917,360**	**371,063,902**	**4,597,687**	**-**	**-**	**3,255,771**	
2017							
Assets							
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*	286,783,498	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	**293,613,004**	**286,783,498**	**3,904,171**	**687,342**	**171,241**	**2,066,752**	
Net Surplus/ (exposure) 2018	**253,658,413**	**(262,248,733)**	**10,009,734**	**302,777,389**	**189,186,775**	**13,933,248**	
Net Surplus/ (exposure) 2017	**251,034,342**	**(261,580,763)**	**41,170,262**	**267,144,152**	**206,367,443**	**(2,066,752)**	

*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).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

25. Financial instruments and risk management (continued)

25.2 Liquidity risk (continued)

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

25.3 Interest rate risk

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

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

Fixed rate instruments (financial assets)

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Treasury bills	38,349,926	33,208,390	38,349,926	33,208,390
Government inscribed stock	21,750,000	26,000,000	21,750,000	26,000,000
Loans to members	211,065,275	198,990,350	204,571,140	187,511,193
Total interest-bearing assets	**271,165,201**	**258,198,740**	**264,671,066**	**246,719,583**

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

Fixed rate instruments (financial liabilities)

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
Member savings	371,136,980	286,738,498	371,136,980	286,738,498
Total interest-bearing liabilities	**371,136,980**	**286,738,498**	**371,136,980**	**286,738,498**

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

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

25. Financial instruments and risk management (continued)

25.4 Other market price risk

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

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

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

	Consolidated		Society	
	2018 K	2017 K	2018 K	2017 K
+ 5% change in fair value	11,328,363	12,476,791	11,328,363	12,863,523
- 5% change in fair value	(11,328,363)	(12,476,791)	(11,328,363)	(12,863,523)

25.5 Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash, deposits, investments and loans to members - the carrying amount of these is equivalent to their fair value;

- For investments refer to 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)

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

25. Financial instruments and risk management (continued)

25.5 Fair value of financial instruments (continued)

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

	Consolidated					
	2018			2017		
	Lvl 1	Lvl 2	Lvl 3	Lvl 1	Lvl 2	Lvl 3
Quoted shares	223,624,400	-	-	226,567,252	-	-
Unquoted shares	-	17,068,769	-	-	22,703,208	-
Investment properties	-	-	115,053,000	-	-	108,800,000
Totals	**223,624,400**	**17,068,769**	**115,053,000**	**226,567,252**	**22,703,208**	**108,800,000**

	Society					
	2018			2017		
	Lvl 1	Lvl 2	Lvl 3	Lvl 1	Lvl 2	Lvl 3
Quoted shares	223,624,400	-	-	226,567,252	-	-
Unquoted shares	-	30,703,208	-	-	30,703,208	-
Investment properties	-	-	108,800,000	-	-	108,800,000
Totals	**223,624,400**	**30,703,208**	**108,800,000**	**226,567,252**	**30,703,208**	**108,800,000**

25.6 Capital risk management

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

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

26. Employees

The number of people employed by the Society as at 31 December 2018 is 255 (2017: 258).
The number of people employed by TCF as at 31 December 2018 is 12 (2017: 7).
The number of people employed by the Group as at 31 December 2018 is 267 (2017: 265).

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

27. Retirement benefits

The Society participates in the National Superannuation Fund of Papua New Guinea in respect of its national employees. The employer contribution rate is 12%. Employer contribution during the year amounted to **K 1,108,617 (2017: K892,677)**.

28. Related parties

Member loans are made to staff and directors in the ordinary course of business in accordance with the Society's Rules. The total value of these loans at 31 December 2018 is **K 1,045,039 (2017: K1,922,042)**. The interest rate, security and repayment terms on these loans are consistent with the normal terms extended to members who are not either directors or staff. As disclosed in Note 11c, TISA owns 100% of the share capital in subsidiary TCF. Intercompany transactions, including a loan deposit of **K 14,960,000 (2017: K4,960,000)** made from TISA to TCF, have been eliminated on consolidation.

Total savings by directors and staff amounted to **K 1,262,597 (2017: K1,435,769)**.

28.1 Key management personnel remuneration

The number of employees or former employees, not being directors of the company, whose total remuneration and the value of other benefits receive, exceeded K100,000, falls within each relevant K50,000 band of income as follows:

	Group		Society	
	2018 No.	2017 No.	2018 No.	2017 No.
K100,000 – K149,999	1	2	0	2
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	2	-	2	-
K400,000 – K449,999	-	-	-	-
K450,000 – K499,999	1	-	-	-
K500,000 – K549,999	-	-	-	-
K550,000 – Above	1	1	1	1
	9	8	7	8

The specified executives of the Society during the year were:

- Mr Michael Koisen – Group Chief Executive Officer
- Mr Luke Kaul – Chief Operating Officer
- Mr Igimu Momo – Chief Strategic Officer
- Mr Michael Malara – Chief Finance Officer
- Mr Edward Toliman - Head of Information Technology
- Mr Philip Hehonah – Head of Legal and Company Secretary
- Mr Telavika Faite – Head of Human Resource

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

28. Related parties (continued)

28.1 Key management personnel remuneration (continued)

The specified Directors of TISA 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:

- Ashokkumar Valechha – Chief Executive Officer
- Francis Pahun – Head of Recovery

The specified Directors of TCF during the year were:

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

Specified executives and directors' remuneration in aggregate:

	Primary			Post-employment			Equity	Other	
	Salary & fees	Bonus	Non-monetary	Superannu-ation	Prescribed benefits	Other	Options	Benefits	Total
	K	K	K	K	K	K	K	K	K
Specified Executives									
2018	2,577,926	-	-	308,056	162,286	-	-	-	3,048,268
2017	1,578,467	162,293	-	286,359	998,551	-	-	-	3,025,670
Specified Executives									
2018	17,500	-	-	-	-	-	-	-	17,500
2017	26,500	10,000	-	-	-	-	-	-	36,500

28.2 Transactions with directors

Other than remuneration, the directors of the Society had an aggregate savings balance of **K73,938 (2017: K158,549)**, and aggregate loan balance of **K57,909 (2017: K114,884)**. The directors are subject to the normal lending policy requirements of the Society.

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

29. Contigencies and capital commitments

The Society has received a number of claims arising in the ordinary course of business. The Society has disclaimed liability and is defending the action. The estimated contingent liability is not deemed material for the purposes of the financial statements.

30. Segment information

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

On 31 December 2018, the Group declared an additional bonus interest distribution to members with S1 general savings accounts of **K19,619,814**. 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.

TISA ACQUIRES POLSAV

Standing left to right: Jerome Kadamongariga (Ashurst PNG), Stephen Beach (PwC – Administrator), Michael Koisen OBE ML (Group CEO – TISA) and Les Gavara-Nanu Jr (Legal Advisor for TISA).

TISA Group CEO, Mr Michael Koisen and POLSAV Administrator, Mr Stephen Beach after the signing of the Heads of Agreement (HOA) at TISA Haus.

TEACHERS SAVINGS AND LOAN SOCIETY LIMITED

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Wewak Branch
PO Box 1083, Wewak
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