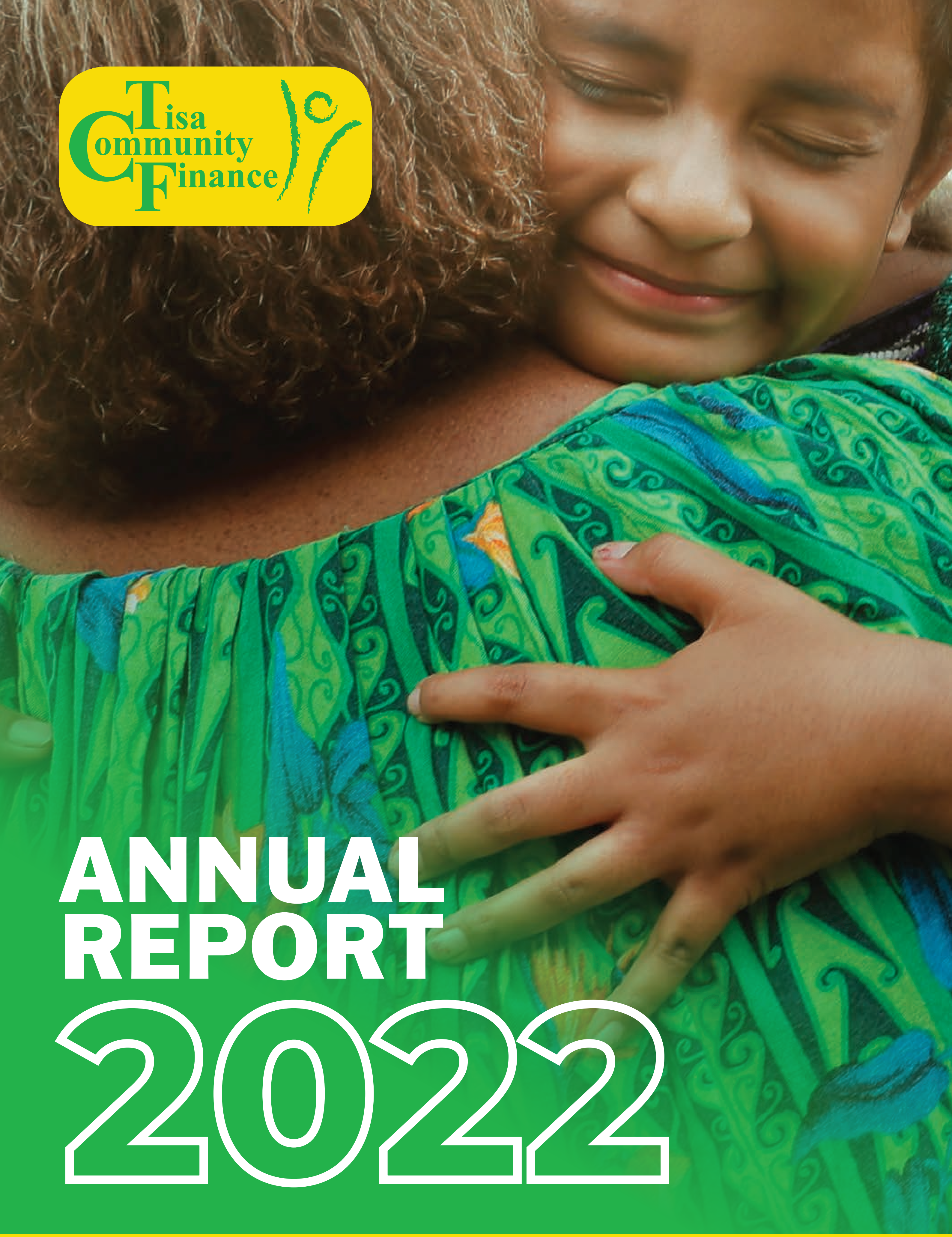
Tisa Community Finance



ANNUAL REPORT 2022

www.tcf.com.pg

REACHING OUT TO COMMUNITIES

Welcome To Our Company

Vision

Empowering people through affordable and quality financial services.

Mission

We aim to be the Financial Institution that maximises value for our shareholders and meet our customers' expectations by continuously developing our products, people, processes, systems and service levels whilst upholding our organisational ethics

Values

- Excellent customer experience
- Responsive practices, processes and systems to prudently manage risks
- Deliver shareholder expectations and values
- Human capital empowerment
- Organisational accountability, honesty, integrity and trust

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CHAIRMAN'S MESSAGE

Michael O. Koisen, OBE ML

Deputy Chairman, TCFL Board of Directors

It is my pleasure to welcome you to Tisa Community Finance Limited's (TCFL) Annual Report for the fiscal year 2022.

> *We are committed to delivering profitable growth, responsibly and sustainably.*

Dear Stakeholders,

It is my pleasure to welcome you to Tisa Community Finance Limited's (TCFL) Annual Report for the fiscal year 2022. Despite facing unprecedented challenges posed by the global pandemic and other obstacles, TCFL has made remarkable progress towards achieving our long-term objectives, and we are excited to share our achievements with you.

Banking License Application

I am thrilled to announce that in May 2022, TCFL was granted an "Approval in Principle" to upgrade our current financial institution license to a commercial banking license. This achievement underscores our unwavering commitment to meeting regulatory requirements and expanding our services to better serve Papua New Guineans. TCFL is taking proactive steps towards achieving our goal of obtaining a commercial banking license, which is a positive indication for future growth and success in the financial industry.

GABV

Our progress towards becoming a member of the Global Alliance for Banking on Values (GABV) is another notable accomplishment this year. In October 2022, our shareholder TISA became the first financial institution in the country and the Pacific to join the GABV network as an Associate Member, joining over 70 banks, credit unions, and other financial institutions worldwide committed to using finance as a tool to improve the livelihood of underprivileged people in societies. Our membership in this alliance will enable us to further strengthen our commitment to sustainable banking practices and share our knowledge and expertise with other like-minded institutions.

Financial Performance

TCFL recorded a net profit after taxation of K4,319,811 which was slightly down on the 2021 profit of K6,341,980 due to an increase in operating costs and impairment provisions. However, we achieved significant growth in our savings/deposit base of 96% to K68,632,924, resulting in an increase in total asset position of K253,530,532 compared to K217,666,960 in 2021. Moreover, the Company has maintained a healthy net asset position of K177,941,265 in 2022, slightly higher than K173,621,454 in 2021.

The net loan portfolio decreased slightly from K54,691,908 in 2021 to K52,499,085 in 2022, but TCFL's strong liquidity position leaves it well placed to grow our loan book and loan interest income in 2023 and meet the continued demand for financial services from local communities.

Moving Forward

As we look forward to 2023 and beyond, TCFL is positioning itself to continue serving Papua New Guineans with integrity and professionalism to make a difference. We are committed to delivering profitable growth, responsibly and sustainably, as we fulfill our purpose and become the preferred values-based bank in Papua New Guinea.

In Appreciation

On behalf of the TCFL Board, I express my deepest condolences to the former TCFL Chairman, late Sir Wilson Kamit's wife and children. Sir Wilson will always be remembered as an upright, humble, and thoughtful leader who made countless contributions to the financial sector and society.

I also wish to extend my appreciation to Mrs. Karo Lelai for her contributions as an independent director since June 2016 and wish her every success in her new undertakings.

Finally, I want to thank our Board of Directors, employees, stakeholders, and industry partners for their unwavering contributions, support, and trust in TCFL. We look forward to navigating the next phase of transformation and growth with you as we fulfill our purpose and become the preferred values-based bank in Papua New Guinea.

Sincerely,

Michael O. Koisen, OBE ML
Deputy Chairman, TCFL Board of Directors

CHIEF EXECUTIVE OFFICER'S REPORT

We continued to experience challenges with the volatility of the economic environment post the global pandemic. Tisa Community Finance Limited (TCFL) has remained committed to its goal of moving into the banking space.

We hosted the 2022 PNG SME Breakfast with the PNG Prime Minister, and was well attended by the business community, in attendance were some diplomatic missions. There was a lot of emphasis on recognition the MSME sector in Papua New Guinea and opportunities it can provide to help boost the economy.

The hosting of the 2022 PNG SME Business Breakfast also gave TCFL a great visibility and platform to share our goal of becoming a commercial bank.

We have seen an increase in customers from our MSME sector request for lending opportunities. There is a huge opportunity in this sector to make financial services accessible.

TCFL has maintained the rates for Term Deposits and has seen an increase of applications with high value of deposits. This has attracted corporate businesses investing their Term Deposits for 12 months and above.

Customer Focus

As we continue to progress into becoming a commercial bank, there will be more emphasis on customer focus. We will introduce products that will be of beneficial use. There will be a digital banking drive to make banking simple and accessible for our customers.

Whether it where customers are in rural or urban areas of the community, improving customer experience is important to us.

Our retail team have been reaching out to current customers and new to onboard prospecting clients. Focusing on sales and onboarding. We endeavor to be easy to do business with and not to be complicated.

Financial results

TCFL has performed strongly through 2022, growing its total asset base by 16% to K253 million compared to K218 million in the prior year. This was largely achieved due to very strong deposit growth of 96%, with customer deposits increasing from K35 million to K69 million, reflecting attractive interest rates offered on term deposit products. Much of these additional deposits have initially been invested in government securities and cash holdings, but the strong liquidity position of the bank leaves it well placed to grow the loan portfolio in 2023 and beyond in line with our strategy.

The net profit of TCFL dropped slightly, from K6.3 million in 2021 to K4.3 million in 2022. Net interest income reduced from K18.2 million to K16.4 million due to the impact of the higher deposit base on interest expense but this was more than offset by a K5.6 million increase in rental income. Impairment losses increased from K2.5 million to K4.3 million, reflecting a slight deterioration in loan repayment arrears, but TCFL has been successful in increasing the proportion of loans backed by collateral from 18% to 28% of the loan portfolio. Other operating expenses also increased by K4.0 million reflecting the growing importance of TCFL within the TISA Group as it transitions to becoming a full-service bank.

Acknowledgement

It is with sincere gratitude that I take this time to thank the Shareholder, Board and staff for their continuous support to the business. Despite a challenging Financial Year 2022, we have remained focused on ensuring service delivery to our customers.

Sincerely,

William Koregai
Acting CEO, TCF

TCF in the COMMUNITY

Our retail team have been reaching out to current customers and new-to-onboard prospecting clients across our branch footprint.

Ela Motors Buka

ABG_House of Representatives

"Success is not final; failure is not fatal: it is the courage to continue that counts."

RV Properties

Warner Shand Lawyers

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2022

The Board of Directors

The Board of Directors is responsible for the overall management and strategic direction of the Company. They operate according to the powers and functions outlined in the constitution and are responsible for:

- Developing the overall business strategy of the Company, including asset and investment management, risk management, and operational matters.
- Approving the overall business strategy and annual budgets of the Company.
- Providing proper oversight to accounting, fiduciary, regulatory, and operational practices of the Company.
- Critically monitoring the effectiveness of the business strategies and the effectiveness of management in delivering those strategies.
- Appointing, assessing the performance, and, if necessary, removing the Chief Executive Officer.
- Appointing the Company Secretary.
- Developing and setting policies covering lending, investment, procurement, and capital expenditure.
- Developing and setting 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.
- Performing other functions and duties consistent with the constitution.

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

All Board members are independent non-executive directors. Directors are elected by shareholders for a term of three years with eligibility for re-appointment.

Each Director must satisfy the criteria under the constitution, the Banks and Financial Institutions Act 2000, and the Companies Act 1997. The Directors also need to satisfy the Fit and Proper criteria required by the Central Bank of Papua New Guinea under prudential standard BPS 300 (Corporate Governance). All Directors have met the requirements for the purpose of eligibility of being a Director. No Director had any material interest in any contract or arrangement with the Company or any related entity during the year.

The Directors of the Board during the year are provided in financial note 28.2 to the financial statements.

Board Committee

The Board Audit, Risk, and Compliance Committee (BARCC) exist to assist the Board by providing an objective non-executive review of the effectiveness of the Company's financial reporting, audit function, and risk management and compliance framework.

The BARCC's responsibilities include:

- Financial Reporting.
- External Audit.
- Internal Audit and Internal Control.
- Risk Management and risk appetite.
- Regulatory, Compliance and Ethical Matters.
- Insurance Program.
- Any other functions delegated by the Board.

The current members of BARCC are Mr. Simon Woolcott (as Chairman), Mrs. Karo Lelai (as a member (resigned September 2022)), and Mr. Ian Clyne (as a member (appointed July 2022)). The Company Secretary also serves as secretary to the Committee.

Remuneration and Nominations Committee

The Board also has a Remuneration and Nominations Committee (RNC) to assist the Board to fulfill its corporate governance and oversight responsibilities in relation to human resource issues and ensuring that the policies and procedures are in place.

The RNC's responsibilities include:

- Establish the policies and procedures for the company covering remuneration, recruitment, and termination;
- Oversee the selection and nomination of suitable Board Directors, CEO and the Company Secretary and make recommendations to the Board.
- Review the remuneration arrangements for members of the Board, including fees, travel and other benefits.
- Review and recommend to the Board the remuneration and the incentive framework for the CEO taking into consideration performance against KPIs.

The current members of RNC are Mr. Peter Mason (as Chairman), Mr. Michael Koisen (as a member), and Mr. Simon Woolcott (as a member). The Company Secretary also serves as secretary to the Committee.

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. This allows the Board to respond quickly to emerging issues or changing circumstances and maintain effective oversight of the company's operations.

Board and Committee Meetings

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

Board Access to Information and Advice

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

Divisional reports are presented to the Board on a quarterly basis. The Chairman and Directors also have the opportunity to meet with the Chief Executive Officer and other members.

Remuneration

The Board's remuneration is determined through a formal process, which takes into account a number of factors including the responsibilities of each Director, the performance of the Company, and the prevailing market conditions for similar roles. The process is overseen by the Remuneration Committee, which is comprised of independent Directors and makes recommendations to the full Board for approval.

The remuneration of each Director is disclosed in the Company's annual report, with a breakdown provided in financial note 28.2. Directors receive no other benefits or compensation from the Company beyond their approved remuneration.

Disclosure of Material Interest by Directors

In order to ensure full transparency and avoid any conflicts of interest, the Company has strict policies in place regarding the disclosure of material interests by Directors. Any Director with a material interest in a matter under consideration, or about to be considered, by the Board must disclose this interest at a duly constituted Board meeting. This disclosure is recorded in the minutes and the Director is physically excused from any deliberations or decisions by the Board on this matter. The Director will also be disregarded for purposes of constituting a quorum of the Board in regard to the deliberations or decisions by the Board on this matter.

A material interest is deemed to exist where a Director:

a. is a party to, or will or may derive a material financial benefit from, a transaction involving the Group or a business enterprise in which the Group has an interest;
b. has a material financial interest in another party to a transaction involving the Group or a business enterprise in which the Group has an interest;
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 Company takes any potential conflicts of interest very seriously and requires Directors to adhere to the highest standards of ethical conduct. By following these policies, the Company is able to ensure that all decisions are made in the best interests of the Company and its stakeholders.

External Auditor

The TISA Group engages KPMG (PNG) as its external auditor for the annual audit of the Company's financial report and compliance with prudential standards. KPMG was first appointed in 2016 for a period of three years up to the year ended 2019. Following approval from the Bank of PNG and shareholders, their appointment was extended for a further two years up to 2021. In 2021, the appointment of KPMG was extended for another three years up to 2024 to ensure compliance with the prudential standard BPS 7/2005 (External Auditors) issued by the regulator. The TISA Group values the expertise and professionalism of KPMG in providing high-quality audit services that help ensure the accuracy and transparency of the Company's financial reporting.

Internal Audit

The Company maintains an Internal Audit Function to assess the adequacy and effectiveness of the Company's internal controls, compliance, and regulatory frameworks, as well as to identify opportunities for improvement in the Company's operations. The Internal Audit team reports directly to the Board Audit and Risk Compliance Committee.

The Internal Audit Function performs its duties in accordance with the International Standards for the Professional Practice of Internal Auditing, and its scope of work is reviewed and approved by the Board Audit and Risk Compliance Committee.

In addition to the Internal Audit Function, the Company engages external auditors to perform regular compliance reviews, including security audits on the data processing systems/centers, to ensure the adequacy of the backup, disaster recovery, and internet security systems. The Internal Audit Function and external compliance reviews provide an added layer of assurance to the Company's stakeholders that the Company is operating in compliance with all relevant regulations and industry best practices.

Regulation

The Company is subject to regulation by various authorities to ensure compliance with legal requirements and to promote ethical and responsible business practices. The Company is overseen by the Central Bank of Papua New Guinea (BPNG) for prudential risk management, and adherence to the Banks and Financial Institutions Act 2000. Additionally, the Company complies with the Companies Act 1997 under the supervision of the Investment Promotion Authority. We are committed to working collaboratively with these regulatory bodies to maintain a strong and sustainable financial system and to deliver long-term value to our stakeholders.

Legal & Compliance Matters

The Company has an in-house legal and compliance team dedicated to managing legal issues such as debt recovery, litigation, contract drafting and negotiation, contract disputes, employment law, intellectual property, and other areas of law. The legal and compliance team also ensures the Company's compliance with legal requirements, such as regulations, policies, and procedures.

The team comprises five certified lawyers who work closely with other departments to provide timely and effective legal and compliance support across the organization. Additionally, the legal team engages external legal counsel on an as-needed basis to provide specialized expertise in specific legal areas.

TISA Community Finance Limited Financial Statements

For the Year Ended 31 December 2022

Contents

DIRECTORS' REPORT

The Directors of Tisa Community Finance Limited (the "Company") submit herewith the annual financial report of the Company for the financial year ended 31 December 2022. In order to comply with the provisions of the *Companies Act 1997* and Bank and Financial Institutions Act 2000 , the directors report as follows:

Principal activities

The Company is a Licenced Financial Institution ("LFI") regulated by the Bank of Papua New Guinea ("BPNG") under the *Bank and Financial Institutions Act 2000* and is primarily involved in providing financial services which includes receiving term deposits and issuing loans.

Registered office

The Company is a limited liability company incorporated and domiciled in Papua New Guinea. The Company's registered address is Level 1, TISA Haus, Sir John Guise Drive, Waigani, NCD, Papua New Guinea.

Review of operations

The Company's total comprehensive income after taxation is K4,319,811 (2021: K6,341,980).

Dividends to shareholders

No dividend has been declared and paid for the year ended 31 December 2022 (2021: K Nil).

Directors

The directors who have served on the Board during 2022 and to the date of this report are: -

Sir Leonard Wilson Kamit (Appointed as Chairman on 21 July 2022, ceased on 25 January 2023)
Mr. Michael Koisen (Acting Chairman)
Ms. Karo Lelai (resigned on 09 September 2022)
Dr. Peter Mason
Mr. Simon Woolcott
Mr. Ian Clyne
Mr. Anthony Smare (resigned on 20 January 2022)
Mr. Paul Komboi

Directors' remuneration

Disclosure has been made in note 28.2

Remuneration above K100,000 per annum

Disclosure has been made in note 28.1

Company secretary

The Tisa Community Finance Limited ("TCF") Corporate Secretary is Philip Hehonah.

Directors' eligibility

No director had any material interest in any contract or arrangement with TCF or any related entity during the year.

Changes in State of Affairs

During the year, there has been no significant changes to the Company's state of affairs.

Auditor

KPMG was appointed as auditor for the year ended 31 December 2022. Details of amounts paid to the auditor for audit and other services are shown in note IO to the financial statements.

Non-audited Services

During the year, KPMG, the auditor had performed certain other services in addition to the audit and review of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by the resolution of the Board Audit Risk and Compliance Committee, is satisfied that the provision of those non- audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Companies Act 1997* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Board and have been reviewed by the Board Audit Risk and Compliance Committee (BARCC) to ensure they do not impact the integrity and objectivity of the auditor, and
- the non-audit services provided do not undermine the general principles relating to the auditor independence as set out in International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the Code) as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing risks and rewards.

Signed at Port Moresby, NCD this 29th day of March 2023.

Signed in accordance with a resolution of the Directors.

Director	**Director**
Mr. Michael O Koisen, OBE ML	Mr. Simon Woolcott

DIRECTORS

Mr. Michael O. Koisen, OBE ML
Director

Dr. Peter Mason
Director

Mr. Simon Woolcott
Director

Mrs. Karo Lelai
Director

Mr. Ian Clyne
Director

Mr. Paul Komboi
Director

STATEMENT BY DIRECTORS

In the opinion of the Directors of Tisa Community Finance Limited:

1. (a) the statement of profit or loss and other comprehensive income of the Company is drawn up so as to give a true and fair view of the results of the Company for the year ended 31 December 2022;
   (b) the statement of financial position of the Company is drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2022;
   (c) the statement of changes in equity of the Company is drawn up so as to give a true and fair view of the changes in equity of the Company for the year ended 31 December 2022;
   (d) the statement of cash flows of the Company is drawn up so as to give a true and fair view of the cash flows of the Company for the year ended 31 December 2022;
   (e) at the date of this statement there are reasonable grounds to believe the Company 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 financial statements have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") adopted in Papua New Guinea and the Papua New Guinea Companies Act 1997 and have been drawn up in accordance with the requirements of the *Bank and Financial Institutions Act 2000.*

Signed at Port Moresby, NCD this 29th day of March 2023.

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

Director
Mr. Michael O. Koisen, OBE ML

Director
Mr. Simon Woolcott

Independent Auditor's Report

To the shareholders of Tisa Community Finance Limited

Report on the audit of the Financial Report

Opinion

We have audited the Financial Report of Tisa Community Finance Limited (the "Company").

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Companies Act 1997*, including:

- giving a true and fair view of the Company's financial position as at 31 December 2022 and of its financial performance for the year ended on that date; and
- complying with *International Financial Reporting Standards*.

The Financial Report comprises the:

- statement of financial position as at 31 December 2022;
- statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended; and
- notes including a summary of significant accounting policies.

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 Report* section of our report.

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

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

Other Information

Other Information is financial and non-financial information in Tisa Community Finance Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report. The remaining Other information, the annual report, is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report 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 Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives 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 a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is 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 *International Standards on Auditing* will always detect a material misstatement when it exists.

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

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

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

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

- 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of Those Charged with Governance (TCWG)'s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on other legal and regulatory requirements

The *Companies Act 1997* requires that in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the Financial Report for the year ended 31 December 2022:

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

KPMG
Chartered Accountants

Pieter Steyn
Partner
Registered under the Accountants Act 1996

Port Moresby
31 March 2023

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 K	2021 K
Interest and similar income	8	19,849,661	20,516,868
Interest expense	8.1	(3,404,094)	(2,302,718)
Net interest income		**16,445,567**	**18,214,150**
Other income	8.2	8,066,036	2,255,750
Total income		**24,511,603**	**20,469,900**
Staff costs		(2,929,750)	(2,580,873)
Impairment losses on loans	9	(4,322,172)	(2,527,894)
Operating expenses	10	(11,038,778)	(7,045,469)
Total expenses		**(18,290,700)**	**(12,154,236)**
Profit from operations before taxation		**6,220,903**	**8,315,664**
Income tax expense	22.1	(1,901,092)	(1,973,684)
Profit for the year after taxation		**4,319,811**	**6,341,980**
Other comprehensive income/(loss)		-	-
Total comprehensive income for the year		**4,319,811**	**6,341,980**

The notes on pages 26 to 52 are an integral part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Notes	2022 K	2021 K
Assets			
Cash and cash equivalents	16	29,860,958	9,418,614
Loans and advances	15	52,499,085	54,691,908
Government securities	14	33,875,683	17,675,905
Receivables	17	72,878,117	77,244,223
Investment property	12	45,179,755	45,179,755
Property and equipment	11	4,955,577	5,504,585
Capital work in progress	13	12,256,844	7,391,322
Net deferred tax asset	22.3	719,702	560,648
Income tax receivable	22.2	1,304,811	-
Total assets		**253,530,532**	**217,666,960**
Liabilities			
Deposits	19	68,632,924	34,946,906
Creditors and accruals	20	4,463,845	2,949,681
Employee provisions	18	293,363	227,083
Lease liability	21	2,199,135	3,502,744
Income tax payable	22.2	-	2,419,092
Total liabilities		**75,589,267**	**44,045,506**
Net assets		**177,941,265**	**173,621,454**
Equity			
Share capital	23	166,700,001	166,700,001
Retained earnings		11,241,264	6,921,453
Total equity		**177,941,265**	**173,621,454**

The notes on pages 26 to 52 are an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Share Capital	Retained Earnings	Total
		K	K	K
Balance at 1 January 2020		**166,700,001**	**579,473**	**167,279,474**
Total comprehensive income for the year after taxation		-	6,341,980	**6,341,980**
Balance at 31 December 2021		**166,700,001**	**6,921,453**	**173,621,454**
Total comprehensive income for the year after taxation		-	4,319,811	4,319,811
Balance at 31 December 2022	23	**166,700,001**	**11,241,264**	**177,941,265**

The notes on pages 26 to 52 are an integral part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 K	2021 K
Cash flows from operating activities			
Interest received on loans		18,935,689	19,756,692
Net rental and other income		6,317,304	2,255,750
Interest on IBDs and debt securities		689,342	760,176
Net movement in loans		(2,129,349)	(16,065,001)
Interest paid to depositors		(3,404,094)	(2,088,074)
Change in customer deposits		33,686,018	1,274,152
Payments to employees and suppliers		(10,977,648)	(8,613,909)
Income taxes paid		(5,784,049)	(726,216)
Net cash flow from/(used in) operating activities		**37,333,214**	**(3,446,430)**
Cash flows from investing activities			
Net purchase of government securities		(16,199,778)	2,366,961
Payments for investment in property and equipment and capital work in progress		(5,507,660)	(3,359,097)
Net cash used in investing activities		**(21,707,438)**	**(992,136)**
Cash flows (used)/flow from financing activities			
Funding from parent company		6,120,177	-
Lease payments		(1,303,609)	(731,720)
Net cash (used in)/flow from financing activities		**4,816,568**	**(731,720)**
Net increase/(decrease) in cash and cash equivalents		**20,442,344**	**(5,170,286)**
Cash and cash equivalents at the beginning of the year		9,418,614	14,588,901
Cash and cash equivalents at the end of the year	16	**29,860,958**	**9,418,614**

The notes on pages 26 to 52 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

1. **Reporting**
   Tisa Community Finance Limited ("TCF") is domiciled in Papua New Guinea. The Company's registered office is TISA Haus, Waigani, NCD, Papua New Guinea. The company is primarily involved in the provision of financial services which include receiving term deposits and issuing loans.

   The financial statements have been authorised for issue by the Board of Directors on 29th March 2023.

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* .

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

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

3. **Functional currency**
   The financial statements are presented in the Papua New Guinea currency, the Kina, which is the Company's functional currency.

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

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

   The areas involving significant estimates or judgements are:
   -Note 7(d) (vii) Significant increase in credit risk;
   -Note 24.1 Estimated expected credit loss allowance for loans to clients; and
   -Note 12 Investment properties valuation

   Going concern basis
   The financial statements have been prepared on a going concern basis which assumes that the Company will realise its assets and settle its liabilities in the normal course of operations.

5. **Accounting policies and disclosures**
   The Company has consistently applied the accounting policies to all periods presented in the financial statements.

6. Other standards

The following amended standards have no significant impact on the Company's financial statements:

New and amended standards, and interpretations mandatory for the first time for the financial year ended 31 December 2022

-A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16,

-Amendments to IFRS 16 'Leases' - Covid 19 related rent concessions (extension of time period),

-IFRIC Agenda Decision - Lessor forgiveness of lease payments

New standards, amendments and interpretations issued but not effective for the financial year ended 31 December 2022 and not early adopted

-Narrow scope amendments to IAS 1, Practice Statement 2 and IAS 8,

-Amendments to IAS 12 - Deferred tax related to assets and liabilities arising from a single transaction

-Amendments to IFRS 16- Sale and leaseback transactions

-Amendments to IAS 1 - Non current liabilities subject to covenants

-IFRS 7: 'Insurance contracts'.

The Company has conducted investigations and does not consider that there are any measurement or recognition issues arising from the release of these new pronouncements that will have a significant impact on the reported financial position or financial performance of the Company.

7. Significant accounting policies

(a) Revenue recognition

i. Interest

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

When calculating the effective interest rate, the Company 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 is presented in the statement of profit or loss and other comprehensive income using the effective interest method includes interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

ii. Fees and commission

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

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

7. Significant accounting policies (continued)

(b) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Company allocates consideration in the contract to each lease component on the basis of its relative stand alone price. However, for leases of branches and office premises, the company has elected not to separate non - lease components and accounts for the lease and non-lease components as a single lease component.

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

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

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

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the profit or loss if the carrying amount of the right-of-use of asset has been reduced to zero. The Company presents right-of-use assets in Property and Equipment and lease liabilities as a separate liability account on the Balance Sheet.

Company acting as a lessor

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

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

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

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

7. Significant accounting policies (continued)

(c) Income Tax

Income tax expenses comprises of current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous year.

Deferred Tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for taxation purpose. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries to the extent that is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rate that is expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income tax levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax liabilities and assets on the basis or their tax assets and liabilities will be released simultaneously.

Deferred tax assets are recognised for unused tax losses, tax credits and deductable temporary differences to the extent that it is probable that future taxable profit will be available against which they can utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(d) Financial instruments

(i) Recognition and initial measurement

The company 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 company becomes a party to the contractual provisions of the instrument.

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

7. Significant accounting policies (continued)

(d) Financial instruments (continued)

(i) Recognition and initial measurement (continued)

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; Fair Value through Other Comprehensive Income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the company 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 company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL

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

Financial assets at amortised cost

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

(ii) Classification and subsequent measurement

Debt investments at FVOCI

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

Equity investments at FVOCI

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

7. Significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) De-recognition

A financial asset is derecognised when the company 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 company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

(iv) Offsetting financial instruments

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

(v) Amortised cost measurement

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

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

Government securities are measured at amortised cost. Given the short term nature the Government securites, i.e up to 12 months maturity, the carrying amount approximates the fair value of these instruments.

(vi) Fair value measurement

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

Financial instruments

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

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company 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 company's historical experience and informed credit assessment and including forward-looking information.

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

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

– the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the company to actions such as realising security (if any is held); or

– the financial asset is more than 90 days past due.

7. Significant accounting policies (continued)

(d) Financial instruments (continued)

(vii) Identification and measurement of impairment

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

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

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

Expected credit loss impairment model

The company's allowance for credit loss calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss impairment model reflects the present value of all cash shortfalls related to default events either

(i) over the following twelve months or

(ii) over the expected life of a financial instrument depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

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

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

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

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

7. Significant accounting policies (continued)

(d) Financial instruments (continued)
(vii) Identification and measurement of impairment (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

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

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

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

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

(vii) Identification and measurement of impairment (continued)

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

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

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

	Probability of default weighting		
	Base Case	Upturn	Downturn
As at 31 December 2022	70%	10%	20%
As at 31 December 2021	80%	10%	10%

7. Significant accounting policies (continued)

(d) Financial instruments (continued)

(vii) Identification and measurement of impairment (continued)

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

Assessment of significant increase in credit risk

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

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the company 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 company's procedures for recovery of amounts due.

(viii) Reversal of impairment and write-offs

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

(e) 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.

(f) 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 Company does not intend to sell immediately or in the near term.

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

(g) Investment securities

Investment securities are accounted for in the following manner:

At cost:

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

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

(h) Property and equipment

i. Recognition and measurement:

Items of property and equipment, are measured at cost less accumulated depreciation and accumulated impairment losses except land and buildings which are required to be revalued based on the company's policy of every three years.

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.

7. Significant accounting policies (continued)

(h) Property and equipment (continued)

ii. Subsequent costs:

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Company. 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 company will obtain ownership by the end of the lease term. Land is not depreciated.

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

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

(i) Investment property

i. Recognition and measurement:

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in the profit & loss.

Cost includes expenditure that is attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

Cost includes expenditure that is attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalised borrowing costs.

When the use of a property changes such that it is reclassified as Property and equipment, its fair value at the end of the reclassification becomes its cost for subsequent accounting.

(j) Software

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

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

7. Significant accounting policies (continued)

(j) Software

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

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

(k) Impairment of Non-Financial Assets

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

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

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

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

(l) 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.

(m) Provisions

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

(n) Employee benefits

i. Defined contribution plans:

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

ii. Other long-term employee benefits:

The Company'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 Company can no longer withdraw the offer of those benefits and when the Company 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 Company 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.

(o) Interest expense

Interest expense and associated expenses incurred on the issue of financial liabilities is recognised in the profit or loss using the effective interest method.

	2022	2021
	K	K
8. Interest and similar income		
Interest income – loans	18,935,689	19,756,692
Interest income – Government debt securities	913,972	760,176
Total interest income	**19,849,661**	**20,516,868**

8.1 Interest expense

Interest expense	(3,241,936)	(2,088,074)
Interest expense on lease liability	(162,158)	(214,644)
Total interest expense	**(3,404,094)**	**(2,302,718)**

Interest expense on deposits is accrued and credited to the deposit accounts at the end of each month.

8.2 Other income	2022	2021
	K	K
Net loan processing and account administration fees	641,414	484,381
Rental and other property related income *	6,989,968	1,378,416
LPI insurance commission and other income	113,325	110,752
Other recoveries	321,329	282,201
Total other income	**8,066,036**	**2,255,750**

* The balance of K6,989,968 represents full rental income for the year ended 31 December 2022. The reported rental income and other property related income for the year ended 31 December 2021 was for August 2021 to December 2021.

9. Impairment losses on loans

	2022	2021
	K	K
Impairment on loans at amortised cost	(4,322,172)	(2,527,894)
	(4,322,172)	**(2,527,894)**

10. Operating expenses

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

	2022 K	2021 K
Auditor's remuneration - statutory audit services	110,001	160,369
Bank charges	11,690	10,658
Depreciation	1,146,325	1,009,805
Electricity	1,442,374	404,165
Insurance	205,342	70,061
Travel, airfare and accommodation	165,010	39,763
Data processing	77,097	46,034
Printing and stationery	74,600	78,330
Fuel	189,490	56,658
Advertising & promotion	480,136	941,637
Entertainment	-	-
Telephone	50,998	51,101
Repair and maintenance	519,601	365,097
Motor vehicle expenses	36,130	37,519
Filing and legal cost	6,435	2,300
Subscription and license	58,457	71,101
Consultancy & professional fees	243,416	80,804
Cleaning	272,847	80,249
Board fees and allowances	1,232,680	737,506
General and administrative expenses *	4,716,147	2,802,312
Total operating expenses	**11,038,778**	**7,045,469**

* The General and administrative expenses comprised largely of costs which had been recharged by the parent company. This internal arrangement was implemented during the year.

11. Property and equipment

	ROU - Asset	Furniture & fittings	Office equipment	Motor vehicles	Computer software	Other equipment	Total
	K	K	K	K		K	K
Cost							
Balance at 1 January 2022	5,718,879	1,419,148	666,359	452,047	-	10,340	8,266,773
Other adjustments	-	51,652	(236,840)	132,434	298,592	-	245,837
Additions	-	-	75,354	566,784	-	-	642,138
Disposals	-	-	-	(268,393)	-	-	(268,393)
Balance at 31 December 2022	**5,718,879**	**1,470,800**	**504,873**	**882,872**	**298,592**	**10,340**	**8,886,356**
Accumulated depreciation							
Balance at 1 January 2022	1,974,993	276,825	110,048	394,591	-	5,730	2,762,188
Other adjustments	294,683	8,114	(6,897)	(5,241)	-	-	290,659
Depreciation for the year	723,714	146,181	83,150	162,346	29,900	1,034	1,146,325
Disposals	-	-	-	(268,393)	-	-	(268,393)
Balance at 31 December 2022	**2,993,390**	**431,120**	**186,301**	**283,304**	**29,900**	**6,764**	**3,930,779**
Carrying amounts at 31 December 2022	**2,725,489**	**1,039,679**	**318,572**	**599,568**	**268,692**	**3,576**	**4,955,577**

11. Property and equipment (continued)

	ROU - Asset	Furniture & fittings	Office equipment	Motor vehicles	Computer software	Other equipment	Total
	K	K	K	K		K	K
Cost							
Balance at 1 January 2021	1,861,094	1,419,148	666,359	452,047	-	10,340	4,408,988
Additions	3,857,785	-	-	-	-	-	3,857,785
Disposals	-	-	-	-	-	-	-
Balance at 31 December 2021	**5,718,879**	**1,419,148**	**666,359**	**452,047**	**-**	**10,340**	**8,266,773**
Accumulated depreciation							
Balance at 1 January 2021	1,199,626	143,024	66,374	339,469	-	3,890	1,752,383
Depreciation for the year	775,367	133,801	43,674	55,122	-	1,840	1,009,805
Disposals	-	-	-	-	-	-	-
Balance at 31 December 2021	**1,974,993**	**276,825**	**110,048**	**394,591**	**-**	**5,730**	**2,762,188**
Carrying amounts at 31 December 2021	**3,743,886**	**1,142,323**	**556,311**	**57,456**	**-**	**4,610**	**5,504,585**

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12. Investment property

Property	Fair Value 31 Dec 2021 K	Additions/ Transfers K	Gain/(Loss) on Valuation K	Fair Value 31 Dec 2022 K
TISA Haus, Waigani	45,179,755	-	-	45,179,755

The property, TISA Haus Waigani was vested by parent company, Teachers Savings & Loan Society Limited to TISA Community Finance Limited in August 2021.

The fair value of investment property was based on the desktop valuation carried out by executive management after making adjustment to the valuers' (The Professional Valuers of PNG and Arthur Strachan Limited) assessment. The valuation methodology used to value the asset was direct capitalization (income approach).

Information about how the fair values of the Company's investment property are determined (in particular the valuation method and inputs used) is detailed as follows: -

Direct capitalisation is a fair valuation model, which considers the annual gross income of the property adjusted for vacancies and expenses. The net operating income is divided by a capitalisation rate. The capitalisation rate is derived from comparable market transactions and adjusted for certain property specific characteristics such as the physical detoriaration of the property and its location (prime or secondary). Key unobservable input includes the capitalisation rates and market lease rates.

Fair value hierarchy:
The fair value measurement for investment property of K45,179,755 has been categorised as Level 3 fair value, due to the inputs to the valuation techniques used made reference to significant observable inputs such as risk- adjusted capitalisation rates and market rental rates. Significant key unobservable inputs used include the risk adjusted market capitalisation rate of 10% (2021: 10%). Accordingly, an increase in the market lease rental rates and/or a decrease in the discount rate and/or decrease capitalisation rate would increase the fair value of the properties. A decrease in the market lease rates and/or increase in the discount rate and/or increase capitalisation rate would decrease the fair value of the property. A sensitivity analysis is provided below:

Sensitivity Analysis:

	Effect on Profit or Loss Increase/(Decrease) 2022 K	2021 K
Increase of 1% in capitalisation rate	(3,540,689)	3,540,689
10% increase in rentals	698,997	344,470

The income and direct expenses derived from and incurred in relation to the investment property are as follows: -

	2022 K	2021 K
Rental income and other property related income	6,989,968	1,378,416
Operating expenses	(2,840,828)	(993,935)
Profit from investment property	4,149,141	384,481

The investment property portfolio is expected to generate a total of K7,271,460 annual income in the year 2023 based on the current lease agreements with the existing tenants.

12. Investment property (continued)

Key judgments and estimates:

Judgement is required in determining the following key assumptions:

-Adopted capitalisation rate

The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.

-Net market rental (per square meter)

The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm's length transaction.

-Land rate (per square meter)

The land rate is the market land value per square meter.

13. Capital work in progress	**2022**	**2021**
	K	**K**
Opening balance	7,391,322	3,945,004
Additions during the year	5,053,614	3,446,318
Impairment during the year	(188,092)	-
Closing balance	12,256,844	7,391,322

Capital work in progress (‘WIP’) relates to major refurbishment and on-going work on the Company’s leased assets and major projects. The current work in progress predominantly relates to improvements to office and branch network and TISA Ruma fit out, one of the rented properties of the Company.

Projects which are identified as capital projects such as new buildings, extensions to existing buildings, infrastructure additions or major refurbishments are capitalised as expenditure to buildings at cost.
The Company conducts a full valuation of the assets every three years and an internal Directors' valuation for the interim years. Details of any additions airing from capital or maintenance projects, which are part of complex assets will be advised to the professional valuer and be included in the annual valuation process.

	2022	**2021**
14. Government securities	**K**	**K**
Central bank and treasury bills	33,875,683	17,675,905
Total Government securities	**33,875,683**	**17,675,905**

Government debt securities and investments in treasury bills, measured at amortised cost that have maturity of more than 90 days from the balance date and provide a return ranging from 1.95% to 4.55% per annum.
Interest receivables have been recorded in note 17.

15. Loans and advances

The effective 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.

	2022	2021
Loans and provisioning	**K**	**K**
Loans receivable - current	22,142,695	30,607,742
Loans receivable - non current	34,313,159	26,177,589
Total loans receivable	56,455,854	56,785,331
Expected credit loss allowances (note 24.1.1)	(3,956,769)	(2,093,423)
Net loans	52,499,085	54,691,908
Allowance for impairment losses		
Opening balance	2,093,423	1,182,349
Increase in provisions (note 9)	4,322,172	2,527,894
Bad debts written off	(2,458,826)	(1,616,820)
Closing balance	3,956,769	2,093,423

16. Cash and cash equivalents

	2022	2021
	K	**K**
Cash on hand and at bank	29,860,958	9,418,614
Total cash and cash equivalents	**29,860,958**	**9,418,614**

The Company 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.

17. Receivables

	2022	2021
	K	**K**
Rental receivables	2,565,292	816,560
Less: Allowance for bad debs	-	-
Net rental receivables	**2,565,292**	**816,560**
Other debtors	424,992	994,856
Intercompany - Parent *	68,521,306	74,641,483
Prepayments	921,216	570,641
Interest receivable	445,312	220,682
Subtotal prepayments, interest and other receivables	**70,312,826**	**76,427,662**
Total receivables	**72,878,117**	**77,244,223**

* The balance of K68,521,306 is made up of receivables from parent company. The receivables largely relate to shares issued in the previous year (note 28). The intercompany receivable is interest free and is expected to be settled in full by year 2025 through a board approved intercompany debt settlement plan.

18. Employee provisions

	2022	2021
	K	**K**
Employee provisions		
Annual leave	159,358	143,684
Long service leave	134,005	83,399
Total employee provisions	**293,363**	**227,083**

19. Deposits

	2022	2021
	K	K
Deposits		
Short term deposit	61,882,770	33,361,107
Long term deposit	6,750,154	1,585,799
Total deposits	**68,632,924**	**34,946,906**

Deposits earn fixed interest at at 1.50% to 7.50% per annum (2021: at 3.25% to 6.50% per annum) depending on the term.

20. Creditors and accruals

	2022	2021
Creditors and accruals	K	K
Accrued expenses *	1,480,295	135,091
Trade creditors	-	49,600
Sundry creditors	627,467	1,655,046
Accrued interest expense on deposits	2,356,082	933,185
Group tax	-	176,759
Total creditors and accruals	**4,463,845**	**2,949,681**

* The accrued expenses for the year ended 31 December 2022 amounting to K1,480,295 relate primarily to the outstanding shared service fee being charged by the parent company. As part of the intercompany debt settlement, the balance will be set off against the receivable from parent company.

21. Lease liability

	2022	2021
	K	K
Lease liability	2,199,135	3,502,744
Total lease liability	**2,199,135**	**3,502,744**

Maturity Analysis:	2022	2021
	K	K
Year 1	936,936	919,160
Year 2	936,936	936,936
Year 3	575,848	936,936
Onwards	-	1,210,472
Gross	2,449,720	4,003,504
Less: Future interest charges	(250,585)	(500,760)
	2,199,135	3,502,744

22. Income tax

	2022	2021
	K	K
22.1 Income tax expense		
Current tax	1,777,937	2,572,186
Under/(over) in tax expense/(benefit)	282,210	(349,861)
Deferred tax expense	(159,054)	(248,641)
	1,901,092	**1,973,684**
Accounting profit before tax	6,220,903	8,315,664
- lease payments	(1,180,318)	(731,720)
	5,040,584	7,583,944
Tax on the profit for the year at 30%	1,512,175	2,275,183
Taxation effect of permanent differences		
- Non-deductible items	265,761	297,003
	1,777,937	**2,572,186**

22. Income tax (continued)

22.2 Income tax payable

Opening balance of income tax	2,419,092	922,982
Current tax payable	1,777,937	2,572,186
Under/(over) provision in prior years	282,210	(349,861)
Payments during the year	(5,784,050)	(726,216)
Closing balance of income tax (receivable)/payable	**(1,304,811)**	**2,419,092**

22.3 Deferred tax balance

Deferred tax assets and deferred tax liabilities as at 31 December 2022 and 2021 are attributable to the items as details in the table below: -

As at 31 December 2022	**Asset**	**Liability**	**Net**
	K	**K**	**K**
Provisions	1,297,489	-	1,297,489
Prepayments	-	(567,123)	(567,123)
Other	-	(10,664)	(10,664)
	1,297,489	**(577,787)**	**719,702**
As at 31 December 2021			
Provisions	712,614	-	712,614
Prepayments	-	(141,302)	(141,302)
Other	-	(10,664)	(10,664)
	712,614	**(151,966)**	**560,648**

23. Capital

	2022	**2021**
	K	**K**
Issued and fully paid, 166,700,001 ordinary shares as K1.00 each	166,700,001	166,700,001
(2021: 166,700,001 ordinary shares at K1.00 each)	166,700,001	166,700,001

24. Financial instruments and risk management

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

24. Financial instruments and risk management (continued)

24.1 *Financial risk factors*

Risk management is carried out by executive management under policies approved by the Company's Board of Directors. The Company caters for the funding of its clients and invests to cater for this. The Company'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.

24.1.1 *Credit risk*

Credit risk is the potential risk of loss arising from failure of a debtor or counterparty to meet their contractual obligations. The Company is subject to credit risk through its lending and investing and provision of goods and services on credit terms. The Company'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 Company 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:

	2022 K	2021 K
Assets bearing credit risk		
Cash and cash equivalents	29,860,958	9,418,614
Rental and other receivables	72,878,117	77,244,223
Net loans	-	54,691,908
Total assets	**102,739,075**	**141,354,745**

	2022 K	2021 K
Loans		
Loans backed by collaterals	15,711,285	10,544,661
Loans without collaterals	40,744,569	46,240,670
Total assets	**56,455,854**	**56,785,331**

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

	2022 K	2021 K
Stage 1 - 12 month ECL	47,150,570	52,229,474
Stage 2 - Life time ECL	4,324,050	1,632,363
Stage 3 - Life time ECL	4,981,234	2,923,494
Gross carrying amount	56,455,854	56,785,331
Allowance for credit loss	(3,956,769)	(2,093,423)
Net carrying amount	52,499,085	54,691,908

24. Financial instruments and risk management (continued)

24.1.1 *Credit risk (Continued)*

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

	Stage 1	Stage 2	Stage 3	Total
	K	K	K	K
Balance as at 1 January 2022	**948,870**	**341,836**	**802,718**	**2,093,425**
Transfer to Stage 1	478,237	42,265	50,102	570,604
Transfer to Stage 2	(64,881)	(23,224)	96,725	8,620
Transfer to Stage 3	258,701	688,002	4,273,543	5,220,246
Net remeasurements	**672,057**	**707,043**	**4,420,369**	**5,799,469**
New financial assets purchased or originated	431,600	32,719	77,302	541,621
Write offs and transfers from savings to loans	(239,265)	(59,581)	(2,085,474)	(2,384,320)
Balance as at 31 December 2022	**864,392**	**680,181**	**2,412,196**	**3,956,769**

	Stage 1	Stage 2	Stage 3	Total
	K	K	K	K
Balance as at 1 January 2021	513,323	92,557	576,470	1,182,351
Transfer to Stage 1	(451,332)	6,040	5,767	(439,525)
Transfer to Stage 2	231,521	(19,336)	15,661	227,846
Transfer to Stage 3	1,713,143	167,222	(154,408)	1,725,957
Net remeasurements	1,493,332	153,926	(132,979)	1,514,279
New financial assets purchased or originated	485,731	75,318	109,525	670,574
Write offs and transfers from savings to loans	(1,030,193)	112,592	826,172	(91,429)
Balance as at 31 December 2021	**948,870**	**341,836**	**802,718**	**2,093,424**

24.1.2. *Liquidity risk*

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and when the clients redeem their term deposits. The consequence may be the failure to meet obligations to repay clients and fulfill commitments to lend.

The Company 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 company'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 Company to dispose or trade these investments.

24. Financial instruments and risk management (continued)

24.1.2 *Liquidity risk (continued)*

The table below summaries the maturity profile of the Company's financial assets and liabilities as at 31 December 2022 and 2021 based on contractual repayment obligations.

	Total	At Call	0-3 mnths	3 mnths-1 Yr	1-5 Yrs	More than 5 Yrs	Weighted Average Rate p.a
	K	K	K	K	K	K	%
31 December 2022							
Assets							
Cash and cash equivalents	29,860,958	29,860,958	-	-	-	-	nil
Receivables	72,878,117	-	-	28,656,812	44,221,306	-	nil
Net loans	52,499,085	-	-	51,615	39,051,969	13,395,501	20%
Government debt securities	33,875,683	-	-	33,875,683	-	-	4%
Income tax receivable	-	-	-	-	-	-	nil
Total undiscounted cash inflows	**189,113,843**	**29,860,958**	**-**	**62,584,110**	**83,273,274**	**13,395,501**	
Liabilities							
Deposit	68,632,924	-	5,368,822	56,226,598	7,037,504	-	4.60%
Creditors and accruals	4,463,845	-	-	4,463,845	-	-	nil
Lease liability	2,199,135	-	-	1,099,568	1,099,568	-	nil
Employee provisions	293,363	-	-	159,358	134,005	-	nil
Total undiscounted cash outflows	**75,589,267**	**-**	**5,368,822**	**61,949,369**	**8,271,076**	**-**	
Net Surplus/ (exposure)	**113,524,576**	**29,860,958**	**(5,368,822)**	**634,741**	**75,002,198**	**13,395,501**	

	Total	At Call	0-3 mnths	3 mnths-1 Yr	1-5 Yrs	More than 5 Yrs	Weighted Average Rate p.a
	K	K	K	K	K	K	%
31 December 2021							
Assets							
Cash and cash equivalents	9,418,614	9,418,614	-	-	-	-	nil
Receivables	77,244,223	-	-	77,244,223	-	-	nil
Net loans	54,691,908	-	-	73,645	48,168,333	6,449,930	20%
Government debt securities	17,675,905	-		17,675,905		-	4.00%
Total undiscounted cash inflows	**159,030,650**	**9,418,614**	**-**	**94,993,773**	**48,168,333**	**6,449,930**	
Liabilities							
Deposit	34,946,906	-	5,657,930	27,713,179	1,575,797	-	5.55%
Creditors and accruals	2,949,681	-	361,450	-	2,588,231	-	nil
Lease liability	3,502,744	-	-	3,502,744	-	-	nil
Income tax payable	2,419,092	-	-	2,419,092			nil
Employee provisions	227,083	-	-	143,684	83,399	-	nil
Total undiscounted cash outflows	**44,045,506**	**-**	**6,019,380**	**33,778,699**	**4,247,427**	**-**	
Net Surplus/ (exposure) 2021	**114,985,144**	**9,418,614**	**(6,019,380)**	**61,215,075**	**43,920,906**	**6,449,930**	

24. Financial instruments and risk management (continued)

24.2 *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 Company's interest-bearing financial instruments was:

Fixed rate instruments (financial assets)

	2022	2021
	K	K
Central Bank Treasury bills	33,875,683	17,675,905
Net Loans	52,499,085	54,691,908
Total interest-bearing assets	**86,374,768**	**72,367,813**

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

Fixed rate instruments (financial liabilities)

	2022	2021
	K	K
Deposits	68,632,924	34,946,906
Total interest-bearing liabilities	**68,632,924**	**34,946,906**

Deposits earn fixed interest at at 1.50% to 7.50% per annum (2021: at 3.25% to 6.50% per annum) depending on the term.

24.3 *Other market price risk*

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

24.4 *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 clients - the carrying amount of these is equivalent to their fair value;
- For investments refer note 7 (d);
- Deposits are recognized at inception at fair value and subsequently at amortized cost.

The Company 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)

25. Employees

The number of people employed by the Company as at 31 December 2022 is 36 (2021: 39).

26. Capital Adequacy

The Company is required to comply with various prudential standards issued by the Bank of Papua New Guinea (BPNG), the official authority for the prudential supervision of banks and similar institutions in Papua New Guinea. One of the most critical prudential standards is the capital adequacy requirement. All banks and financial institutions are required to maintain at least the minimum acceptable measure of capital to risk-weighted assets to absorb potential losses. BPNG follows the prudential guidelines set by the Bank of International Settlements under the terms of the Basel Accord. The BPNG revised prudential standard 1/2003, Capital Adequacy, prescribes ranges of overall capital ratios to measure whether the financial institution in under, adequately or well capitalised and also applies the leverage capital ratio

As at 31 December 2022, the Company's total adequacy ratio and leverage capital ratio satisfied the capital adequacy criteria for "well capitalised". The minimum capital adequacy requirements set out under the standard are: Tier 1 8%, total risk based capital ratio 12% and the leverage ratio 6%. The measure of capital used for the purpose of the prudential supervision is referred to as base capital. Total base capital varies from the balance of capital shown on the Statement of Financial Position and is made up of Tier 1 capital (core) and tier 2 capital (supplementary). Tier 1 is obtained by deducting from equity capital and audited retained earnings (or losses), intangibles assets including deferred tax assets. Tier 2 capital cannot exceed the amount of tier 1 capital and can include subordinated loan capital, specified asset revaluation reserves, un-audited profits (or losses) and a small percentage of general loan loss provisions. The leverage capital ratio is calculated as Tier 1 capital divided by total assets on the balance sheet.

Risk weighted assets are derived from on-balance sheet and off-balance sheet assets. On balance sheet assets are weighted for credit risk applying weightings (0%, 20%, 50% and 100%) according to risk classification criteria set by the BPNG. Off-balance sheet exposures are risk weighted in the same manner after converting them to on-balance sheet credit equivalents using BPNG specified credit conversion factors.

	2022 **K**	**2021** **K**
Core capital ('000)	166,700	166,700
Supplementary capital ('000)	6,740	8,750
Risk weighted assets ('000)	193,619	192,666
Total assets (less goodwill, intangible assets, future income tax benefit operating losses carried forward and encumbered assets)	172,902	216,777
Tier 1 Risk based capital ratio (Core capital/Risk weighted assets)	89.3%	86.5%
Total risk based capital ratio (Supplementary capital/Risk weighted assets)	92.8%	91.1%
Leverage capital ratio (Core capital/Total tangible assets)	68.7%	76.9%
Required Tier 1 Risk based capital ratio minimum	8.00%	8.00%
Required Total risk based capital ratio minimum	12.00%	12.00%
Required Leverage capital ratio minimum	12.00%	12.00%

27. Retirement benefits

The Company participates in the National Superannuation Fund Limited in respect of its national employees. The employer contribution rate is 12%. Employer contributions during the year amounted to K206,321 (2021: K263,152).

28. Related parties

The total value of the loans that are made to staff and directors as at 31 December 2022 is K 9,279,351 (2021: K2,639,316). The interest rate, security and repayment terms on these loans are consistent with the normal terms extended to clients who are not either directors or staff. Teachers Savings & Loan Society Limited owns 100% of the shares in the Company. Intercompany transactions, including a term deposit of K5,000,000 (2021: K10,227,406) made from Teachers Savings & Loan Society Limited to the Company.

As at 31 December 2022, the Company has recognised a receivable from parent company in the amount of K68,521,306 (2021: K74,641,483). The intercompany balance is inclusive of various costs recharges, K1,189,570 (2021: KNil) and shared service fee, K1,509,4878 (2021: K1,196,008) from Teachers Savings & Loan Society Limited to the Company. The receivable is collectible within a 5 year intercompany debt settlement plan from year 2022 and does not have provision for interest.

Total deposits by directors and staff amounted to K308,143 (2021: K100,742). Term deposit ranging from 3 months to a year and interest ranging from 1.5% to 6.5% per annum.

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:

	2022 No.	2021 No.
K100,000 – K149,999	1	1
K150,000 – K199,999	-	-
K200,000 – K249,999	-	-
K250,000 – K299,999	-	-
K300,000 – K349,999	2	2
K350,000 – K399,999	-	-
K400,000 – K449,999	1	-
K450,000 – K499,999	-	-
K500,000 – K549,999	-	-
K550,000 – Above	-	-
	4	3

28.2 *Key management personnel remuneration and specified directors*

The specified executives of TCF during the year were:

- Karai Morea - Chief Executive Officer, resigned on 18 July 2022
- William Koregai - Chief Operating Officer, Acting Chief Executive Officer
- Francis Pahun – Head of Recovery
- Helen Ove - Head of Retail Lending

The specified Directors of TCF during the year were: -

- Mr Wilson Kamit, appointed Chairman on 21 July 2022, ceased on 25 January 2023
- Mr. Michael Koisen
- Ms. Karo Lelai, resigned on 09 September 2022
- Dr. Peter Mason
- Mr. Simon Woolcott
- Mr Ian Clyne
- Mr Paul Komboi
- Mr Anthony Smare, resigned on 20 January 2022

28.2 ***Key management personnel remuneration (Continued)***

Specified executives and directors' remuneration in aggregate:

	Salary & fees K	Bonus K	Non-monetary K	Superannuation K	Prescribed benefits K	Other K	Options K	**Total** K
Specified Executives								
2022	727,981		11,375	72,960	208,000	-	-	1,020,316
2021	917,005	-	9,750	96,194	156,000	-	-	1,511,342
Specified Directors								
2022	1,142,548	-	-	-	-	-	-	1,142,548
2021	567,908	-	-	-	-	-	-	125,000

28.3 ***Transactions with directors***

Other than remuneration, the directors and secretary of the Company had an aggregate aggregate loan balance of K3,450,099 (2021: K1,641,364). The loans are subject to the normal lending policy requirements of the company.

Deposits made by the directors are disclosed on note 8.

29. Contingencies and capital commitments

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

The Company expects a capital outlay of K8,994,000 (2021: K5,085,000) for various improvements of its investment property, TISA Haus, Waigani. There are no contractual capital commitments as at 31 December 2022.

30. Segment information

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

31. Subsequent events

The Directors of the Company are in the opinion that there has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of material and unusual nature other than the matter stated above, that are likely to significantly affect the operations or state of affairs of the Company in the subsequent financial years.

End of Financial Statements

Photos


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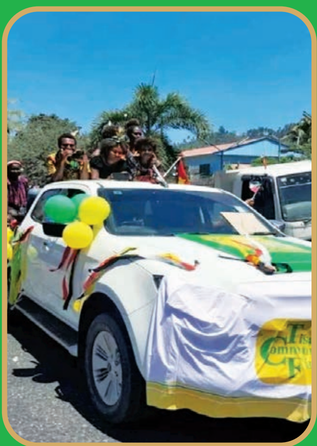
REACHING OUT TO COMMUNITIES




REACHING OUT TO COMMUNITIES
BSP BSP


ID ROOM
TEA ROOM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