Tisa Community Finance

ANNUAL REPORT 2021

BUILD FOR THE FUTURE TOGETHER

Welcome To Our Company

On behalf of the Board of Directors, we are pleased to welcome you to the 2021 Annual General Review for TISA Community Finance Limited (TCFL).

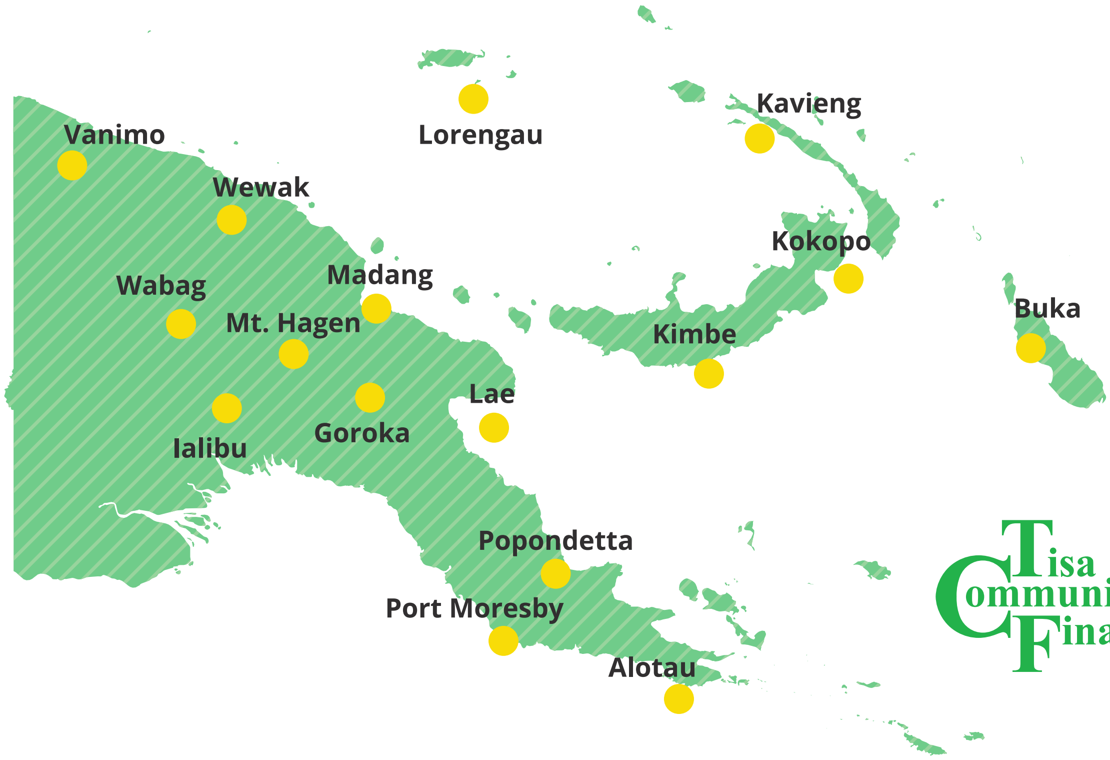
TCFL is a licensed financial institution created by TISA, our parent company in 2016. Since inception, TCFL has grown its customer base to 4,200 plus and has a representation of 15 branch locations throughout PNG operating out of TISA branches.

We have a mission to 'reach out to the communities', and this is aligned to our long-term vision to be a commercial bank.

This brief introduction represents only the beginning of what we hope will be an exciting transformation journey.

You are part of TCF's journey and we look forward to growing together with you.

TABLE OF CONTENTS



Michael Koisen, OBE ML

Vice Chairman

Welcome to the Tisa Community Finance Limited (TCFL) 2021 Annual Report.

The 2021 financial year has been a very challenging one for all of us in the financial sector. Fortunately, with our good governance and strong capital position, and the ongoing support of our customers and shareholder, the Company has been well-placed to weather any consequences and to assist those customers who may have required assistance at this time.

CHAIRMAN'S REPORT

Financial Performance Highlights

TCFL has had another profitable year in a considerably challenging, low-demand environment, with an after-tax profit of K6,341,980 (2020: K2,032,677). The business continues to grow with total assets growing by 6% to reach K217,666,960 (2020: K205,100,748) at the close of the financial year. Our return on assets was 3%. Our Capital Adequacy Ratio finished the year at 91%.

We are encouraged by the government's initiative to provide financial assistance for the Small and Medium-sized Enterprises (SME) sector to support growth. Collaboration between the public and private sectors is essential to create sustainable solutions to most of our country's challenges. TCFL is committed to playing an active role in this collaborative process to support the initiatives to grow our economy. TCFL has also partnered with the Asian Development Bank and the Central Bank of Papua New Guinea to participate in a Risk Sharing Facility for the Micro, Small and Medium Enterprises (MSME) sector. We have also accepted invitations to sponsor the SME Breakfast in June 2022.

In terms of our business priorities, new products, and services, including the reorganizing and strengthening of internal capacity are all positioning TCFL to become a commercial bank and receive new business inflows.

We are excited about the new opportunities that being a bank will bring. We recognise that successful change of this magnitude depends on our people and our customers adopting and embracing change. It will also require that we redefine culture, structures, and roles to adopt new ways of doing business. We believe this will secure the long-term success of our Group for all our stakeholders.

Global Alliance for Banking on Values (GABV)

The Group supports the GABV and has adopted the Principles of Values-based Banking. As part of living the Group's purpose, TCFL will endeavour to participate in sustainable banking and finance and extend our commitment to supporting economic, social and environmental sustainability.

At the board level, we had some changes during the year. Mr. Moses Koiri, the founding chairperson appointed to the board in 2016, resigned on 5 March 2021. Mr. Koiri served the Group with distinction and his wise counsel and valuable contributions to the board will be sorely missed. Messrs. Ian Clyne and Paul Komboi were appointed as non-executive directors of the Company on 18 March 2021. Messrs. Clyne and Komboi collectively bring with them over 40 years of experience in leadership and managing large teams across various industries, including banking business, telecommunications, IT, digital and international and domestic markets. The wealth of experience in their respective fields of work are both rich and unique and will strengthen the management and governance of TCFL as a regulated and licensed financial institution. The appointment is a natural next step for the Company towards a full banking business.

At the executive level, Mr. Karai Morea was appointed as Chief Executive Officer (CEO) in October 2021. His appointment sets another milestone in the development of TCFL on its banking journey and the development of Papua New Guineans in leadership roles in the country's banking and finance sector. Mr. Morea's appointment coincided with the approval of TCFL's 2022 to 2025 Strategic Business Plan. The CEO will be responsible for executing the Strategic Business Plan. The theme emphasized throughout the Strategic Business Plan is to maintain the Groups footprint and to deliver this via an asset light and cashless banking model.

Acknowledgments

We express our thanks to all our dedicated staff and Board for their efforts during the year. We also thank our shareholder for their continued trust and support. We acknowledge the trust our customers have shown us, and we will continue to repay this trust by assisting our customers to pursue their financial goals.

Michael O. Koisen, OBE ML
Vice-Chairman – Board of Directors

TCF Sales team serving customers at the counter.

CHIEF EXECUTIVE OFFICER'S REPORT

Karai Morea
Chief Executive Officer

There is no doubt that the 2021 fiscal year was a year of significant challenges for our customers, our team and the communities in which we live.

Against a backdrop of economic uncertainty and the COVID-19 pandemic, we have stood side by side with our customers through both the good and the tough times.

This year we continued to invest in improving our customer experience at all our representative sites. We experienced more customers joining us, attracted by excellent, efficient service, and providing alternative financial solutions for both personal and business, particularly Micro Small to Medium Enterprises (MSME). We value our customers and profit is reinvested into building a better financial services provider.

I am privileged to present this report in a year where we continued our progress towards building a resilient licensed financial institution that is capable, competitive, and relevant for all Papua New Guineans.

Delivering for customers

During the pandemic in the last two years, many Papua New Guineans felt uncertain or pessimistic about their financial well-being due to the increase in prices of basic goods and services and most importantly being able to afford their children's school fees. That is why we provided unprecedented support by relaxing our policies to allow our customers to apply for top-up loans within a reasonable repayment period.

We simplified our business loan application requirements and loan processing to assist our clients to have easy access to finance and reduce the average time to agree on a loan. We also introduced two new products; (1) Residential Investment Property Loan and (2) Commercial Investment Property Loan. These products have allowed some of our MSME clients to venture into the investment property market and build up their property portfolios.

Our Term Deposit products offer the best interest rate to help build a savings culture for our lending and non-lending customers. Some of our MSMEs and Individuals have invested in our term deposit products to secure funding, which in return allows them to grow their business and investments simultaneously.

The challenges faced by our personnel and MSME customers did not deter us from providing the financial services they required to sustain their livelihoods and business operations. This is evident through the growth of our loan portfolio during the year.

Responsible lending

Our community support over the past 12 months was centered on financial wellbeing, specifically to promote a savings culture and understanding of the responsibilities of being a borrower. We developed a financial literacy awareness program that was delivered together with our sales and marketing program.

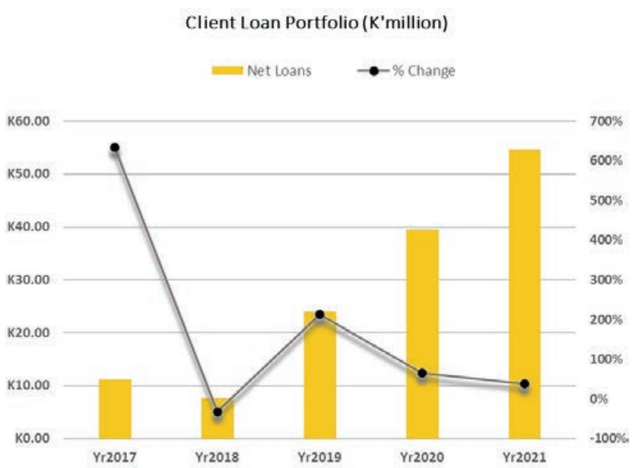
Although we received over 3,000 loan applications during the year, we were concerned about our customer's financial well-being therefore maintained our position to lend only to customers who have the financial capacity to repay debt and adequately meet other financial commitments.

Strong financial results

Notwithstanding the impact of the COVID-19, TCFL delivered an outstanding performance in the year 2021, with a Net Interest Income growth of K54.6% (K18.214m) from K11.782m in 2020. Our profit after-tax was K6.342m (2020: K2.033m), an increase of 212.0%. Net loan book increased by 38.3% to K54.692m (2020: K39.538m). On the investment front, Government Debt Securities slightly decreased by 8.3% to K17.676m (2020: K19.283m).

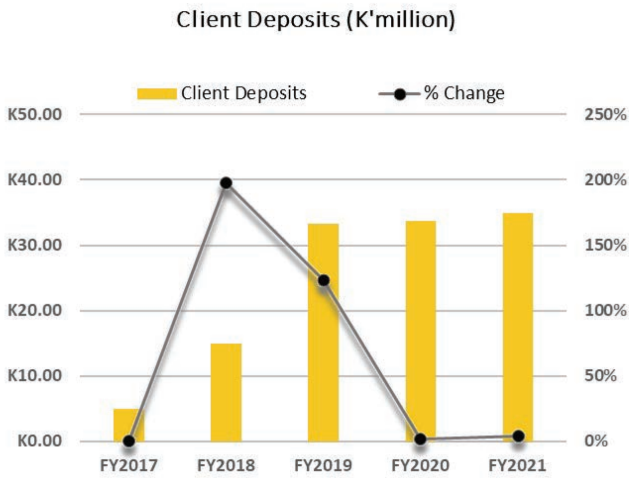
In 2021, TISA transferred ownership of the iconic TISA Haus to TCFL as settlement towards the shares issued to TISA. Total assets increased by 6.1% to K217.667m (2020: K205.101m).

Loan Portfolio



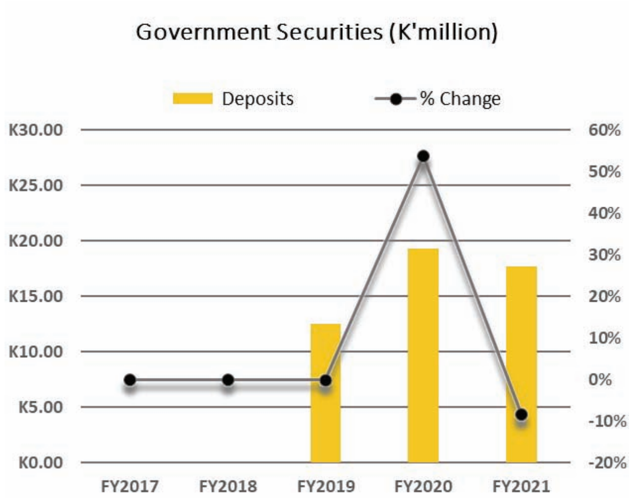
The net loan book grew by 38% from K39.538m in 2020 to K54.692m in 2021. This growth in the loan book has reflected a corresponding growth in gross interest income for the year. This growth was also underpinned by the first 12 months of lending activities.

Client Term



As a licensed financial institution, TCFL accepts term deposits from the public, including individuals and private and state-owned enterprises. This source of funds grew from K33.673m in 2020 to K34.947m in 2021.

Deposits Held to Maturity



As part of its liquidity management, TCFL holds short-term investments with the Bank of Papua New Guinea. These contracted by 8% from K19.283m in 2020 to K17.676m in 2021.

Building a bank for tomorrow

One of the Group's core strategy is to establish a bank that provides alternative financial services for its members and customers that is affordable and accessible. To implement this strategy, TCFL is on an exciting journey to transform into a fully-fledged commercial bank.

Our parent company has invested significantly to prepare TCFL for this transformation. A lot of work has commenced behind the scenes for this transformation agenda and the team is working collaboratively with the parent company to successfully implement this strategy when a banking license is issued by the Bank of Papua New Guinea.

I would like to express my gratitude to the Board for its continuous support and guidance throughout the year. The management and staff of TCFL have been instrumental in delivering this year's financial results thus would like to commend them for their commitment and dedication.

In our 5th year of operation, we know there are considerable challenges in front of us and indeed in front of all Papua New Guineans. We also know that, together, we can build a better future with you, our customers, at the heart of everything we do.

Karai Morea
Chief Executive Officer

TCF COMMUNITY


BSP


SMALL
BUSINESS
LOAN
SME
LOAN
PERSONAL LOANS
FOR EVERY OCCASION


ELEVATE YOUR
BUSINESS
WITH OUR
SME LOAN
GROW!
APPLY NOW!


FIGHT COVID-1
STEP 1
STEP 2
STEP 3
STEP 4
WE SPECIALIZE IN
PERSONAL LOANS:

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2021

The Board

The Board is responsible for the overall management and strategic direction of the Company. The Board operates in accordance with the powers and functions set out in the constitution and exercises its powers by performing the following functions:

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

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

All Board members are independent non-executive directors. Directors are elected by shareholders for a term of three (3) years with the eligibility for re-appointment.

Each Director must satisfiy the criteria under the constitution, the Banks and Financial Institutions Act 2000, and 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 Committeen (BARCC) exists 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
- Risk Measurement and Risk Tolerance levels
- Risk Appetite
- Regulatory, Compliance and Ethical Matters
- Insurance Program
- Any other functions as delegated by the Board

The current members of BARCC are Mr. Simon Woolcott (as Chairman) and Mrs. Karo Lelai (as 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.

Board and Committee Meetings

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

The BARCC is required to hold a minimum of four (4) meetings in the financial year 2020.

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 of the Executive Management team for further consultation to discuss issues associated with the fulfilment of their roles as Directors.

Remuneration

The Board receives remuneration approved by the shareholders. There are no other benefits received by the Directors. Directors aggregate remuneration for the year is provided in financial note 28.2.

Disclosure of Material Interest by Directors

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

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

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

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

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

a. 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.

External Auditor

The annual audit of the Company's financial report and compliance with prudential standards is performed by KPMG (PNG).

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

Internal Audit

An internal audit function exists, using the services of the BARCC of TISA, to deal with the areas of internal control, compliance and regulatory compliance only. The internal audit function reports directly to the Board Audit and Risk Compliance Committee, making recommendations to the committee for improvements to the Company's operations and internal controls. This role is also supplemented by other external compliance reviews performed, including security audits on the data processing systems/centres for adequacy of the back up, disaster recovery and internet security systems.

Regulation

The Company is regulated by:

- Central Bank of Papua New Guinea (BPNG) for the prudential risk management of the Company and adhereance to the Banks and Financial Institutions Act 2000; and
- Investment Promotion Authority for adherence to the Companies Act 1997.

Legal matters and Society Lawyers

A legal divison exists, using the services of the Legal Divison of TISA, to deal with the areas of debt recovery, litigation and other legal matters. The Company engaged Ashurst PNG to provide advice about and prepare certain loan documentation.

TISA Community Finance Limited Financial Statements For the Year Ended 31 December 2021

Contents

DIRECTOR'S 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 2021. 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 K6,341,980 (2020: K2,032,677).

Dividends to shareholders

No dividend has been declared and paid for the year ended 31 December 2021 (2020: K Nil).

Directors

The directors who have served on the Board during 2021 and to the date of this report are: -

Mr. Michael Koisen (Acting Chairman)

Ms. Karo Lelai

Dr. Peter Mason

Mr. Simon Woolcott

Mr. Ian Clyne, appointed on 18 March 2021

Mr. Anthony Smare, appointed on 18 March 2021

Mr. Paul Komboi, appointed on 18 March 2021

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, Teachers Savings & Loan Society Limited, parent company, vested an investment property, TISA Haus Waigani to TISA Community Finance Limited. The vesting of the assets settled a portion of the receivables arising for the shares issued to parent company in the financial year 2020.

Auditor

KPMG was appointed as auditor for the year ended 31 December 2021. Details of amounts paid to the auditor for audit and other services are shown in note 10 to the financial statements.

Signed at Port Moresby, NCD this 31st day of March 2022.

Signed in accordance with a resolution of the Directors.

Director
Mr. Michael O. Koisen, OBE ML

Director
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 2021;
   (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 2021;
   (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 December2021;
   (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 2021;
   (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 31st day of March 2022.

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

Director
Mr. Michael O. Koisen, OBE ML

Director
Mr. Simon Woolcott

EMPLOYEE STORY

Name: Francis Pahun
Position: Head of Recoveries & Collections
Province: Manus
Village: Kari

It is a privilege to be selected among the many TCF staff to have my story featured in the TCF 2021 Annual Report.

I have a Bachelor of Arts degree from the University of Papua New Guinea, obtained in 1997, and had been working in the financial industry in Papua New Guinea for the past 24 years, 16 years of which had been with the TISA Group.

I joined TCF in 2016 when TCF started its operations as a Licensed Financial Institution (LFI), as Manager Lending Operations. Seeing the first TCF loan disbursement and its first loan repayment received via client payroll deductions. It has been very exciting working for a homegrown LFI and competing in the financial market against well matured institutions in that space.

Continuously doing the right thing in the face of competition had shown in the growth in TCF clients, loan book and credit collection over the years. The highlight had come in early 2021 where TCF loan book had grown over K50.0 million and the total fortnightly payroll collections hitting the K1.00 million per fortnight in the competitive market.

This milestone had been achieved by a team of homegrown staff who had been proud and resilient from TCF's humble beginning. As a team leader leading these homegrown talents, it has been very inspirational when the team worked together with trust and moving ahead together as one team.

As the number of TCF clients increased and so the experiences shared by the clients, that encouraged TCF to provide more superior customer experiences to the potential clients out in the market using our parent branch network.

You have clients who had been with the existing LFI making decisions to obtain TCF financial services, that pushes you to reach out further into the communities to create a financial change that impact the lives of ordinary Papua New Guineans.

The key to creating excellent customer experiences is to carefully listen to the customer, understanding their financial need and offering a financial solution that meets the customers' long-term need.

I would like to also acknowledge my children Michael, Laluh, Melian and Matsal for the smooth operations back at the hive to allow me to enjoy work at the office.

There are exciting times ahead as TCF and the TISA Group moves into the Banking space in the months and years ahead.

KPMG

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 2021 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 2021;
- 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.

KPMG

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.

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 2021:

- 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

Suzaan Theron
Partner
Registered under the Accountants Act 1996

Port Moresby
31 March 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 K	2020 K
Interest and similar income	8	20,516,868	14,061,796
Interest expense	8.1	(2,302,718)	(2,279,876)
Net interest income		**18,214,150**	**11,781,920**
Other income	8.2	2,255,750	748,969
Total income		**20,469,900**	**12,530,889**
Staff costs		(2,580,873)	(2,939,291)
Impairment losses on loans	9	(2,527,894)	(1,444,419)
Operating expenses	10	(7,045,469)	(5,372,432)
Total expenses		**(12,154,236)**	**(9,756,142)**
Profit from operations before taxation		**8,315,664**	**2,774,747**
Income tax expense	22.1	(1,973,684)	(742,070)
Profit for the year after taxation		**6,341,980**	**2,032,677**
Other comprehensive income/(loss)			
Revaluation of land and buildings		-	-
Total comprehensive income for the year		**6,341,980**	**2,032,677**

The notes on pages 31 to 57 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021	2020
		K	K
Assets			
Cash and cash equivalents	16	9,418,614	14,588,901
Net loans	15	54,691,908	39,537,982
Government securities	14	17,675,905	19,282,690
Receivables	17	77,244,223	124,777,558
Investment property	12	45,179,755	-
Property and equipment	11	5,504,585	2,656,605
Capital work in progress	13	7,391,322	3,945,004
Net deferred tax	22.3	560,648	312,007
Total assets		**217,666,960**	**205,100,748**
Liabilites			
Deposits	19	34,946,906	33,672,754
Creditors and accruals	20	2,949,681	1,110,212
Employee provisions	18	227,083	196,000
Lease Liability	21	3,502,744	1,919,326
Income tax payable	22.2	2,419,092	922,982
Total liabilities		**44,045,506**	**37,821,274**
Net assets		**173,621,454**	**167,279,474**
Equity			
Share capital	23	166,700,001	166,700,001
Retained earnings		6,921,453	579,473
Total equity		**173,621,454**	**167,279,474**

The notes on pages 31 to 57 are an integral part of these financial statements.

STATEMENT OF CHANGES OF EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Share Capital	Retained Earnings	Total
		K	K	K
Balance at 1 January 2020		**8,000,001**	**(1,453,205)**	**6,546,797**
Issue of shares during the year		158,700,000	-	158,700,000
Total comprehensive income for the year after taxation		-	2,032,677	**2,032,677**
Balance at 31 December 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	23	**166,700,001**	**6,921,453**	**173,621,454**

The notes on pages 31 to 57 are an integral part of these financial statements.

STATEMENT OF CASH FLOW
AS AT 31 DECEMBER 2021

	Note	2021 K	2020 K
Cash flows from operating activities			
Interest received on loans		19,756,692	13,101,683
Net rental and other income		2,255,750	748,969
Interest on IBDs and debt securities		760,176	647,069
Net loans		(16,065,001)	(17,091,613)
Net savings deposited		-	446,154
Interest paid to depositors		(2,088,074)	(1,740,970)
Change in term deposit from public and TISA		1,274,152	23,974,154
Payments to employees and suppliers		(8,613,909)	(6,011,612)
Income taxes paid		(726,216)	(273,017)
Net cash flow (used in)/from operating activities		**(3,446,430)**	**13,800,817**
Cash flows from investing activities			
Net purchase of Government Securities		2,366,961	(6,744,120)
Payments for investment in property and equipment			
Capital Work in progress		(3,359,097)	(4,336,531)
Net cash flow from investing activities		**(992,136)**	**(11,080,651)**
Cash flows from financing activities			
Lease payments		(731,720)	(696,960)
Capital contribution from parent company		-	5,992,241
Net cash flow (used in)/from financing activities		**(731,720)**	**5,295,281**
Net (decrease)/increase in cash and cash equivalents		**(5,170,286)**	**8,015,447**
Cash and cash equivalents at the beginning of the year		14,588,901	6,573,454
Cash and cash equivalents at the end of the year	16	**9,418,615**	**14,588,901**

The notes on pages 31 to 57 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

1. Reporting

Tisa Community Finance (“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 31 March 2022.

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 investments 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, the Company 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) Significant increase in credit risk;
Note 24.1 Estimated expected credit loss allowance for loans to clients; and
Note 12 Investment properties

Going concern basis

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

5. Accounting policies and disclosures

The Company has consistently applied the accounting policies to all periods presented in the financial statements.

6. Other standards

A number of new standards and amendments to standards are effective for accounting periods beginning after 1 January 2022 and earlier application are permitted, however, the Company has not adopted them in preparing this financial statements.

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

-Amendments to IFRS 4, IFRS 7, IFRS 9 and IFRS 16 Interest Benchmark Reform - Phase 2 (effective 1 January 2021) - The Phase 2 amendments address issues arising from the implementation of the reforms, including the replacement of one of benchmark with an alternative one.

'- Amendment to IFRS 4, 'Insurance contracts' - Deferral of IFRS 9. These amendments change the fixed date of the temporary exempton in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023).

7. Significant accounting policies

(a) Revenue recognition

i. Interest

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

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

ii. Fees and commission

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

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

iii. Change in fair value of financial assets

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

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 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 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 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 asset has been reduced to zero. The Company presents right-of-use assets in Property and Equipment and lease liabilities in Creditors and Accruals.

7. Significant accounting policies (continued)

(b) Leases (Continued)

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.

(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 the transaction that is not 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 are expected to be applied to temporary differences when they reserve, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liability 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.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

7. Significant accounting policies (continued)

(c) Income Tax (Continued)

Deferred tax assets (Continued)

Deferred tax assets is 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 released.

(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.

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.

7. Significant accounting policies (continued)

(d) Financial instruments (Continued)

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.

(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.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

7. Significant accounting policies (continued)

(d) Financial instruments (continued)

(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.

(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.

7. Significant accounting policies (continued)

(d) Financial instruments (continued)

(vii) Identification and measurement of impairment (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

7. Significant accounting policies (continued)

(d) Financial instruments (continued)

(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 payroll deduction and recovery through 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
80%	10%	10%

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.

7. Significant accounting policies (continued)

(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:

i. Fair value through profit or loss:

The Company designates some investment securities as at fair value, with fair value changes recognised immediately in profit or loss.

ii. At cost:

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

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

(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. After recognition as an asset, an item of land and building, which fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluation changes shall be accounted for as follows: -

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

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

7. Significant accounting policies (continued)

(h) Property and equipment (Continued)

iii. Depreciation:

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in the profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the 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 Asset	2-5 years
Other equipment	3-5 years

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

(i) 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.

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.

7. Significant accounting policies (continued)

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) Reserves

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

	2021 K	2020 K
8. Interest and similar income		
Interest income – loans	19,756,692	13,101,683
Interest income – IBDs and debt securities	760,176	960,113
Total interest income	**20,516,868**	**14,061,796**

8.1 Interest expense		
Interest expense	(2,088,074)	(2,148,274)
Interest expense on lease liability	(214,644)	(131,602)
Total interest expense	**(2,302,718)**	**(2,279,876)**

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

8.2 Other income	2021 K	2020 K
Net loan processing and account administration fees	484,381	661,747
Rental and other property related income	1,378,416	-
LPI insurance commission and other income	110,752	38,350
Doubtful debts recovered	282,201	48,872
Total other income	**2,255,750**	**748,969**

9. Impairment of financial assets at amortised cost	2021 K	2020 K
Impairment on loans at amortised cost	(2,527,894)	(1,444,419)
	(2,527,894)	**(1,444,419)**

10. Operating expenses

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

	2021	2020
	K	K
Auditor's remuneration - statutory audit services	160,369	90,000
Bank charges	10,658	6,356
Depreciation	1,009,805	854,592
Electricity	404,165	-
Insurance	70,061	-
Travel, airfare and accommodation	39,763	571,961
Data processing	46,034	-
Printing and stationery	78,330	109,230
Fuel	56,658	2,590
Advertising & promotion	941,637	844,875
Entertainment	-	3,659
Telephone	51,101	107,017
Repair and maintenance	365,097	40,758
Motor vehicle expenses	37,519	44,034
Filing and legal cost	2,300	16,082
Subscription and license	71,101	28,247
Consultancy & professional fees	80,804	1,746,606
Cleaning	80,249	-
Board fees and allowances	737,506	116,250
General and administrative expenses	2,802,312	790,175
Total operating expenses	**7,045,469**	**5,372,432**

11. Property and equipment

	ROU - Asset K	Furniture & fittings K	Office equipment K	Motor vehicles K	Other equipment K	Total K
Cost or valuation						
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 and impairment losses						
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**

11. Property and equipment (Continued)

	ROU - Asset	Furniture & fittings	Office equipment	Motor vehicles	Other equipment	Total
	K	K	K	K	K	K
Cost or valuation						
Balance at 1 January 2020	918,058	1,419,148	363,276	452,047	10,340	3,162,869
Additions	943,036	-	303,083	-	-	1,246,119
Disposals	-	-	-	-	-	-
Balance at 31 December 2020	**1,861,094**	**1,419,148**	**666,359**	**452,047**	**10,340**	**4,408,988**
Accumulated depreciation and impairment losses						
Balance at 1 January 2020	579,826	1,109	29,653	284,347	2,856	897,791
Depreciation for the year	619,800	141,915	36,721	55,122	1,034	854,592
Disposals	-	-				-
Balance at 31 December 2020	**1,199,626**	**143,024**	**66,374**	**339,469**	**3,890**	**1,752,383**
Carrying amounts at 31 December 2020	**661,468**	**1,276,124**	**599,985**	**112,578**	**6,450**	**2,656,605**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

12. Investment Property

	Fair Value 31 Dec 2020	Additions/ Transfers	Gain/(Loss) on Valuation	Fair Value 31 Dec 2021
Property				
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 income approach (capitalization).
The company uses hierarchy for determinining and disclosing the fair value of investment assets by valuation techniques as disclosed on Note no. 24.5.

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

	2021 K	2020 K
Rental income	1,378,416	-
Operating expenses	(993,935)	-
Profit from investment property	384,481	-

13. Work in Progress

	2021 K	2020 K
Opening balance	3,945,004	-
Additions during the year	3,446,318	13,445,231
Reclassification during the year	-	(9,500,227)
Closing balance	7,391,322	3,945,004

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 outs.

14. Government securities

	2021 K	2020 K
Central bank and treasury bills	17,675,905	19,282,690
Total Government securities	**17,675,905**	**19,282,690**

Government debt securities investments are treasury bills that have maturity of more than 90 days from the balance date and provide a return ranging from 1.98% to 4.34% per annum.
Interest receivables have been recorded in Note 17.

15. Net loans

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.

	2021	2020
Loans and provisioning	**K**	**K**
Loans receivable	56,785,331	40,720,331
ECL Allowance for impairment losses	(2,093,423)	(1,182,349)
Net loans	54,691,908	39,537,982
Allowance for impairment losses		
Opening balance	1,182,349	859,720
Increase in provisions	2,527,894	1,549,344
Bad debts written off	(1,616,820)	(1,226,715)
Closing balance	2,093,423	1,182,349

16. Cash and cash equivalents

	2021	2020
	K	**K**
Cash on hand and at bank	9,418,614	14,588,901
Total cash and cash equivalents	**9,418,614**	**14,588,901**

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

	2021	2020
	K	**K**
Rental receivables	816,560	-
Less: Allowance for bad debs	-	-
Net rental receivables	**816,560**	-
Other debtors	994,856	16,831
Intercompany - Parent *	74,641,483	124,075,783
Prepayments	570,641	371,899
Interest receivable	220,682	313,045
Subtotal prepayments, interest and other receivables	**76,427,662**	**124,777,558**
Total receivables	**77,244,223**	**124,777,558**

* The balance of K74,641,483 is made up of receivables from parent company. The receivables largely relate to shares issued in the previous year.

18. Employee provisions

	2021	2020
	K	**K**
Employee provisions		
Annual leave	143,684	148,858
Long service leave	83,399	47,142
Total employee provisions	**227,083**	**196,000**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

19. Deposits

	2021	2020
	K	K
Deposits		
Short term deposit	33,361,107	33,468,198
Long term deposit	1,585,799	204,556
Total deposits	**34,946,906**	**33,672,754**

20. Creditors and accruals

	2021	2020
Creditors and accruals	K	K
Accrued expenses	135,091	617
Trade creditors	49,600	-
Sundry creditors	1,655,046	676,769
Accrued interest expense	933,185	412,126
Group tax	176,759	20,700
Total creditors and accruals	**2,949,681**	**1,110,212**

21. Lease liability

	2021	2020
	K	K
Lease Liability	3,502,744	1,919,326
Total lease liability	**3,502,744**	**1,919,326**

22. Income tax

	2021	2020
	K	K
22.1 Income tax expense		
Current tax	2,572,186	1,064,741
Adjustments in the previous year	(349,861)	-
Deferred tax expense	(248,641)	(322,671)
	1,973,684	**742,070**
Accounting profit before tax	8,315,664	2,774,747
- lease payments	(731,720)	-
	7,583,944	2,774,747
Tax on the profit for the year at 30%	2,275,183	832,424
Taxation effect of permanent differences		
- Non-deductible items	297,003	232,317
- Non-taxable items	-	-
Dividend rebate	-	-
Adjustments in the previous year	-	-
	2,572,186	**1,064,741**

22.2 Income tax payable

Opening balance of income tax	922,982	-
Current tax payable	2,572,186	1,064,741
Adjustments in the previous year	(349,861)	131,258
Offset of withholding taxes	-	-
Offset against taxation loss	-	-
Payments during the year	(726,216)	(273,017)
Closing balance of income tax	**2,419,092**	**922,982**

22.3 Deferred tax balance

Deferred tax assets and deferred tax liabilities as at 31 December 2021 and 2020 are attributable to the items as detailed in the table below: -

As at 31 December 2021	**Asset**	**Libility**	**Net**
	K	**K**	**K**
Provisions	712,614	-	712,614
Prepayments	-	(141,302)	(141,302)
Other	-	(10,664)	(10,664)
	712,614	**(151,966)**	**560,648**
As at 31 December 2020			
Provisions	413,505	-	413,505
Prepayments	-	(90,833)	(90,833)
Other	-	(10,664)	(10,664)
	413,505	**(101,497)**	**312,007**

23. Capital

	2021	**2020**
	K	**K**
Issued and fully paid, 166,700,001 ordinary shares as K1.00 each	166,700,001	166,700,001
(2020: 166,700,001 ordinary shares at K1.00 each)	166,700,001	166,700,001

24. Financial instruments and risk management

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

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

24.1 ***Financial risk factors***

Risk management is carried out by executive management under policies approved by the Company's Board of Directors. TCF caters for the funding of its customers 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.

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:

	2021	2020
	K	K
Assets bearing credit risk		
Cash and cash equivalents	9,418,614	14,588,901
Rental and other receivables	77,244,223	124,777,558
Net Loans	54,691,908	39,537,982
Total assets	**141,354,745**	**178,904,441**

	2021	2020
	K	K
Loans		
Loans backed by collaterals	10,544,661	2,213,610
Loans without collaterals	46,240,670	38,506,721
Total Loans	**56,785,331**	**40,720,331**

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

	2021	2020
	K	K
Stage 1 - 12 month ECL	52,229,474	38,057,185
Stage 2 - Life time ECL	1,632,363	863,902
Stage 3 - Life time ECL	2,923,494	1,799,244
Gross carrying amount	56,785,331	40,720,331
Allowance for credit loss	(2,093,423)	(1,182,349)
Net carrying amount	54,691,908	39,537,982

24.1 ***Financial risk factors (Continued)***

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 K	Stage 2 K	Stage 3 K	Total 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	(439,524)
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	670,573
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**	**802,717**	**2,093,424**

	Stage 1 K	Stage 2 K	Stage 3 K	Total K
Balance as at 1 January 2020	348,520	92,125	419,075	859,720
Transfer to Stage 1	(49,340)	(33,221)	(57,080)	(139,641)
Transfer to Stage 2	55,494	(3,998)	84,233	135,729
Transfer to Stage 3	370,393	92,196	(21,848)	440,741
Net remeasurements	(513,121)	(64,328)	1,359,478	782,029
New financial assets purchased or originated	301,377	9,783	19,327	330,487
Write offs and transfers from savings to loans	-	-	(1,226,715)	(1,226,715)
Balance as at 31 December 2020	**513,323**	**92,557**	**576,470**	**1,182,349**

24.2. 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 time 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.

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

24. Financial instruments and risk management (continued)

24.2 Liquidity risk (continued)

The table below summaries the maturity profile of the Company's financial assets and liabilities as at 31 December 2021 and 2020 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 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%
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	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**	**33,778,698**	**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**	

	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 2020							
Assets							
Cash and cash equivalents	14,588,901	14,588,901	-	-	-	-	nil
Receivables	124,777,558	-	-	124,777,558	-	-	nil
Net loans	39,537,982	-	1,254,795	1,547,682	35,007,430	1,728,075	20%
Government debt	19,282,690	-	11,682,530	7,600,160	-	-	5.85%
Total undiscounted cash inflows	**198,187,131**	**14,588,901**	**12,937,325**	**133,925,400**	**35,007,430**	**1,728,075**	
Liabilities							
Deposit	33,672,754	-	186,229	27,910,156	5,576,370	-	5.40%
Creditors and	1,110,212	-	533,014	-	577,198	-	nil
Lease liability	1,919,326	-	-	1,919,326	-	-	nil
Income tax	1,179,360	-	-	1,179,360			nil
Employee provisions	196,000	-	-	148,858	47,142	-	nil
Total undiscounted cash outflows	**38,077,652**	**-**	**719,242**	**31,157,700**	**6,200,710**	**-**	
Net Surplus/ (exposure) 2020	**160,109,480**	**14,588,901**	**12,218,083**	**102,767,700**	**28,806,721**	**1,728,075**	

24. Financial instruments and risk management (continued)

24.3 Interest rate risk

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

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

Fixed rate instruments (financial assets)

	2021 K	2020 K
Treasury bills	17,675,905	19,282,690
Net Loans	54,691,908	39,537,982
Total interest-bearing assets	**72,367,813**	**58,820,672**

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

Fixed rate instruments (financial liabilities)

	2021 K	2020 K
Client Deposits	34,946,906	33,672,754
Total interest-bearing liabilities	**34,946,906**	**33,672,754**

Client Deposits earn fixed interest at 3.25% to 6.50% per annum depending on the term.

24.4 Other market price risk

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

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

(a) Sensitivity Analysis

The following demonstrates the effect on profit of a change in capitalisation rates, rentals and sales price of the Company's investment property: -

	Effect on Profit or Loss Increase/(Decreae)	
	2021 **K**	**2020** **K**
Increase of 1% in capitalisation rate	3,540,689	-
10% increase in rentals	344,470	-
10% increase in sale price and/or replacement cost	5,088,900	-

24.5 Fair value of financial instruments

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

- Cash, deposits, investments and loans to customers - the carrying amount of these is equivalent to their fair value;
- For investments refer note 7;
- 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)

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

25. Employees

The number of people employed by the Company as at 31 December 2021 is 39 (2020: 40).

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 is under, adequately or well capitalised and also applies the leverage capital ratio.

As at 31 December 2021, 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 asets 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 percental of general loan loss provisions. The leverage capital ratios 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.

	2021 **K**	**2020** **K**
Core capital ('000)	166,700	166,700
Supplementary capital ('000)	8,750	5,291
Risk weighted assets ('000)	192,666	212,820
Total assets (less goodwill, intangible assets, future income tax benefit operating losses carried forward and encumbered assets)	216,777	171,991
Tier 1 Risk based capital ratio (Core capital/Risk weighted assets)	86.5%	78.3%
Total risk based capital ratio (Supplementary capital/Risk weighted assets)	91.1%	80.8%
Leverage capital ratio (Core capital/Total tangible assets)	76.9%	81.3%
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 of Papua New Guinea in respect of its national employees. The employer contribution rate is 12%. Employer contribution during the year amounted to K263,152 (2020: K 245,401).

28. Related parties

The total value of the loans that are made to staff and directors as at 31 December 2021 is K 2,639,316 (2020: K2,759,077). 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. TISA owns 100% of the share capital in subsidiary TCF. Intercompany transactions, including a term deposit of K10,227,406 (2020: K5,000,000) made from TISA to TCF.

As at 31 December 2021, TCF has recognised a receivable from parent company, TISA in the amount of K74,641,483 (2020: K123,858,653).

Total deposits by directors and staff amounted to K100,742 (2020: K12,801).

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:

	2021 No.	2020 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	-	-
K450,000 – K499,999	-	-
K500,000 – K549,999	-	-
K550,000 – Above	-	-
	3	3

28.2 Key management personnel remuneration

The specified executives of TCF during the year were:

- Karai Morea - Chief Executive Officer, appointed on 20 October 2021
- William Koregai - Chief Operating Officer
- Francis Pahun – Head of Recovery & Retail Lending

The specified Directors of TCF during the year were: -

- Mr. Moses Koiri (Chairman), resigned 05 March 2021
- Mr. Michael Koisen (Acting Chairman)
- Ms. Karo Lelai
- Dr. Peter Mason
- Mr. Simon Woolcott
- Mr Ian Clyne, appointed on 18 March 2021
- Mr Paul Komboi, appointed on 18 March 2021
- Mr Anthony Smare, appointed on 18 March 2021

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2021

28.2 Key management personnel remuneration (Continued)

Specified executives and directors' remuneration in aggregate:

	Salary & fees	Bonus	Non-monetary	Superannuation	Prescribed benefits	Other	Options	**Total**
	K	K	K	K	K	K	K	K
Specified Executives								
2021	917,005	-	9,750	96,194	156,000	-	-	1,178,949
2020	1,189,803	-	9,750	51,794	259,995	-	-	1,511,342
Specified Directors								
2021	567,908	-	-	-	-	-	-	567,908
2020	125,000	-	-	-	-	-	-	125,000

28.3 Transactions with directors

Other than remuneration, the directors and secretary of the Company had an aggregate loan balance of K1,641,364 (2020: K1,724,594). The loans are subject to the normal lending policy requirements of the company.

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.

30. Segment information

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

31. Subsequent events

The Company continues to monitor Papua New Guinea's economic condition and outlook as the global COVID-19 pandemic enters its second year.

Papua New Guinea's development partners, particularly Australia, continues to provide significant support through public health strengthening and economic reforms to address the negative impact of COVID-19 and improve the country's growth prospects.

Although the Company has not experienced any direct negative impact of the pandemic, the Company's risk provisions, including the ECL loan loss provisioning, have been heightened to ensure greater resilience and to provide much needed support to its clients going forward.

The Company has increased its attention on credit portfolio management by consolidating and strenthening its back office functions with the establishment of a dedicated credit portfolio management, payroll collection and debt recoveries team with its parent entity, TISA.

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 unusal 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.


CHATTEL MORTGAGE
PERSONAL LOAN
PERSONAL LOAN
INSURANCE PREMIUM FUNDING (IPF)

THANK YOU

PHOTOS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Tisa Community Finance


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