

**PAPUA NEW GUINEA
FEDERATION OF SAVINGS AND LOAN
SOCIETIES**



**ANNUAL REPORT
2016**

“The 2016 INTERNATIONAL CREDIT UNION DAY”



Credit Unions are also known as Savings and Loan Societies in PNG and in other parts of the world.

On Thursday 20th of October, Credit Unions around the world including Savings & Loan Societies in PNG came together to celebrate International Credit Union Day and the role the financial institutions play in our communities. This year’s event marks 68 years since the first celebration took place to honor credit unions’ proud history of putting people before profits in order to provide access to affordable financial services to all their members. This year’s theme, **“THE Authentic DIFFERENCE,”**

“The Authentic Difference,” this year’s International Credit Union Day theme, zeroes in on what makes credit unions or Savings & Loan Societies different from Banks, fintech start-ups and other financial institutions—**our principles**. Credit unions have operated according to the same core principles since the 1850s, when a group of weary German workers, tired of being exploited by loan sharks, formed the world’s first credit union by banding together to provide affordable credit to each other. **These principles are based on the 9 cooperative principles, shared by all cooperatives. They are:**

1. Democratic Control

One member = One vote. Whether you have K5 or K5 million, your voice is equal.

2. Open and Voluntary Membership

Members are connected by a bond of association, fostering a sense of community.

3. Non-Discrimination

Credit unions are open to all without regard for race, orientation, nationality, sex, religion, gender, or politics.

4. Service to Members

Credit unions are ranked No. 1 in service in numerous surveys, because they exist to serve members, not profit.

5. Distribution to Members

Credit unions return all profits to their members through dividends, lower fees, better savings rates, and improved services.

6. Building Financial Stability

Credit unions are historically stable organizations. They’re owned by the people they serve, so they don’t take unnecessary risks.

7. Cooperation Among Cooperatives

Credit unions and cooperatives share the same principles. Together, they amplify each other’s good works.

8. Social Responsibility

Credit unions strive for social justice by committing to strengthening their communities and helping people of modest means.

9. Ongoing Education

Credit unions prioritize financial education for their members, employees, and communities as part of their pursuit of social justice.

This is why The Federation of Savings & Loan Societies and its 21 affiliated societies in PNG celebrate International Credit Union Day. Because putting people before profit, prioritizing social responsibility, and offering financial education improves lives. These values are why your Savings & Loan Society is a key component of helping people in developing countries like PNG gain access to microloans, or a working-class couple in NCD receive an affordable school fee loan for their first child when he/she starts a schooling career.

So when we wish you a Happy 2016 International Credit Union Day, know that we’re thanking you for belonging to a movement that’s helping your neighbours—and people around PNG and the world—grow and thrive and follow their dreams.

FESALOS - 10 YEARS IN REVIEW

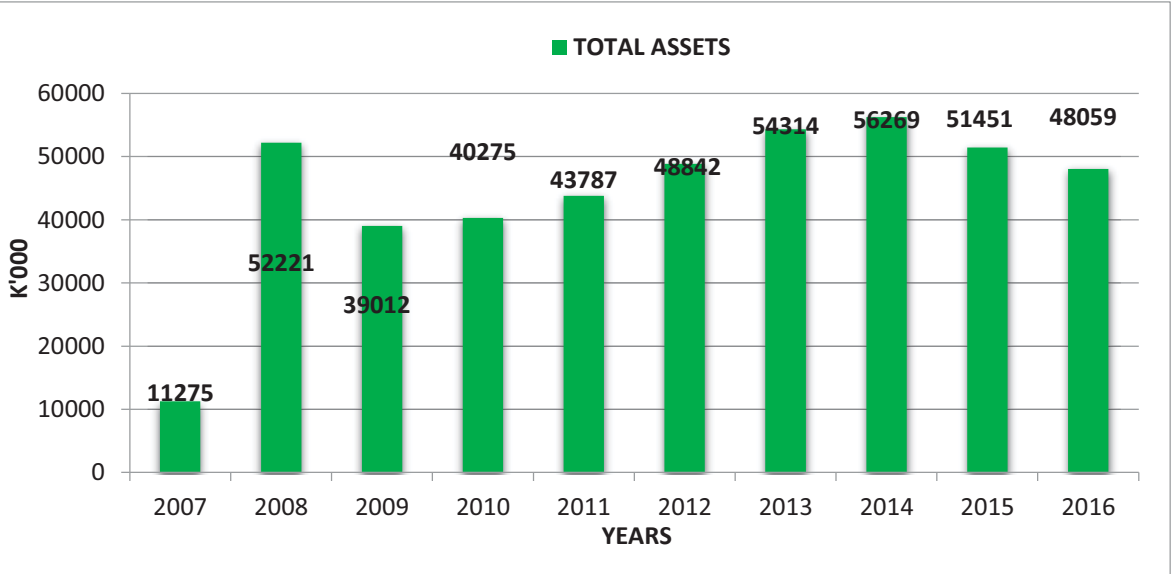
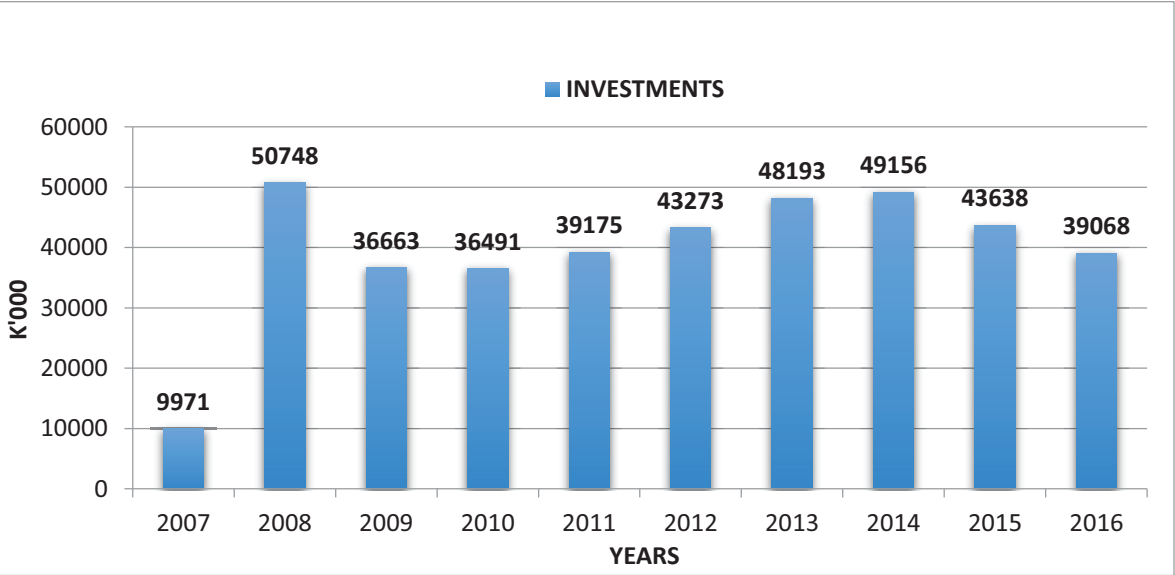
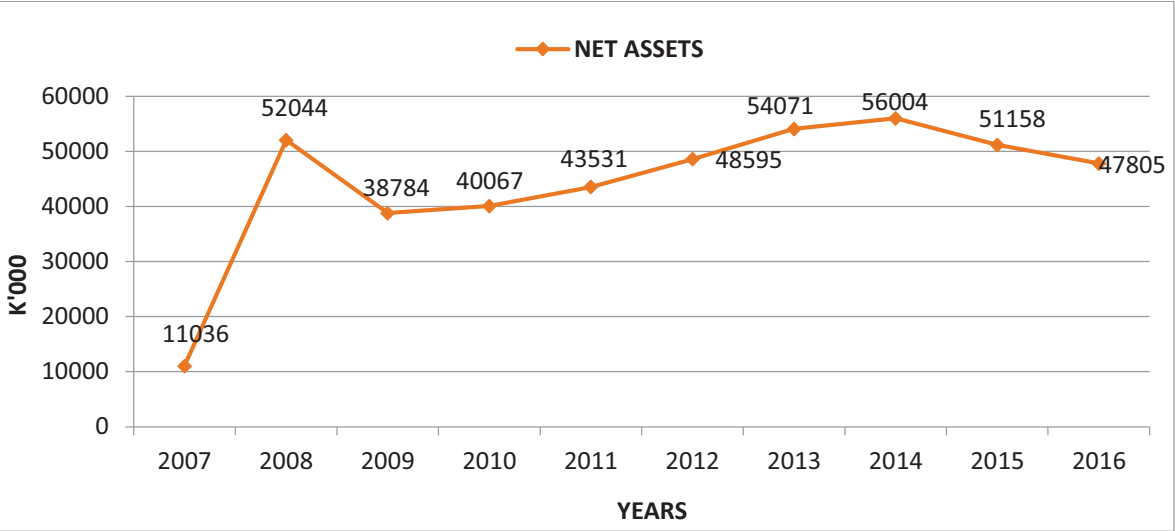


TABLE OF CONTENTS

	Page No.
NOTICE OF MEETING	A1
DIRECTORY	A2
Board of Directors	
Federation Staff	
Registered Office	
Postal Address	
Auditors/Accountants/Bankers/Lawyers	
VISION AND MISSION STATEMENT	A3
MINUTES OF THE LAST AGM	A4-7
CHAIRMAN’S MESSAGE	B1-4
MANAGEMENT REPORT	C1- 8
FINANCIAL STATEMENTS	
Annual Report	1
Statement by Directors	2
Independent Audit Report	3
Statement of Income	4
Statement of Financial Position	5
Statement of Changes in Accumulated Funds	6
Statement of Cash Flow	7
Notes to the Financial Statements	8-10
STATISTICS	
CHARTS – 10 YEARS IN REVIEW, NET ASSETS, INVESTMENTS & TOTAL ASSETS	11

FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

NOTES TO THE FINANCIAL STATEMENT (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2016

6) PROPERTY, PLANT EQUIPMENT

	MIS-WIP	Land and Building	Motor Vehicles	Computer Systems	Office Equipment and Fittings	Total
COST	K	K	K	K	K	K
Balance 1 January 2016	542,971	88,602	203,201	3,101,024	144,652	4,080,450
Additions in Current Year	136,710	-	-	-	-	136,710
Disposal in Current Year	-	-	-	-	-	-
Balance 31 December 2016	679,681	88,602	203,201	3,101,024	144,652	4,217,160
PROVISION FOR DEPRECIATION						
Balance 1 January 2016	-	-	128,365	654,741	97,811	880,917
Charge in Current Year	-	-	50,801	319,512	14,901	385,214
Disposal in Current year	-	-	-	-	-	-
Balance 31 December 2016	-	-	179,166	974,253	112,712	1,266,131
NET BOOK VALUE						
Balance 1 January 2016	542,971	88,602	74,836	2,446,283	46,840	3,199,533
Balance 31 December 2016	679,681	88,602	24,035	2,126,771	31,939	2,951,029

The Federation through its MIS Bureau had established the Ultracs 3 Retail Banking system which supports the 9 societies under a Data Processing Agreement.

The above notes form part of the financial statements.

NOTES TO THE FINANCIAL STATEMENT (CONT'D)
FOR THE YEAR ENDED 31 DECEMBER 2016

		2016	2015			
		K	K			
2) REVENUE						
Operating revenue comprises:						
Affiliation Fees		105,998	113,294			
Interest Income		56,914	53,312			
Dividends		3,557,720	2,813,822			
Ultras3 Computer Fees		340,363	347,383			
Others		-	-			
		4,060,995	3,327,811			
3) OTHER EXPENSES						
Board Expenses		181,913	150,765			
Training Development and Marketing		506,432	482,647			
Ultras3 Computer Expenses		492,502	486,533			
Fesalos 50th Anniversary		120,322	-			
Loss on Sale of BSP Shares		-	-			
		1,301,169	1,119,945			
4) DEBTORS AND PREPAYMENTS						
Accounts Receivable - Societies		15,362	25,516			
Prepayments		56,775	36,767			
		72,137	62,283			
5) INVESTMENTS						
a)						
	No of Shares	Share Price At 31/12/16 K/Share	Opening Balance K	Revaluation Effect K	Total 2016 K	Total 2015 K
At Valuation						
Bank of South Pacific Ltd	831,819	9.00	6,238,643	1,247,728	7,486,371	6,238,643
Credit Corporation Limited	16,621,878	1.90	37,399,225	(5,817,657)	31,581,568	37,399,225
Bougainville Copper Limited	345	1.00	345	-	345	345
Total	17,454,042		43,638,213	(4,569,929)	39,068,284	43,638,213

Bougainville Copper Limited

Bougainville Copper Limited mining operations in Bougainville ceased in 1990.

b) Gain (Loss) on Revaluation of Investments

The gain (loss) on revaluation of investments was a result of Credit Corporation Ltd and Bank of South Pacific Ltd shares restated at market values as at balance date 31 December 2016 of K4,569,929 loss (2015: K5,518,203 loss).

The above notes form part of the financial statements.



FEDERATION OF SAVINGS AND LOAN SOCIETIES

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given to **all affiliated members of the Federation of Savings and Loan Societies Ltd** that the Annual General Meeting (AGM) of the Federation will be held at the **Gazelle International Hotel – Conference Room, East New Britain Province, starting at 9.00 am to 12:00 pm on Wednesday 17th of May, 2017.**

The Agendas are:

- 1. PRAYERS AND WELCOME**
- 2. ROLL CALL**
 - To register delegates and official representatives
 - To confirm quorum for AGM to proceed
- 3. GENERAL BUSINESS**
 - **Minutes of the Previous AGM**
 - **Matters Arising**
- 4. ORDINARY BUSINESS**
 - **Receive 2016 Annual Report**
 - **Chairman's Report**
 - **Management's Report**
 - **Director's Report**
 - **Presentation of Audited Financial Statements for Period Ending 31 December, 2016.**
- 5. GENERAL BUSINESS**

Paulus Laveil
Board Secretary

DIRECTORY

Board of Directors



Mr. Jack Namaliu
Chairman



Mr. Muser Malong
Deputy Chairman



Mr. Ian Tarutia
Director



Mr. Sylvester Gaso
Director



Mr. Gabriel Tai
Director



Mr. Paulus Laveil
Managing Director &
Board Secretary

Federation Staff



Mrs. Henao Kwarara-Giri
Manager Corporate Services



Mrs. Caroline Mayu Lulue
Team Leader MIS



Mr. Aaron Namaliu
Network & MIS Officer



Ms. Cynthia Soso
Admin. Officer -
Administration



Miss. Cynthia Martin
Admin Officer -
Finance



Mr. Morris Karifo
Driver & General Admin
Support

Registered Office: Suite 18, 2nd Floor, Tisa Haus, Waigani, NCD.

Postal Address: P.O. Box 251 Vision City Mega Mall, N.C. D.

Auditors: Nolan & Kom & Associates Chartered Accountants

Accountants: Rama Accountants

Bankers: Bank of South Pacific

Attorney Albatross Law

FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

1) SIGNIFICANT ACCOUNTING POLICIES

Set out hereunder are the significant accounting policies adopted by the Federation in the preparation of the financial statements for the year ended 31 December 2016

(a) Historical Cost Convention

The financial statements have been prepared under the historical cost convention and have not been adjusted to take into account the current cost of specific assets or their impact on the operating results, or changes in the general purchasing power of the kina except where stated.

(b) Taxation

The Federation of Savings and Loan Societies Limited is exempted from income tax under Section 40A of the Income Tax Act. Tax effect accounting policies were not adopted.

(c) Depreciation

Depreciation is calculated on a straight line basis so as to write off the cost or valuation of the fixed assets to their residual value over the expected useful lives.

The principle annual rates in use are :-

Land and Buildings	5%
Motor Vehicles	20%
Office Equipment and Fittings	20%

(d) Employee Entitlements

The amounts expected to be paid to employees for their pro-rata entitlement to long service leave, annual and sick leave and leave fares are accrued annually at current pay rates having regard to period of service and statutory obligations.

(e) Investments

Investments are classified categories of either for trading, held to maturity or available for sale. Trading reflects active and frequent buying or selling and financial instrument held for trading, generally are used with objective of generating a profit from short-term fluctuations in price or dealers' margin. Investments with maturity that management has the intent and ability to maturity are classified as held-to-maturity. Investment intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates are classified as available for sale. Management determines the the appropriate classification of its investment at the time of purchase.

All purchase and sale if investment are recognized on the trade date, which is the date the Federation commits to purchase or sell the asset. Cost of purchase include transactions costs. Trading and available-for-sale investment are subsequently carried at fair value, whilst held-to-maturity investment are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from fair value of trading investment are included in the statement of income for the period in which when they arise.

SAVINGS AND LOAN SOCIETIES

Savings and Loan Societies are also known as Credit Union in many other countries and are formed by groups of people, such as public servants, factory workers, farmers or village people who save their money together in a common fund. From this fund loans are made to members at reasonable rates on interest for a wide range of provident and productive purposes. Only members can borrow from a Society. Each society and its funds are actually controlled by its members who elect office bearers to run the Society.

FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITD (FESALOS)

The Federation of Savings and Loan Societies Limited is a national organization formed by Savings and Loan Societies throughout Papua New Guinea on the 22nd of March, 1966. The Federation provides relevant services like: Association, training and technical support to its affiliated Societies. The Federation also promotes the emergence and establishment of new Savings and Loan Societies. Membership of the Federation is voluntary and the Federation is guided by Directors elected from affiliated societies throughout Papua New Guinea.

VISION STATEMENT OF FESALOS

“A dynamic and innovative Savings & Loan movement committed to the economic advancement and social empowerment of all Papua New Guinea people”.

MISSION STATEMENT

“To support and strengthen Savings & Loan Societies to improve the financial, social and other life skills of their members”.

CORE VALUES

The Six core values of the movement are:

- Cooperation
- Moral Integrity
- Trust
- Financial prudence
- Caring for members
- Social Responsibility

THE REGISTRY OF SAVINGS AND LOANS SOCIETIES

The Registry of Savings and Loan Societies is a statutory body whose role is to inspect and supervise the Savings and Loan Socieites and to ensure that all Savings and Loan Societies operate within the provisions of the Savings and Loan Act Chapter 141. As stipulated in the Act, the Governor of the Bank of PNG is the Registrar of the Savings & Loan Societies. The Registrar issues Directives, Certificates of Registration, Conducts inspections of Savings and Loan Societies, and fulfills other duties that are required by the Savings and Loan Societies Act 1995 as amended.

FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

	2016 K	2015 K
OPERATING ACTIVITIES		
Receipt from Members	446,361	448,631
Payments to Suppliers and Members	(2,517,057)	(2,101,930)
Others	-	-
NET CASH FLOW FROM OPERATING ACTIVITIES	(2,070,696)	(1,653,299)
Cash flow from investing activities		
Disposal (Purchase) of Fixed Assets	(136,710)	(484,123)
Dividend Income	3,557,720	2,813,822
Interest Income	56,914	53,312
Investments and Term Deposits	-	-
NETCASH FLOW FROM INVESTING ACTIVITIES	3,477,924	2,383,011
Net Increase / (Decrease) in Cash Held	1,407,228	729,712
Cash Balance at Beginning of Year	4,560,601	3,830,889
CASH BALANCE AT END OF THE YEAR	5,967,829	4,560,601
CASH BALANCE AT END OF YEAR CONSIST OF:		
Cash on hand	2,500	2,500
Cash at Bank	1,418,916	1,888,373
Term Deposits	4,546,413	2,669,728
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	5,967,829	4,560,601

The above cash flow statement must be read in conjunction with the accompanying notes



MINUTES

Minutes of the Federation's Annual General Meeting (AGM) convened in the Ball Rooms: 1, 2 & 3 at the Holiday Inn Hotel, NCD, on Wednesday 25th of May, 2016 which commenced at 09.30 AM.

Present:

- Fesalos Board members: J. Namaliu (Chair), M. Malong (D/Chair), G. Tai (Director), S. Gaso (Director) and P. Laveil (MD & Board Secretary)
- Present in the meeting were the Delegates of 15 Affiliated Societies namely: **NCSL, ENB S/L, Tisa, Alekano S/L, MPSL, Manus SL, Finance & Private Sector SL, Niu Ailan SL and Police & State Services SL, PNG Ports SL, PNG Power Staff SL, Sepik SL, PTP SL, Air Niugini SL and Nambawan SL** (refer to the roll call attached for names).

Absent: Delegates/Reps., From: Water PNG SL, Lae City Council SL, National Farmers S&L, Unitech S&L, CBO SL and NDB SL.

In Attendance:

- 21 Officials accompanying their delegates (see attached roll for names).
- Mrs. Henao Kwarara (Corporate Manager, Fesalos) Mrs. Caroline Mayu Lulue (Team leader MIS, Fesalos) and Ms. Cynthia Soso (Admin officer, Fesalos).

The Fesalos' Board Chairman, Mr. Jack Namaliu who presided in the meeting was satisfied that a quorum existed as such called the meeting to order.

01. PRAYERS & WELCOME.

The Chairman, Mr. Namaliu welcomed everyone in attendance and thanked the delegates and representatives of the 15 member Societies for their commitment to attend Fesalos AGM. He made special mention of the delegates that travelled in from member societies located in the 4 regions outside the NCD.

He invited Mr. Gabriel Tai to offer the opening prayer.

02. ROLL CALL

The Roll Call confirmed the attendance of 15 delegates representing 15 Affiliated Societies which more than exceeded the 26 % required for the AGM to be convened (15 / 17 affiliates = 88 %).

FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

STATEMENT OF CHANGES IN ACCUMULATED FUNDS AS AT 31 DECEMBER 2016

	Capital Reserve Fund BPNG K	General Reserves K	Revaluation Reserves K	Retained Earnings K	Total K
Balance at 1 January 2015	40,000	57,208	2,265,563	53,641,292	56,004,063
Profit for the Year	-	-	-	(4,846,292)	4,846,292
Balance at 31 December 2015	40,000	57,208	2,265,563	48,795,000	51,157,771
Profit for the Year	-	-	-	(3,352,644)	(3,352,644)
Balance at 31 December 2016	40,000	57,208	2,265,563	45,442,356	47,805,127

The above statement of changes in accumulated funds is to be read in conjunction with the accompanying notes.

GENERAL BUSINESS

03. MINUTES OF THE PREVIOUS MEETING

Minutes of Previous Meeting	RESOLUTION (DECISION)	MATTERS ARISING OR ACTION
The Chairman allowed some reading time and asked if anyone had issues on the minutes.	<p>The delegates resolved to accept the minutes of the Last AGM.</p> <p>Moved By : D. Afuyave (Alekan SL)</p> <p>Seconded By: C. Korere (Niu Ailan SL)</p> <p>Motion Carried.</p>	

04. MATTERS ARISING

MATTERS ARISING	RESOLUTION (DECISION)	MATTERS ARISING OR ACTION
1. The delegates wanted to understand the implications of the transitional provisions in the new SLS Act covering mergers etc.	PL responded that the BPNG will address the transitional provisions in the Industry Consultative meeting on the 27 th of May, 2016.	All Society officials to attend and participate in the Industry Consultative meeting which will be facilitated by BPNG/Fesalos and chaired by the Registrar of the SLS.

ORDINARY BUSINESS

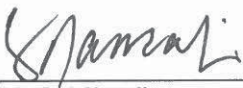
05. 2015 ANNUAL REPORT

2015 Annual Report	RESOLUTION (DECISION)	MATTERS ARISING OR ACTION
<p>The Chairman confirmed that each of the delegates present had a copy of the 2015 Annual report and has perused the contents.</p> <p>The Fesalos' Board Chairman, J. Namaliu requested the delegates to allow the presentations of</p>	<p>The delegates unanimously concurred to the request.</p> <p>After the presentations the Chairman invited questions/comments from the delegates. The</p>	

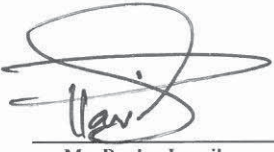
FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 K	2015 K
CAPITAL AND RESERVES			
Capital Reserves - BPNG		40,000	40,000
Reserves		2,322,771	2,322,771
Retained Earnings		45,442,356	48,795,000
TOTAL CAPITAL AND RESERVES		47,805,127	51,157,771
Represented By:-			
CURRENT ASSETS			
Cash at Bank and on Hand		1,421,416	1,890,873
Term Deposits		4,546,413	2,669,728
Debtors and Prepayments	4	72,137	62,283
TOTAL CURRENT ASSETS		6,039,966	4,622,884
NON-CURRENT ASSETS			
Fixed Assets	6	2,951,029	3,189,544
Investments	5(a)	39,068,284	43,638,213
TOTAL NON - CURRENT ASSETS		42,019,313	46,827,757
TOTAL ASSETS		48,059,279	51,450,641
LESS CURRENT LIABILITIES			
Other Creditors and Accruals		187,421	224,546
Provision for Annual Leave		20,065	13,894
TOTAL CURRENT LIABILITIES		207,486	238,440
NON-CURRENT LIABILITIES			
Provision for Long Service Leave		46,666	54,430
TOTAL NON-CURRENT LIABILITIES		46,666	54,430
TOTAL LIABILITIES		254,152	292,870
NET ASSETS / (LIABILITIES)		47,805,127	51,157,771



Mr. Jack Namaliu
Chairman



Mr. Paulus Laveil
Director

The above statement of financial position is to be read in conjunction with the accompanying notes.

<p>the chairman's, Management's and Director's report to occur prior to the entertainment of questions and subsequent resolutions.</p> <p><u>Chairman's Report</u></p> <p>The Board Chairman of Fesalos, J. Namaliu presented his report as contained in the Annual report to the delegates of the member societies present in the AGM.</p> <p><u>Management's Report</u></p> <p>P. Laveil presented the management report as contained in the Annual report to the delegates of the member societies present in the AGM.</p> <p><u>Director's Report</u></p> <p>J. Namaliu and P. Laveil alluded to the director's report as contained in the Annual report to the delegates of the member societies present in the AGM.</p> <p><u>Presentation of audited Financial Statements for period ending 31 December, 2015.</u></p> <p>J. Namaliu invited P. Laveil to present the 2015 unqualified audited financial statements as contained in the Annual report. P. Laveil presented the report to the delegates present in the AGM.</p>	<p>delegates present spent time discussing and deliberating on the various reports contained in the Annual Report. B. Pondrein commented that revaluation of the shares contributed to the extraordinary loss, but Fesalos performed very well operationally.</p> <p>No other questions was raised on the various reports and the audited financial statements.</p> <p>The delegates express unanimous satisfaction to Fesalos board, management and staff for another successful year.</p> <p>The members unanimously resolved to accept the 2015 Annual Report containing the President's report, management report, Director's report and the unqualified Audited financial statements for the year ended 31 December, 2015.</p>	
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FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 K	2015 K
Income			
Revenue	2	4,060,995	3,327,811
Gain (Loss) on Revaluation of Investments	5	(4,569,929)	(5,518,203)
		<u>(508,934)</u>	<u>(2,190,392)</u>
Less: Expenditures			
Administration Costs		969,896	985,523
Staff Expenses		572,645	550,432
Other Expenses	3	1,301,169	1,119,945
		<u>2,843,710</u>	<u>2,655,900</u>
Profit (Loss) Before Tax		(3,352,644)	(4,846,292)
Income Tax	1(b)	-	-
Profit (Loss) for the Year after Tax		<u>(3,352,644)</u>	<u>(4,846,292)</u>

The above statement of income is to be read in conjunction with the accompanying notes.

	<p>Moved By: B. Pondrein (Manus SL)</p> <p>Seconded by: D. Vaname (Finance & Private Sector SL).</p> <p>Motion carried.</p>	
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05. A. O.B

ANY OTHER BUSINESS (AOB)	RESOLUTION (DECISION)	MATTERS ARISING OR ACTION
<p><u>Rotating AGM & Industry Meetings by Regions</u> B. Pondrein (Manus SL Chair) requested Fesalos to consider rotating the AGM & Industry meetings by regions for costs reasons. G. Tai agreed and suggest adoption of Tisa's rotational arrangement. E. Tobolton agreed but asked if Fesalos would obtain the required quorum for the AGM? P. Anis said convening meetings in NCD is important because officials can also address other society issues with the regulator and other stat bodies.</p> <p><u>Issues Pertinent to SL Industry</u> I.Momo queried whether pertinent Industry issues like Central pool funds, the new S&L Act progress and Strategic Business Plans for societies will be addressed. <u>Ongoing relevance of the SLS Industry Vs Microfinance Expansion</u> Society officials expressed concerns that the SLS Industry seemed to be getting very little recognition and support from BPNG and Government, compared to</p>	<p>Fesalos Chair, J. Namaliu and PL welcomed the suggestions and promised that the Board will seriously consider the next AGM and Industry meeting in 2017 outside of the NCD at a relevant venue.</p> <p>PL said the BPNG will address most of these issues in the Industry Consultative meeting on Friday 27th May, 2016 at this same venue.</p> <p>The Chair agreed that SLS continue to survive with nil external funding. PL alluded to the Industry collective position which was agreed in the POM based leaders</p>	<p>Fesalos Board to consider convening the next AGM and Industry Consultative meeting outside Port Moresby as suggested by Industry leaders.</p> <p>Society officials were urged to attend and participate in the Industry Consultative Meeting on the 27/05/16.</p> <p>Fesalos will present the Industry's collective position to the Registrar at the Industry consultative meeting on Friday 27th of May, 2016. The leaders</p>



NKA Chartered Accountants

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF THE FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

Scope

We have audited the accompanying financial statements of the Federation of Savings and Loan Societies Limited for the year ended 31 December 2016 as set out on pages 4 to 10. The Federation's directors are responsible for the preparation and representation of the financial statements and the information contained therein. We have conducted an independent audit of the financial statements in order to express an opinion on them to the members of the Federation.

Our audit has been conducted in accordance with International Standards on Auditing to provide reasonable assurance as to whether the financial statements are free of material misstatement. Our procedures include examination, on a test basis, of evidence supporting the amounts and the disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statement are prepared fairly and in accordance with general accounting practices (which require, amongst other things compliance with International Financial Reporting Standards and Statements of Accounting Standards of CPA PNG), and other statutory requirements so as to present a view which is consistent with our understanding of the Federation's financial position and the results of its operation and its cashflows.

During the course of the audit, we have obtained all information and explanations that we requested.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion,

- the financial statement of Federation are properly drawn up as required by the Savings and Loan Society Act 1995 so as to give a true and fair view of the Federation's affairs as at 31 December 2016, and of the results of its operation, changes in accumulated funds and cashflows for the year then ended in accordance with general accepted accounting practice; and
- proper accounting records have been kept by the Federation.

Dated at Port Moresby this 28th day of March 20 17.

NKA Chartered Accountants

Paul M. Nindipa
Partner

Registered under the Accountants Act 1996

<p>the recently introduced Microfinance concept which is heavily supported with government & donor funding and receives huge publicity. The SLS Industry has been around since 1961, has truly served its members, suffered a great deal but continue to survive with resilience and total independence, a true testimony of self-reliance. E. Tenoa urged more education and publicity on the relevance of SLS to the masses in PNG.</p> <p><u>Workshop Overview</u> The Chair invited Mr. Pierre Senguin (IMF Resident Technical Advisor, Financial Sector Supervision, IMF PFTAC, Suva – Fiji) to provide an over view of his workshop topics.</p>	<p>meeting which includes this concern.</p> <p>More education & awareness on the relevance of SLS to counter the increasing threat from money scams/schemes.</p> <p>The topics to be covered include:</p> <ul style="list-style-type: none"> - Tweaking the societies financials - Introduction on PEARLS - Governance (Board & Management responsibilities) - Provisions for Doubtful Debts - Modification of reporting template - Proposed role of the Federation. 	<p>agreed that senior statesman, Sir Sinai Brown (ENBSLS) will articulate the Industry concerns on the SLS history, its resilience, its relevance and the need for serious government support/publicity to the Registrar.</p> <p>Fesalos Chair urged society officials to attend and participate in the workshop on the 26th of May, 2016.</p>
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FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED


DIRECTORS' STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

In the opinion of the Directors, the financial statements of the Federation, as set out on pages 4 to 10, are drawn up so as to give a true and fair view of:

- (a) the state of affairs of the Federation as at 31 December 2016 and of the operations, changes in accumulated funds and cash flows for the period then ended; and
- (b) the financial statements are prepared in accordance with generally accepted accounting practices in Papua New Guinea

For and on behalf of the Board Members


Mr. Jack Namaliu
Chairman


Mr. Paulus Laveil
Director

Dated at Port Moresby, this 27th day of MARCH, 2017

There being no further business, the chairman J. Namaliu on the basis of mutual consensus resolved to close the AGM at 12:30 PM.

Moved by: P. Anis (Niu Ailan SL)

Seconded by: I. Momo (Tisa), Motion carried

Jack Namaliu
Board Chairman

Paulus Laveil
Board Secretary

FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

The Directors have pleasure in submitting the annual report and the financial statements of the Federation for the year ended 31 December 2016

Principal Activities

The Federation of Savings and Loan Societies Ltd is the apex organisation for all the Savings and Loan Societies in Papua New Guinea. Its principal activities continue to be that of assisting in the development of societies, conducting activities on behalf of the members to contribute to the common benefit, promoting interest and co-operation between societies and similar organisations and furthering the common interest for the benefit of its members.

Review of Operations

For the year ended 31 December 2016, the Federation's loss after tax was K3,352,644 (2015: K4,846,292 loss).

Directors and Officers

The following were Directors of the Federation during the year ended 31 December 2016:

Mr. Jack Namaliu - Chairman	Mr. Muser Malong - Deputy Chairman
Mr. Ian Tarutia	Mr. Paulus Laveil
Mr. Sylvester Gaso	Mr. Gabriel Tai

Mr. Paulus Laveil is also the Federation's Board Secretary and Managing Director.

Independent Audit Report and Auditors Fee

The financial statements have been audited and should be read in accordance with the independent audit report on page 3.

Donations

During the year the Federation paid K 8,500 in Donation

Interest Registers

There have been no entries into the Federation's interest during the year.

Remuneration of Employees

One employee of the Federation received remuneration in excess of K100,000.

For and on behalf of Directors



Mr. Jack Namaliu
Chairman



Mr. Paulus Laveil
Director

Dated at Port Moresby, this 27th day of MARCH, 2017

**DELEGATES & PARTICIPANTS LISTING FOR AGM CONVENED IN THE BALL
ROOMS: 1, 2 & 3 AT HOLIDAY INN HOTEL, NCD - 25th of MAY, 2016**

NO	NAME OF PARTICIPANTS	POSITION IN SOCIETY	DELEGATE	SOCIETY [NO]	CONFIRMED
1	MR DAVID MUNAGA	CEO		AIR NIUGINI S/L [3]	√
2	MRS SAMUELLA TERRENCE	MSO		AIR NIUGINI S/L	√
3	MR JOHN POLUME	CHAIRMAN	DELEGATE	AIR NIUGINI S/L	
4	VARI LAHUI	MANAGER	DELEGATE	NCSL	√
5	MRS JOAN KIAPEN	FINANCE OFFICERS		FPSSSLS	√
6	MR EMILE TENOA	MANAGER		FPSSSLS	√
7	MRS ROSE KRUA	DIRECTOR		FPSSSLS	√
8	MR JACK NAMALIU	CHAIRMAN		ENB S/L	√
9	MS LAVINIA TARAICA	MANAGER		ENB S/L	√
10	MR JACK TEWE	FINANCE MANAGER		ENB S/L	
11	MRS PITI JOHANG	MANAGER		PTP S/L	√
12	MR NOU MANOKA	CHAIRMAN	DELEGATE	PTP S/L	√
13	MS SABATINI HUTI	MIS OFFICER		PTP S/L	√
14	MR SAMSOM TOROVI	N/BOARD OF DIRECTOR	DELEGATE	SEPIK S/L	√
15	MRS SUSAN KALINAU	ACTING MANAGERESS		SEPIK S/L	√
16	MR AGE WARI	MANAGER		MPSL	√
17	MR MELLY PENINGTON	FINANCE & ADMIN OFFICER		MPSL	√
18	MS CECILIA KORERE	GENERAL MANAGER		NIU AILAN S/L	√
19	MS SANDRA NANGORE	ACCOUNTANT		NIU AILAN S/L	√
20	MS EARAU ILA	MANAGER	DELEGATE	PNG PORTS S/L	√
21	MS ROSELYN HENAO	LOANS OFFICER		PNG PORTS S/L	√
22	MR BEN GAWI	GENERAL MANAGER		ALEKANO	√
23	MR DOMINIC AFUYAVE	DIRECTOR	DELEGATE	ALEKANO	√
24	MR LUCK KAUL	HEAD OF RFS		TSL	√
25	MR ANANIA JONATHAN	HEAD OF AUDIT & RIST		TSL	√
26	MR KISAKIA POAWAI	RISK COMPLEANCE OFFICER		TSL	√
27	MR FRANCIS PAHUN	LEND OPER MANAGER		TSL	√
28	MS MAI SAN VALETIN	MANAGER	DELEGATE	NAMBAWAN S/L	√
29	MS RACHAEL PILAMB	ACCOUNTANT		NAMBAWAN S/L	√
30	MR MORRIS LINGEN	DIRECTOR	DELEGATE	POLICE S/L	√
31	MR DANIEL WAGI	DIRECTOR		POLICE S/L	√
32	MR PAUL KAKI	SEN-MANAGER FINANCE		POLICE S/L	√
33	MR MUSER MALON	GENERAL MANAGER		POLICE S/L	√
34	MR ELIAKIM TOBOLTON	MANAGER	DELEGATE	PNG POWER S/L	√
35	MR BEN PONDREIN	CHAIRMAN	DELEGATE	MANUS S/L	√
36	MR SINAI BROWN	DIRECTOR	DELEGATE	ENB S/L	√
37	MR GABRIEL TAI	CHAIRMAN	DELEGATE	TISA	√
38	MR SYLVESTER GASO	CHAIRMAN	DELEGATE	MPSL	√
39	MR DOUNA VANAME	CHAIRMAN	DELEGATE	FPSSSLS	√
40	MR PEDI ANIS	D/CHAIRMAN	DELEGATE	NIU AILAN S/L	√
41	MR PAULUS LAVEIL	MANAGING DIRECTOR		FESALOS	√
42	MRS HENAO KWARARA-GIRI	MANAGER CORPORATE		FESALOS	√
43	MRS CAROLINE MAYU LULUE	MIS TEAM LEADER		FESALOS	√
44	MS CYNTHIA SOSO	ADMIN & FINANCE OFFICER		FESALOS	√

FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED

**FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

CONTENTS

	Page No.
Annual Report	1
Statement by Directors	2
Independent Audit Report	3
Statement of Income	4
Statement of Financial Position	5
Statement of Changes in Accumulated Funds	6
Statement of Cash Flow	7
Notes to the Financial Statements	8 - 10

FEDERATION OF SAVINGS AND LOAN SOCIETIES LTD

CHAIRMAN’S MESSAGE



It gives me pleasure to present to you on behalf of your Board of Directors the affairs of the Federation of Savings and Loan Societies (FESALOS) including the Audited Financial Statements for the year ended 31 December 2016.

2016 is truly a remarkable and milestone year for the Federation because it celebrated its 50th anniversary of continued existence because of its relevance in representing and advocating our Industry’s unique cooperative principles. This milestone achievement was celebrated in a year where our country experienced its second severe economic depression since independence. Despite the inevitable effects of this on our operating environment, our Industry has remained resilient and focused as we prepare together in earnest for the

transitional move forward. Therefore with marked cooperation from our affiliated members; our Federation has seen the year 2016 as another year for notable achievements and success.

Some of the key material Indicators are reflected in the figures provided below:

- Membership through affiliation decreased to 12 out of the 21 existing societies.
- Affiliation fees slightly decreased to K 105, 998 from K113, 294 received in 2015.
- The year-to-date audited operating surplus (or after Tax Profit) amounts to K 1. 217 million.
- The extraordinary loss resulting from the revaluation of shares held in Credit Corporation Ltd and Bank South Pacific (BSP) restated at market value as at balance date of 31 December 2016 amounted to K 4. 569 million.
- The audited total loss after subtracting the year-to-date operating income amounted to K 3. 353 million. This is a significant increase from the audited total loss after extraordinary loss in income of K 4. 846 million achieved and reported in 2015. The extraordinary loss in income is attributed to the revaluation of shares held in Credit Corporation restated at market value of K 2.25 per ordinary share as at the balance date of 31/12/2015 which decreased to the restated market value of K1. 90 per share as at the balance date of 31/12/2016 resulting in a deficit of K4. 569 million (revaluation effect). It is essential for our members to note that the market price of BSP shares stabilized in 2016 and has steadily increased to the restated market value of K 9. 00 per ordinary share as at the balance date of 31/12/2016; hence contributing to the slight improvement in the overall loss performance of the Federation. The market price of Credit Corporation shares in contrast have experienced a downward trend in the last 36 months (i.e. K2.60 as at 31/12/14, K2.25 per share as at 31/12/15 & K1.90 as at 31/12/16). An analyst at BSP capital commented in 2016 that there has been little or no interest in the Credit Corp stock, hence the price was pushed down by desperate sellers.
- Total Assets decreased to K 48.059 million from K 51.450 million reported in 2015.
- Net Capital and reserves increased to K47.805 million from K51.157 million reported in 2015.

***FEDERATION OF SAVINGS AND LOAN SOCIETIES LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016***

Milestone achievements for the S&L Industry

I am pleased to list a number of milestone achievements that the Federation with the support of all our societies and the Regulator (Bank of PNG) achieve for our Industry in 2016.

Fesalos' 50th Anniversary Celebrations

The Apex organization of which all our affiliated societies created in March 22, 1966 to advocate their cause as stipulated in the Savings & Loan Societies ordinance (1962) turned 50 on the 22nd of March, 2016. We thank all of you for celebrating this momentous occasion with us on the 21st of June, 2016 at the Holiday Inn Hotel; Your Federation has truly come of age.

Launch of Management Certification Program (MCP)

The Assistant Governor for the Financial Systems Stability Group at BPNG, Mr. Ellison Pidik officially launched the 2 year MCP on the 21 June, 2016 on behalf of the Governor of BPNG at the Holiday Inn Hotel. This event coincided with Fesalos' 50th Anniversary celebrations. Our International trainers to deliver the MCP, Mr. Adrian Rodriguez from World Council of Credit Unions (WOCCU), and Ms. Norah Shephard from the Hawaiian Credit Union leagues (HCUL) celebrated the launching with us including 12 students nominated by their societies. The students were involved in a 9 days intensive class contact program with the trainers at the Institute of banking & Business Management (IBBM). On the 10th day, Chairmen's, directors and supervisory committee's representatives from societies joined the students for a Governance workshop and a briefing from the trainers on the topics covered.

Passing of the New SLS Act

I reiterate my appreciation on behalf of the Board for the support and collective efforts of our member societies in the consultations and review of the existing SLS Act under the guidance and leadership of the Bank of PNG over a six year period. Although protracted, the new SLS Bill was passed in Parliament in November of 2015. In anticipation for the gazettal of the new SLS Act which would make it operational, your Federation in collaboration organized a series of transitional workshops in 2016 to ensure our member societies are fully aware of the transitional provisions of the new Act so they can prepare well for the actual transition.

Re-commitment to Bi-annual Industry Consultative Meetings

Your Federation in collaboration with the office of the Registrar of the Savings & Loan Societies at the BPNG re-committed to the original arrangement of organizing the Bi-annual Industry consultative meeting. Fesalos is grateful that the Governor of the BPNG, the Assistant Governor in charge of the Financial Stability Group and the Banking Supervision Dept. team at the BPNG supported the Federation very well in discussing and addressing issues pertinent to the Industry in anticipation of the gazettal of the new SLS Act.

According to the Registrar of Savings and Loan Societies, the overall financial condition of the Savings and Loan Industry and that of the Banks and other Financial Institutions within the financial system in PNG is satisfactory. In fact, the financial sector has experienced steady growth in the aggregated total assets since the reforms to the sector in 2000. The financial system in PNG including our Industry is to the degree of our exposures in the equities market, insulated from the effects of the international financial crisis, due to prudent lending and very limited exposure to offshore investments; unlike the toxic assets that caused the collapse of the global financial systems in 2008.

regulator. This is because we are a national movement that is part of the regional and global movement that have a unique mutual characteristic brand with the sole purpose of serving our members. As we progress into 2017 the Federation and its members must recommit our resolve and commitment to always act as good stewards because of our fiduciary responsibilities to our members and our movement.

Let me thank the Registrar, and the relevant staff of the BPNG that have shown great support in the welfare of our societies in 2016. I also thank the current Board for their constant support and leadership which has enable Fesalos to take great strides in its progress and relationship with its stakeholders and the regulator. I also thank the staff of the Federation for their commitment and loyalty, and our member society officials for your support and cooperative participation in 2016 and look forward to another successful and prosperous year in 2017.



PAULUS LAVEIL
Managing Director

Having said that, it is important to note that we are not immune to any effects of the regional or global economic recession. Falling commodity prices and the lack of confidence in the financial and capital markets will drive a bear market and will affect those that trade in stocks and other financial instruments.

New MIS to replace Ultracs3 Banking system

Recognizing that a modern Management Information System (MIS) is a strategic tool for its member societies going forward; the Board of the Federation after very careful consideration resolved in its meeting in September 2016 to replace the existing Ultracs3 Banking system with the SaveLoanSmart Loan and Savings management system. The Board considered that the Ultracs3 system which was acquired from Ultradata (Aust.) and implemented in 2010 to support 10 small to medium societies under a Bureau arrangement is nearing the expiry date of its software license. The Board also considered that the SaveLoanSmart system can emulate the Ultracs3 with a superior modern banking platform that is scalable and affordable for existing user societies and emerging ones. The Nasfund Contributors Savings & Loan Societies (NCSL) acquired and implemented the SaveLoanSmart system from CloudApp Laboratories Ltd (PNG) for its 85, 000 (+) members following a comprehensive due diligence process. The Federation has commenced its technology change project and is in consultation with the new vendor to agree on the implementation plan of the new system when the existing software agreement expires. We urge our member societies that are currently considering their future banking technology requirement to seriously consider joining the Fesalos MIS Bureau as it will offer the benefit of a modern banking management information system at a reduced cost to your society.

There are some savings and loan societies that are currently under stress affected by sustainability, compliance and mismanagement issues. I again strongly call on those Societies to immediately take stock of your society's status in consultation with your Federation and the regulator to decide on which strategic option your society should pursue before the new act becomes operational. The options available are: Your society can maintain your current brand and status quo but must demonstrate a definite strategy for growth that will ensure sustainability, or consider merger with an existing strong and well establish society. The Federation in consultation with the regulator and the Port Moresby based welfare societies (both supported and unsupported) have discussed and mooted the idea of developing a Federated Savings & Loan Societies along the shared business model concept. This is an exciting idea which the Federation intends to properly examine through consultations with its members and the BPNG to determine its feasibility. Nevertheless, I urge each society make a careful assessment of your issues which are serious and make a conscious decision on the option your society will pursue that will ultimately benefit your members. I can assure you all that the introduction of the new legislation will make you non-compliant and you will be either deregistered or forced to merge when the grace period of 12 months allowed in the new SLS Act expires. I strongly urge Boards and management of those Societies under stress to raise yourselves above the ego issues and act in the best interest of your members. Your Federation in consultation with the regulator will continue to facilitate discussions to assist you to choose the option that will benefit your society and its members.

I wish to commend the Board, the Management and member societies of the Federation who have made the year 2016 successful and laid a firm foundation for a robust future. I am mindful of the effects of the regional and global economic recession, and our domestic socio-economic situation that impacts on our Industry's operating environment. All indications are that the year 2017 will be a tough year for business, and we should not expect similar gains and profits.

Technical Support & Services in 2016

PROVISION OF MANAGEMENT INFORMATION SERVICES (MIS) THROUGH THE MIS BUREAU

The Federation is still very committed to maintaining a robust Management Information System through the provision of Ultracs3 to its members under a Bureau Arrangement. Providing a reliable and modern retail banking system is one of Fesalos' key technical support responsibilities. The Federation's MIS Bureau currently supports a total of eight User societies under a Data processing Agreement (DPA) which includes: CBO SL, NDBSL, PTP SL, Air Niugini SL, Finance & Private Sector SL, PNG Power SL, Alekano SL and Niu Ailan SL. One of its user society (NSL) decided to terminate its DPA with Fesalos after acquiring another banking software. Fesalos MIS technical staff supported the vendor, Ultradata in the process of migrating the society's data in June, 2016 to the society's new core banking system. Due to increasing learning and experience curve in the use of Ultracs3, Fesalos MIS Bureau as in 2015 continued to provide direct onsite training and mentorship to ultracs3 system operators of user societies as opposed to conducting formal classroom training.

In light of the imminent expiry of the Ultracs3 software license, the Board of the Federation decided in September 2016 to replace the Ultracs3 system with the SaveLoanSmart Loan management system. Management immediately responded by commissioning the technology change project which entailed the following activities:

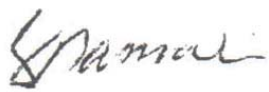
- Commenced consultation to inform the existing vendor on the board's decision and to prepare for data migration on expiry of the software (SW) contract agreement,
- Commenced consultation with the new Vendor on the implementation process for the new system, related hardware and network requirements, and the accommodating SW agreement ,
- Commenced consultation with in-country accounting software vendors to identify an accounting SW that is compatible with the new system, to see the feasibility of providing accounting service support beside the loan management system to User societies,
- Commenced consultations to identify a consultant to work on the standardized chart of accounts exercise,
- Commenced consultations to identify a suitable Web Site expert to revamp the existing dormant website,
- Commenced consultations to identify an independent IT expert to conduct an audit oversight on the MIS Bureau.
- Through the engagement of a local SQL expert, Fesalos successfully rolled-out the SQL customized report to its 8 user societies in 2016.

Fesalos is grateful to its affiliated members for choosing Fesalos' MIS Bureau as their technology provider and is committed to foster and maintain a closer working relationship with its users.

The enactment of the new S&L Act in late 2015 and its imminent effectiveness through gazettal presents unprecedented challenges for the Federation and its affiliates as we prepare and make adjustments to accommodate the new reforms that will come with a completely different regulatory regime. Nevertheless, we are comforted by the fact that your Federation in collaboration with our regulator, the BPNG have organized a series of transitional workshops and targeted meetings since 2014 to assist our societies to understand the new reforms, address existing weaknesses, and prepare proactively for the transition. The Federation urge the leaders of our member societies to remain focus and resilient on your society's transitional requirements in close consultations with other member societies, your Federation and the

Nevertheless, we shall not be deterred from serving our member societies and encourage all savings and loan societies to make prudent decisions and put the interest of their members foremost. I look forward to a cooperative and productive year in 2017 and take this opportunity to express my sincere appreciation to boards and management of member societies, my fellow directors, the management and staff, the Registrar of Savings and Loan Societies and his staff at the BPNG for the support they have given to the Federation and to our industry over the past twelve (12) months.

My best wishes for the year 2017.



Mr. Jack Namaliu
Chairman - Board of Directors



2016 MCP Batch - PNG

From a human resource perspective, the Federation continues to invest in training and upskilling of its staff to ensure they are adequately prepared to assist and support the Federation in fulfilling its responsibilities to its members. Two senior female officers successfully completed the Diploma in Project Management offered by the chiefly Institute of Australia through the Institute of Banking & Business Management (IBBM) and graduated with high distinctions on the 18th of May, 2016. Fesalos took advantage of the 50 % subsidy offered by IBBM to women participants in all course fees in 2015/2016. The Federation is an Associated Corporate member of the IBBM on behalf of its affiliates which attracts a 15 % discount in course fees and use of the institute training facilities. In addition, Fesalos’ network and MIS officer commenced his Bachelor of IT degree program at the Institute of Business Studies (IBS) in 2016. Another officer also commenced her advanced diploma in accounting at the International Training Institute (ITI). This augments well with the Federation’s succession plan for human resource and gender consideration.



Henao K Giri & Caroline M Lulue - Dip. in PM

FEDERATION OF SAVINGS AND LOAN SOCIETIES LTD

MANAGEMENT REPORT



It gives me great pleasure to present to our affiliated societies another record of what transpired in 2016.

General Scope of Activities

The principal activities of the Federation remain unchanged:

Association Services

- Assisting in the development of societies,
- Conducting activities on behalf of the members to contribute to the common benefit,
- Promoting interest and co-operation between societies and similar organizations, and
- Advocating the cause of the Savings & Loan movement and furthering the common interest for the benefit of its members.
- Providing and facilitating relevant training programs for the benefit of its members.

Technical Services

- The provision of appropriate and affordable technical support and services to its members through a shared services platform, for instance the provision of a suitable and affordable Management Information System services to support small to medium sized member societies that cannot afford the cost of a stand-alone retail banking system and associated hardware and communication infrastructure.

Board and Management

The general management and control of the Federation is vested in the Board, which performs all such duties as are normally performed by a Board of Directors. The Board consists of the following directors in 2016:

- **Topics:** Status of new SLS Act & Transitional Issues, Common Compliance challenges & Go Forward plans for Fesalos on the 25th of May, 2016 at Holiday Inn Hotel, facilitated by BPNG and Fesalos.
- **Topics:** Review and modification of societies' financial statements to comply with various Credit Union Standards, and Introduction of PEARLS from 26th – 27th of May, 2016 at Holiday Inn Hotel, facilitated by Mr. Pierre Senguin IMF Resident Technical Advisor, Financial Sector Supervision, IMF PFTAC, Suva - Fiji.
- **Topics:** Enhancing Board room performances (Facilitated by BPNG), Setting scope for External Audit (facilitated by KPMG), 2nd National Inclusion Financial Strategy (facilitated by CEFI), Introduction to Directors Pipeline program (facilitated by Consultant, Mr. Joe Forster) and Transitional Opportunities (facilitated by Mr. Anil Paul, BPNG) from the 15th – 16th of November, 2016 at Holiday Inn Hotel.

FESALOS MEMBERSHIP & AFFILIATIONS ON BEHALF OF ITS MEMBERS

Domestic

- Fesalos maintains its Associated Corporate Membership with the Institute of Banking and Business Management (IBBM) which enables it and its member societies access to the Institutes courses and training program, its training/conference facilities at a discount of 15 %.
- Membership to the PNG Institute of Directors enabling its member societies access to the Institutes workshops and training on Board of Directors Roles Responsibilities and Good Governance.
- Member and seat on the Board of CEFI enabling its provincial and rural based societies be included as participating financial Institutions in financial Inclusion strategies and related programs, and activities.
- Member of the Port Moresby Chamber of Commerce and Industries.

International

- Direct membership to World Council of Credit Unions (WOCCU)
- Member of the Asian Confederation of Credit Unions (ACCU)
- Foundational Member of the Oceania Confederation of Credit Union Leagues, and a seat on the Advisory Board. Fesalos has a current seat on the OCCUL Advisory Board.
- Member of the Microfinance Pasifika Network (MFPN).
- Partnership with Credit Union Foundation Australia (CUFA) on CUFA's pacific program; A two-year youth specific project in the Autonomous Region of Bougainville, PNG funded by DFAT; providing financial literacy training and associated programs.

TRAINING

Management Certification program (MCP) as a Gift to its members

The Federation purposely coincided the launch of the 2 year Management Certification Program (MCP) with its 50th Anniversary celebrations on the 21st of June, 2016 as a special gift to its members in answer to calls for a relevant training program to prepare a pool of aptly trained young and upcoming industry practitioners for management and leadership roles in their societies and the industry. An initial 12 students commenced the initial 10 days of classes under, Adrian Rodriguez the WOCCU lead trainer, and Ms. Norah Sheppard the co-trainer from the Hawaiian Credit Union Leagues. Fesalos and WOCCU will enroll a second batch of students in 2018 when the current batch graduated.

- Mr. Jack Namaliu

-

Board Chairman
- Mr. Muser Malong

-

Deputy Board Chairman
- Mr. Sylvester Gaso

-

Director
- Mr. Ian Tarutia

-

Director
- Mr. Paulus Laveil

-

Managing Director/Board Secretary

Board Attendance and Remunerations in 2016

Names	No. of Board Meetings Attended	Special Board Meeting Attended	Total Attended	Sitting Fees per Meeting PGK	Total Remuneration PGK
Jack Namaliu	4	1	5	300.00	1,500.00
Muser Malong	3	1	4	250.00	1,000.00
Ian Tarutia	2	1	3	250.00	750.00
Sylvester Gaso	4	1	5	250.00	1,250.00
Gabriel Tai	4	1	5	250.00	1,250.00
Paulus Laveil	4	1	5	Nil	Nil

Financial Performance

Our Board Chairman has provided details of our strong financial performance in his message.

The highlights of the financial performance of your Federation for the financial year ended 31 December, 2016 are as follows:

- Audited Net operating profit was K1.360 million compared to K0. 671 million achieved in 2015.
- The Audited total loss after extraordinary loss in income amounted to K 3. 209 million compared to K 4.846 million reported in 2015. This amount takes into account the extraordinary loss of K 4. 569 million resulting from the revaluation of shares held in Credit Corporation Ltd and Bank South Pacific shares restated at market value as at balance date of 31 December 2015. This is lower than the audited extraordinary loss in income of K 5. 518 million reported in 2015.
- Total Assets decreased to K 48. 059 million from K51.450 million reported in 2015 (K56.288 m in 2014).
- Net Capital and reserves decreased to K47. 805 from K 51.157 million reported in 2015 (K 56.004 million in 2014).

Investment Performance Highlights

The Federation’s exposure is limited to its shares listed on the Port Moresby Stock Exchange. The market price of BSP shares stabilized in 2016 and has steadily increased to the restated market value of K 9. 00 per ordinary share as at the balance date of 31/12/2016; hence contributing to the slight improvement in the overall loss performance of the Federation. The market price of Credit Corporation shares in contrast have experienced a downward trend in the last 36 months (i.e. K2.60 as at 31/12/14, K2.25 per share as at 31/12/15 & K1.90 as at 31/12/16) which has directly contributed to the extraordinary losses, and depreciation in the

Digital Banking/financial services that are easily accessed through digital financial channels. The SLS movement in PNG have a high aging aggregate membership and the industry appreciates that replacing the aging membership with the growing ‘Y’ generation of employees is through digital banking. In light of the rapid advances in digital financial technology, the SLS movement in PNG have been urged to begin developing relationships with technology to remain relevant for their members, because failure to do so will render societies irrelevant.

- External Challenges** (*socio, economic & political threats*) imposed on our operating environment that may impact negatively on societies (both urban & provincial). For instance, the drastic cost cutting (Austerity) measures in the 2017 National budget that will: cause some government department to merge resulting in making many public servants redundant who are society members (reduce membership, and liquidity demand to finance withdrawals and etc).
- Aging membership & Inclusive Family Savings** presents immediate growth opportunities for society’s membership by targeting the ‘Y’ generation (Millennium Gen.) to replace aging membership through Inclusive Family Savings Account. Some societies are already implementing Kids savings accounts and similar products. The Industry wanted the Registrar’s endorsement for the development of an inclusive family savings product for the SLS to capture the spouses & children of the 250, 000 members. The industry feels that an all-out effort by the 21 SLS to capture their member’s spouses, children and other dependents through savings accounts will immediately net more than 1,000,000 additional members to the SLS Industry. This is a way to replace the 70 % aging membership.
- Gov’t policy to protect SLS model:** The Industry strongly feels that the SL movement is one of the only few and true model for self-reliance in PNG that has stood the test of time. Although, Registered & license as financial institutions, S&L societies are not given adequate protection and support by successive governments as opposed to the Unlicensed financial institutions that have attracted huge Gov’t and donor funding and technical support. The Industry has urged its Registrar to promote the SLS model so that it receives the recognition and support it deserves.

Workshop On Transitional Issues

The Federation in collaboration with the Bank of PNG organized three workshops in 2016 at which more than 40 officials from our member societies participated in as follows:

- Topics:** Strategic Business Plan Workshop from 25th – 26th of February, 2016 at Lamana Hotel, Facilitated by Consultant, Mr. Anil Paul, BPNG.



total asset of Fesalos in the last three years. There has been little or no interest in the Credit Corp stock, hence the price was pushed down by desperate sellers.

The Federation’s total Investment of K 43. 614 million comprised of Stock valued at K 39. 068 million (or 89.60 %), T-bills & Gov’t Bond of K 2 million (or 4. 57 %) and IBD of K 2. 546 million (or 5. 83 %).

As reported in previous reporting periods, the number of ordinary shares held by the Federation in BSP is 8,318,190, and in Credit Corporation is 16, 621,878 fully paid ordinary shares.

Industry Aggregated Statistics to 2016

The Industry’s aggregated statistics compiled by BPNG as at 31 December, 2016 reveals the following:

(amounts in kina millions)	2016 Dec	2016	2015 Sept.,	2015 Growth	2014 Dec
Gross Loans & Advances	325 m	12.84 %	288 m	22 %	236 m
Total Assets	1.063 B	7.05 %	993 m	1.64 %	977 m
Members Savings/Deposits	543 m	6. 68 %	509 m	6.04 %	480 m
Existing Societies	21	NIL	21	NIL	21
Membership	240, 170	- 2 %	244, 986	3.71 %	236, 216

The aggregated statistics of our Industry shows growth in nearly all categories which is a very significant and positive sign for the industry in 2016. Total assets of the industry as predicted in 2014 eclipsed the 1 billion mark by December 2016. The overall membership recorded a slight decrease of - 2 % (or 4, 816) from 2015 as a number of societies consolidated their membership through provisioning, and three societies descended into dormancy. Nevertheless, our larger and more established national societies continued their ascendancies in membership growths and total asset growth through the offerings of innovated loans and savings products.

Association Support & Services in 2016

INDUSTRY CONSULTATIVE MEETINGS

Unlike previous years, the Federation in collaboration with the office of the Registrar at the BPNG has recommitted to the staging of the Bi-Annual Industry Consultative meetings. As such two Industry consultative meetings were held in 2016, the first meeting was held on the 25th of May, and the 2nd one was on the 16th of November, of 2016. Both meetings were chaired by the Registrar (Governor of BPNG). The Federation has seen an increased participation of more than 40 officials from its member societies in these consultative meetings unlike in the previous years. The most pertinent issue being the imminent gazettal of the new SLS Act and its implications on each society and the S&L Industry as a whole.

Apart from the New SLS Act, the senior officials of 16 licensed Port Moresby based societies informally met in October and consecutively on the 14th of November, 2016 to discuss issues that they considered pertinent to the operation of the societies and the S&L Industry. The objective is to agree to a collective or common position on the issues that can be presented to the Registrar for consideration and discussion in the Industry Consultative meeting scheduled on the 16th of November, 2016. The leaders felt that having a collective position will improve the Industry’s contributions and their overall participation in the consultative meeting. Fesalos

organized and provided the secretariat support for these meetings. The collective issues that were presented to the Registrar are:

- Timeliness of responses on Submissions**
The Industry is concerned at the response/feedback on its submissions, and urged the regulator to effectively address this issue.
- Transitional issues & Level of Preparedness**
The industry is grateful to the registrar of the S&LS and his officials at the BSD for the continued collaboration with Fesalos to organize the transitional workshops since 2014 to assist societies understand and work towards addressing the transitional requirements contained in the new SLS Act.
- Tier Classification for societies**
The industry is of the view that all our savings and loan societies in PNG should be classified under a tiered status with the bigger and more established ones in Tier 1, and the smaller ones in the other tier(s). The reason for this is that the larger societies have a bigger financial structure and are involved in a lot of activities which requires the Board’s expertise and guidance from a policy making perspective and therefore the regulatory approach and level of supervision of the bigger societies would vary compared to the smaller societies.
- Fesalos’ plans for a federated S&L (towards a Shared services and common platform business model)**
The Industry is of the view that a shared services platform model would be good for the Industry to cater for the small and emerging societies going forward. Fesalos and its members urge the Registrar to endorse one of Fesalos’ strategic objective to set up a Federated SLS that could cater for the existing small to medium SLS and the emerging ones. The idea augurs well with the existing smaller welfare type societies that are reluctant to consider the merger option due to their prevailing fixed assets (and staff) which are seconded by their sponsor organizations. The idea of the Federated SLS is to have it adequately resourced so it can develop sufficient capacity to provide essential services like: MIS, Accounting, Audit and etc to the societies. If this concept works well, the smaller societies may have to relinquish their SLS licenses and operate under the Federated SLS license as franchised branches. This shared services and common platform business concept will only work if member societies are committed to it; we are reminded by the well-known African adage: *“If you want to Move Fast, Go alone, but if you want to Go Far, We Go Together”*.
- National Card & switching (inter-operability of all Financial Institutions including S&LS)**
The Industry would welcome information on this development and the kinds of opportunities this would present to the S&LS Industry. The Industry has urged the Registrar to ensure this technology development is owned by the Government through BPNG under the National Financial Inclusion strategy to avoid privatization which would attract very high transaction charges like the current switching & Cards services offered by mainstream commercial banks.
- Digital Payment Platform for the SLS Industry** is a concept Fesalos and its members are discussing along the shared services business model. The Industry has heard from technology providers in this field that the paradigm shift from the conventional banking where clients/members come to the Bank or SLS to obtain financial services/product has shifted to Banks/Financial houses/SLS bringing or offering financial services/products to clients/members’ in their offices, homes or anywhere through PCs, laptops, smart mobile phones or other hand held devises. This is made possible through

FESALOS IN PICTURES



Adrian Rodriguez -
WOCU Lead Trainer



Ellison Pidik -
Assistant Governor BPNG



Michael Koisen CEO of TISA Giving his speech
at FESALOS 50th Anniversary



FESALOS 50th Anniversary



Industry Consultative Meeting - Holiday Inn November 2016



Mr. Emile Tenoa (ET) - MC FESALOS 50th Anniversary