

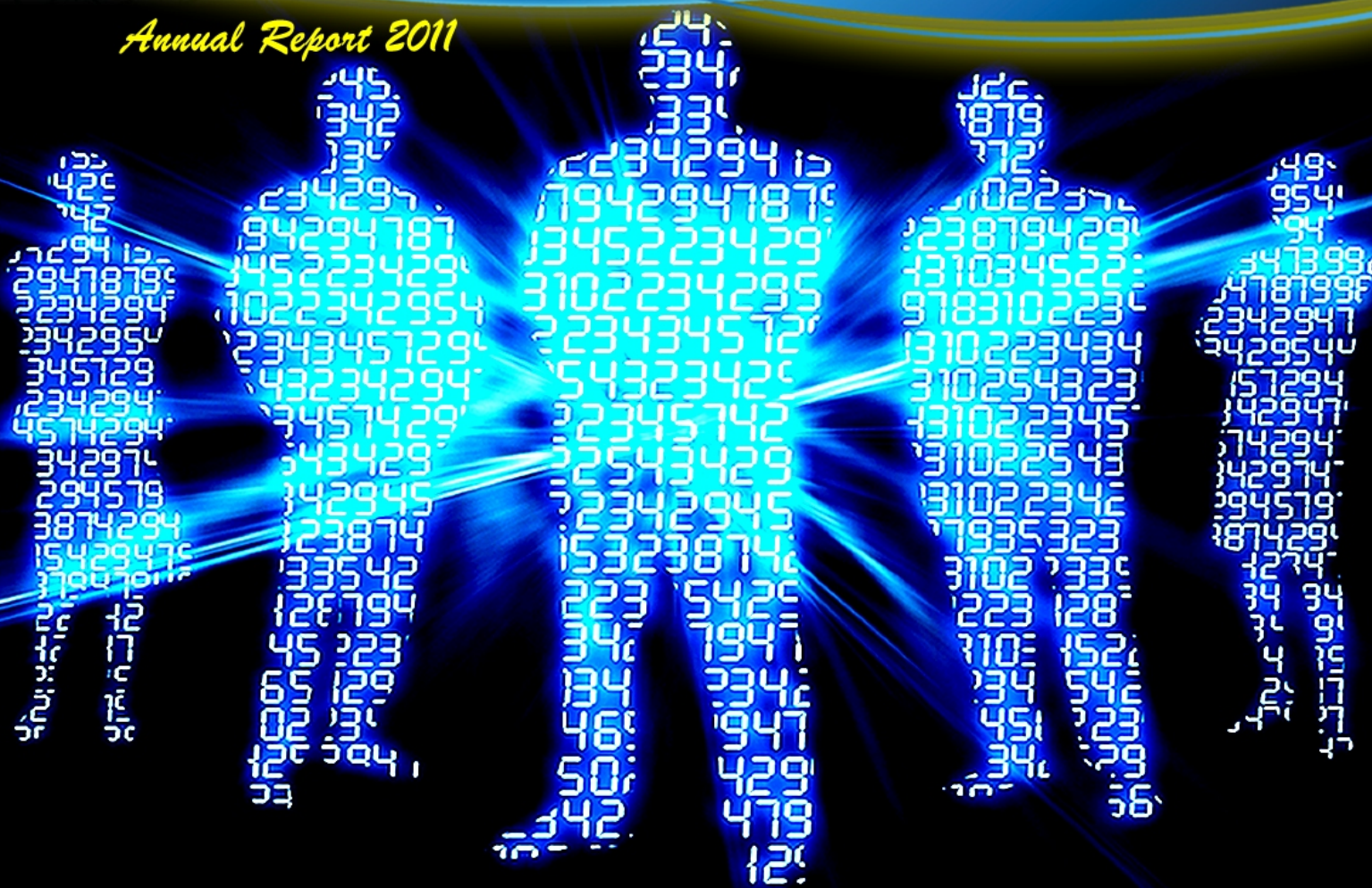


FIRST REGIONAL CO-OPERATIVE CREDIT UNION Ltd

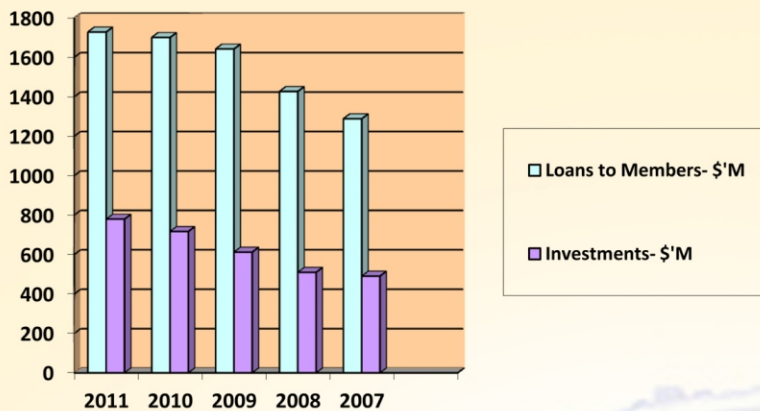
Where you get interest on your money and interest in You!

50x

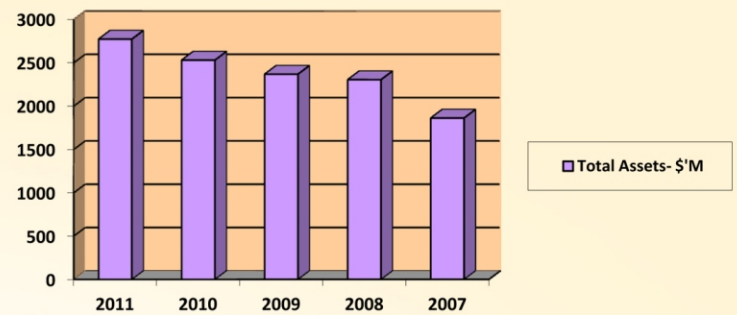
Annual Report 2011



EARNING ASSETS



TOTAL ASSETS



HIGHLIGHTS OF 2011

Welcome to our NEW LOCATION

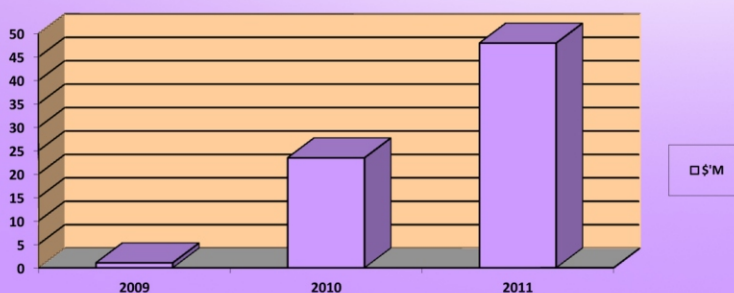
Our Ocho Rios Branch is now located at:

8 Main Street, Ocho Rios, St. Ann

***Our telephone and fax numbers remain unchanged at:
974-2525 & 974-4152 respectively.***

'Moving Up to Protect Your Interest'.

**MEMBERS' PERMANENT SHARE CAPITAL
2009- 2011**



CAPITAL ADEQUACY 2010- 2011

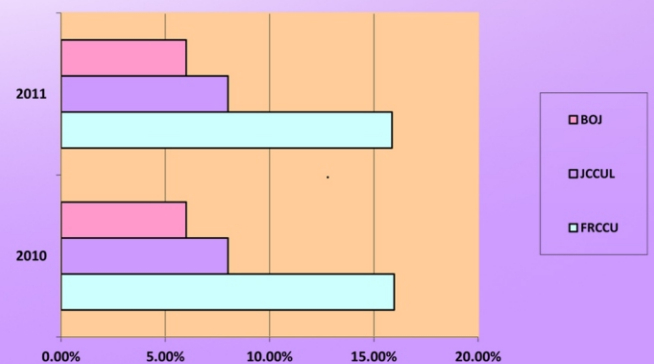




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Notice

*Notice is hereby given that the
34th Annual General Meeting of the
First Regional Co-operative Credit Union Limited
will be held at the Jewel Dunn's River Beach Resort & Spa,
Mammee Bay, St. Ann
on Saturday, 19th May 2012
commencing at 9:30 a.m.
Registration will begin at 8:30 a.m.*

*The purpose of the meeting is to examine the operations of the Credit Union
for Year 2011 and to pass Resolutions to:*

- 1. Amend Rules 29, 30, 41 and 49 concerning term limit*

V. McKenzie

Veroneeth McKenzie
SECRETARY



Agenda

- *Ascertainment of Quorum*
- *Call to Order and Prayer*
- *Welcome and Apologies*
- *Reading of Notice*
- *Obituary*
- *Confirmation of the Minutes of the 33rd Annual General Meeting*
- *Matters Arising*
- *Reports of:*
 - *Board of Directors*
 - *Credit and Supervisory Committees*
 - *Treasurer*
- *Appropriation of Surplus*
- *Fixing of Maximum Liability*
- *Election of Officers*
- *Any Other Business*
- *Vote of Thanks*
- *Termination*

PRODUCTS OFFERED BY FIRST REGIONAL CO-OPERATIVE CREDIT UNION

Savings:

- Wealth Master Gold
- Christmas Club
- Sure Save
- Golden Harvest
- Share Accounts
- Paadna Plan
- Gift Certificates
- Fixed Deposit Accounts which offer attractive rates
- Youth Savings Programme

Loans for:

- Pay Day Advance
- Auto and Home Owners Insurance Loans
- Real Estate – purchase, building improvement and bridge financing.
- Motor vehicles
- Easi Loans
- Back to School Buzz
- Education – (The Future Education Plan)
- Medical Expenses
- Business Investments
- Funerals
- Weddings
- Travel/Vacation

(Conditions apply)



Services

1. Field Officers who will visit you to:
 - Enroll members
 - Address civic organizations such as Parent Teachers Associations
2. Life Savings and Loan Protection (Loans up to \$1,000,000.00 and savings up to \$120,000.00 are insured against death or disability – *conditions apply*)
3. Health Insurance through major insurance providers.
4. Family Indemnity Plan Insurance (for Funeral Expenses)
5. Easi Loan payments through salary deduction, standing orders, post dated cheques.
6. Scholarships to secondary schools and one tertiary level bursary
7. Safety – (Savings are protected by the Stabilization Fund operated by the Jamaica Co-operative Credit Union League)
8. Standing Order Payments can be made through the Credit Union.



Minutes

of the 33rd Annual General Meeting
Of First Regional Co-operative Credit Union Limited
Held at the Sunset Jamaica Grande Resort
On Saturday, 14th May 2011

1.1 Call to Order

The President, Mr. Hopeton Henry, having ascertained that there was a quorum, called the meeting to order at 9:47 a.m.

1.2 Prayer

Rev. Dr. Glenroy Lalor asked for God's guidance. Members then repeated the prayer of St. Francis of Assisi; regarded as the credit unions' prayer.

1.3 Reading of Notice and Registrar's Letter

The Secretary, Miss Veroneeth McKenzie, read the Notice and the letter from the Registrar of Co-operative Societies and Friendly Societies giving authority to convene the meeting.

1.4 Welcome and Opening Remarks

The President extended welcome to all including volunteers, staff, members and guests. He stated that he was honoured to have been elected to the post of President and that he hoped to give stellar leadership to the Credit Union.

1.5 Acceptance of Apologies

Apologies for absence were tendered on behalf of Director Zaccheus McKnight, Mr. Keith Morris, Mr. Eon Jarrett and Mrs. Gloria Johnson (Members of the Supervisory Committee). Apology for lateness was tendered on behalf of Director Karl Fuller. The apologies were accepted.

1.6 Introduction of Directors and CEO

The President introduced the Directors and the Chief Executive Officer, Patricia Smith. He, on behalf of the Credit Union, extended congratulations to the Immediate Past President,

Director James Walsh for having received, recently, the Prime Minister's Award for his contribution to education.

1.7 Introduction of Guests

The President extended special welcome to guests, viz:

- Honourable R. O. Walters
- *Custos Rotulorum for St. Ann*
- Mr. Dunstan Morgan
- *Jamaica Co-op Credit Union League*
- Miss Phillipa Beckford
- *CUNA Mutual Group*
- Mr. Peter Williams
- *Partner, PricewaterhouseCoopers, External Auditors*
- Mr. Courtney Shaw
- *Department of Co-operatives and Friendly Societies*
- Ms. Cynthia Graham
- *Former director of the Credit Union*
- Rev. Pauline McCatty
- *Former employee*
- Rev. Roy Wickham
- *nominated to serve on the Supervisory Committee.*

1.8 Obituary

Members read the names of members who had passed on during the Year 2010. The President then asked them to indicate whether there should be any additions to the list. There was none. A minute of silence was observed as a mark of respect to members who had passed on during the Year 2010.



2 Confirmation of Minutes of the 32nd Annual General Meeting

- 2.1 The Minutes of the 32nd Annual General Meeting (AGM) were taken as read on a motion by Mr. Cecil Gordon seconded by Mrs. Nicole McKnight-Smith. Subject to the following amendment, the Minutes were confirmed on a motion by Mr. Delroy Rattray seconded by Mr. Ralston Mills:

Item 1.3 Change “The Secretary, Mrs. Marcia McKenzie, read the Notice ...” To “The Secretary, Miss Veroneeth McKenzie, read the Notice...”

3 Matters Arising from the Minutes

- 3.1 The Physical Plant – Mr. Delroy Rattray asked for an update regarding the refurbishing of the Branches. He was informed that the Annotto Bay and Port Maria Branches had been refurbished and the Claremont Branch had been expanded. The Highgate Branch would be refurbished in short order. Having regard to a question from Mr. Rattray, the President informed the meeting that the refurbishing of the Guy's Hill Branch had been planned for the upcoming financial year.

- 3.2 New Products - Having regard to a question from Honourable R.O. Walters, the President replied that the Credit Union had implemented five new products, namely:

- a) Pay Day Advance Loan “PDA”
- b) 13.5% Mortgage Busta
- c) Auto Insurance Loan
- d) Homeowners Insurance Loan
- e) Wealth Master Gold Savings Account

The President further informed the meeting that members' response to these products had been favourable.

- 3.3 Membership – The President stated that at the beginning of 2010, membership stood at 84,624. However, it had been reduced to approximately 57,000 due to introduction of the requirement that

each member should have at least \$400.00 in Permanent Shares. Members who had failed to meet that criterion had been deregistered. He stated that he hoped that delisted persons would re-open their accounts.

- 3.4 Scholarships – The President informed the meeting that the Credit Union had awarded four GSAT Scholarships and one tertiary level bursary in 2010. At this point, Mrs. Claudette Barker, an employee of the St. Mary Health Department, asked how she could acquire financial assistance for her daughter who was desirous of studying medicine. The President encouraged her to apply for the tertiary level bursary. He reminded the meeting that in order to qualify for the bursary the student must have already completed the first year of studies at a tertiary institution.

4 Report of the Board of Directors

Mr. Hopeton Henry, Chairman of the Board of Directors, in presenting the report, stated that directors were very pleased to report on the Credit Union's performance and operations during the year 2010. Since the last Annual General Meeting, the Credit Union had earned from the Jamaica Co-operative Credit Union League, the awards of:

- *Mega Credit Union of the Year*
- *Most Outstanding Parish Credit Union*

He stated that they had been awarded based on a sterling performance in the year 2009 even as the Credit Union had faced a global recession which had been having deleterious effects on the local economy.

4.1 The Local Economy:

Jamaica's economy had suffered from the effects of several quarters of “negative growth.” At the end of the year 2010, annual inflation stood at 11.7% against a target of 7.5% - 9.5%. The Jamaican dollar had appreciated against its US counterpart from \$89.66 in January 2010 to \$86.63 in June 2010 and \$85.90 in December 2010.



The United States Dollar had hit parity with the Canadian in December 2010. Interest Rates on benchmark Treasury Bill Investments had declined during the year to 7.48% at the end of December 2010.

The Chairman pointed out that this was the difficult environment in which the Credit Union had operated in 2010. He informed the meeting that the Credit Union had lost significant investment income (approximately \$25M) due to the Jamaica Debt Exchange (JDX) Programme.

4.2 The Credit Union: Directors and managers had continued to pursue the objectives of:

- Creating and building wealth for members
- Continuing to build and maintain the capital base of the Credit Union
- Seeking to identify and favourably manage the risks faced by the Credit Union
- Offering a suite of products and services to match members' needs and demands
- Maintaining the Credit Union as a viable business (safe and solid place to conduct business)

He stated that whilst directors recognized that income maximization rests on the efficient use of resources, they knew that the interplay between Risk and Expected Return bore a definite relationship to each other and could not be ignored. Consequently, directors and management had focused on:

- Making good investment decisions
- Inventory management and cost containment
- Ensuring sound decisions concerning financing
- Marketing strategies
- The development of the people who execute the decisions.

He stated that inventory management and cost containment became even more important when a company's net surplus was inadequate or threatened.

The Credit Union had introduced five new products, during the year 2010. The Chairman pointed out that whilst owning a home or motor vehicle was important, insuring one's property was equally important. Therefore, the Credit Union had designed the Homeowners and Auto Insurance Loans so that members would be better enabled to insure their property. He added that the Credit Union had implemented the 13.5% Mortgage Busta because it wanted to make homeownership a reality for members.

The Chairman invited members to visit the Credit Union's website at firstregionalcreditunion.com and to follow the Credit Union on twitter and Facebook in order to stay attuned to what was happening at the Credit Union between Annual General Meetings.

The Credit Union had consistently earned world-class or Grade 1 ratios as was displayed by its ability to maintain acceptable efficiency ratios, high solvency, strong capital base and sufficient liquidity which had resulted in First Regional being awarded the coveted designation of Mega Credit Union of the Year on more than one occasion.

However, for 2010 there had been a lesser rate of growth in Total Assets due to factors such as marginal growth in the loan portfolio and the effects of the Jamaica Debt Exchange (JDX) Programme. The Chairman highlighted the fact that the Credit Union had operated in an environment where the norm in the financial sector had been for entities to see growth diminished or non-existent, margins depressed as interest rates declined and massive increases in delinquency.

Capital Formation - The Chairman emphasized the need to build a strong capital base. He stated that the Credit Union must be well capitalized to survive, strive and grow. Capital erosion at a



financial institution was a sign of serious trouble. Consequently, the Credit Union must always seek to maintain high levels of capital to cushion it against risks which may not even be foreseen. Hence, First Regional had always been augmenting its Institutional Capital over and above the regulatory amount of 20% of the surplus.

Human Resources - Recognizing that staff members were the ones who drove the day-to-day business processes, the Credit Union had invested in their personal development, welfare and training which included:

- Microsoft Office Training
- Laws relating to compliance with regulatory issues
- Telephone Etiquette
- Customer Service Skills
- Marketing

The Credit Union had already instituted a program for assisting with the cost of education for its employees and had been concentrating on promoting wellness at the workplace. The introduction of a fitness club was being considered.

Information Technology – IT facilities were being improved to achieve the Credit Union's aim of being online real time 99% of the time. The Credit Union would strive to be on the cutting edge of technology in order to be able to deliver fast, efficient service to its members and control its risks. Therefore, it was exploring the possibility of implementing software which would assist with delinquency control.

Corporate Social Responsibility - The Chairman pointed out that the raison d'être for credit unions was to cater to the financial and social well-being of their members, which must translate into credit unions expressing care for the communities in which members reside. Consequently, First Regional had continued to make meaningful donations to schools, youth clubs, civic groups, churches and other charitable institutions.

First Regional had made substantial contribution to the Hilltop Juvenile Correctional Centre and had donated, among other things, a much needed and appreciated industrial washing machine and a dryer as well as an iron. Lady Allen, wife of the Governor General and Honourable Custos Walters had kindly made the presentations on behalf of First Regional.

Scholarships

The Credit Union had awarded four scholarships to secondary schools and a one-off bursary to a student attending a tertiary institution during 2010 as follows:

- The Leyland Walker Scholarship to Rohanne Bowers (Westwood High School)
- The Reynold Smith Scholarship to Danique Bailey (Westwood High School)
- The Herman Ming Scholarship to Monique Clarke (St. Mary High School)
- The First Regional Co-operative Credit Union Scholarship to Malcolm Fisher (Ardenne High School)
- One-off Tertiary Level Bursary to Sherilyn Shaw (University of the West Indies).

The Chairman reminded members that the tenure of each Scholarship was five (5) years which meant that, each year, the credit union was assisting twenty (20) students by way of scholarships.

The Future

The Chairman stated that the Credit Union needed to enjoy change in order to succeed and therefore, would need to seek out new products, services, facilities and strategies. First Regional would continue to invest capital to maintain superiority in terms of improving the Branches, expanding product development and consolidating operations. Accordingly, it:

- Had been improving the physical facilities (recently renovated the Port Maria and Annotto Bay Branches and intended to



- improve the facilities at the Ocho Rios, Highgate and Guy's Hill Branches)
- Intended to install a new state of the art telephone system
- Would expand product development

The Chairman stated that 2010 had been a successful year for First Regional in terms of growth and expansion. The Credit Union had held the loan portfolio above the international standard of 60% of Total Assets in an environment where the recession had deepened and some financial entities had lost significant chunks of their loan portfolio. Delinquency had increased, as it did in most financial institutions, and the Credit Union had redoubled its efforts to collect. He further stated that in going forward the Credit Union must be aggressive in keeping costs and expenses in line relative to its income from fees.

The Chairman stated that members must remember, always, that they own the Credit Union and whether they access its benefits in terms of reduced rates on loans, some level of dividend or enhanced savings and loan products, it was all theirs. Therefore, they should strive to build First Regional as they built their wealth and prosperity.

Growth – Building on the concept that if a thing does not grow, it dies, the Chairman informed members that the Credit Union may need to strategize for its growth from different angles. It would not simply concentrate on organic growth (i.e. growth from within) but it would consider the possibility of mergers.

Acknowledgements – In concluding his report, the President extended sincere thanks and appreciation to the following persons/entities for their contribution to the Credit Union:

- Staff and Management Team
- Volunteers on the Supervisory and Credit Committees
- Jamaica Co-operative Credit Union League+

- National Union of Co-operative Societies (NUCS)
- CUNA Mutual –the insurance arm of credit unions
- Department of Co-operatives and Friendly Societies
- Members of the Credit Union
- Directors of the Credit Union

The President then invited questions/comments from members.

Rev. Pauline McCatty congratulated the Credit Union on its achievements. She then enquired about the Credit Union's delinquency rate and measures that were in place to control it. The Chairman stated that the Treasurer would answer her question in short order when he would give details of the financial performance.

Having regard to a question from Ms. Enna Lawrence of Brown's Town, Director Ivin Logan informed the meeting that when selecting students for the GSAT Scholarship, the committee's decisions were based on, inter alia, the following:

- i) Information provided on the Application Form
- ii) GSAT performance
- iii) Interview (candidate's general knowledge, goals, community involvement –participation in sports, church etc.)

There being no other questions/comments, the Report of the Board of Directors was unanimously adopted on a motion by Mr. Delroy Rattray seconded by Mr. Irons.

5.1. Report of the Supervisory Committee

Mr. Cecil Gordon, Chairman of the Supervisory Committee, in presenting his report, apologized for the absence of his fellow committee members. He then introduced Rev. Roy Wickham who had been nominated for service on the Supervisory Committee.



Mr. Gordon reported that 2010 had been a successful year for the committee as all scheduled monthly meetings had been held with members in regular attendance. The committee was also represented at the Joint Committee Meetings.

Mr. Gordon reported that the committee had reviewed, inter alia, the following areas of the Credit Union's operations:

1. Registration/Discharge Mortgages and Bills of Sale
2. Cash Counts
3. Bank Reconciliations
4. Rental Income
5. Accounts Receivable
6. Verification of Loan Documentation and Disbursements;
7. Delinquent loans
8. Verification of New, Closed and Deleted Accounts
9. Investments
10. Verification of Members' Passbook Balances
11. Adherence to the Procurement Process

In concluding his report, Mr. Gordon extended special commendation to Mr. Keith Morris who was retiring from the Supervisory Committee after serving the Credit Union as a Volunteer for over 40 years. He also extended commendations to Mr. Ian Saunders and Dr. Richard Stephens who were also retiring.

Mr. Gordon then invited members' comments/questions.

A member stated that the passbooks were unimpressive and asked whether there were plans to update passbooks in a more "modern" manner. The CEO explained that an IT solution was being sought. She stated that she hoped that the matter would be addressed before the next Annual General Meeting.

There being no other questions/comments, the Report of the Supervisory Committee was

unanimously adopted on a motion by Mr. Aston Bramwell seconded by Mr. Lloyd Drake.

5.2. Report of the Credit Committee

Mr. Neville McConnell, Chairman of the Committee, presented the report. He informed the meeting that for 2010, members had borrowed \$772,326,000 up from \$698,633,000 in 2009. Most of the loans granted had been secured by shares and deposits, motor vehicles and real estate. He reported that the Committee was pleased to see that many members were saving by way of the Partner Plan and Sure Saver Accounts in order to build share requirements for loans.

Mr. McConnell apologised for the absence of the Secretary of the Committee, Ms. Tanica Jones, who was tending to her grandmother who was in the hospital. He extended special commendation to Mrs. Phenicia Brown-Barnett (Credit Manager), Mr. Ardford Billings (Divisional Manager) and Ms. Debbie Chin (Branch Manager, Port Maria) for promptly addressing concerns raised by the Credit Committee. He asked that members honour their obligations to the Credit Union and encouraged them to inform others about the benefits to be derived from becoming a member of the Credit Union.

Mr. McConnell then invited members' comments/questions. There being none, the Report of the Credit Committee was unanimously adopted on a motion by Rev. Pauline McCatty seconded by Mr. William Barrett.

6. Treasurer's Report for the year ended December 31, 2010

Director Karl Fuller, Treasurer, stated that it was an honour to serve the Credit Union in that capacity. He expressed gratitude to the Volunteers, Management Team, Staff and Members for their support.

Director Fuller reported that the Credit Union had realized total income of \$364.02M for 2010 compared to \$365.97M for 2009; a reduction of \$1.95M or 0.53%.



The Net Surplus for 2010 was \$46.6M which was a reduction of \$36.9M or 44% compared to the prior year's \$83.5M. He pointed out that the Net Surplus for the year 2009 was an aberration in that it included exceptional/extraordinary income. The current year position was influenced by two main components; increase in Loan Impairment Provision and in Operating and Other Expenses. These increases had emphasized the reality of the poor state of the local economy and its impact on the membership of the Credit Union. Over the past year, trends had been detected where members had:

- chosen to withdraw savings instead of taking a loan
- opted to close loans from savings
- failed to readily take up loan offerings that had been granted even at competitive interest rates

The Treasurer informed the meeting that the Credit Union had taken the necessary steps to strengthen the collections process. He asked that members visit the Credit Union to discuss any challenges that they may be experiencing with respect to their loan payments.

Statement of Financial Position

The Treasurer reported that the Credit Union's Assets had grown from \$2.285 billion in 2009 to \$2.412 billion in 2010; a growth of \$127M or 5.6%. This was approximately one half of the 12.3% experienced in the prior year. He stated, however, that it was pleasing to note that the Credit Union had continued to maintain a strong position in the market. He added that directors hoped that the Credit Union would exceed the \$2.5 billion mark in Total Assets by the end of the second quarter of the Year 2011.

The Treasurer informed the meeting that at the end of 2010 the Credit Union's ratio of Liabilities to Equity was 76% which was about the same ratio of 77% achieved in 2009.

Members had continued to demonstrate their loyalty to the Credit Union through their willingness

to save. There had been net growth in members' deposits and voluntary shares of 3% or \$60M from \$1.74 billion in 2009 to \$1.8 billion in 2010. The Treasurer stated that members must be commended for their efforts to save in a worsening economy and resist the temptation to withdraw their available savings to satisfy other demands.

At the end of 2010, the Credit Union's solvency ratio was at 131%. Therefore, each dollar that a member had in the Credit Union was worth One Dollar and Thirty-one Cents (\$1.31).

The Treasurer reported that in spite of the challenges the Credit Union had been successful in 2010 and therefore remained safe, secure, solvent and strong. He stated that this success was due to the commitment of the Board of Directors, the hard working management team and staff, and the valued members. He stated further that if the Credit Union were to continue to enjoy success, then all stakeholders must redouble their efforts as the forecast for the immediate future and beyond promised a very challenging global environment. He added that every effort must be made to keep loan payments current, to save as much as possible and to use the services offered by the Credit Union as each member was a part-owner and members could help each other to succeed.

The Treasurer then invited members' questions/ comments.

Hon. R.O. Walters expressed the view that the Credit Union was being prudently managed and pointed out that the Credit Union's capital base was above the benchmark. He asked what was happening with respect to proposed regulations by the Bank of Jamaica (BOJ). Director Fuller informed the meeting that the proposed BOJ regulations regarding capital requirement for credit unions would not affect First Regional as our Capital far surpassed the required amount. He added that the issue of proposed BOJ regulations would be discussed further during the meeting.



Ms. Novlette Brown, said she had been a member of the Credit Union since 1996, and that when it was announced that the St. Mary Co-operative Credit Union was about to be merged she had decided to close her account. However, she had been dissuaded from doing so by a staff member and she had not regretted her reversing that decision as the Credit Union's service delivery was excellent.

Having regard to a question from Rev. Pauline McCatty, Director Fuller informed the meeting that the loan impairment provision was sufficient to cushion the Credit Union against any fallout from delinquency. He further stated that the delinquency rate was at the higher level of the benchmark but steps had been taken to address the matter. Delinquency was under control and the Board of Directors would continue to monitor it.

Mr. Eric Ramdon asked what course of action would be taken if a member's business which was financed by a loan from the Credit Union were destroyed by a hurricane. Director Fuller stated that the member would still have an obligation to repay the loan. Nevertheless, that member should visit the Credit Union and formalise arrangements concerning the loan.

There being no other questions/comments, the Treasurer's Report was unanimously adopted on a motion by Hon. R.O. Walters seconded by Mr. Eric Ramdon.

6.1 Appropriation of Surplus for 2010

On a motion by Dr. Richard Stephens seconded by Mr. Delroy Rattray, the Appropriation of Surplus was unanimously approved by the members as follows:

| | | |
|-----------------------------------|--------------|-------------------|
| Amount Available for Distribution | \$17,238,600 | |
| Less Accrued Interest Income | \$11,254,697 | |
| | | \$5,983,903 |
| Proposed Appropriation | | |
| Honoraria | \$1,100,000 | |
| Scholarships | \$ 700,000 | |
| Donations | \$1,000,000 | |
| Dividend on Permanent Shares | \$2,347,010 | |
| | | \$5,147,010 |
| Undistributed Surplus | | \$ 836,892 |



6.2 Fixing of Maximum Liability-

With the consensus of the members present, the maximum liability was fixed at six (6) times the Institutional Capital of the Credit Union. This was carried on a motion by Honourable R.O. Walters seconded by Mr. Selvin Walford.

7. Independent Auditor's Report

Mr. Peter Williams, Partner-PricewaterhouseCoopers, read the Independent Auditor's Report dated April 14, 2011.

8. Proposed BOJ Regulations - League Petition

The President invited Mr. Dunstan Morgan of the Jamaica Co-operative Credit Union League to make a presentation. Mr. Morgan informed the meeting that the League, on behalf of its member Credit Unions and their members, had been holding discussion with the Bank of Jamaica and the Ministry of Finance on proposed Laws by which the Credit Union Movement would be regulated. He stated that whilst the Movement was not opposed to being regulated, there were five important issues that remained contentious and unresolved, namely:

- Cap of 10% on unsecured credit for credit Unions
- \$5M minimum capital requirement for the start-up of new credit unions
- One-year time frame to achieve minimum capital requirements
- Unclaimed savings going to government after 15 years
- Cash reserve requirement for credit unions

The League had drafted a resolution for the Movement to lobby for regulations that would enable Credit Unions to ensure that their members could continue to benefit from membership in a co-operative financial institution which would guarantee them services that were in keeping with sound co-operative principles and philosophies. This resolution was read aloud. Members were then asked to vote on the matter. The resolution was unanimously passed on a motion by Director Earle Irvin seconded by

Director Haywood. Petitions subsequently circulated for signing by members.

9. Resolutions to Increase Permanent Shares

The President emphasized the need for the Credit Union to continue to build a strong capital base and recommended that members pass a resolution to increase their equity in the Credit Union by increasing their Permanent Shares from \$400 to \$1,000. He referred members to pages 24 & 25 of their Annual Report for 2010 which outlined the relevant resolutions.

Mr. Courtney Shaw, representative of the Department of Co-operatives and Friendly Societies, was invited to preside over the voting with respect to the increase in Permanent Shares.

On a motion by Honourable R.O. Walters seconded by Mr. Albert Campbell, a resolution was passed to require each member to increase his/her Permanent Shareholding from \$400.00 to \$1,000.00 and to effect changes to Rules Nos. 6 & 7 as set out in the Resolutions

| | |
|-----------------------------------|-----|
| No. voted for: | 257 |
| No. voted against: | 0 |
| No. of Abstentions: | 23 |
| No. of members present at voting: | 280 |

On a motion by Honourable R.O. Walters seconded by Mr. Jason Rodgers, a resolution was passed to allow the transfer of funds from a member's accounts to Permanent Shares to enable him or her to qualify for membership if he did not have One Thousand Dollars (\$1000.00) in Permanent Shares by December 30, 2011.

| | |
|-----------------------------------|-----|
| No. voted for: | 244 |
| No. voted against: | 0 |
| No. of Abstentions: | 36 |
| No. of members present at voting: | 280 |

Ms. Lillian Baugh of Annotto Bay stated that she had already purchased more than the required amount of Permanent Shares and asked whether she could be reimbursed the surplus. The



President asked that she visits a Branch to resolve the matter.

10. Election of Officers

Director Lincoln Russell presented the report of the Nominating Committee, which had met on April 8, 2011. He then invited Mr. Courtney Shaw of the Department of Co-operatives and Friendly Societies to preside over the elections. Other nominations were invited from the floor. There being none the following were elected, unopposed:

10.1. Board of Directors

The following persons were elected to serve for two years:

*Rev. Dr. Glenroy Lalor
Mrs. Ivin Logan
Mr. Zaccheus McKnight
Mr. Donald Mason
Mr. James Walsh
Mr. Patrick Haywood
Mr. Leroy Williams*

10.2. Credit Committee

The following persons were elected to serve for two years

*Mr. Albert Campbell
Mr. Neville McConnell
Mr. Delroy Palmer*

10.3. Supervisory Committee

The following persons were elected to serve for one year:

*Rev. Roy Wickham
Mrs. Gloria Johnson
Sharon Williams
Mr. Eon Jarrett
Mr. Cecil Gordon*

Mr. Shaw reminded volunteers that the Board and Committees should meet within ten (10) days to select their executives and then communicate that information to the Registrar of Co-operative and

Friendly Societies. Other regulatory entities such as the Bank of Jamaica and the Jamaica Co-operative Credit Union League should also be informed.

Delegate/Alternate Delegate to the League's Board- It was agreed that the Board should make the selection.

11. Any Other Business

11.1. Interest Rates

Mr. Levi Walsh expressed the view that the Credit Union's interest rates on loans were too high and asked that these be reviewed. He stated that the Credit Union may lose a significant chunk of its loan portfolio if the rates were not reduced. He further stated that stamp duty, which was the major deterrent to members borrowing elsewhere, was only One Hundred Dollars (\$100). In light of this, he suggested that the Credit Union should establish a team to address this matter.

The President explained that there were many factors to consider when determining whether to reduce interest rates on loans. He said that the Board of Directors does careful analysis from time to time as it always sought to act in the overall best interest of members.

11.2. Venue for Annual General Meetings

Mr. Levi Walsh expressed the view that the Annual General Meetings should be held at a venue where the cost would be significantly less.

The President explained that the membership turnout was far better when the meetings were held at the Sunset Jamaica Grande. Several Volunteers expressed the view that Credit Union members should be afforded some degree of comfort when they attend the Annual General Meetings and therefore, Sunset Jamaica Grande was a good venue. Additionally, many of the staff members at Sunset Jamaica Grande were Credit Union members. A member stated that she had gotten good interest rates from the Credit Union



and as such, it did not matter where the meetings were held.

11.3. FIP Termination

A member reported that CUNA Mutual had terminated her Family Indemnity Plan (FIP). The President asked that she visits the nearest Branch to address the matter.

11.4. Passbook Cases

Mrs. Marcia Sampson-Gordon asked that the Credit Union provides cases for the passbooks. The President informed the meeting that the Credit Union would consider the request.

11.5. Property Acquisition

The President stated that in the past it had been prudent to invest in government paper rather than real estate. However, the reverse was now true. As such, the Credit Union had sought to acquire property. He informed that negotiations for the property acquisition were in the advanced stages and members would be further informed in due course.

12. Introduction of Staff Members

The Chief Executive Officer introduced the members of staff and extended appreciation for their dedication to the Credit Union. Long Service Awards were then presented to fifteen (15) members of staff.

13. Vote of Thanks

The Chief Executive Officer then extended thanks to:

- Guests for attending –some had journeyed from far
- Members for their continued sterling support and confidence
- Representatives from the Department of Co-operatives and Friendly Societies, PricewaterhouseCoopers, the League and CUNAMutual
- Volunteers –the Board, Supervisory and Credit Committees for their unstinting service and loyalty
- The Sunset Jamaica Grande Resort for accommodation and what was expected to be a sumptuous meal
- Members of the media
- Ancillary Staff who served at Coffee Break
- Managers and Staff for their dedication, loyalty and sometimes selfless service

14. Termination of Meeting

The President thanked all the members for attending the meeting. There being no further business, the meeting was terminated at 2:10 p.m. following grace and the singing of the National Anthem.

Board Of Directors



L-R (Front Row): Hopeton Henry (*President*), Veroneeth McKenzie (*Secretary*), James Walsh (*Director*), Zaccheus McKnight (*Director*),

L-R (Back Row): Leroy Williams (*Director*), Earl Irvin (*Director*), Lincoln Russell (*Director*),



First Regional
Co-operative Credit Union Limited



L-R (Front Row): Patrick Haywood (*Director*), Hector Dietrich (*Director*), Karl Fuller (*Treasurer*), Donald Mason (*1st Vice President*)

L-R (Back Row): Rev. Dr. Glenroy Lalor (*2nd Vice President*), Marcia McKenzie (*Asst. Treasurer*), Ivin Logan (*Assistant Secretary*), Norma Walters (*Director*)



Report of the Board of Directors

On behalf of Your Board of Directors, I am happy to report that amidst the local and global economic challenges experienced in 2011, your Credit Union, through skilful maneuvering by the Board of Directors and the management team, was able to remain safe and sound.

Co-operatives, such as credit unions, are groups of persons united to meet their economic, cultural and social needs through jointly owned and democratically controlled entities. They are governed by seven established co-operative principles which are:

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Co-operation among Co-operatives
7. Concern for community.

During 2011, we tried to pay more attention to these principles in order to build corporate ethical values of honesty, openness and social responsibility in an environment which catered more for increasing profit. Indeed, our tagline "*First Regional Co-operative Credit Union, where you get interest on your money and interest in you*" aptly describes our focus—our members' financial interest (wealth creation) and concern for them.

To further this position, we shall conduct a survey in 2012 to garner members' views in order to undergird our strategy for the way forward. Already we have purchased a building in Ocho Rios in order to:

- increase the comfort of our members and staff
- improve convenience in doing business with us
- relocate our Head Office in order to respond better to the majority of our members
- become more member centric.

Economic Analysis

The Global Economy -

Despite the fact that at the end of 2011, the global economy showed some improvements, the global recession continued to be a major challenge especially for many European countries. The US economy, so closely related to our own, experienced some improvements during the year and although it is not yet out of the recession, concluded it with a single digit unemployment rate of 8.5% which translated into improved remittances to Jamaica.

The Local Economy -Key components of the IMF agreement were not met during the year as government grappled with measures to address fiscal policy, tax reform, debt management, sustaining the public pension fund, public sector reform and wage negotiations.

This resulted in some level of uncertainty within the local economy which, according to data released by the Statistical Institute of Jamaica, (STATIN) grew by only 1.7% in the fourth quarter of 2011, compared to the same period in 2010. This was an improvement over the previous three years when there was negative growth. For 2011, there was, also, relatively low inflation which, according to STATIN, was only 6%.





Industry Analysis

Consequent on the Government of Jamaica observing a policy to maintain low interest rates, several financial institutions, including credit unions, had to lower their rates and adjust product offerings to remain competitive during the period under review. Further, the macro-economic conditions resulted in a significant increase in Non-performing Loans industry-wide.

Your Credit Union

During the Year 2011, your directors and managers continued their commitment to improve efficiency and increase members' wealth. Included in the strategies that we embarked on during the year were:

- tight control of operational expenses
- rigorous loan portfolio management to contain delinquency
- a sharp focus on increasing our market share
- prudent risk management

We embarked on initiatives such as forging new business relationships, repackaging some of our product offerings, measuring the pulse of our business environment and implementing proactive strategies in order to keep our members satisfied. Special focus was given to various cost reduction strategies to impact the bottom line positively.

Non-performing loans which were uncomfortably high at the beginning of the year were reduced to 4.9% by year-end.

We introduced new products such as the "13.5% Mortgage Busta" and forged a partnership with North East Regional Health Authority (NERHA) by offering the NERHA 'Easi-Loans' and NERHA Salary Advance Loans.

At our League's Annual General Meeting held in May 2011, your Credit Union was, for the sixth consecutive year, recognized as the "Most Outstanding Parish Credit Union" and this was based on our performance in 2010; on our ability to sustain high financial ratios in both the PEARLS-M and the CAMEL rating systems.

Corporate Social Responsibility (The abovementioned 7th Co-operative Principle)

In observing the co-operative principle of *Concern for our Community*, the second half of our tagline (interest in you) was brought into very sharp focus this year and became a reality in the lives of our members and others in our immediate community. We are especially pleased about our involvement in the development of young persons.

We donated to Hill Top Juvenile Correctional Centre in Bamboo, St. Ann, 144 new text books which will be the source material for those who are pursuing the CSEC (CXC) exams as well as those reading at other levels. This, we hope, will assist in nurturing a new generation and will help to address the social and economic transformation required in our country. In addition, we donated an industrial washing machine and a dryer to, as one ward put it, "address the wet clothes problem" in a facility located in an area which can be cold and damp for most of the year. Further, we donated a sewing machine and clothes iron to assist them in acquiring a vocational skill.

We were also pleased to have contributed to the growth and development of various interest groups, institutions, societies and clubs some of which include schools, churches, police youth clubs, and other citizens groups. First Regional has been expressing deep interest in identifying and providing strategic support and partnerships for its members and communities within its scope of operation. This year, we are recommending to you, members, that you agree to reserve money from the surplus to be used to fund several scholarships and grants to members and or their children, this being *the International Year of Co-operatives (IYC)*.

Training and Development

Recognizing our members of staff as our most valuable resource, we continue to invest substantially in programmes, some online, to develop skills and enhance performance while enriching both the member experience and other professional relationships. This translates into building the capacity of your Credit Union to offer more to you, our members.



Improvement of Physical Facilities

Since the merger of the St Ann and St Mary Co-operative Credit Unions, we have refurbished the Port Maria and Annotto Bay Branches. Plans have been drawn up to support the massive refurbishment of the Highgate Branch but we are in the process of obtaining approval from the St. Mary Parish Council. Already, we have obtained advice from engineers concerning the project and have allocated funds for it. During the construction period we hope to relocate in order not to compromise the comfort of staff and members.

In the Year 2011, we purchased a building in Ocho Rios in order to better serve our growing cadre of members, especially those who work in that resort area. We have been retrofitting it to provide comfortable and functional facilities for our staff and members.

Way Forward

We shall be convening another Strategic Management Retreat in the Year 2012 to lay plans which should ensure that your Credit Union continues to perform commendably in spite of a difficult economic environment. We shall continue to perform our usual rigorous analyses in order to ground our strategy going forward. Already, the first quarter of 2012 seems promising and we expect a sterling performance for the year.

Acknowledgements

We thank the Credit Union Team –the CEO and staff- for their continued commitment to delivering excellent results. To you our valued members, we extend thanks for your unwavering commitment, insightful feedback and continued confidence in our Credit Union. We will continue to ensure that all our business decisions are prudent and are in line with careful risk management and good corporate governance. Equally, we are committed to capitalizing on growth opportunities in the local market in order to expand your Credit Union.

We also acknowledge the guidance of our regulators, the Bank of Jamaica and the Department of Co-operative and Friendly Societies as well as the balanced and

professional views of our auditors, PriceWaterhouseCoopers. Our own Internal Auditors and the Supervisory Committee also contributed immensely to the audit functions of First Regional.

The Credit Committee was also very diligent in helping us to oversee the loan portfolio and they gave sterling service as they came week after week to review loan applications.

The able assistance of our Trade Association, the Jamaica Co-operative Credit Union League and the much appreciated support of the insurance arm of the credit union movement, CMFG (formerly known as CUNAMutual) are also acknowledged with gratitude.

My fellow directors and other volunteers gave their unstinting support to ensure good corporate governance, informative decision making and thoughtful guidance in steering your credit union to ensure its success. I thank them for their loyalty demonstrated by their willingness to attend meetings and participate in discussions. I pay particular tribute to those of our directors who will be resigning or retiring today and thank them for a total of over one hundred years of service to this credit union in particular and to the Movement, worldwide. I salute them.

As good credit union members we all acknowledge and give thanks for divine intervention in the affairs of the Credit Union; for allowing it to prosper and for answering our prayers to help us to sow love where there is hatred, to bring hope where there is despair, light where there is darkness and joy where there is sadness.

So fellow co-operators, as we chart these uncertain waters in 2012, we will continue to seek that divine guidance as your Board and Management continue to commit to providing interest on your money and certainly, interest in you.

Hopeton C. D. Henry
President



Report of the Treasurer

Fellow Co-operators,

I am delighted to present to you the Treasurer's Report for 2011. The year under review was most challenging. A report from the International Monetary Fund (IMF) indicated that Jamaica's fiscal performance deteriorated in 2011 because of delays in the implementation of an agreed structural reform programme. In March 2012, Mr. Luis Breuer, the Fund's mission chief for Jamaica, highlighted the following:

- There was Growth in GDP of 1.5% after three (3) consecutive years of negative growth
- Inflation abated to 6.6% (year-over-year) at end-January 2012, reflecting both moderate food and oil price increases and real exchange rate appreciation.
- Interest rates continued to fall and the exchange rate remained broadly stable.

Mr. Breuer was also keen to point out that unemployment remained high at 12.8% and the fiscal situation had deteriorated. He also stated that the recovery, or growth in GDP of 1.5%, was fragile as there were strong downside risks.

Jamaica faced significant challenges in 2011. A key one was to attain higher and sustainable rates of economic growth, while reducing macroeconomic risks, including risks caused by the high public debt and high unemployment.

Performance

The abovementioned challenges invariably affected the performance of the Credit Union in 2011. However, your Credit Union was able to enjoy a fairly successful year and achieved Code 1 PEARLS-M Ratios for most of the core areas of our operations.

Income

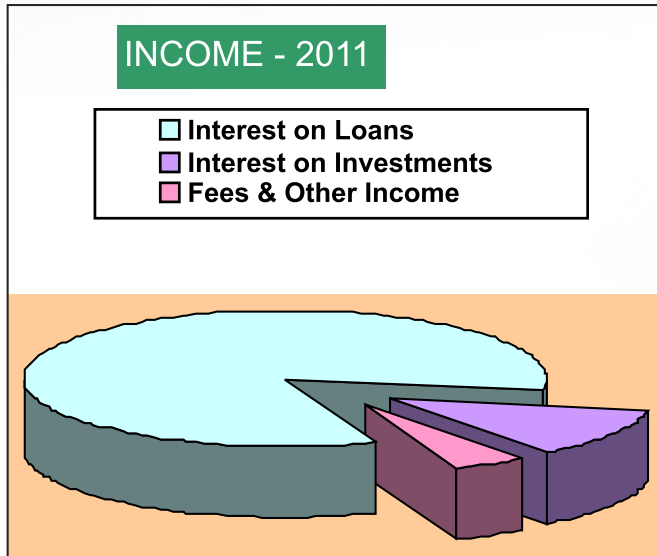
Interest income reported for 2011 was \$407.9M; a growth of \$18.9M or 4.87% over 2010. This growth was mainly due to an increase of 6.51% in interest on members' loans. It was a significant achievement because there was a general decline in interest rates in the local economy but the growth in the loan portfolio compensated for this. We had to repackage our various loan products as well as form strategic alliances to ensure that our main income earner continued to perform well. However, there was a decrease of \$2.9M or 5.30% in investment income which was due, mainly, to the general reduction of interest rates in the local economy.

Apart from interest income, our other income grew by 110.75% from \$9.3M at the end of 2010 to \$19.6M at the end of 2011. This increase was due mainly to our recognizing \$9.7M as income from members' accounts that were closed because they did not meet the share requirement for Permanent Shares.

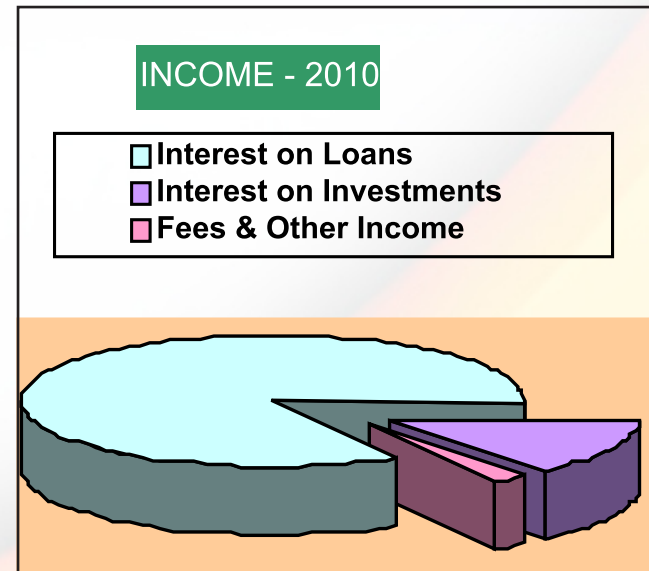




Sources of Revenue

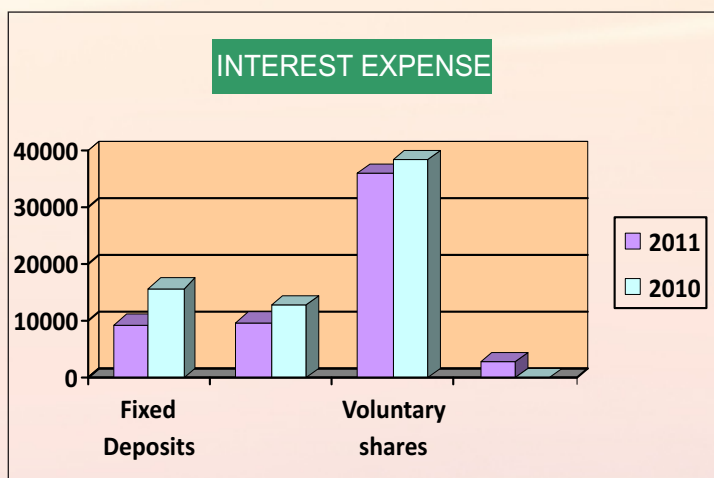


The diagrams above highlight the fact that over 80% of the Credit Union's Income in 2010 and 2011 was earned from interest on loans. First Regional continued to offer loans to members at competitive interest rates and for a minimal fee. Our fees concerning real estate loans include legal fees, duties and registration fees payable to



government. Our own fees related to loans for real estate acquisition and development have remained unchanged for more than fifteen years.

We were still able to report a surplus because of our rigorous cost cutting policy.



demonstrated by the fact that our members increased their savings in the Credit Union for the period under review.

The Credit Union has sought to repay the confidence demonstrated by our members by paying interest on members' voluntary shares of \$36M which is \$2.1M less than the amount of \$38.1M paid for 2010. We made this payment even though our Net Surplus for 2011 was \$49.6M or 61.39% less than the reported amount for 2010.

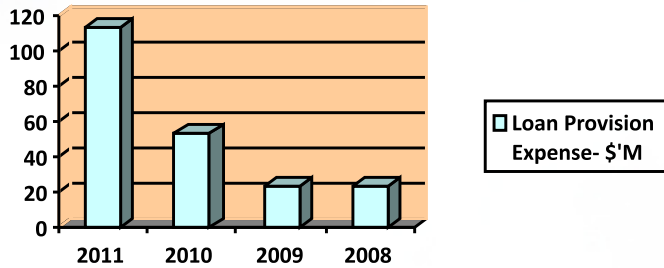
Expenses

The expenses of the Credit Union comprised interest expenses, loan impairment provision and operating expenses totaling \$396.3M for 2011; an increase of 24.86% or \$78.9M from \$317.4M in 2010. The following are the main areas of consideration:

Interest expense decreased by 13% or \$8.7M from \$66.9M in 2010 to \$58.2M in 2011. The reduction in interest paid to our members was due mainly to the general reduction of interest rates in the industry. It is also worthwhile to mention that the various savings products on offer to our members represent secure saving solutions at competitive interest rates. This is



LOAN IMPAIRMENT PROVISION EXPENSE



The Loan Impairment Provision increased from \$52.7M in 2010 to \$113M in 2011. This underscores the effects of the tough economic environment in which the Credit Union operated in 2011. Several hotels were closed during the year, there was a decline in the banana industry and many of our members lost their jobs. It became more and more difficult for them to service their loans. Our delinquency rate surged beyond the League's Prudential Standard of 5%. This resulted in our having to redouble our efforts to collect and the implementation of these measures resulted in our attaining a delinquency ratio below 5% which brought us back in line with prudential standards. Nevertheless, we had to charge off some loans.

Operating Expenses

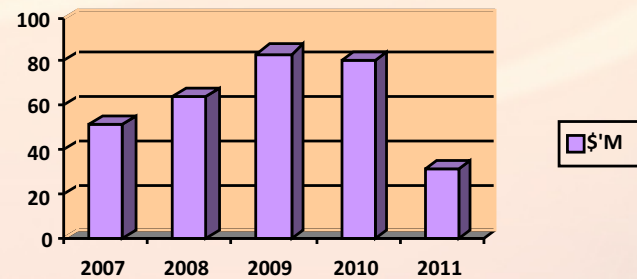
Operating Expenses continued to be our largest unit of cost and the most difficult to control. For the year ended 31st December 2011, it stood at \$225.1M. This represents an increase of 13.80% or \$27.3M from \$197.8M at the end of 2010. An increase of 13.80% is minimal when we take into consideration the reported inflation of 6.6% for the year 2011. We should like to emphasize our commitment to cutting costs where possible to ensure that we pay you a dividend each year and maintain the Credit Union as a viable, stable financial institution.

Net Surplus

We are happy to report, that despite the state of our global and local economies, and the operational challenges noted above, your Credit Union was able to report a Net Surplus for 2011 of \$31.2M. In addition, we have an accumulated surplus of \$237.1M. Our strong Capital Base of \$435.34M is 15.87% of Total Assets which is two and a half times the amount required by our regulators. This formidable capital position will allow us to:

- pay a dividend on Permanent Shares held in 2011
- reinvest in the Credit Union to allow for future dividend payments
- foster the growth of your Credit Union
- continue our project of improving the physical plant
- upgrade our Information Technology System
- invest in staff welfare
- contribute to the improvement of communities in St Mary and St Ann.

NET SURPLUS 2007- 2011



The Board of Directors and the Management Team will continue to plan and implement strategies to ensure a high level of returns to you, our valued stakeholders.



Statement of Financial Position

Table 1 summarizes the growth of the Financial Position of your Credit Union for the past five years.

Table 1, Financial Position 2007 - 2011

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|------------------------------|----------|----------|----------|----------|----------|
| | \$'M | \$'M | \$'M | \$'M | \$'M |
| Total Assets | 2,744.03 | 2,530.94 | 2,368.94 | 2,035.74 | 1,862.65 |
| Loans to Members | 1,727.88 | 1,700.42 | 1,641.88 | 1,426.77 | 1,288.24 |
| Investments | 779.39 | 717.03 | 612.59 | 509.61 | 490.67 |
| Non-Earning Assets | 236.76 | 113.49 | 114.47 | 99.36 | 83.74 |
| Interest Bearing Liabilities | 1,951.26 | 1,799.81 | 1,746.91 | 1,584.44 | 1,474.36 |
| Equity | 758.84 | 705.50 | 602.56 | 434.57 | 370.79 |
| Institutional Capital | 387.38 | 379.73 | 328.05 | 268.93 | 238.24 |

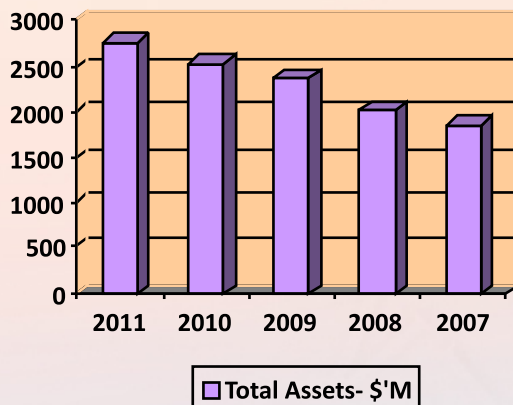
The Credit Union continues to experience an increase in all its key financial components. Over the five year period, Total Assets grew by 47.32% or \$881.38M from \$1,862.65M at the end of 2007 to \$2,744.03 at the end of 2011. Over the same period Loans to Members, our largest and most important asset, grew by 34.13% or \$439.64M from \$1,288.24M to \$1,727.88M.

Growth in our asset base over the past five (5) years has resulted in increased confidence on the part of our

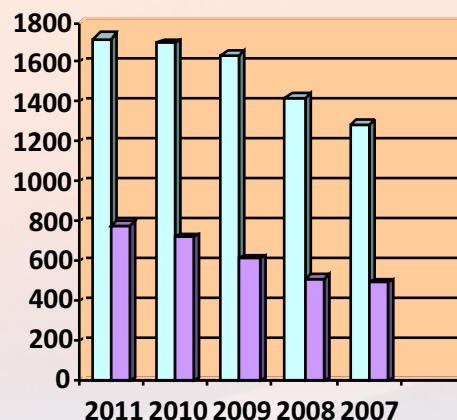
members, demonstrated by their participating in the various savings products on offer. As such, Interest Bearing Liabilities grew by 32.35% or \$476.9M from \$1,474.36 at the end of 2007 to \$1,951.26M at the end of 2011.

We were also cognizant of the fact that we needed to consciously strengthen our capital base and so we improved our Equity and Institutional Capital by 104.65% and 62.60% respectively over the five-year period.

TOTAL ASSETS



EARNING ASSETS



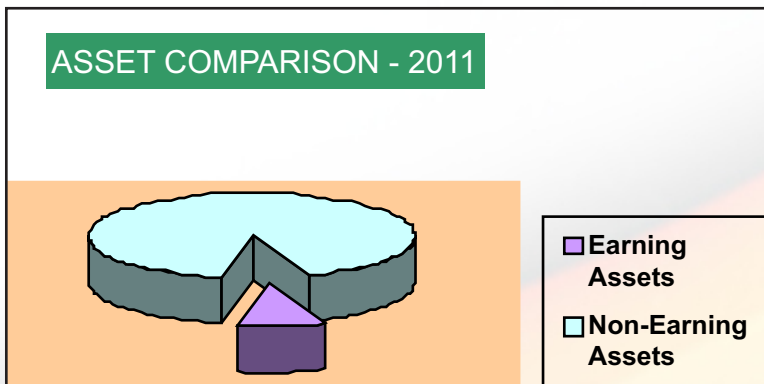
Loans to Members- \$'M
Investments- \$'M



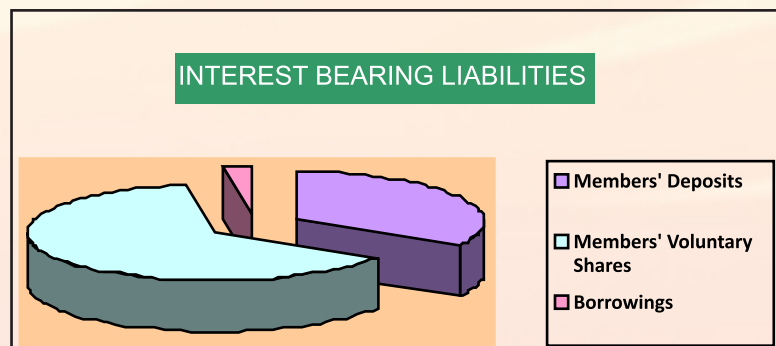
Total Assets of \$2.74B at the end of 2011 demonstrated a position of strength and growth achieved by the implementation of effective strategies. It also solidified our position as one of the major credit unions in the industry.

We are extremely happy that we were able to achieve steady growth in Earning Assets over the past five (5) years; especially growth in our loan portfolio. We also want to highlight that in an aggressive loan environment we were able to achieve growth by offering competitive interest rates, diversifying our product offerings, forming strategic alliances and offering other value added services.

Non-Earning Assets



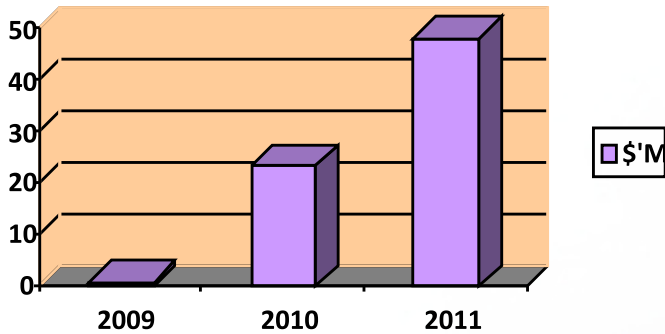
At the end of 2011, Non-Earning Assets of \$236.76M represented 8.63% of the Credit Union's Total Assets. This is marginally higher than the League's prudential requirement of 8%. This is the case because we have taken the decision to burnish our image and reposition ourselves in the industry. A part of this exercise includes improving our physical plant. We purchased a commercial building in the resort town of Ocho Rios in order to improve our service to you, our members and grow the business in that area.



Members' Voluntary Shares accounted for 64% of the Total Interest- Bearing Liabilities at the end of 2011. The balance in Members' Voluntary Shares also grew by 6.42% or \$75.49M from \$1,175.13M at the end of 2010 to \$1,250.62M at the end of 2011. Over the same period Members' Deposits, which represent 34% of Interest Bearing Liabilities, grew by \$28.94M or 4.64% from \$623.94M to \$652.88M. Borrowings of \$47.77M at the end of 2011 accounted for 2% of Interest Bearing Liabilities. This was virtually an increase of 100% over the prior year and was as a result of the Vendors' Mortgage negotiated as a part of the purchase consideration for the property in Ocho Rios.

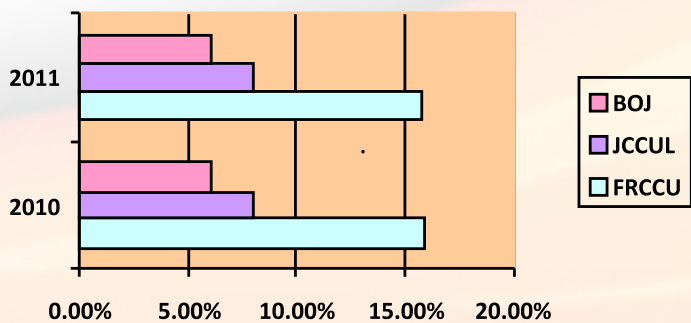


MEMBERS' PERMANENT SHARE CAPITAL 2009- 2011



Permanent Shares grew by 104.39% or \$24.5M from \$23.47M at the end of 2010 to \$47.97M at the end of 2011. The main reason for this was members' agreement at the last AGM, to increase the Permanent Shareholding for each member from \$400 to \$1,000. Members were given a six month window to increase their Permanent Shares to the agreed amount. At the end of this period transfers were done from other saving types to Permanent Shares. We also opted to close the accounts of members who did not have enough in their various accounts to meet the new requirement. This is the second such resolution. A similar one was passed at the Annual General Meeting in 2009, for each member to purchase minimum Permanent Shares of \$400.00.

CAPITAL ADEQUACY 2010- 2011



A financial institution which does not have a strong capital base is a weak one. Accordingly, we have sought to maintain capital adequacy in order to effectively manage our risks. At the end of 2011, our capital base was approximately twice the requirement of the League's 8% and more than 2.5 times greater than the 6% required by Bank of Jamaica. So, we are adequately capitalized.

Conclusion

We are humbled by the fact that you continue to entrust us with the stewardship of your resources. As a team, your Board and Managers are committed to the growth of your credit union and to working hard to ensure value added returns to you, our members, and other stakeholders. We remain undaunted by the challenges of the current operating climate as we continue to chart a course that will offer continued stability, will enable us to pay a dividend at the end of each financial year and will allow for reinvestment for growth. We promise to keep First Regional as the Credit Union *"where you get interest on your money and interest in you."*

Karl Fuller

Karl Fuller
TREASURER



*Income, Expenditure & Appropriation Account
for year ended 31st December 2011*

| | \$'000 | \$'000 |
|---|---------|----------------|
| Income as obtained from interest on: | | |
| Members' loans | 356,595 | |
| Liquid assets | 22,159 | |
| Investments | 29,106 | |
| Making a total of | | 407,860 |
| From this we paid interest expenses totaling | | 58,214 |
| Leaving Net Interest Income of | | 349,646 |
| From this was taken: | | |
| Provision for loan loss | | 112,971 |
| Net interest income after provision | | 236,675 |
| We also earned income from: | | |
| Dividends | | 621 |
| Fees and other income | | 18,985 |
| Therefore our Net Interest and other Income was | | 256,281 |
| From this we paid: | | |
| Administrative expenses | 201,043 | |
| Other operating expenses | 24,048 | 225,091 |
| Leaving a Net Income of | | 31,190 |
| From this the Statutory Reserve was taken | | 5,886 |
| Leaving a Net Surplus of | | 25,304 |
| To this was added: | | |
| Transfer from Non-Institutional Capital | 99,053 | |
| Add undistributed Net Income at the beginning of the year | 116,813 | 215,866 |
| | | 241,170 |
| Less transfers after AGM for 2010: | | |
| Dividend on Permanent Shares | 2,347 | |
| Entrance fees | 1,762 | 4,109 |
| Surplus available for distribution | | 237,061 |



Balance Sheet as at 31st December 2011

| Balance Sheet as at 31st December 2011 | | |
|---|-----------|------------------|
| | \$'000 | \$'000 |
| Assets (The value of all we own) | | |
| Earning Assets | | |
| Loans to Members (after provision) | | 1,727,882 |
| To this is added: | | |
| Our Liquid Assets | | |
| Saving and Call Deposits | | 51,681 |
| Short Term Investment | | 135,706 |
| Reverse Repurchase Agreements | | 447,971 |
| Financial Investments | | 144,031 |
| | | 2,507,271 |
| Non-Earning Assets | | |
| Cash | 12,294 | |
| Income Receivable & Prepayments | 6,673 | |
| Intangible Assets | 1,033 | |
| Property, Plant and Equipment | 162,558 | |
| Investment Property | 6,712 | |
| Retirement Benefit Asset | 47,492 | 236,762 |
| Total Assets | | 2,744,033 |
| | | |
| Liabilities and Equity | | |
| Interest Bearing Liabilities | | |
| Members' Deposits were | 652,879 | |
| Members' Voluntary Shares were | 1,250,620 | |
| Borrowings | 47,765 | 1,951,264 |
| Non-Interest Bearing Liabilities | | |
| Accounts Payable | | 33,933 |
| Total Liabilities | | 1,985,197 |
| | | |
| Members' Permanent Share Capital | 47,971 | |
| Institutional Capital | 387,376 | |
| Non-Institutional Capital | 86,428 | |
| Accumulated Surplus | 237,061 | |
| Total Equity | | 758,836 |
| TOTAL LIABILITIES AND EQUITY | | 2,744,033 |

Therefore, at December 31, 2011 the value of all we owned (Total Assets) stood at \$2,744,033 compared to \$2,530,940 for the previous year.

Senior Managers



FROM L-R: Cava White - Risk & Compliance Manager, Phenicia Brown-Barnett - Credit Manager, Ardford Billings - Divisional Manager, Kerry-Ann Gordon - Marketing Manager, Sefton Cummings - Finance & Accounting Manager, Seveene Thame - Human Resources and Admin. Manager, Patricia Smith - (center) Chief Executive Officer



ST. ANN'S BAY STAFF



Front (left-right): Kadian Alexander, Sashoye Daniels, Carlene Shirley

Back (left-right): Antholon Jones, Shericka Parkes, Wyndell Whyte, Andrea Chevannes, Jody- Ann Atkinson, Raniel Riley, Cindy James, Basil Gordon.



Front (left-right): Camille Levert, Thelma Martin, Peggy Harriage.

Back (left-right): Keisha Rowe, Kerry-Ann Carter, Philene Ingram, AnnaKay Brown, Petrina Dunn, Kirk Brown, Cornellia Hayden, Sheree Dennis, Narvelin Cammock, Anna-Lisa Young, Nicole Willary.

OCHO RIOS STAFF



(Left-Right):

Nothaya Edwards, Krishawn Williams, Deidre-Ann Robinson, Ryan Lawson, Sheno Campbell, Lori-Ann Brown, Plumetta Sewell.

ST. MARY STAFF



Front Row (Left - Right): Alwayne Cassie, Sasha Hamilton, Claudine Reeves, Andrea Wilson, Nicolette Wright, Marsha Simpson, Andre Waskett.

Top Row (Left - Right): Janet Arrow, Joni-Ann Williams, Shanakay Palmer, Sandra Reece, Sheka Strachen, Diandra Gordon, Debbie Chin, Denise Steele.

CLAREMONT BRANCH



Jennifer Campbell

DISCOVERY BAY BRANCH



Dorecha Brown, Dwayne Graham, Merl Forbes

BROWN'S TOWN BRANCH



Phillipa Green, Thelma McKenzie, Gerald Hall, Nicole McKnight, Lurline Johnson-Chang



Report of the Credit Committee



Neville McConnell
Chairman

Tanica Jones
Secretary

Delroy Palmer

Christopher McCatty

Albert Campbell

The year under review was a very challenging one but in the end we can truly say God has been good to us. The financial climate in Jamaica and indeed the world gave us serious cause to be concerned with the unemployment rate trending upwards and some businesses rightsizing. Most of the commercial institutions grappled with ballooning bad debt and with interest rates trending downwards we the members of the Credit Committee knew that there was a tough task ahead of us.

We must salute the management of the Credit Union for guiding us through these economic times so that we could report another successful year. Despite the conditions we saw an increase in members' borrowing and a trending down of our delinquency rate. Your Credit Union is boasting single digit numbers that are in line with industry standards.

We thank you the members for making our jobs easier and your commitment to your obligations even though the times were difficult. We encourage you to continue being the preachers of the gospel of the good news of the Credit Union. May all who come behind us find us faithful.

We are grateful to the Board of Directors and the Administrative staff for their co-operation. Sincere gratitude is also extended to the other members of the Credit Committee for their resolute support in discharging their duties.

Neville McConnell
Chairman



Report of the Supervisory Committee



Cecil Gordon
Chairman



Gloria Johnson



Sharon Williams



Rev. Roy Wickham



Eon Jarrett
Secretary

During the year under review there was a change of personnel on the Supervisory Committee. The committee welcomed Rev. Roy Wickham, Mrs. Gloria Johnson and Ms. Sharon Williams. The new members were replacements for Dr. Richard Stephens, Mr. Ian Saunders and Mr. Keith Morris who did not seek re-election at the General Meeting held in May 2011.

At our first meeting, the new Committee re-elected Mr. Cecil Gordon and Mr. Eon Jarrett as Chairman and Secretary respectively.

The year was a productive one for the Committee, wherein all monthly meetings scheduled were held, with members in regular attendance. The committee was also ably represented at the Joint Committee Meetings.

The Committee was able to review several critical areas of the Credit Union's operations, including the following:

1. Registration/Discharge Mortgages
2. Bills of Sale
3. Adherence with the Money Laundering Act
4. Bank Reconciliations
5. Rental Incomes
6. Accounts Receivable
7. Verification of Loan Documentation & Disbursements
8. Verification of New, Closed and Deleted Accounts
9. Negative Balances
10. Submission of Change Request Forms

11. Delinquent Loans
12. Investments
13. Verification of Members' Passbook Balances
14. Verification of Adherence with the Procurement Process

The Committee is pleased to report that there continues to be improvement in the level of adherence with the organization's procedures. We made recommendations for improvements to management, much of which have so far been implemented with good results. Based on our observations, we are confident that the management of the Credit Union is in good hands, and that the Management Team is committed to the success of the organization.

We continue to receive the full co-operation of the Chief Executive Officer and the management team, without which we would not be able to effectively discharge our duties. We, however, remained true to our mandate of independence, offering our unbiased opinion on various issues when necessary.

Finally, we would like to express our gratitude to the Internal Auditor who continues to discharge her duties in a professional and efficient manner, thus enabling us to successfully carry out our mandate as a Committee.

Eon B. Jarrett
Secretary



Report of the Nominating Committee

The Nominating Committee met on April 27, 2012. Present were:

- Mr. James Walsh
- Ms. Patricia Smith
- Mrs. Zona Bonnick-Williams

The Committee recommends the following persons, who have indicated their willingness to serve, to fill the vacancies on the Board and Committees.

Board of Directors

Retiring

Mr. Hopeton Henry
Mrs. Marcia McKenzie
Mr. Earle Irvin
Mr. Karl Fuller
Ms. Veroneeth McKenzie
Mr. Hector Dietrich
Mr. Lincoln Russell

Recommended

Mr. Hopeton Henry
Mrs. Marcia McKenzie
Mr. Earle Irvin
Mr. Karl Fuller
Ms. Veroneeth McKenzie
Rev. Roy Wickham
None

Term in Office

2 Years
2 Years
2 Years
2 Years
2 Years
2 Years
-

Resigned

Mr. Zaccheus McKnight

None

-

In keeping with the mandate to reduce the complement of the Board of Directors to 13 in 2012 and 11 in 2013, no one was nominated to replace retiring Director Russell and Director McKnight who resigned.

Credit Committee

Retiring

Ms. Tanica Jones
Rev. Christopher McCatty
Mr. Errol Gordon
Mr. Raymon Treasure

Recommended

Mr. Hector Dehaney
Mrs. Marcia Lafayette
None
None

Term in Office

2 Years
2 Years
-
-

In order to reduce the complement of the Credit Committee from seven (7) to five (5,) no one was nominated to replace Mr. Errol Gordon and Mr. Raymon Treasure.

Supervisory Committee

Retiring

Mr. Cecil Gordon
Mr. Eon Jarrett
Mrs. Gloria Johnson
Ms. Sharon Williams
Rev. Roy Wickham

Recommended

Mr. Cecil Gordon
Mr. Eon Jarrett
Mrs. Gloria Johnson
Ms. Sharon Williams
Mr. Glenford Kelly

Term in Office

1 Year
1 Year
1 Year
1 Year
1 Year

RESOLUTIONS -TERM LIMITS FOR VOLUNTEERS

RESOLUTION NO 1.

WHEREAS it is important that members of the Board of Directors, the Supervisory Committee and the Credit Committee be "Fit and Proper Persons" as provided for in Rules 29, 41 and 49

BE IT RESOLVED that the second paragraph of the Rules which reads:

Interpretation

"Board of Directors" or "Board" shall mean the governing body of the Credit Union, to whom the management of its affair is entrusted and which shall be constituted in accordance with the provisions of Rule 29 hereof

BE AMENDED BY THE ADDITION OF THE FOLLOWING:

"Fit and Proper Person" means a person who whether in Jamaica or elsewhere;

- a) has not been convicted of an offence involving dishonesty,
- b) is not an undischarged bankrupt,
- c) holds no position, elected or employed, as a connected person related to the permanent staff of the First Regional Co-operative Credit Union Limited,
- e) whose employment record does not give a reasonable cause to believe that the person carried out any act involving dishonesty or any act involving impropriety in the handling of financial and business affairs.

MOVED BY : _____

SECONDED BY: _____

DATE : _____

RESOLUTION NO 2.

ARTICLE VII

BOARD OF DIRECTORS

WHEREAS the Rules of First Regional Co-operative Credit Union set no limit to the number of times that a Director can be re-elected and,

WHEREAS re-election of the same Directors year after year can lead to stagnation on the Board and,

WHEREAS the election of new Directors may bring new ideas to the Board of Directors, and,

WHEREAS rotation of Board members may lead to greater participation by the general membership

BE IT RESOLVED that ARTICLE VII Rules 29.i) and 30.i) be amended as follows:

Present Rule

29. i) The business of the Credit Union shall be conducted by the Board of Directors, which shall be elected at the Annual General Meeting of the Credit Union and shall consist of not less than five (5) nor more than fifteen (15) members, all of whom shall be members of the Credit Union, provided that the number of members comprising the Board of Directors shall at all times be an uneven number. Each member shall hold office until his successor is elected, unless he demits office earlier or has been expelled, and shall be eligible for re-election.

Be amended to read

"The business of the Credit Union shall be conducted by a Board of Directors, which shall be elected at the Annual General Meeting of the Society and shall consist of not less than five (5) nor more than fifteen (15) members, all of whom shall be members of the society and must satisfy that they are fit and proper persons to be

Directors and to perform corporate management functions, provided that the number of members comprising the Board of Directors shall at all times be an uneven number. Each member shall hold Office until the conclusion of the meeting at which his successor is elected, subject to Rule 30, or unless he demits Office earlier or has been expelled, and shall be eligible for re-election provided that no member shall serve in the position of President, Secretary and Treasurer for more than five (5) years consecutively with a minimum rest period of 1 year thereafter before such retiring Officer may serve in any other position."

MOVED BY : _____

SECONDED BY: _____

DATE : _____

Present rule

30. i) At the first Annual General Meeting, a bare majority of the members constituting the Board of Directors shall be elected for a term of two years and the other for a term of one (1) year. Whenever the number of members increases, one-half of such additional members shall be elected for two (2) years and one-half for one (1) year. Thereafter the term of office for members shall be two years.

Be amended to read

At the first Annual General Meeting, a bare majority of the members constituting the Board of Directors shall be elected for a term of two years and the other for a term of one (1) year. Whenever the number of members increases, one-half of such additional members shall be elected for two (2) years and one-half for one (1) year. Thereafter the term of office for members shall be two years. However, "No member

of the Board of Directors shall be allowed to serve more than three (3) consecutive terms; such member will be re-eligible to serve once he/she sits out for a period between the Annual General Meetings or one (1) year whichever is earlier without serving on any electable Committee".

MOVED BY : _____

SECONDED BY: _____

DATE : _____

RESOLUTION NO 3.

ARTICLE IX CREDIT COMMITTEE

WHEREAS the Rules of First Regional Co-operative Credit Union set no limit to the number of times that a member of the Credit Committee can be re-elected and,

WHEREAS re-election of the same members of the Credit Committee year after year can lead to stagnation on the Credit Committee and,

WHEREAS the election of new members of the Credit Committee may bring new ideas to the Credit Committee, and,

WHEREAS rotation of members of the Credit Committee may lead to greater participation by the general membership

BE IT RESOLVED that ARTICLE IX, 41.i) which reads:

Present Rule

- 41.I) The Credit Committee shall be elected at the Annual General Meeting of the Credit Union and shall consist of not less than three (3) members, all of whom shall be members of the Credit Union. Each member shall hold office until his successor is elected, and shall be eligible for re-election.

Be amended to read

The Credit Committee shall be elected at the Annual General Meeting of the Credit Union and shall consist of not less than three (3) and no more than seven (7) members, for a term of two (2) years, provided that the number of members comprising the Committee shall at all times be an uneven number all of whom shall be fit and proper members of the Credit Union, Whenever the number of members increases, one-half of such additional members shall be elected for two (2) years and one-half for one (1) year. Thereafter, the term of office for members shall be two years. Each member shall hold office until his successor is elected, and shall be eligible for re-election. Notwithstanding this however, no member of the Credit Committee shall be allowed to serve more than three (3) consecutive terms. Such member will however be re-eligible to serve once he/she sits out for a period between the Annual General Meetings or one (1) year whichever is earlier without serving on any electable Committee. No member shall serve in the position of Chairman or Secretary for more than five (5) years consecutively with a minimum rest period of one year thereafter before such retiring officer may serve in any other position.

MOVED BY : _____

SECONDED BY: _____

DATE : _____

RESOLUTION NO 4.

ARTICLE X

SUPERVISORY COMMITTEE

WHEREAS the Rules of First Regional Co-operative Credit Union set no limit to the number of times that a member of the Supervisory Committee can be re-elected and,

WHEREAS re-election of the same members of the Supervisory Committee year after year can lead to stagnation on the Supervisory Committee and,

WHEREAS the election of new members of the Supervisory Committee may bring new ideas to the Supervisory Committee, and,

WHEREAS rotation of members of the Supervisory Committee may lead to greater participation by the general membership

BE IT RESOLVED that ARTICLE X, 49.i) and 49.ii) be amended as follows:

Present Rule

49.I) The Supervisory Committee shall consist of not less than three (3) members, none of whom shall be members of the Board of Directors or Credit Committee or Loan Officer or employee and all of whom shall be members of the Credit Union.

Be amended to read

49.i) The Supervisory Committee shall consist of not less than three (3) members, none of whom shall be members of the Board of Directors or Credit Committee or Loan Officer or employee and all of whom shall be fit and proper members of the Credit Union.

Present Rule

1) ii) Members of the Committee shall be elected for one year only at each Annual General Meeting. They shall hold office until their successors are elected unless they demit office earlier or have been expelled and shall be eligible for re-election.

Be amended to read

Members of the Committee provided that they are fit and proper shall be elected for one year only at each Annual General Meeting. They shall hold office until their successors are elected unless they demit office earlier or have been expelled and shall be eligible for re-election.

Notwithstanding this however, no member of the Supervisory Committee shall be allowed to serve more than six (6) consecutive terms.

Such member will however be re-eligible to serve once he/she sits out for a period between the Annual General Meetings or one (1) year, whichever is earlier without serving on any electable Committee. No member shall serve in the position of Chairman or Secretary for more than five (5) years consecutively with a minimum rest period of one (1) year thereafter before such retiring officer may serve in any other position.”

MOVED BY : _____

SECONDED BY: _____

DATE : _____

RESOLUTION NO. 5

WHEREAS Rule 29 states that the Board of Directors “...shall consist of not less than five (5) nor more than fifteen members...” and,

WHEREAS the St. Ann and St Mary Co-operative Credit Unions were merged on 1st January 2006, and

WHEREAS members had elected at the Annual General Meeting (AGM) held on June 10, 2006, the following to better oversee the merger process:

1. a fifteen (15) member Board of Directors comprising ten (10) representatives from St. Ann and five (5) representatives from St. Mary

2. A seven (7) member Credit Committee comprising four (4) representatives from St. Ann and three (3) representatives from St. Mary

3. A five (5) member Supervisory Committee comprising four (4) representatives from St. Ann and one (1) representative from St. Mary

WHEREAS the merger is completed and,

WHEREAS directors are of the view that the Credit Union would be now more efficiently served by reducing the size of the Board and the Credit Committee

BE IT RESOLVED that a complement of thirteen (13) directors be elected at the AGM on May 19, 2012 and a complement of eleven (11) directors be elected at the ensuing AGM.

AND BE IT FURTHER RESOLVED that a complement of five (5) members of the Credit Committee be elected at the AGM on May 19, 2012

AND BE IT FURTHER RESOLVED that the complement of the Supervisory Committee remains at five (5) members.

AND BE IT FURTHER RESOLVED that the Credit Union dispenses with the requirement that the members of the Board and Committees be from particular geographical areas.

MOVED BY : _____

SECONDED BY: _____

DATE : _____



Standing Orders

1. The meeting is open to all members of the First Regional Co-operative Credit Union Limited with the right to participate in the proceedings.
2. A member shall only address the meeting when called upon by the Chairman to do so. Member shall stand when addressing the chair, after which he shall immediately take his seat.
3. Speeches to be clear and relevant to the subject before the meeting.
4. No member shall address the meeting except through the Chairman.
5. All persons desiring the floor shall rise and address themselves to the chair.
6. All speakers are to identify themselves and make use of the Desk and Floor Microphones when addressing the Meeting in order that their comments or questions may make a permanent record in the meeting's proceedings.
7. Should two or more persons rise at the same time, the Chair shall decide without debate, who is entitled to the floor.
8. If a speaker is called to order while speaking, the speaker should take his seat until the question of order is determined.
9. Any member desirous of introducing business for the consideration of the meeting may do so after the business on the Agenda has been completed.
10. A member shall not speak twice on the same subject except:
 - The mover of the motion has the right to reply
 - He rises to object or explain (with the permission of the Chair).
11. No speeches to be made after the 'Question' has been put and carried or negated.
12. A member rising on a 'Point of Order' is to state the point clearly and precisely. ('A point of Order' must have relevance to the "Standing Orders")
13. A member should not 'call' another member 'To Order' but may draw the attention of the Chair to a 'Breach of Order'.
14. In no event shall a member call the Chair to order.
15. A 'Question' should not be put to the vote if a member desires to speak on it or move an amendment to it – except that a Procedural Motion, the 'Previous Question' proceed to the next 'Business' or the closure that the question be now 'put' may be moved at any time.
16. Only one amendment should be before the meeting at one, and the same time.
17. When a motion is withdrawn any amendment to it fails.
18. The Chairman has the right to a Casting Vote.
19. If there is equality of voting on an amendment and if the Chairman does not exercise his casting vote, the amendment fails.
20. The Chair should not be subject to any personal abuse or verbal attack from any speaker.
21. No member shall impute improper motives against another.



DEPARTMENT OF CO-OPERATIVES & FRIENDLY SOCIETIES
(An Agency of the Ministry of Industry, Investment & Commerce)

ANY REPLY OR SUBSEQUENT REFERENCE
TO THIS COMMUNICATION SHOULD BE
ADDRESSED TO THE PERMANENT
SECRETARY AND THE FOLLOWING
REFERENCE QUOTED:-

**2 MUSGRAVE AVENUE
KINGSTON 10**

**TEL: 927-4912/927-6572
or 978-1946
Fax: 927-5832**

E-mail: dcfs@cwjamaica.com

**S1
R402/-4/03/12**

March 30, 2012

The Secretary
First Regional Co-operative Credit Union Limited
P.O. Box 28
14 Bravo Street
St. Ann's Bay
ST. ANN

Dear Sir/Madam,

I forward herewith the Financial Statements of your Society for the year ended December 31, 2011.

You must now hold the Annual General Meeting convened under **Regulation 19** of the Co-operative Societies Regulations, 1950. At least seven (7) days notice shall be given before the meeting is held.

A copy of your report, which you intend to present to the Annual General Meeting on the year's working of the Society as set forth in **Regulation 35** of the Co-operative Societies Regulations should be forwarded to this office.

Kindly advise me of the date of the Annual General Meeting, so that arrangements may be made for the Department to be represented.

Yours sincerely,

.....
**Lavern Gibson-Eccleston (Mrs.)
FOR REGISTRAR OF CO-OPERATIVE SOCIETIES
AND FRIENDLY SOCIETIES**



First Regional
Co-operative Credit Union Limited

34th Annual General Meeting



First Regional Co-operative Credit Union Limited

Financial Statements

31 December 2011



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31 December 2011

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Independent Auditors' Report

To the Registrar of Co-operative Societies
Re: First Regional Co-operative Credit Union Limited

Report on the Financial Statements

We have audited the accompanying financial statements of First Regional Co-operative Credit Union Limited, set out on pages 1 to 52, which comprise the statement of financial position as of 31 December 2011, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Fairview Office Park, Unit C2, 10 Alice Eldemire Drive, Box 180, Montego Bay, Jamaica
T: (876) 952 5065, F: (876) 952 1273, www.pwc.com/jm



Registrar of Co-operative Societies
Re: First Regional Co-operative Credit Union Limited
Independent Auditors' Report
Page 2

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Credit Union as of 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act.

Report on Other Legal and Regulatory Requirements

As required by the Co-operative Societies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

A handwritten signature in black ink, appearing to read 'Raviat Chong Loop', with a horizontal line underneath.

Chartered Accountants

29 March 2012
Montego Bay, Jamaica

Statement of Comprehensive Income
Year ended 31 December 2011
 (expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 \$'000 | Restated 2010 \$'000 |
|---|------|----------------------|----------------------------|
| Interest Income | | | |
| Interest on members' loans | | 356,595 | 334,794 |
| Interest on liquid assets | | 22,159 | 15,821 |
| Interest on investments | | 29,106 | 38,311 |
| | | <u>407,860</u> | <u>388,926</u> |
| Interest Expense | | | |
| Interest on members' fixed deposits | | 9,501 | 15,803 |
| Interest on members' other deposits | | 9,856 | 12,946 |
| Interest on members' voluntary shares | | 36,000 | 38,124 |
| Interest on borrowings | | 2,857 | - |
| | | <u>58,214</u> | <u>66,873</u> |
| Net Interest Income | | 349,646 | 322,053 |
| Loan impairment provision, net of recoveries | 14 | <u>(112,971)</u> | <u>(52,747)</u> |
| Net Interest Income after Impairment Losses on Loans | | 236,675 | 269,306 |
| Non-Interest Income | | | |
| Fees and other income | 6 | <u>19,606</u> | <u>9,316</u> |
| Net Interest and Other Income | | <u>256,281</u> | <u>278,622</u> |
| Operating Expenses | | | |
| Administrative | | 201,043 | 171,980 |
| Other | | 24,048 | 25,826 |
| | 7 | <u>225,091</u> | <u>197,806</u> |
| Net Surplus, being Total Comprehensive Income for the Year | | <u><u>31,190</u></u> | <u><u>80,816</u></u> |

Statement of Financial Position

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 \$'000 | Restated 2010 \$'000 | Restated 2009 \$'000 |
|---|------|------------------|----------------------------|----------------------------|
| ASSETS | | | | |
| Earning Assets | | | | |
| Liquid Assets | | | | |
| Savings and call deposits | 10 | 51,681 | 18,037 | 50,062 |
| Short-term investments | 11 | 135,706 | 211,211 | 260,386 |
| | | 187,387 | 229,248 | 310,448 |
| Reverse Repurchase Agreements | 12 | 447,971 | 347,048 | 134,944 |
| Financial Investments | 13 | 144,031 | 140,737 | 167,200 |
| Loans to Members , net of impairment provision | 14 | 1,727,882 | 1,700,417 | 1,641,883 |
| | | <u>2,507,271</u> | <u>2,417,450</u> | <u>2,254,475</u> |
| Non-Earning Assets | | | | |
| Liquid Assets | | | | |
| Cash and bank balances | 15 | 12,294 | 7,859 | 8,625 |
| Other Assets | | | | |
| Accounts receivable | 16 | 6,673 | 21,393 | 36,380 |
| Intangible Assets | 17 | 1,033 | 224 | 428 |
| Property, Plant and Equipment | 18 | 162,558 | 36,224 | 30,140 |
| Investment Property | 19 | 6,712 | 6,712 | 6,712 |
| Retirement Benefit Asset | 20 | 47,492 | 41,078 | 32,183 |
| | | <u>236,762</u> | <u>113,490</u> | <u>114,468</u> |
| | | <u>2,744,033</u> | <u>2,530,940</u> | <u>2,368,943</u> |



Statement of Financial Position

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | 2011 \$'000 | Restated 2010 \$'000 | Restated 2009 \$'000 |
|---------------------------------------|------|----------------|----------------------------|----------------------------|
| LIABILITIES AND EQUITY | | | | |
| Liabilities | | | | |
| Interest Bearing Liabilities | | | | |
| Members' deposits | 21 | 652,879 | 623,937 | 558,929 |
| Members' voluntary shares | 22 | 1,250,620 | 1,175,126 | 1,185,658 |
| Borrowings | 23 | 47,765 | 750 | 2,323 |
| | | 1,951,264 | 1,799,813 | 1,746,910 |
| Non-Interest Bearing Liability | | | | |
| Accounts payable | 24 | 33,933 | 25,632 | 19,469 |
| | | 1,985,197 | 1,825,445 | 1,766,379 |
| Equity | | | | |
| Members' permanent share capital | 25 | 47,971 | 23,470 | 1,047 |
| Institutional capital | 26 | 387,376 | 379,728 | 328,051 |
| Non-institutional capital | 27 | 86,428 | 185,484 | 64,028 |
| Accumulated surplus | | 237,061 | 116,813 | 209,438 |
| | | 758,836 | 705,495 | 602,564 |
| | | 2,744,033 | 2,530,940 | 2,368,943 |

Approved for issue on behalf of the Board of Directors on 29 March 2012 and signed on its behalf by:

Hopeton Henry
Hopeton Henry Director

Karl Fuller
Karl Fuller Director



Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | Members' Permanent Share Capital \$'000 | Institutional Capital \$'000 | Non- Institutional Capital \$'000 | Accumulated Surplus \$'000 | Total \$'000 |
|---|------|---|------------------------------------|--|----------------------------------|-----------------|
| Balance at 1 January 2010, as restated | | 1,047 | 328,051 | 64,028 | 209,438 | 602,564 |
| Net surplus, being total comprehensive income for the year, as restated | | - | - | - | 80,816 | 80,816 |
| Transactions with owners: | | | | | | |
| Dividends credited to members' share capital | 25 | 308 | - | - | (308) | - |
| Share capital received | 25 | 22,115 | - | - | - | 22,115 |
| Appropriations from 2010 surplus - | | | | | | |
| Transfer to institutional capital, as restated | 26 | - | 50,175 | - | (50,175) | - |
| Transfer to non-institutional capital | 27 | - | - | 121,456 | (121,456) | - |
| Entrance fees | 26 | - | 1,502 | - | (1,502) | - |
| | | 22,423 | 51,677 | 121,456 | (173,441) | 22,115 |
| Balance at 31 December 2010, as restated | | 23,470 | 379,728 | 185,484 | 116,813 | 705,495 |
| Net surplus, being total comprehensive income for the year | | - | - | - | 31,190 | 31,190 |
| Transactions with owners: | | | | | | |
| Dividends credited to members' share capital | 25 | 2,347 | - | - | (2,347) | - |
| Share capital received | 25 | 22,151 | - | - | - | 22,151 |
| Share capital redeemed | 25 | 3 | - | (3) | - | - |
| Appropriations from 2011 surplus - | | | | | | |
| Transfer to institutional capital | 26 | - | 5,886 | - | (5,886) | - |
| Transfer from non-institutional capital | 27 | - | - | (99,053) | 99,053 | - |
| Entrance fees | 26 | - | 1,762 | - | (1,762) | - |
| | | 24,501 | 7,648 | (99,056) | 89,058 | 22,151 |
| Balance at 31 December 2011 | | 47,971 | 387,376 | 86,428 | 237,061 | 758,836 |



Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

| | Note | Institutional Capital | | |
|---|------|-----------------------------|-------------------------------------|-----------------|
| | | Statutory Reserve \$'000 | Permanent Capital Reserve \$'000 | Total \$'000 |
| Balance at 1 January 2010, as restated | | 322,612 | 5,439 | 328,051 |
| Appropriations from 2010 surplus - | | | | |
| 20% statutory reserve, as restated | 26 | 15,863 | - | 15,863 |
| Transfer from accumulated surplus | | 34,312 | - | 34,312 |
| Entrance fees | 26 | 1,502 | - | 1,502 |
| Balance at 31 December 2010, as restated | | 374,289 | 5,439 | 379,728 |
| Appropriations from 2011 surplus - | | | | |
| 20% statutory reserve | 26 | 5,886 | - | 5,886 |
| Entrance fees | 26 | 1,762 | - | 1,762 |
| Balance at 31 December 2011 | | 381,937 | 5,439 | 387,376 |

| | Note | Non-Institutional Capital | | | |
|---|------|--------------------------------------|-----------------------------|---------------------------------------|-------------------------------|
| | | Retirement Benefit Reserve \$'000 | Loan Loss Reserve \$'000 | Capital Expenditure Reserve \$'000 | Share Transfer Fund \$'000 |
| Balance at 1 January 2010 | | 32,183 | - | 31,645 | 200 |
| Transfer of increase in retirement benefit asset | 27 | 8,895 | - | - | - |
| Transfer from accumulated surplus | 27 | - | 105,467 | 7,094 | - |
| Balance at 31 December 2010 | | 41,078 | 105,467 | 38,739 | 200 |
| Transfer of increase in retirements benefit asset | 27 | 6,414 | - | - | - |
| Transfer to accumulated surplus | 27 | - | (105,467) | - | - |
| Transfer to members' permanent share capital | 27 | - | - | - | (3) |
| Balance at 31 December 2011 | | 47,492 | - | 38,739 | 197 |

Statement of Cash Flows
Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

| | 2011 \$'000 | Restated 2010 \$'000 |
|---|------------------------------|---|
| Cash Flows from Operating Activities | | |
| Interest received | 438,663 | 450,008 |
| Interest paid | (60,990) | (81,259) |
| Fees and other income | 21,563 | 10,829 |
| Recoveries on impaired loans | 11,291 | 11,221 |
| Payments to employees and suppliers | (211,260) | (188,188) |
| Tax refund | 14,617 | 22,072 |
| | <u>213,884</u> | <u>224,683</u> |
| Changes in operating assets and liabilities - | | |
| Loans to members | (184,815) | (186,836) |
| Other assets | (283) | (962) |
| Retirement benefit asset | (6,414) | (8,895) |
| Members' voluntary shares | 77,618 | 1,344 |
| Members' deposits | 29,593 | 67,518 |
| Cash provided by operating activities | <u>129,583</u> | <u>96,852</u> |
| Cash Flows from Investing Activities | | |
| Short-term investments | 75,417 | 49,026 |
| Financial investments | (4,163) | 23,381 |
| Reverse repurchase agreements | (98,584) | (212,094) |
| Purchase of intangible assets | (1,096) | (336) |
| Purchase of property, plant and equipment | (132,247) | (10,162) |
| Cash used in investing activities | <u>(160,673)</u> | <u>(150,185)</u> |
| Cash Flows from Financing Activities | | |
| External loan | 47,400 | - |
| Members' permanent share capital | 22,154 | 22,115 |
| Cash provided by financing activities | <u>69,554</u> | <u>22,115</u> |
| Increase/(decrease) in cash and cash equivalents | 38,464 | (31,218) |
| Cash and cash equivalents at beginning of year | 25,146 | 56,364 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR (Note 15) | <u><u>63,610</u></u> | <u><u>25,146</u></u> |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Activities

First Regional Co-operative Credit Union Limited (the Credit Union) is incorporated under the laws of Jamaica and is registered under The Co-operative Societies Act. The Credit Union's registered office is located at 14 Bravo Street, St. Ann's Bay, St. Ann, and its operations are concentrated in the parishes of St. Ann and St. Mary.

Effective 30 June 2011, further to approval by the Registrar of Co-operative Societies, membership to the Credit Union is obtained by holding a minimum of \$1,000 in permanent shares and a minimum of \$100 in voluntary shares. Previously, membership was obtained by holding a minimum of \$400 in permanent shares and a minimum of \$100 in voluntary shares.

Individual membership may not exceed 20% of the total share capital of the Credit Union. Membership is primarily available to individuals who were born in the parishes of St. Ann and St. Mary or who work, reside or have relatives residing in these parishes.

The main activities of the Credit Union are to promote thrift amongst its members by affording them an opportunity to accumulate their savings and to create for them a source of credit, for provident or productive purposes at reasonable rates of interest.

The Credit Union is a member of the Jamaica Co-operative Credit Union League Limited (JCCUL/the League), which provides financial services, technical support and sets prudential standards for the credit union movement.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention, as modified by the revaluation of certain available-for-sale assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Credit Union's accounting policies. Although these estimates are based on management's best knowledge of current events and conditions, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Amendments to published standards and interpretations effective in the current year

Certain interpretations and amendments to existing standards have been published that became effective during the current financial year. The Credit Union has assessed the relevance of all such interpretations and amendments and has put into place the following amendments, which are immediately relevant to its operations.

IAS 1 (Amendment) - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2011). This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. This amendment is applied retrospectively. The Credit Union has elected to continue analysis of other comprehensive income in the statement of changes in equity.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Amendments to published standards and interpretations effective in the current year (continued)

IAS 24 (Revised) - Related party disclosures (effective from 1 January 2011). The revised standard simplifies the definition of a related party. It clarifies its intended meaning and eliminates inconsistencies from the definition. The revision provides a partial exemption from the disclosure requirements for government-related entities. The Credit Union applied IAS 24 (Revised) from 1 January 2011. It did not have a material impact on the Credit Union's financial statements.

IFRS 7 (Amendment) Financial instruments - Disclosures (effective 1 January 2011). The amendment clarifies the disclosure requirement by emphasising the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. Amendments were made to qualitative and credit risk disclosures. The adoption of this amendment will result in changes in the presentation of credit risk disclosures. The Credit Union applied IFRS 7 (Amendment) from 1 January 2011. It did not have a material impact on the Credit Union's financial statements.

IFRIC 14 (Amendments) - Prepayments of a minimum funding requirement (effective for annual periods beginning 1 January 2011). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued and the amendments correct this. The Credit Union applied this amendment from 1 January 2011. It did not have a material impact on the financial statements.

IASB Annual Improvements 2010. In May 2010, the IASB published amendments to six standards and one interpretation resulting from its Annual Improvements Project. The effective date for most amendments is annual periods beginning on or after 1 July 2010. The Credit Union adopted these amendments as of 1 January 2011. Their adoption did not have a significant impact on the financial statements.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Credit Union

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not effective at the statement of financial position date, and which the Credit Union has not early adopted. The Credit Union has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IAS 1 (Amendment) - Presentation of financial statements (effective for annual periods beginning on or after 1 July 2012). The amendment requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially recyclable to net surplus subsequently (reclassification adjustments). The amendment does not address which items should be presented in OCI, and the option to present items of OCI either before tax or net of tax has been retained. The only anticipated impact on adoption is to the disclosure of items presented in OCI in the statement of comprehensive income. Management is assessing the impact of adoption on the Credit Union.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Credit Union (continued)

IAS 19 (Amendment) - Employee benefits (effective for annual periods beginning on or after 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The significant changes affecting the Credit Union are that actuarial gains and losses are renamed 'remeasurements' and will be recognised immediately in other comprehensive income. Actuarial gains and losses will no longer be deferred using the corridor approach or recognised in profit or loss. Remeasurements recognised in other comprehensive income will not be recycled through profit or loss in subsequent periods. The annual income or expense for funded benefit plans will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability.

This will replace the finance charge and expected return on plan assets. Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements and the risks arising from defined benefit plans and multi-employer plans. The Credit Union will apply these amendments from 1 January 2013.

IFRS 13 - Fair value measurement (effective for annual periods beginning on or after 1 January 2013). The standard explains how to measure fair value for financial reporting. It defines fair value; sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurements. This standard applies to those standards that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. The Credit Union is currently examining the effect of this on its operations.

IFRS 9 - Financial instruments (effective for annual periods beginning on or after 1 January 2015). IFRS 9, Financial instruments – Part 1: Classification and Measurement was issued in November 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Credit Union is currently examining the effect of this standard on its operations.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Credit Union (continued)

IFRS 9 - Financial instruments (continued)

The next phase of IFRS 9 deals with financial liabilities. Amortised cost accounting for most financial liabilities is retained, with bifurcation of embedded derivatives. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than net surplus, unless this creates an accounting mismatch. The Credit Union is considering the implications of the standard, the impact on the financial statements and the timing of its adoption.

(b) Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing instruments on an accrual basis, using the effective yield method, based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts or premiums on discounted instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Credit Union estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Where collection of interest income is considered doubtful, the related financial instruments are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the impairment loss.

(c) Fees and other income

Fees and other income are recognised on an accruals basis. Loan origination fees are deferred and are recognised over the life of the loan, as an adjustment to the effective yield on the loans.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Credit Union operates ("the functional currency"). The financial statements are presented in Jamaican dollars, which is also the Credit Union's functional currency.

(ii) Transactions and balances

Transactions denominated in foreign currencies are converted into the functional currency at the rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the statement of financial position date. Exchange gains and losses resulting from the settlement of transactions at rates differing from those at the dates of the transactions and unrealised foreign exchange gain or losses on unsettled foreign currency monetary assets and liabilities are recognised in the statement of comprehensive income.

Notes to the Financial Statements**31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)**(e) Financial assets**

The Credit Union allocates financial assets to the following IAS 39 categories: loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Credit Union's management has the positive intention and ability to hold to maturity, other than:

- (i) those that the Credit Union upon initial recognition designates as at fair value through profit or loss;
- (ii) those that the Credit Union designates as available-for-sale; and
- (iii) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income as interest income. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the net surplus or deficit as net gains/(losses) on investments.

At the statement of financial position date, held-to-maturity investments comprise GOJ benchmark investment notes and local registered stock, included in financial investments on the statement of financial position.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Credit Union:

- (i) intends to sell immediately or in the short term, which are classified as held for trading, and those that the Credit Union upon initial recognition designates as at fair value through profit or loss;
- (ii) upon initial recognition, designates as available-for-sale; or
- (iii) may not recover substantially other than because of credit deterioration.

Loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest method.

Interest on loans is included in the statement of comprehensive income and is reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'loan impairment provision'.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets (continued)

(b) Loans and receivables (continued)

At the statement of financial position date, the following items were classified as loans and receivables: loans to members, net of impairment provision; accounts receivable; and certain required investments with the Jamaica Co-operative Credit Union League Limited included in financial investments on the statement of financial position.

(c) Available-for-sale investments

Available-for-sale investments are financial assets that are 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, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised.

If an available-for-sale investment is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recycled and recognised in net surplus. Interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the statement of comprehensive income.

The Credit Union's available-for-sale investments primarily comprise liquid assets, certain financial investments, unquoted equities and reverse repurchase agreements.

(f) Financial liabilities

The Credit Union's financial liabilities primarily comprise members' deposits, members' voluntary shares, borrowings and accounts payable. These are initially recognised at fair value, being the amount received on origination of the liability and are subsequently measured at amortised cost using the effective interest method.

(g) Impairment of financial assets

The Credit Union assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Credit Union uses to determine that there is objective evidence of an impairment loss include:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Credit Union, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Credit Union would not otherwise consider;
- (iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(g) Impairment of financial assets (continued)

- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (a) adverse changes in the payment status of borrowers in the portfolio; and
 - (b) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Credit Union first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Credit Union determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Credit Union may measure impairment on the basis of an instrument's fair value using an observable market price.

When a loan is uncollectible, it is written off against the related allowance for the loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Recoveries in part or in full of amounts previously written off are credited to recoveries of impaired loan in the statement of comprehensive income.

The Credit Union's impairment loss provision requirements, as stipulated by the Jamaica Co-operative Credit Union League Limited, require that if a payment on a loan is contractually two months in arrears, the loan will be classified as impaired, if not already classified as such for other reasons. The amount by which the Credit Union provision exceeds the IFRS impairment provision is dealt with in a non-distributable loan loss reserve as an appropriation of accumulated surplus.

(h) Reverse repurchase agreements

Securities purchased under agreements to resell are recorded as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(i) Accounts receivable

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on all outstanding amounts at year end. Bad debts are written off in the year in which they are identified.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and at bank and deposits with a maturity of less than 90 days, not held to satisfy League requirements, net of bank overdraft.

(k) Intangible assets

Intangible assets, which represent the Credit Union's software, are amortised on a straight-line basis over its expected useful life of three years. Where the expected useful life of the asset is different from previous estimates, the amortisation period will change accordingly.

(l) Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and impairment losses. No depreciation is considered necessary in respect of land and work-in-progress. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Credit Union and the cost can be measured reliably. All repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided at annual rates that will write off the carrying value of the assets over their estimated useful lives. The rates used are as follows:

| | |
|-----------------------------------|------|
| Straight-line basis - | |
| Buildings | 2½% |
| Computer equipment | 33⅓% |
| Furniture, fixtures and equipment | 10% |
| Reducing balance basis - | |
| Roadway | 2½% |

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are included in net surplus.

Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

(m) Impairment of non-financial assets

Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(n) Employee benefits - pension plan

The Credit Union participates in a multi-employer defined benefit pension plan. The pension plan is generally funded by payments from employees and by the Credit Union, taking into account the recommendations of independent qualified actuaries.

Notes to the Financial Statements**31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)**(n) Employee benefits - pension plan (continued)**

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the statement of financial position date and the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates based on market yields on government securities which have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past-service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(o) Accounts payable

Accounts payable are initially recorded at fair value and subsequently stated at amortised cost.

(p) Provisions

Provisions are recognised when the Credit Union has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

(q) Members' voluntary shares

Members' voluntary shares represent withdrawable deposit holdings of the Credit Union's members to facilitate eligibility for loans and other benefits. Interest paid on these shares is classified as an expense and is paid at a rate that is fixed from time to time by the Board of Directors.

(r) Members' permanent share capital

Members' permanent share capital represents shares paid up in cash and form part of the risk capital of the Credit Union. Members' permanent share capital may be redeemable subject to the sale, transfer or repurchase of such shares. Dividends on members' permanent share capital are recognised in equity in the period in which they are approved by the Credit Union's members.

(s) Institutional capital

Institutional capital includes the statutory reserve fund, as well as various other reserves established from time to time which, in the opinion of the Directors, are necessary to support the operations of the Credit Union and, thereby, protect the interest of the members. These reserves are not available for distribution to members.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(t) Investment property

Property that is held for capital appreciation and that is not occupied by the Credit Union, is classified as investment property. Investment property comprises land, for which no depreciation is provided.

Recognition of investment property takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment property is carried at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

(u) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method. Any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(v) Comparative information

Where necessary, certain comparative figures have been restated to conform with current year presentation.

Where IAS 8 applies, comparative figures used in preparing the financial statements have been adjusted to conform with changes in presentation in the current year.

3. Financial Risk Management

The Credit Union's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risk. Taking risk is core to the financial business, and operational risk is an inevitable consequence of being in business. The Credit Union's aim is therefore to achieve an appropriate balance between risk and returns and minimise potential adverse effects on the Credit Union's financial performance.

The Credit Union's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the adherence to limits by means of reliable and up-to-date information systems. The Credit Union regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

In February 2010, the Credit Union participated in the Jamaican Debt Exchange (JDX) transaction under which the Credit Union exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments available to the Credit Union under the election options contained in the agreement. The JDX transaction resulted in a reduction in yields and an increase in the tenor of locally issued Government of Jamaica securities and, therefore, had a significant impact on financial risks.

The Board of Directors is ultimately responsible for the establishment and oversight of the Credit Union's risk management policies and strategies and is committed to complying with all the regulations and legislation under which the Credit Union operates. In addition, an effective compliance programme is an important element of its risk management system.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

The Board has established committees/units for managing and monitoring risks as follows:

- (i) **Risk Compliance Unit**
This unit ensures conformity with regulatory requirements. A Risk and Compliance Manager ensures that all regulatory requirements of the Bank of Jamaica, the League and the Financial Investigating Unit of the Ministry of Finance and Planning are met.
- (ii) **Risk Management Unit (RMU)**
The League has established an RMU for credit unions in Jamaica and the Credit Union participates in this risk management initiative. They conduct seminars, draft policies and assist credit unions in identifying and managing risks.
- (iii) **The Treasury and Investment Committees**
The Treasury Committee is responsible for managing the Credit Union's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Credit Union. The Investment Committee is responsible for monitoring and formulating investment portfolios and investment strategies for the Credit Union.
- (iv) **Asset and Liability Committee**
The Asset and Liability Committee is responsible for appropriate trading limits and reports on compliance controls to ensure that its mandate is properly followed.
- (v) **Supervisory Committee**
The Supervisory Committee oversees how management monitors compliance with the Credit Union's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Credit Union. The Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board of Directors through the Supervisory Committee.
- (vi) **Credit Committee**
The Credit Committee oversees the approval and disbursement of credit facilities to members. It is also primarily responsible for monitoring the quality of the loan portfolio.

The Credit Union is exposed to credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk and interest rate risk.

(a) **Credit risk**

The Credit Union takes on exposure to credit risk, which is the risk that its members or counterparties will cause a financial loss for the Credit Union by failing to discharge their contractual obligations. Credit risk is the most important risk for the Credit Union's business, management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The Credit Union structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty, related counterparties and industry segments.

Notes to the Financial Statements**31 December 2011**

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)**(a) Credit risk (continued)**

Credit-related commitment risks arise from guarantees which may require payment on behalf of members. Such payments are collected from members based on the terms of the letters of credit. They expose the Credit Union to similar risks to loans and these are mitigated by the same control policies and processes.

Credit review process

The Credit Union has a credit quality review process involving regular analysis of the ability of borrowers to meet interest and capital repayment obligations.

(i) Loans

The Credit Union assesses the probability of default of borrowers. Exposure to credit risk is managed in part by obtaining collateral and personal guarantees. The credit quality review process allows the Credit Union to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

(ii) Investments

The Credit Union limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality and Government of Jamaica securities. Accordingly, management does not expect any counterparty to fail to meet its obligations.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the member and the size of the loan. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

- Mortgages over real estate
- Bills of sale on motor vehicles
- Hypothecated financial instruments such as certificates of deposits with regulated banks
- Liens on members' deposits maintained with the Credit Union

Management monitors the market value of collateral, during its review of the adequacy of the provision for credit losses.

Impairment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days or there are any known difficulties in the cash flows of counterparties or there are infringements of the original terms of the contract.

The Credit Union addresses impairment assessment individually.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

Impairment (continued)

An impairment allowance is provided for each individual loan that is impaired with no consideration of materiality. An impairment assessment is conducted annually. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the statement of financial position date on a case-by-case basis, and are applied to all accounts with a past due date of more than 30 days. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

The League's loan loss provisioning rules described above focus more on credit-quality mapping of the respective delinquency periods to corresponding pre-determined percentages. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements may differ from the amount determined from the League's loan loss provisioning rules that are used for internal operational management and the Credit Union's internal provisioning method.

The table below shows loans to members, net of impairment provision and the associated IFRS impairment provision:

| | 2011 | | 2010 | |
|--|-----------------|-----------------------------------|-----------------|-----------------------------------|
| | Loans \$'000 | Impairment Provision \$'000 | Loans \$'000 | Impairment Provision \$'000 |
| Loans to members, net of impairment provision | 1,727,882 | 26,553 | 1,700,417 | 44,079 |

Credit risk exposure

Maximum exposure to credit risk before collateral held or other credit enhancements:

For items on the statement of financial position, the exposures are based on net carrying amounts as reported in the statement of financial position.

For items not on the statement of financial position, see table below representing a worst case scenario of credit risk exposure to the Credit Union at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements.

| | 2011 \$'000 | 2010 \$'000 |
|------------------|----------------|----------------|
| Loan commitments | 54,886 | 52,007 |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

(i) Credit quality of loans are summarised as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--------------------------------|----------------|----------------|
| Neither past due nor impaired | 1,668,116 | 1,450,392 |
| Past due but not impaired | 2,094 | 154,233 |
| Impaired | 84,225 | 139,871 |
| Gross | 1,754,435 | 1,744,496 |
| Less: Allowance for impairment | (26,553) | (44,079) |
| Net | 1,727,882 | 1,700,417 |

The majority of past due loans are considered to be impaired. Further information on the impairment allowance for loans is provided in Note 14.

(ii) Ageing analysis of past due but not impaired loans:

| | 2011 \$'000 | 2010 \$'000 |
|------------------------|----------------|----------------|
| Less than 2 months | 391 | 22,218 |
| 2 - 3 months | 44 | 19,099 |
| 3 - 6 months | 1,514 | 32,212 |
| 6 - 12 months | 145 | 47,650 |
| Greater than 12 months | - | 33,054 |
| | 2,094 | 154,233 |

There are no financial assets other than loans that are past due. All loans past due and impaired after 12 months are written off.

(iii) Financial assets – individually impaired

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

| | 2011 \$'000 | 2010 \$'000 |
|-------|----------------|----------------|
| Loans | 84,225 | 139,871 |

The fair value of collateral that the Credit Union held as security for individually impaired loans was approximately \$150,842,000 (2010 - \$450,099,000).

There are no financial assets other than those listed above that were individually impaired.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

(iv) Renegotiated loans

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. As at 31 December 2011, there were renegotiated loans totalling \$85,397,000 (2010 - nil).

(v) Repossessed collateral

The Credit Union obtained assets by taking possession of collateral held as security, as follows:

| | Carrying Amount 2011 \$'000 | Carrying Amount 2010 \$'000 |
|----------------|--------------------------------------|--------------------------------------|
| Real estate | 194 | 10,106 |
| Motor vehicles | 4,970 | - |
| | <u>5,164</u> | <u>10,106</u> |

Repossessed motor vehicles and properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

(vi) Debt securities

The following table summarises the Credit Union's credit exposure for debt securities at their carrying amounts, as categorised by issuer:

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Government of Jamaica | 72,587 | 70,932 |
| Jamaica Co-operative Credit Union League Limited | 60,691 | 56,777 |
| Financial institutions | 447,971 | 349,686 |
| | <u>581,249</u> | <u>477,395</u> |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(a) Credit risk (continued)

(vii) Loans

The following table summarises the Credit Union's credit exposure for loans at their carrying amounts, as categorised by the industry sectors:

| | 2011 \$'000 | 2010 \$'000 |
|-----------------------------------|------------------|------------------|
| Construction and real estate | 682,080 | 656,816 |
| Education | 75,728 | 76,907 |
| Business investment | 94,152 | 97,795 |
| Agriculture | 6,699 | 2,131 |
| Personal and others | 874,853 | 856,836 |
| | <u>1,733,512</u> | <u>1,690,485</u> |
| Less: Provision for credit losses | (26,553) | (44,079) |
| | <u>1,706,959</u> | <u>1,646,406</u> |
| Interest receivable | 20,923 | 54,011 |
| | <u>1,727,882</u> | <u>1,700,417</u> |

(b) Liquidity risk

Liquidity risk is the risk that the Credit Union will encounter difficulty in raising funds to meet commitments associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay members and fulfill commitments to lend.

Liquidity risk management process

The Credit Union's liquidity risk management process as monitored by the Treasury Committee includes:

- (i) monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash outflows and the availability of cash to meet these outflows;
- (ii) maintaining a balanced portfolio between financial investments and liquid assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) optimising cash returns on investments;
- (iv) Maintaining committed lines of credit; and
- (v) monitoring statement of financial position liquidity ratios against internal and regulatory requirements. One of the most important of these is to maintain code one rating liquidity ratio according to the PEARLS-M standard.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Liquidity risk management process (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Credit Union. It is unusual for financial institutions to ever be completely matched since business transacted is often on uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Credit Union and its exposure to changes in interest rates and exchange rates.

Financial liabilities and assets held for managing liquidity risk

The tables below presents the cash flows receivable and payable of the Credit Union for financial liabilities and assets held for managing liquidity risk by remaining contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flow (principal and interest cash flows).

| | 2011 | | | | | |
|---|------------------------------|-----------------------------|---------------------------|---------------------------|-----------------------------------|------------------|
| | Within 3 Months \$'000 | 3 to 12 Months \$'000 | 1 to 5 Years \$'000 | Over 5 Years \$'000 | No Specific Maturity \$'000 | Total \$'000 |
| Financial Assets | | | | | | |
| Earnings assets | | | | | | |
| Liquid assets - | | | | | | |
| Savings and call deposits | 53,748 | - | - | - | - | 53,748 |
| Short-term investments | 144,369 | - | - | - | - | 144,369 |
| Reverse repurchase agreements | 475,108 | - | - | - | - | 475,108 |
| Financial investments | 74,284 | - | 70,168 | - | 10,753 | 155,205 |
| Loans, net of provision for impairment | 45,839 | 109,928 | 817,408 | 1,063,184 | - | 2,036,359 |
| Non-earning assets | 12,117 | - | - | - | 3,606 | 15,723 |
| Total financial assets | 805,465 | 109,928 | 887,576 | 1,063,184 | 14,359 | 2,880,512 |
| Financial Liabilities | | | | | | |
| Interest bearing liabilities | | | | | | |
| Members' deposits | 461,498 | 196,902 | 9,725 | - | - | 668,125 |
| Members' voluntary shares | 1,291,347 | - | - | - | - | 1,291,347 |
| Borrowings | 2,094 | 5,186 | 27,659 | 65,697 | - | 100,636 |
| Non-interest bearing liabilities | 27,786 | - | - | - | - | 27,786 |
| Total financial liabilities | 1,782,725 | 202,088 | 37,384 | 65,697 | - | 2,087,894 |
| Net position | (977,260) | (92,160) | 850,192 | 997,487 | 14,359 | 792,618 |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(b) Liquidity risk (continued)

Financial liabilities and assets held for managing liquidity risk (continued)

| | 2010 | | | | | |
|---|------------------------------|-----------------------------|---------------------------|---------------------------|--------------------------------------|-----------------|
| | Within 3 Months \$'000 | 3 to 12 Months \$'000 | 1 to 5 Years \$'000 | Over 5 Years \$'000 | No Specific Maturity \$'000 | Total \$'000 |
| Financial Assets | | | | | | |
| Earnings assets | | | | | | |
| Liquid assets - | | | | | | |
| Savings and call deposits | 18,930 | - | - | - | - | 18,930 |
| Short-term investments | 224,421 | - | - | - | - | 224,421 |
| Reverse repurchase agreements | 370,472 | - | - | - | - | 370,472 |
| Financial investments | 73,174 | 2,655 | 66,651 | - | 10,389 | 152,869 |
| Loans, net of provision for impairment | 73,395 | 90,256 | 820,910 | 1,032,114 | - | 2,016,675 |
| Non-earning assets | 9,543 | - | - | - | 3,574 | 13,117 |
| Total financial assets | 769,935 | 92,911 | 887,561 | 1,032,114 | 13,963 | 2,796,484 |
| Financial Liabilities | | | | | | |
| Interest bearing liabilities | | | | | | |
| Members' deposits | 455,195 | 181,296 | 10,664 | - | - | 647,155 |
| Members' voluntary shares | 1,225,542 | - | - | - | - | 1,225,542 |
| Borrowings | 750 | - | - | - | - | 750 |
| Non-interest bearing liabilities | 19,932 | - | - | - | - | 19,932 |
| Total financial liabilities | 1,701,419 | 181,296 | 10,664 | - | - | 1,893,379 |
| Net position | (931,484) | (88,385) | 876,897 | 1,032,114 | 13,963 | 903,105 |

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash and bank balances, investment securities and loans. In the normal course of business, a proportion of members' loans contractually repayable within one year will be extended. The Credit Union is also able to meet unexpected net cash outflows by selling securities and accessing overdraft facilities from its main financing institutions.

Off-statement of financial position items

All loan commitments existing at the year end (Note 28 (a)) expire within 12 months.



Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk

The Credit Union takes on exposure to market risk, which is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises mainly from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Risk and Compliance officer who monitors price movements of financial assets on the local market. Market risk exposures are measured using sensitivity analysis. There has been no change to the Credit Union's exposure to market risk or the manner in which it manages and measures the risk.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs when the Credit Union takes on open positions in a currency. To control this exchange risk, the Investment Committee has approved limits for net open positions and has also adhered to the mandate of the Bank of Jamaica to discontinue additional foreign currency investments.

The Credit Union also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The Credit Union's net exposure is kept to an acceptable level as it has not been purchasing new investments in foreign currencies. Foreign currencies purchased/(received) are sold immediately to the commercial banks.

Concentrations of currency risk – on- and off-statement of financial position financial instruments

The Credit Union is exposed to foreign currency movement through investments held in reverse repurchase agreements and financial investments as follows:

| | 2011 | | | | |
|-------------------------------|---------------------|-----------------|----------------|------------------|------------------|
| | Jamaican J\$'000 | US\$ J\$'000 | GBP J\$'000 | CAN\$ J\$'000 | Total J\$'000 |
| Reverse repurchase agreements | 437,854 | 8,206 | - | 1,909 | 447,969 |
| Financial investments | 129,806 | 14,226 | - | - | 144,032 |
| | 567,660 | 22,432 | - | 1,909 | 592,001 |

| | 2010 | | | | |
|-------------------------------|---------------------|-----------------|----------------|------------------|------------------|
| | Jamaican J\$'000 | US\$ J\$'000 | GBP J\$'000 | CAN\$ J\$'000 | Total J\$'000 |
| Reverse repurchase agreements | 332,365 | 7,899 | 6,379 | 405 | 347,048 |
| Financial investments | 124,010 | 14,089 | 1,927 | 711 | 140,737 |
| | 456,375 | 21,988 | 8,306 | 1,116 | 487,785 |

There were no off-statement of financial position financial instruments denominated in foreign currencies at the year end (2010 – nil).

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(i) Currency risk (continued)

Foreign currency sensitivity

The following table indicates the currencies to which the Credit Union had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year end for the percentage changes in foreign currency rates as indicated below. The sensitivity analysis includes investment securities. There would be no impact on equity other than through net surplus.

| | Change in Currency Rate 2011 % | Effect on Net Surplus 2011 \$'000 | Change in Currency Rate 2010 % | Effect on Net Surplus 2010 \$'000 |
|----------------------|--|---|--|---|
| Currency: | | | | |
| Devaluation - | | | | |
| USD | 0.5 | 112 | +5 | 1,099 |
| GBP | 0.5 | - | +5 | 415 |
| CAN | 0.5 | 6 | +5 | 56 |
| Revaluation - | | | | |
| USD | 0.5 | (112) | -5 | (1,099) |
| GBP | 0.5 | - | -5 | (415) |
| CAN | 0.5 | (6) | -5 | (56) |

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates, and arises mainly from investments, loans and deposits.

Floating rate instruments expose the Credit Union to cash flow interest risk, whereas fixed interest rate instruments expose the Credit Union to fair value interest risk.

The Credit Union's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the Asset and Liability Committee and the Treasury Committee.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The following tables summarise the Credit Union's exposure to interest rate risk. It includes the Credit Union's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

| | 2011 | | | | | | Total \$'000 |
|---|-----------------------------|------------------------------|-----------------------------|---------------------------|---------------------------|---------------------------------------|------------------|
| | Within 1 Month \$'000 | Within 3 Months \$'000 | 3 to 12 Months \$'000 | 1 to 5 Years \$'000 | Over 5 Years \$'000 | Non- Interest Bearing \$'000 | |
| Financial Assets | | | | | | | |
| Earning assets | | | | | | | |
| Liquid assets | | | | | | | |
| Savings and call deposits | 51,681 | - | - | - | - | - | 51,681 |
| Short-term investments | 135,624 | - | - | - | - | 82 | 135,706 |
| Reverse repurchase agreements | - | 444,194 | - | - | - | 3,777 | 447,971 |
| Financial investments | - | 69,191 | - | 61,571 | - | 13,268 | 144,030 |
| Loans, net of provision for impairment | - | 21,107 | 93,121 | 692,434 | 900,298 | 20,922 | 1,727,882 |
| Non-earning assets | - | - | - | - | - | 15,723 | 15,723 |
| Total financial assets | 187,305 | 534,492 | 93,121 | 754,005 | 900,298 | 53,772 | 2,522,993 |
| Financial Liabilities | | | | | | | |
| Interest bearing liabilities | | | | | | | |
| Members' deposits | - | 402,771 | 192,082 | 9,070 | - | 48,956 | 652,879 |
| Members' voluntary shares | - | 1,214,620 | - | - | - | 36,000 | 1,250,620 |
| Borrowings | 458 | 220 | 967 | 7,032 | 39,088 | - | 47,765 |
| Non-interest bearing liabilities | - | - | - | - | - | 27,786 | 27,786 |
| Total financial liabilities | 458 | 1,617,611 | 193,049 | 16,102 | 39,088 | 112,742 | 1,979,050 |
| Total Interest Rate | | | | | | | |
| Sensitivity Gap | 186,847 | (1,083,119) | (99,928) | 737,903 | 861,210 | (58,970) | 543,943 |
| Cumulative Gap | 186,847 | (896,272) | (996,200) | (258,297) | 602,913 | 543,943 | |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

| | 2010 | | | | | | |
|--|-----------------------------|------------------------------|-----------------------------|---------------------------|---------------------------|---------------------------------------|-----------------|
| | Within 1 Month \$'000 | Within 3 Months \$'000 | 3 to 12 Months \$'000 | 1 to 5 Years \$'000 | Over 5 Years \$'000 | Non- Interest Bearing \$'000 | Total \$'000 |
| Financial Assets | | | | | | | |
| Earning assets | | | | | | | |
| Liquid assets | | | | | | | |
| Savings and call deposits | 18,037 | - | - | - | - | - | 18,037 |
| Short-term investments | 211,097 | - | - | - | - | 114 | 211,211 |
| Reverse repurchase agreements | - | 345,723 | - | - | - | 1,325 | 347,048 |
| Financial investments agreements | - | 65,277 | 2,602 | 59,937 | - | 12,921 | 140,737 |
| Loans, net of provision for impairment | - | 16,289 | 75,845 | 689,840 | 864,432 | 54,011 | 1,700,417 |
| Non-earning assets | - | - | - | - | - | 13,117 | 13,117 |
| Total financial assets | 229,134 | 427,289 | 78,447 | 749,777 | 864,432 | 81,488 | 2,430,567 |
| Financial Liabilities | | | | | | | |
| Interest bearing liabilities | | | | | | | |
| Members' deposits | - | 399,535 | 174,307 | 9,696 | - | 40,399 | 623,937 |
| Members' voluntary shares | - | 1,137,001 | - | - | - | 38,125 | 1,175,126 |
| Borrowings | 750 | - | - | - | - | - | 750 |
| Non-interest bearing liabilities | - | - | - | - | - | 19,932 | 19,932 |
| Total financial liabilities | 750 | 1,536,536 | 174,307 | 9,696 | - | 98,456 | 1,819,745 |
| Total Interest Rate Sensitivity Gap | 228,384 | (1,109,247) | (95,860) | 740,081 | 864,432 | (16,968) | 610,822 |
| Cumulative Gap | 228,384 | (880,863) | (976,723) | (236,642) | 627,790 | 610,822 | |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Average effective yields on interest rate sensitive financial instruments by the earlier of the contractual re-pricing or maturity dates:

| | 2011 | | | | | |
|--------------------------------|----------------|-----------------|----------------|--------------|--------------|------------------|
| | Within 1 Month | Within 3 Months | 3 to 12 Months | 1 to 5 Years | Over 5 Years | Weighted Average |
| | % | % | % | % | % | % |
| Earning assets - | | | | | | |
| Liquid assets | | | | | | |
| Call deposits | - | 4 | - | - | - | 4 |
| Short-term investments | | | | | | |
| Local | - | 5 | - | - | - | 5 |
| Reverse repurchase agreements | | | | | | |
| Local | - | 6 | - | - | - | 6 |
| Foreign currencies | - | 3 | - | - | - | 3 |
| Financial investments | | | | | | |
| Local | - | 7 | - | 11 | - | 9 |
| Foreign currencies | - | - | - | 7 | - | 7 |
| Loans (1) | - | 18 | 18 | 18 | 18 | 18 |
| Interest bearing liabilities - | | | | | | |
| Members' deposits (2) | - | 2 | 3 | 7 | - | 3 |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

| | 2010 | | | | | |
|--------------------------------|-------------------|--------------------|--------------------|-----------------|-----------------|---------------------|
| | Within 1 Month | Within 3 Months | 3 and 12 Months | 1 to 5 Years | Over 5 Years | Weighted Average |
| | % | % | % | % | % | % |
| Earning assets - | | | | | | |
| Liquid assets | | | | | | |
| Call deposits | - | 5 | - | - | - | 5 |
| Short-term investments | | | | | | |
| Local | - | 6 | - | - | - | 6 |
| Foreign | - | 1 | - | - | - | 1 |
| Reverse repurchase agreements | | | | | | |
| Local | - | 7 | - | - | - | 7 |
| Foreign currencies | - | 2 | - | - | - | 2 |
| Financial investments | | | | | | |
| Local | - | 8 | - | 12 | - | 10 |
| Foreign currencies | - | - | 2 | 7 | - | 6 |
| Loans (1) | - | 19 | 19 | 19 | 19 | 19 |
| Interest bearing liabilities - | | | | | | |
| Members' deposits (2) | - | 4 | 4 | 10 | - | 4 |

(1) Yields are based on book values, net of allowances for credit losses and contractual interest rates.

(2) Yields are based on contractual interest rates.

Interest rate sensitivity

The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Credit Union's statement of comprehensive income and equity.

The sensitivity of the surplus is the effect of the assumed changes in interest rates on net surplus based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of other comprehensive income is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to the changes in each variable, variables had to be analysed on an individual basis. It should be noted that movements in these variables are non-linear.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(c) Market risk (continued)

Interest rate sensitivity (continued)

| Change in Basis Points 2011 | Effect on Net Surplus 2011 \$'000 | Change in Basis Points 2010 | Effect on Net Surplus 2010 \$'000 |
|-----------------------------------|--|-----------------------------------|--|
| J\$ instruments | | | |
| -50 | (2,826) | -100 | (4,221) |
| +100 | 6,157 | +200 | 8,442 |
| US\$ instruments | | | |
| -50 | <u>(120)</u> | -50 | <u>(159)</u> |

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the Credit Union's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements.

The Credit Union's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to identify operational risk is assigned to the Board and management. This responsibility is supported by overall Credit Union standards for the management of operational risk in the following areas:

- (i) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- (ii) Requirements for the appropriate segregation of duties, including the independent authorisation of transactions.
- (iii) Requirements for the reconciliation and monitoring of transactions.
- (iv) Compliance with regulatory and other legal requirements.
- (v) Documentation of controls and procedures.
- (vi) Requirements for the reporting of operational losses and proposed remedial action.
- (vii) Development of contingency plans.
- (viii) Training and professional development.
- (ix) Ethical and business standards.
- (x) Risk mitigation, including insurance where this is effective.

Compliance with Credit Union policies is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Supervisory Committee, senior management and the Board of Directors.

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(expressed in Jamaican dollars unless otherwise indicated)

3. Financial Risk Management (Continued)

(e) Capital management

The Credit Union's objectives in managing its capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

- (i) to maintain the members' confidence in the safety and viability of the Credit Union.
- (ii) to sustain the Credit Union's ability to absorb any shocks due to losses or any other adverse occurrence in the market.
- (iii) to continuously meet statutory and any other regulatory requirements as required by the Registrar of Co-operative and Friendly Societies, the Bank of Jamaica and the Jamaica Co-operative Credit Union League Limited.
- (iv) to maintain a strong capital base to support planned expansion and the development of new lines of business.

Capital adequacy and the use of regulatory capital are monitored by the Credit Union's management according to the guidelines in its Capital Adequacy Management Policy. The computation is reported to the Board of Directors each month and the Credit Union's capital adequacy ratio currently exceeds the benchmarks set by the regulatory authorities.

The League currently requires member credit unions to maintain a minimum level of the institutional capital at 8% of total assets. The proposed Bank of Jamaica regulations require the League to ensure that member credit unions:

- (i) hold a minimum level of the regulatory capital of 6% of total assets; and
- (ii) maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

The table below summarises the composition of regulatory capital and the ratios of the Credit Union for the years ended 31 December 2011 and 2010.

| | Actual 2011 \$'000 | Required 2011 \$'000 | Actual 2010 \$'000 | Required 2010 \$'000 |
|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|
| Total regulatory capital - BOJ | 435,507 | 164,642 | 403,198 | 151,856 |
| Total institutional capital - JCCUL | 435,507 | 219,523 | 403,198 | 202,475 |
| Risk-weighted assets: | | | | |
| Total risk-weighted assets | 1,932,765 | | 2,035,849 | |
| Total capital ratio | 22.53% | | 19.80% | |

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(expressed in Jamaican dollars unless otherwise indicated)

4. Fair Value Estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Market price is used to determine fair value where an active market exists, as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a number of financial assets and liabilities held and issued by the Credit Union. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the statement of financial position date.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates.

The following methods and assumptions have been used in determining or estimating the fair value of the Credit Union's financial instruments:

- (i) The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amounts. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- (ii) The fair value of members' deposits is assumed to be the amount payable on demand at the statement of financial position date.
- (iii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts.
- (iv) The fair value of fixed rate loans is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. For match-funded loans, the fair value is assumed to be equal to their carrying value, as gains and losses offset each other. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values.
- (v) Financial investments classified as available-for-sale are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques. Unquoted equities classified as available-for-sale are measured at historical cost less impairment, as their fair values cannot be reliably determined.
- (vi) Financial investments classified as held-to-maturity are measured at amortised cost with a carrying value of \$72,587,000 (2010 - \$70,932,000) for which the fair value has been estimated at \$76,674,000 (2010 - \$73,802,000).
- (vii) The estimated fair values of the off-statement of financial position financial instruments is assumed to approximate the amount committed at year end. When this information is not available, fair value is estimated using discounted cash flow analysis.
- (vii) The carrying value of borrowings approximates fair value as the borrowings are carried at amortised cost reflecting its contractual obligations, and the interest rates are reflective of current rates for similar transactions.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

4. Fair Value Estimation (Continued)

Financial instruments that are measured in the statement of financial position at fair value are grouped based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There are no revalued financial assets grouped in levels 1 and 3. Available-for-sale financial assets totalling \$135,857,000 (2010 - \$213,994,000) are grouped in level 2.

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Credit Union makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying accounting policies

Held-to-maturity investments

The Credit Union follows the guidance of IAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. The classification requires judgement. In making this judgement, the Credit Union evaluates its intention and ability to hold such investments to maturity. If management were to dispose of any of these investments (other than immaterial disposals) prior to maturity, the entire portfolio would have to be classified as available-for-sale. If the entire class of held-to-maturity investments is compromised, the carrying value would increase/(decrease) by corresponding entry in the investment reserve in equity.

(b) Key sources of estimation uncertainty

(i) Impairment losses on loans and advances

The Credit Union reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Credit Union makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

5. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

(b) Key sources of estimation uncertainty

(ii) Employee benefits

The cost of these benefits and the present value of the pension liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and post-retirement benefits include the expected long-term rate of return on the relevant plan assets and the discount rate. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-retirement benefits and may affect planned funding of the pension plan. Other key assumptions for the pension and post retirement benefit cost and credits are based in part on data supplied by the League as well as on current market conditions.

(iii) Interest accrued on members' voluntary shares

The Credit Union accrues interest on members' voluntary shares based on an estimate of the rate at which it will be charged, but the final determination of the rate is subject to approval by the board of directors subsequent to the receipt of the draft financial statements. The actual interest rate approved could differ from the estimate made. Management accrues interest at a rate determined after giving consideration to the profitability of the Credit Union and to historical interest rates.

6. Fees and Other Income

| | 2011 \$'000 | 2010 \$'000 |
|--------------------------|----------------|----------------|
| Rental | 3,233 | 1,797 |
| Gain on foreign exchange | 779 | - |
| Entrance fees | 1,762 | 1,502 |
| Other | 13,832 | 6,017 |
| | <u>19,606</u> | <u>9,316</u> |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

7. Expenses by Nature

Total administrative and other operating expenses:

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Advertising and promotion | 4,717 | 6,531 |
| Auditors' remuneration - | | |
| Current year | 4,600 | 5,200 |
| Prior year | - | 250 |
| Awards and donations | 1,800 | 1,950 |
| Bank charges | 2,425 | 2,169 |
| Depreciation and amortisation | 6,110 | 4,592 |
| Insurance | 10,585 | 9,869 |
| Foreign exchange loss | - | 1,500 |
| Office | 3,496 | 4,151 |
| Professional fees | 1,254 | 1,277 |
| Property | 8,611 | 9,303 |
| Representation and affiliation | 19,331 | 19,295 |
| Salaries, pension and other staff benefits (Note 8) | 133,030 | 107,102 |
| Security | 6,318 | 5,903 |
| Software maintenance | 1,983 | 1,857 |
| Utilities | 10,761 | 10,874 |
| Other | 10,070 | 5,983 |
| | <u>225,091</u> | <u>197,806</u> |

8. Staff Costs

| | 2011 \$'000 | 2010 \$'000 |
|-------------------------|----------------|----------------|
| Wages and salaries | 106,705 | 91,784 |
| Statutory contributions | 15,663 | 8,456 |
| Pension (Note 20) | 24 | (3,284) |
| Other | 10,638 | 10,146 |
| | <u>133,030</u> | <u>107,102</u> |

9. Taxation

The Credit Union is exempt from income tax under the provisions of Section 59(1) of The Co-operative Societies Act and Section 12(l) of the Income Tax Act.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

10. Savings and Call Deposits

| | 2011 \$'000 | 2010 \$'000 |
|--------|----------------|----------------|
| CuCash | 51,681 | 18,037 |

CuCash deposits are cash management call accounts which are required to be maintained with the League and should represent a minimum of 2% of the monthly average of members' deposits and shares.

11. Short-Term Investments

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Available-for-sale, at fair value - | | |
| Jamaica Co-operative Credit Union League Limited - | | |
| Fixed deposits and CuCash | 135,706 | 210,397 |
| National Commercial Bank (Jamaica) Limited - | | |
| Foreign currency deposits | - | 814 |
| | 135,706 | 211,211 |

Amounts classified as short-term investments have a term to maturity of 31 days (2010 - 31 days) at year end.

The rules of the Jamaica Co-operative Credit Union League Limited stipulate that the Credit Union must invest a minimum of 10% of members' savings deposits in short-term deposit instruments. A minimum of 8% is required to be invested with the League, and a maximum of 2% with any other financial institution. Of the 8% requirement, a minimum of 4% must be invested in fixed deposits and a minimum of 2% in CuCash deposits (Note 10). At 31 December 2011, the Credit Union was in compliance with these requirements.

12. Reverse Repurchase Agreements

The Credit Union enters into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its collateral obligations. Included within reverse repurchase agreements is related accrued interest receivable of \$3,777,000 (2010 - \$1,324,000).

At 31 December 2011, the Credit Union held securities totalling approximately \$444,194,000 (2010 - \$345,724,000) representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

13. Financial Investments

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Available-for-sale, at historical cost - | | |
| Unquoted equities - | | |
| Jamaica Co-operative Credit Union League Limited (a) | 9,139 | 8,774 |
| Quality Network Co-operative Limited (QNET) (b) | 1,114 | 1,114 |
| Jamaica Co-operative Insurance Agency Limited (c) | 500 | 500 |
| Other deposits - | | |
| Jamaica Co-operative Credit Union League Limited | - | 2 |
| | <u>10,753</u> | <u>10,390</u> |
| Available-for-sale, at fair value - | | |
| Jamaica Co-operative Credit Union League Limited - | | |
| Fixed deposit | 151 | 145 |
| The Bank of Nova Scotia Jamaica Limited - | | |
| Foreign currency deposits | - | 2,638 |
| | <u>151</u> | <u>2,783</u> |
| | <u>10,904</u> | <u>13,173</u> |
| Loans and receivables, at amortised cost - | | |
| Jamaica Co-operative Credit Union League Limited - | | |
| Mortgage funds (d) | 4,831 | 4,570 |
| CuPremium (e) | 55,709 | 52,062 |
| | <u>60,540</u> | <u>56,632</u> |
| Held-to-maturity, at amortised cost - | | |
| Government of Jamaica securities - | | |
| JA dollar benchmark investment notes | 58,361 | 56,843 |
| US dollar benchmark investment note | 14,226 | 14,089 |
| | <u>72,587</u> | <u>70,932</u> |
| | <u>144,031</u> | <u>140,737</u> |

- (a) The unquoted equity investment in the League, at a minimum of 1,825,050 shares, is a requirement for the Credit Union to retain membership status.
- (b) The unquoted equity investment in Quality Network Co-operative Limited is to help facilitate the development of the QNET software by that company.
- (c) The unquoted equity investment in Jamaica Co-operative Insurance Agency Limited (formerly NUCS – Co-operative Insurance Services Limited) is to assist in capital expansion plans of that company.
- (d) The rules of the League stipulate that the Credit Union must invest 5% of the net increase in the members' share accounts in the League's Mortgage Fund instruments. These investments are used to secure joint mortgage facilities, which are extended to the members of the Credit Union.
- (e) The CuPremium deposits in the League are long-term fixed tenure savings instruments. CuPremium deposits have a minimum tenure of three years.

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(expressed in Jamaican dollars unless otherwise indicated)

14. Loans to Members

(a) Movement in loans during the year:

| | 2011 \$'000 | Restated 2010 \$'000 | Restated 2009 \$'000 |
|------------------------------------|----------------|----------------------------|----------------------------|
| Balance at beginning of year | 1,700,417 | 1,641,883 | 1,478,747 |
| Add: Disbursements during the year | 990,000 | 806,546 | 730,096 |
| | 2,690,417 | 2,448,429 | 2,208,843 |
| Less: Repayments and transfers | (956,905) | (757,944) | (584,119) |
| | 1,733,512 | 1,690,485 | 1,624,724 |
| Add: Interest receivable | 20,923 | 54,011 | 34,905 |
| | 1,754,435 | 1,744,496 | 1,659,629 |
| Less: Provision for impairment | (26,553) | (44,079) | (17,746) |
| | 1,727,882 | 1,700,417 | 1,641,883 |

(b) Delinquent loans

At 31 December 2011, there were 316 (2010 – 398) delinquent loans, aged two months and over.

At minimum, the total loan provision derived below is consistent with the loan loss provisioning rules of the League. The total provision for 2010 was in excess of the provision required under IFRS provisioning rules. The excess of the League's provision over the IFRS provision was dealt with through a transfer from accumulated surplus to a loan loss reserve as indicated in Note 14 (c) below.

| Number of Months in Arrears | Total Number of Loans | Delinquent Loans \$'000 | Savings Held Against Loans \$'000 | Exposure \$'000 | Rate % | Provision \$'000 |
|--------------------------------|--------------------------------|-------------------------------|---|--------------------|-----------|---------------------|
| Less than 2 | 72 | 12,846 | 312 | 12,534 | - | - |
| 2 - 3 | 65 | 19,965 | 109 | 19,856 | 10 | 1,997 |
| 3 - 6 | 101 | 35,609 | 300 | 35,309 | 30 | 10,683 |
| 6 -12 | 150 | 17,899 | 620 | 17,278 | 60 | 10,739 |
| Greater than 12 | - | - | - | - | 100 | - |
| | 388 | 86,319 | 1,341 | 84,977 | | 23,419 |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

14. Loans to Members (Continued)

(c) Provision for impairment

| | 2011 \$'000 | 2010 \$'000 |
|---|------------------------|------------------------|
| Provision for impairment at beginning of year (IFRS) | 44,079 | 17,746 |
| Additional amounts provided during the year | 124,262 | 63,968 |
| Bad debts written off during the year | (141,788) | (37,635) |
| Provision for impairment at end of year (IFRS) | 26,553 | 44,079 |
| Provision for impairment in accordance with League provisioning rules | 23,419 | 149,546 |
| Additional provision for impairment through transfer from accumulated surplus to the loan loss reserve in non-institutional capital | - | 105,467 |
| | 2011 \$'000 | 2010 \$'000 |
| Additional amounts provided during the year | 124,262 | 63,968 |
| Bad debts recovered during the year | (11,291) | (11,221) |
| Charged to statement of comprehensive income during the year | 112,971 | 52,747 |

15. Cash and Bank Balances

| | 2011 \$'000 | 2010 \$'000 |
|------------------|----------------|----------------|
| On hand | 3,607 | 3,574 |
| Current accounts | 8,687 | 4,285 |
| | 12,294 | 7,859 |

Cash balances do not attract interest.

For the purposes of the cash flow statement, cash and cash equivalents comprise:

| | 2011 \$'000 | 2010 \$'000 |
|-------------------------------------|----------------|----------------|
| Cash | 12,294 | 7,859 |
| Savings and call deposits (Note 10) | 51,681 | 18,037 |
| Bank overdraft (Note 23) | (365) | (750) |
| | 63,610 | 25,146 |

Notes to the Financial Statements

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16. Accounts Receivable

| | 2011 \$'000 | Restated 2010 \$'000 | Restated 2009 \$'000 |
|-----------------------------|----------------|----------------------------|----------------------------|
| Withholding tax recoverable | - | 14,617 | 31,810 |
| Prepaid expenses | 3,245 | 1,248 | 1,093 |
| Other | 3,428 | 5,528 | 3,477 |
| | <u>6,673</u> | <u>21,393</u> | <u>36,380</u> |

17. Intangible Assets

Intangible assets represent the upgrade and implementation costs of the Credit Union's software.

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Balance at the beginning of year | 224 | 428 |
| Additions | 1,096 | - |
| Transfer from property, plant and equipment | 286 | 336 |
| Amortised during the year | <u>(573)</u> | <u>(540)</u> |
| Net book value | <u>1,033</u> | <u>224</u> |

18. Property, Plant and Equipment

| | 2011 | | | | | |
|--------------------------------|---------------------------------|---------------------------------|--|-------------------|-------------------------------------|-----------------|
| | Land and Buildings \$'000 | Computer Equipment \$'000 | Furniture, Fixtures and Equipment \$'000 | Roadway \$'000 | Work - In- Progress \$'000 | Total \$'000 |
| Cost - | | | | | | |
| 1 January 2011 | 28,992 | 18,532 | 22,174 | 509 | 410 | 70,617 |
| Additions | 126,413 | 245 | 3,791 | - | 1,798 | 132,247 |
| Transfers | - | 124 | - | - | (124) | - |
| Transfers to intangible assets | - | - | - | - | (286) | (286) |
| Disposals | - | - | (254) | - | - | (254) |
| At 31 December 2011 | <u>155,405</u> | <u>18,901</u> | <u>25,711</u> | <u>509</u> | <u>1,798</u> | <u>202,324</u> |
| Accumulated Depreciation - | | | | | | |
| 1 January 2011 | 4,623 | 17,042 | 12,613 | 115 | - | 34,393 |
| Charge for the year | 2,250 | 1,165 | 2,112 | 10 | - | 5,537 |
| Disposals | - | - | (164) | - | - | (164) |
| 31 December 2011 | <u>6,873</u> | <u>18,207</u> | <u>14,561</u> | <u>125</u> | <u>-</u> | <u>39,766</u> |
| Net Book Value - | | | | | | |
| 31 December 2011 | <u>148,532</u> | <u>694</u> | <u>11,150</u> | <u>384</u> | <u>1,798</u> | <u>162,558</u> |

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(expressed in Jamaican dollars unless otherwise indicated)

18. Property, Plant and Equipment (Continued)

| | 2010 | | | | | |
|--------------------------------|---------------------------------|---------------------------------|--|-------------------|-------------------------------------|-----------------|
| | Land and Buildings \$'000 | Computer Equipment \$'000 | Furniture, Fixtures and Equipment \$'000 | Roadway \$'000 | Work - In- Progress \$'000 | Total \$'000 |
| Cost - | | | | | | |
| 1 January 2010 | 20,307 | 17,601 | 20,966 | 509 | 1,941 | 61,324 |
| Additions | 8,685 | 1,029 | 373 | - | 411 | 10,498 |
| Transfers | - | 316 | 1,290 | - | (1,606) | - |
| Transfers to intangible assets | - | - | - | - | (336) | (336) |
| Disposals | - | (414) | (455) | - | - | (869) |
| At 31 December 2010 | 28,992 | 18,532 | 22,174 | 509 | 410 | 70,617 |
| Accumulated Depreciation - | | | | | | |
| 1 January 2010 | 3,890 | 15,981 | 11,208 | 105 | - | 31,184 |
| Charge for the year | 733 | 1,475 | 1,834 | 10 | - | 4,052 |
| Disposals | - | (414) | (429) | - | - | (843) |
| 31 December 2010 | 4,623 | 17,042 | 12,613 | 115 | - | 34,393 |
| Net Book Value - | | | | | | |
| 31 December 2010 | 24,369 | 1,490 | 9,561 | 394 | 410 | 36,224 |

19. Investment Property

Investment property represents land at Islington, St. Mary at a cost of \$6,712,000 (2010 - \$6,712,000). The investment property was valued at \$19,000,000 (2010 - \$19,500,000) as at February 2012 by professional independent valuers.

20. Retirement Benefits

The Credit Union participates in a joint contributory pension scheme, which is open to all permanent employees of the Credit Union and operated by the Jamaica Co-operative Credit Union League Limited. The plan provides benefits to members based on average earnings for their final 3 years of service with the Credit Union and employees each contributing 5 - 10% of pensionable salaries. The plan is valued by independent actuaries annually using the projected unit credit method; the latest such valuation being as at 31 December 2011. Additionally, the plan is valued by independent actuaries triennially to determine the adequacy of funding; the latest such valuation being as at 31 December 2010 revealed that the scheme was adequately funded as at that date.

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(expressed in Jamaican dollars unless otherwise indicated)

20. Retirement Benefits (Continued)

The defined benefit asset recognised in the statement of financial position was determined as follows:

| | 2011 \$'000 | 2010 \$'000 |
|-------------------------------------|----------------|----------------|
| Fair value of plan assets | 122,993 | 91,462 |
| Present value of funded obligations | (88,370) | (60,481) |
| | 34,623 | 30,981 |
| Unrecognised actuarial losses | 12,869 | 10,097 |
| | 47,492 | 41,078 |

The amounts recognised in the statement of comprehensive income are as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Current service cost, net of employee contribution | (2,242) | (1,302) |
| Interest cost | (7,432) | (7,225) |
| Expected return on plan assets | 9,682 | 7,520 |
| Net actuarial losses recognised in the year | (32) | - |
| Change in income not eligible for recognition due to limit | - | 4,291 |
| Total included in staff costs (Note 8) | (24) | 3,284 |

The actual return on plan assets was a net surplus of approximately \$20,822,000 (2010 - \$11,715,000).

The movement in the fair value of plan assets during the year was as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--------------------------------|----------------|----------------|
| At beginning of year | 91,462 | 70,652 |
| Expected return on plan assets | 9,682 | 7,520 |
| Actuarial gains on plan assets | 11,140 | 4,194 |
| Contributions - | | |
| Employer | 6,438 | 5,611 |
| Employee | 5,413 | 4,650 |
| Benefits paid | (1,142) | (1,165) |
| At end of year | 122,993 | 91,462 |

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20. Retirement Benefits (Continued)

The movement in the present value of the defined benefit obligation during the year was as follows:

| | 2011 \$'000 | 2010 \$'000 |
|---------------------------------|----------------|----------------|
| At beginning of year | 60,481 | 39,789 |
| Current service cost | 7,655 | 5,953 |
| Interest cost | 7,432 | 7,225 |
| Actuarial losses on obligations | 13,944 | 8,679 |
| Benefits paid | (1,142) | (1,165) |
| At end of year | 88,370 | 60,481 |

Expected contributions to the plan for the year ending 31 December 2012 amount to approximately \$6,500,000 (2011 - \$5,812,000).

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the statement of financial position date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

The distribution of plan assets was as follows:

| | 2011 | | 2010 | |
|-----------------------|---------|----|--------|----|
| | \$'000 | % | \$'000 | % |
| Quoted equities | 4,457 | 4 | 3,026 | 3 |
| Real estate | 16,893 | 14 | 9,643 | 10 |
| Government bonds | 51,413 | 42 | 46,333 | 52 |
| Repurchase agreements | 42,649 | 35 | 25,917 | 28 |
| US\$ bonds | 3,970 | 3 | 3,356 | 4 |
| Other | 3,611 | 2 | 3,187 | 3 |
| | 122,993 | | 91,462 | |

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and experience adjustments for plan assets and liabilities is as follows:

| | 2011 \$'000 | 2010 \$'000 | 2009 \$'000 | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|----------------|----------------|----------------|
| Fair value of plan assets | 122,993 | 91,462 | 70,652 | 50,388 | 43,249 |
| Defined benefit obligation | (88,370) | (60,481) | (39,789) | (16,549) | (20,370) |
| Surplus | 34,623 | 30,981 | 30,863 | 33,839 | 22,879 |
| Experience adjustments – | | | | | |
| Fair value of plan assets gain/(loss) | 11,140 | 4,430 | 8,761 | (188) | (3,057) |
| Defined benefit obligation loss/(gain) | 5,106 | 14 | 555 | (5,898) | (6,078) |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

20. Retirement Benefits (Continued)

Principal actuarial assumptions used in valuing retirement benefits were as follows:

| | 2011 | 2010 |
|---|------|------|
| Discount rate 10% | | 11% |
| Expected return on plan assets | 10% | 10% |
| Future salary increases | 8% | 8% |
| Expected average remaining working lives of employees (years) | 29 | 29 |

21. Members' Deposits

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| (a) Members' Special and Fixed deposits - | | |
| Opening balance | 287,856 | 260,923 |
| Deposits during the year | 78,047 | 85,079 |
| Interest during the year | 9,448 | 16,451 |
| | 375,351 | 362,453 |
| Less: Withdrawals during the year | (90,850) | (74,597) |
| | 284,501 | 287,856 |
| (b) Members' Ordinary deposits - | | |
| Opening balance | 93,918 | 95,644 |
| Deposits during the year | 37,428 | 33,405 |
| Interest during the year | 4,403 | 3,683 |
| | 135,749 | 132,732 |
| Less: Withdrawals during the year | (42,597) | (38,814) |
| | 93,152 | 93,918 |
| (c) Members' Golden Harvest deposits - | | |
| Opening balance | 9,666 | 11,708 |
| Deposits during the year | 1,930 | 2,711 |
| Interest during the year | 501 | 700 |
| | 12,097 | 15,119 |
| Less: Withdrawals during the year | (3,167) | (5,453) |
| | 8,930 | 9,666 |
| (d) Members' Solid Saver deposits - | | |
| Opening balance | 111,678 | 102,701 |
| Deposits during the year | 89,195 | 72,100 |
| Interest during the year | 3,055 | 4,200 |
| | 203,928 | 179,001 |
| Less: Withdrawals during the year | (85,658) | (67,323) |
| | 118,270 | 111,678 |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

21. Members' Deposits (Continued)

| | 2011 \$'000 | 2010 \$'000 |
|---|------------------|------------------|
| (e) Members' Other deposits - | | |
| Opening balance | 113,475 | 78,335 |
| Deposits during the year | 263,751 | 219,512 |
| Interest during the year | 1,951 | 2,567 |
| | <u>379,177</u> | <u>300,414</u> |
| Less: Withdrawals during the year | <u>(237,721)</u> | <u>(186,939)</u> |
| | <u>141,456</u> | <u>113,475</u> |
| (f) Members' Dream Loan deposits - | | |
| Opening balance | 6,198 | 5,962 |
| Deposits during the year | 2,696 | 3,501 |
| Interest during the year | 216 | 236 |
| | <u>9,110</u> | <u>9,699</u> |
| Less: Withdrawals during the year | <u>(3,035)</u> | <u>(3,501)</u> |
| | <u>6,075</u> | <u>6,198</u> |
| (g) Interest payable on members' deposits | <u>495</u> | <u>1,146</u> |
| | <u>652,879</u> | <u>623,937</u> |

22. Members' Voluntary Shares

| | 2011 \$'000 | 2010 \$'000 |
|--------------------------------------|--------------------|--------------------|
| Balance at the beginning of the year | 1,175,126 | 1,185,658 |
| Shares received | 1,410,081 | 1,234,465 |
| Interest paid during the year | 37,907 | 50,000 |
| Shares withdrawn or transferred | <u>(1,408,494)</u> | <u>(1,333,122)</u> |
| | <u>1,214,620</u> | <u>1,137,001</u> |
| Add: Interest payable | <u>36,000</u> | <u>38,125</u> |
| Balance at the end of the year | <u>1,250,620</u> | <u>1,175,126</u> |

23. Borrowings

| | 2011 \$'000 | 2010 \$'000 |
|----------------|----------------|----------------|
| Bank overdraft | 365 | 750 |
| External loan | <u>47,400</u> | <u>-</u> |
| | <u>47,765</u> | <u>750</u> |

(a) Bank overdraft

The Credit Union has an overdraft facility with the National Commercial Bank Jamaica Limited (NCB) for \$15,000,000 (2010 - \$15,000,000). The facility is secured by a lien over credit balances held at NCB Capital Markets Limited. The bank overdraft at year end represents cheques issued and unrepresented. As at 31 December 2010, the Credit Union had drawn on approximately \$750,000 of the available facility.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

23. Borrowings (Continued)

(b) External loans

This represents a vendor's mortgage loan of \$48,000,000 which attracts interest at 12% per annum. The loan is repayable in 180 monthly instalments of \$576,222.86 each commencing in July 2011. Under the terms of the agreement, the Credit Union has the option to make lump sum payments that can be applied to the principal outstanding. The loan is secured by a lien on property located at Lot 5, 8 Main Street, Ocho Rios, St. Ann.

Included in the amount above is approximately \$6,915,000 due within the next 12 months.

24. Accounts Payable

| | 2011 \$'000 | Restated 2010 \$'000 | Restated 2009 \$'000 |
|------------------|----------------|----------------------------|----------------------------|
| Other payables | 13,407 | 8,910 | 6,850 |
| Accrued expenses | 20,526 | 16,722 | 12,619 |
| | <u>33,933</u> | <u>25,632</u> | <u>19,469</u> |

25. Members' Permanent Share Capital

Members' permanent share capital represents shares invested by members of the Credit Union. To satisfy requirements for membership, each member must maintain a minimum of \$1,000 (2010 - \$400) in permanent shares. These shares are not available for withdrawal.

The Credit Union may purchase shares from a member out of its Share Transfer Fund Reserve (Note 27 (d)) for transfer to the Credit Union.

Dividends may be paid on permanent shares subject to the profitability of the Credit Union.

Members' permanent share capital was as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--------------------------------------|----------------|----------------|
| Balance at the beginning of the year | 23,470 | 1,047 |
| Share capital received/redeemed | 22,154 | 22,115 |
| Dividends credited during the year | <u>2,347</u> | <u>308</u> |
| Balance at the year end | <u>47,971</u> | <u>23,470</u> |

26. Institutional Capital

| | 2011 \$'000 | Restated 2010 \$'000 | Restated 2009 \$'000 |
|---------------------------|----------------|----------------------------|----------------------------|
| Statutory reserve | 381,937 | 374,289 | 322,612 |
| Permanent capital reserve | <u>5,439</u> | <u>5,439</u> | <u>5,439</u> |
| | <u>387,376</u> | <u>379,728</u> | <u>328,051</u> |

(a) Statutory reserve

As required by the Co-operative Societies Act and the rules of First Regional Co-operative Credit Union Limited, a minimum of twenty percent (20%) of the annual surplus before entrance fees, and amounts collected for entrance fees must be transferred to this reserve.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

26. Institutional Capital (Continued)

(b) Permanent capital reserve

This reserve comprises transfers from accumulated surplus on the recommendation of the directors, for the purpose of strengthening institutional capital.

27. Non-Institutional Capital

| | 2011 \$'000 | 2010 \$'000 |
|----------------------------------|----------------|----------------|
| Retirement benefit asset reserve | 47,492 | 41,078 |
| Loan loss reserve | - | 105,467 |
| Capital expenditure reserve | 38,739 | 38,739 |
| Share transfer fund | 197 | 200 |
| | <u>86,428</u> | <u>185,484</u> |

(a) Retirement benefit asset reserve

This reserve was created to match the retirement benefit asset of the Credit Union. Movement on this reserve passes through accumulated surplus.

(b) Loan loss reserve

This represents the excess of the Credit Union's internally assessed provision for loan impairment, over the amount required under IFRS. This amount is an appropriation from the accumulated surplus.

(c) Capital expenditure reserve

The capital expenditure reserve was initially established by transfer from the contingency reserve. Subsequently transfers to the reserve are approved by the members at the Annual General Meeting. It is available for future capital projects undertaken by the Credit Union.

(d) Share transfer fund

The share transfer fund reserve was established in accordance with Rule 15 and the Special Bye-laws relating to Rule 11 of the Credit Union's Rules, for the purpose of redeeming permanent shares from a member to the Credit Union.

28. Commitments

- (a) At 31 December 2011 there were commitments of approximately \$54,886,000 (2010 - \$52,007,000) in respect of loans approved, but not disbursed.
- (b) At 31 December 2011, there were commitments of approximately \$948,000 (2010 – nil) in respect of payments not yet disbursed as part of the Credit Union's capital expenditure projects.

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

29. Comparison of Ledger Balances

| | Shares \$'000 | Deposits \$'000 | Loans \$'000 |
|--------------------------------|------------------|--------------------|-----------------|
| Balance per Members' ledgers | 1,214,620 | 652,384 | 1,733,512 |
| Add: Accrued interest | 36,000 | 495 | 20,923 |
| | 1,250,620 | 652,879 | 1,754,435 |
| Less: Provision for impairment | - | - | (26,553) |
| | 1,250,620 | 652,879 | 1,727,882 |
| Balance per General ledger | 1,250,620 | 652,879 | 1,727,882 |
| | - | - | - |

30. Insurance

(a) Fidelity insurance coverage

Fidelity insurance coverage was maintained during the year.

(b) Life savings and loan protection insurance

There were life savings and loan protection insurance during the year.

31. Related Party Transactions and Balances

The following transactions were carried out with related parties:

(a) Key management compensation

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Salaries and other short-term employee benefits | 30,914 | 26,561 |
| Statutory contributions | 2,878 | 2,451 |
| Pension benefits | 2,247 | 1,902 |
| Other | 3,796 | 3,796 |
| | 39,835 | 34,710 |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

31. Related Party Transactions and Balances (Continued)

(b) Loans

Loans to directors, committee members and key management of the Credit Union (and their families) –

| | 2011 \$'000 | 2010 \$'000 |
|--------------------------------|----------------|----------------|
| Beginning of the year | 68,476 | 68,158 |
| Loans reclassified | (3,180) | (18) |
| Loans advanced during the year | 3,234 | 7,772 |
| Loan repayments received | (8,425) | (7,436) |
| Balance at year end | 60,105 | 68,476 |
| Interest charged | 8,154 | 8,359 |
| Interest received | (8,060) | (6,673) |
| | 60,199 | 70,162 |

No provision for impairment is required for these loans.

(c) Shares and savings

| | 2011 \$'000 | 2010 \$'000 |
|---------------------------------|----------------|----------------|
| Directors and committee members | 22,952 | 25,178 |
| Staff members | 12,147 | 11,632 |

32. Prior Year Adjustments

- (a) In previous years, the commitment fees charged on members' loans were recorded in full as an adjustment to the loan account instead of being time apportioned. This resulted in an understatement of the loans to members balances at year end and interest income accounts. In addition to a restatement of the loans to members balances and interest income, the prior year adjustment has resulted in an increase in the statutory allocation to institutional capital in the affected periods.

The adjustments had the following effect on balances reported in the previous years:

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

32. Prior Year Adjustments (Continued)

Effect on the statement of financial position

| | As previously reported | Restatement | As restated |
|---|---------------------------|-------------|-------------|
| | | 2010 | |
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Loans to members, net of impairment provision | 1,582,758 | 117,659 | 1,700,417 |
| Equity | | | |
| Institutional capital | 361,643 | 18,085 | 379,728 |
| Accumulated surplus | 17,239 | 99,574 | 116,813 |
| | | 2009 | |

Assets

Loans to members, net of impairment provision

1,558,444 83,439 1,641,883

Equity

Institutional capital

316,810 11,241 328,051

Accumulated surplus

137,240 72,198 209,438

Effect on the statement of comprehensive income

| | As previously reported | Restatement | As restated |
|---|---------------------------|-------------|-------------|
| | | 2010 | |
| | \$'000 | \$'000 | \$'000 |
| Interest Income | | | |
| Interest on members' loans | 300,574 | 34,220 | 334,794 |
| Net Surplus, being Total Comprehensive Income for the Year | 46,596 | 34,220 | 80,816 |
| | | 2009 | |
| Interest Income | | | |
| Interest on members' loans | 260,632 | 31,463 | 292,095 |
| Net Surplus, being Total Comprehensive Income for the Year | 83,509 | 31,463 | 114,972 |

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

32. Prior Year Adjustments (Continued)

- (b) In previous years, deceased members' balances were shown net on the statement of financial position. Effective in the current year, the Credit Union has reclassified these balances to reflect balances due from deceased members, separately from balances due to deceased members.

This reclassification had the following effect on balances reported in previous years:

| | As previously reported | Restatement | As restated |
|---------------------|---------------------------|-------------|-------------|
| | | 2010 | |
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Accounts receivable | 20,028 | 1,365 | 21,393 |
| Liabilities | | | |
| Accounts payable | 24,267 | 1,365 | 25,632 |
| | | 2009 | |
| Assets | | | |
| Accounts receivable | 36,178 | 202 | 36,380 |
| Liabilities | | | |
| Accounts payable | 19,267 | 202 | 19,469 |



First Regional Co-operative Credit Union Limited

Supplementary Information

31 December 2011

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Supplementary Information

Administrative expenses
Other operating expenses

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Administrative Expenses

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Personnel Expenses | | |
| Salaries and allowances | 106,705 | 91,784 |
| Travelling and subsistence | 641 | 827 |
| Statutory contributions | 15,663 | 8,456 |
| Pension | 24 | (3,284) |
| Other | 9,997 | 9,319 |
| | <u>133,030</u> | <u>107,102</u> |
| Other Expenses | | |
| Computer services | 43 | 249 |
| Audit fees and related costs | 5,424 | 6,317 |
| Bad debts | 546 | 235 |
| Insurance | 10,585 | 9,869 |
| Software maintenance | 1,983 | 1,857 |
| Office | 3,496 | 3,725 |
| Security services | 6,318 | 5,903 |
| Printing, stationery and postage | 188 | 426 |
| Repairs and maintenance | 1,554 | 1,310 |
| Property taxes and rates | 714 | 494 |
| Utilities | 10,761 | 10,874 |
| Rental - branch offices | 6,209 | 7,225 |
| Scholarship | 700 | 850 |
| Bank charges | 2,425 | 2,169 |
| Depreciation | 5,537 | 4,052 |
| Amortisation of intangible assets | 573 | 540 |
| Loss on disposal of property, plant and equipment | 91 | 25 |
| Honorarium | 1,100 | 1,100 |
| Loss on foreign exchange | - | 1,500 |
| Professional fees | 430 | 410 |
| GCT expenses | 5,868 | 5,589 |
| Miscellaneous | 3,468 | 159 |
| | <u>68,013</u> | <u>64,678</u> |
| | <u>201,043</u> | <u>171,980</u> |

Other Operating Expenses

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

| | 2011 \$'000 | 2010 \$'000 |
|---------------------------------------|----------------|----------------|
| Representation and Affiliation | | |
| League fees | 5,927 | 5,633 |
| Stabilisation dues | 6,298 | 6,106 |
| Board and committee meetings | 1,973 | 2,982 |
| Credit Union meetings | 1,621 | 864 |
| International Credit Union month | 550 | 513 |
| Annual general meeting | 2,962 | 3,193 |
| Grants and other expenses | - | 4 |
| | <u>19,331</u> | <u>19,295</u> |
| Advertising and Promotion | | |
| Advertising and promotion | 3,717 | 5,031 |
| Donation | 1,000 | 1,500 |
| | <u>4,717</u> | <u>6,531</u> |
| | <u>24,048</u> | <u>25,826</u> |



Deceased Members 2011



1. *Annette Robinson-Kerr*
2. *Benito Burey*
3. *Beverly Mitchell*
4. *Carmen Allen*
5. *Clifford Reid*
6. *Clinton Rickets*
7. *Delano Medwinter*
8. *Dorrett Murray*
9. *Enid Morgan*
10. *Espanado Scaffè*
11. *Everaldo Davis*
12. *Farrel Campbell*
13. *Florence Cameron*
14. *Gerald Findley*
15. *Gwendolyn Sutherland*
16. *Hazel Nelson-Panton*
17. *Islin Davis*
18. *Jean Palmer-Smith*
19. *John Ridley*
20. *Joslyn Wilson*
21. *Julie McIntosh*
22. *Kenneth Harrison*
23. *Leon Kelly*
24. *Lester Henry*
25. *Lewin Higgins*
26. *Lilly Moreland*
27. *Llewellyn Cooper*
28. *Loretta Thomas*
29. *Lynval Hanson*
30. *Maxine E. Goldsmith*
31. *Midia Bridgette*
32. *Muriel Barrett-Pearl*
33. *Pamella Reid*
34. *Pauline Williamson*
35. *Raphelita Gordon*
36. *Richard McCormack*
37. *Rudolph Clarke*
38. *Ruth McIntosh*
39. *Selvin Brown*
40. *Sonia Edwards*
41. *Sylvester Lewis*
42. *Vera Lawrence*
43. *Vincent Cameron*
44. *Virginia Pearl*
45. *Yvonne Smith*
46. *Zelpha Walters*

A painting of a hand in prayer, with the fingers pressed together and the palm facing up. The hand is rendered in warm, golden-brown tones. In the background, a church door with a gothic arch and a small window is visible, set against a light, hazy sky. The overall mood is peaceful and contemplative.

Prayer of Saint Francis

Lord make me an instrument
of your peace,
Where there is hatred,
let me sow love;
Where there is injury, pardon;
Where there is doubt, faith;
Where there is despair, hope;
Where there is darkness, light; and
Where there is sadness, joy.

O Divine Master, grant that I may not
So much seek to be consoled
as to console;
To be understood as to understand;
To be loved as to love;
For it is in pardoning that we
are pardoned;
And it is in dying that we are born
to eternal life.

Amen

Mission Statement

To efficiently provide world class products and services in order to foster a culture of growth and the development of our members and staff.



National Anthem

*Eternal Father, bless our land
Guard us with thy mighty hand,
Keep us free from evil powers,
Be our light through countless hours.
To our leaders, Great Defender
Grant true wisdom from above.
Justice, truth be ours forever.
Jamaica, land we love.
Jamaica, Jamaica, Jamaica,
Land we love*

*Teach us true respect for all,
Stir response to duty's call
Strengthen us the weak to cherish
Give us vision lest we perish.
Knowledge send us, Heavenly Father
Grant true wisdom from above
Justice, truth, be ours forever,
Jamaica, land we love.
Jamaica, Jamaica, Jamaica
Land we love.*



HEAD OFFICE: 8 Main Street, Ocho Rids - (974-2525)
CALL: 972-2424
DISCOVERY BAY: Main Street, Philmore Scott's Plaza, St. Ann
MONEAGUE: Main Street, Moneague
BROWN'S TOWN: Main Street, Brown's Town, St. Ann
CLAREMOUNT: Main Street, Claremont
GUY'S HILL: Guy's Hill, Main Street, St. Mary
HIGHGATE: Main Street, Highgate, St. Mary
PORT MARIA: Main Street, Port Maria
ANNOTTO BAY: Main Street, Annotto Bay
WEBSITE: www.firstregionalcreditunion.com EMAIL: info@firstregionalcreditunion.com

