TREASURER'S REPORT FOR YEAR ENDED 31ST DECEMBER 2010

Fellow Co-operators,

I am honoured to be given this opportunity to present to you the Treasurer's Report for 2010 on the operations of your Credit Union in what has been a very challenging financial environment. The global recession which started in 2008 deepened. Several large countries teetered on the edge of bankruptcy and had to apply for bailouts from international banks. Since the last quarter of 2009 some of the world markets have been pulling their way out of the recession. This trend continued into the Year 2010 and saw China overtaking Japan as the world's second largest economy. However, some remain in a situation where their economic vulnerability continues to be high.

Our local economy also continued to struggle and experienced no growth. Gross Domestic Product decreased from $24.12 billion in 2009 to $23.93 billion in 2010. In a Letter of Intent dated December 23, 2010, the Minister of Finance reported to the International Monetary Fund that economic activities remained sluggish and that for the Financial Year 2010/11 the forecast for economic growth had been revised downward from 0.6 percent to between 0 and -0.5 percent.

This was the economic climate in which the Credit Union operated. Despite the many challenges, 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. The success experienced in 2010 was due to the valued input of you, our members, volunteers and our hard working staff.

REVENUE & EXPENDITURE

As a financial institution, we always seek to remain viable, to earn enough surplus to facilitate the payment of dividend and to retain enough for reinvestment in the Credit Union. Once again, we were able to achieve these objectives for 2010. Figures 1 and 2 below give a graphical comparison of our income for 2009 and 2010.

Figure 1.

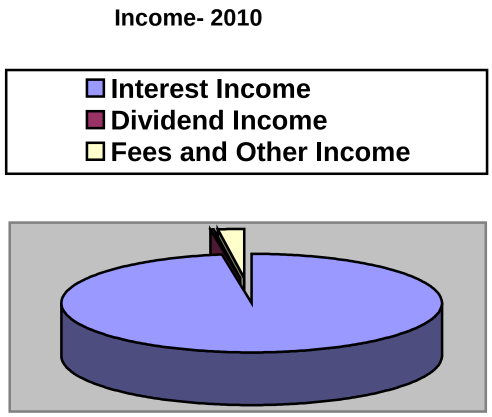
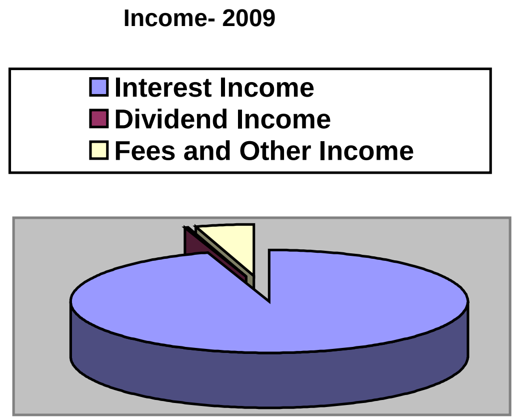


Figure 2.



The Credit Union realized total income of $364.02 million for 2010 compared to total income of $365.97 million for 2009. This was a reduction of $1.95 million or 0.53%. Interest Income continues to be the major income earner for the Credit Union. The reduction in total income for 2010 was a result of an $8.83 million reduction in Fees and Other Income from $18.15 million in 2009 to $9.32 million in 2010.

Figure 3.

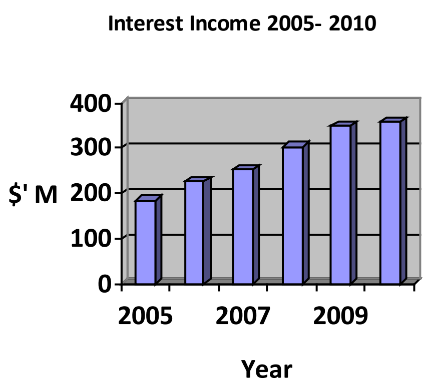
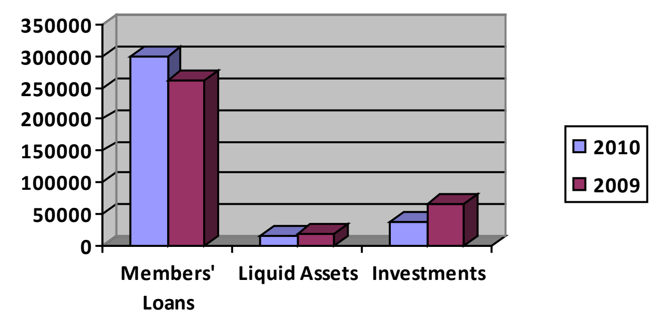
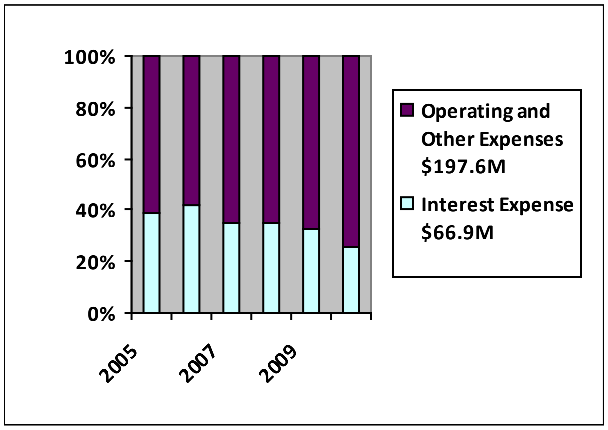


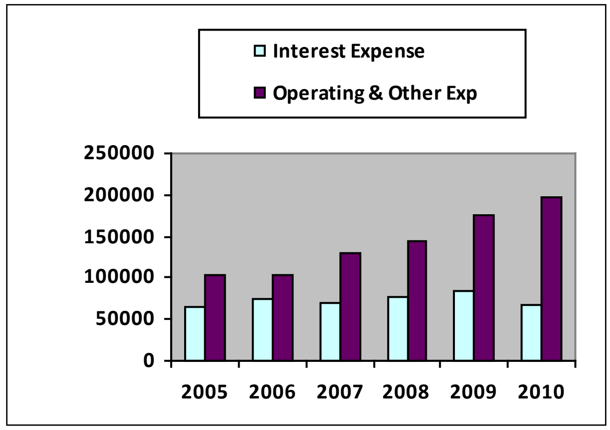
Figure 4.



Growth in Interest Income for 2010 was only $7 million or 2%. This is relatively low when compared to growth of $46 million (15%) for 2009 and $50 million (20%) for 2008. The low growth rate for 2010 was as a result of the Credit Union earning less than what it earned in 2009 from Liquid Assets and Investments; this due to constant reductions in interest rates on investments and to participation in the Government of Jamaica Debt Exchange Exercise (JDX).

Figure 5 Expenses for 2010 **Figure 6 Expenses for 2009**



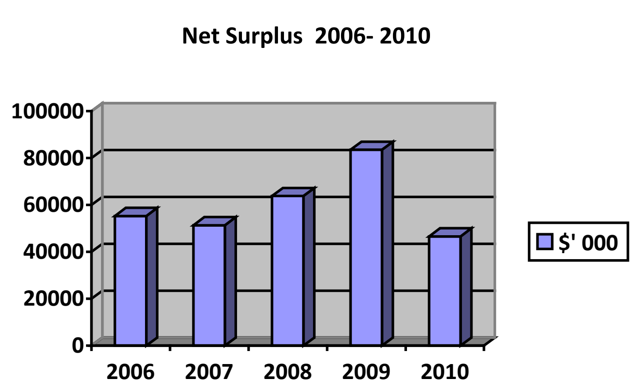


Between 2005 and 2009, Interest Expenses accounted for an average of 37% of the Credit Union's Total Expenses. However, for 2010 Interest Expense was 25% of Total Expenses. This reduction in expenses was attributed to:

- a general decrease in rates being offered on deposits
- An increase in the cost of Operating and Other Expenses.

As indicated by Figure 6 above, the Credit Union was able to curtail the growth of Interest Expenses between 2005 and 2010 through its innovative strategies. Controlling Operating and Other Expenses was a more difficult task because they were often influenced by factors external to the Credit Union such as inflation and increased cost of utilities, and other operating costs. Operating and Other Expenses grew by **$95.2 million (93%) from $102.4 million in 2005** to $197.6 million in 2010. Personnel Expenses, our largest and most important cost, stood at $107 million or 54% of the total Operating and Other Expenses for 2010.

Figure 7. Net Surplus



The Net Surplus for 2010 was $46.6 million; this was a reduction of $36.9 million or 44% when compared to prior year Net Surplus of $83.5 million. The Net Surplus for the Year 2009 was an aberration in that it included exceptional/extraordinary income. The current year Net Surplus is better judged against Net Surplus of $55 million for

2006, $51 million for 2007, and $64 million for 2008. The current year position was influenced by two main components; increase in Loan Impairment Provision and increase in Operating and other Expenses. Loan Impairment Provision increased by $29 million from $24 million in 2009 to $53 million in 2010. This increase emphasizes the reality of the poor state of our economy and its impact on the membership of this Credit Union. Over the past year we have noticed the following trends:

- Members choosing to withdraw savings instead of taking a loan
- Members opting to close loans from savings
- Members prepaying loan in Tourist Winter Season and paying less than contractual payments for the rest of the year
- Members failing to readily take up loan offerings that are made at competitive interest rates

As stakeholders, we are committed to the continued success of the Credit Union. Therefore your Board of Directors, the Management Team and Staff Members will implement new and innovative ways of curtailing costs while maximizing the returns on the assets of the Credit Union. We will also continue to work with you our valued members to reduce the risk of having your accounts fall into arrears.

STATEMENT OF FINANCIAL POSITION

The Credit Union's Assets grew from $2.285 billion in 2009 to $2.412 billion in 2010; a growth of $127 million or 5.6%. This is approximately one half of the growth of 12.3% experienced in the prior year. However, it is pleasing to note that the Credit Union continues to maintain a strong position in the market. We also expect that the size of the Credit Union will exceed the $2.5 billion mark by the end of the second quarter of 2011.

Figure 8. Growth in Total Assets

The graph shows a steady growth in the Total Assets of the Credit Union since 2005. Between 2005 and 2010 Total Assets grew by 76% or $1.04 billion. We expect the steady growth rate in Total Assets to continue as we continue to solidify our position in the market.

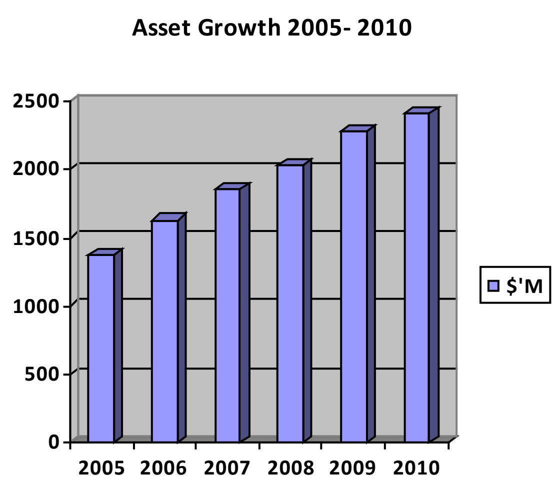
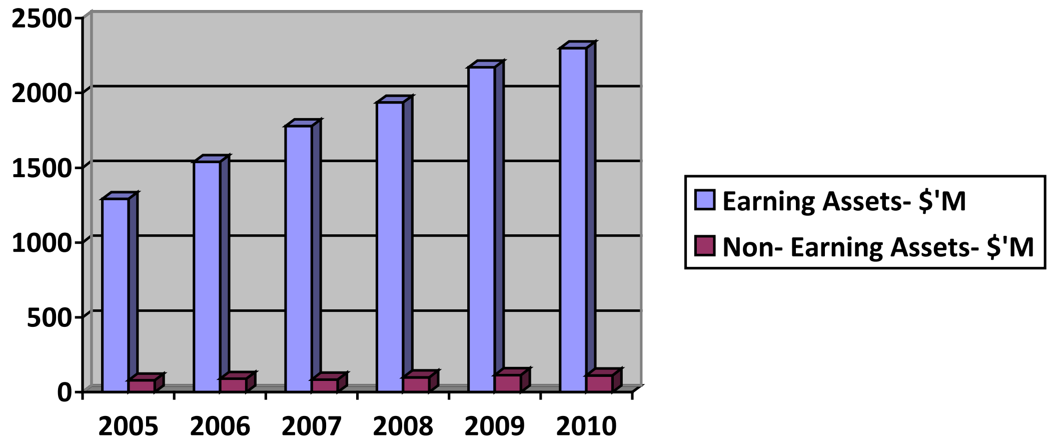
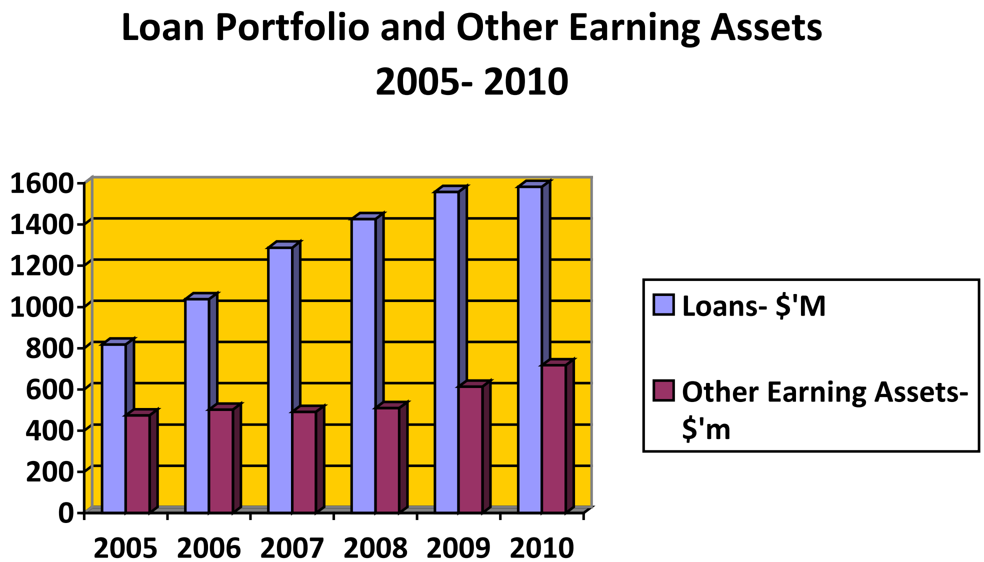


Figure 9. Earning and Non-Earning Assets



The Credit Union also continues to enjoy a healthy balance between Earning Assets and Non-Earning Assets. The Earning Assets grew by **78%** or **$1.01** billion from $**1.29** billion in 2005 to $2.3 billion in 2009. Over the same period we were able to maintain a growth rate in Non- Earning Assets of approximately one half of Earning Assets. Non- Earning grew by 43% or $34 million from $78 million in 2005 to $112 million in 2010. At the end of the current year, the ratio of Earning Assets to Total Assets stood at 95% and the ratio of Non-Earning Assets to Total Assets at 5%. These ratios again highlight the strength of the Credit Union's Balance Sheet as we continue to operate in a worsening economic climate.

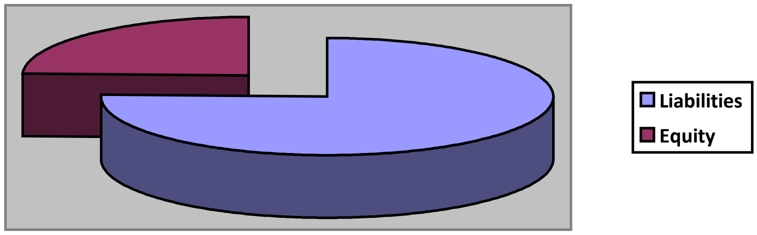
Figure 10.



Over the five-year period, 2005-2009, our Loan Portfolio, which is our largest and most valuable asset, grew by 90% or $742 million from $818 million in 2005 to $1.56 billion. The ratio of members' loans to Total Assets stood at 68% at the end of 2009. However, between 2009 and 2010 the Loan Portfolio only grew by 1.3% or $20 million from $1.56 billion in 2009 to $1.58 billion in 2010. At the end of 2010 the ratio of members' loans to Total Assets was 66% which is still above the 60% international standard.

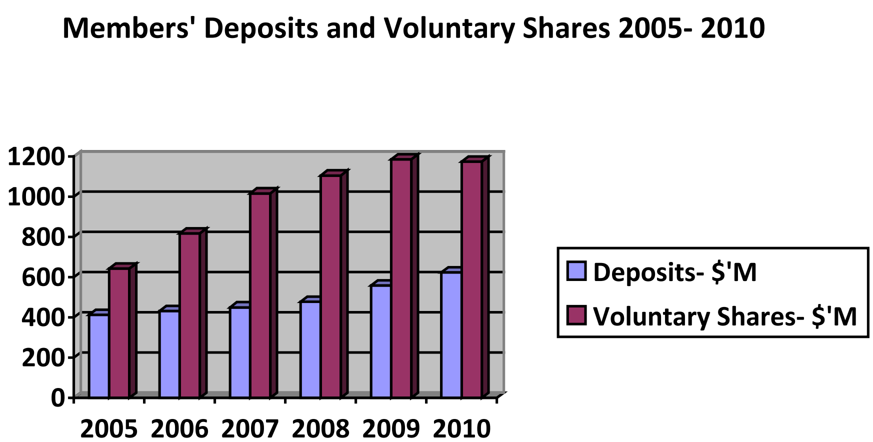
The economic climate during 2010 prevented us from growing the Loan Portfolio at its usual rate. However, the Credit Union performed relatively well when compared to major players in the industry. We were able to remain stable when others were reporting that they had lost a portion of their loan portfolio. The Other Earning Assets of the Credit Union grew by 51% or $243 million from $474 million in 2005 to $717 million in 2010.

Figure 11. Liabilities and Equity



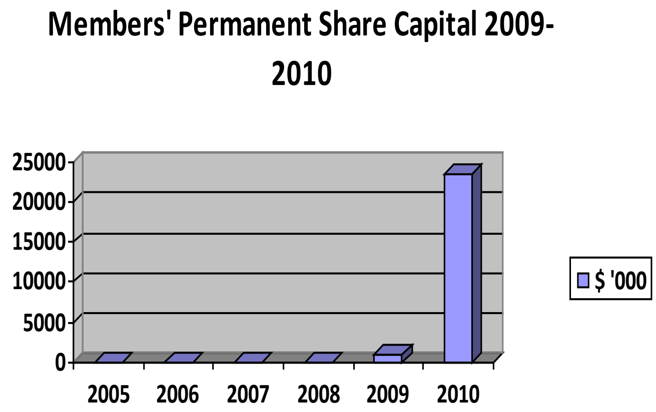
At the end of 2010 the Credit Union's Liabilities to Equity ratio was 76% which was about the same as the ratio of 77% achieved in 2009. Between 2009 and 2010 Liabilities grew by 3% or **$60** million from **$1.76** billion in 2009 to $1.82 billion in 2010; Equity grew by 13% or $69 million from $519 million to $588 million over the same period.

Figure 12.



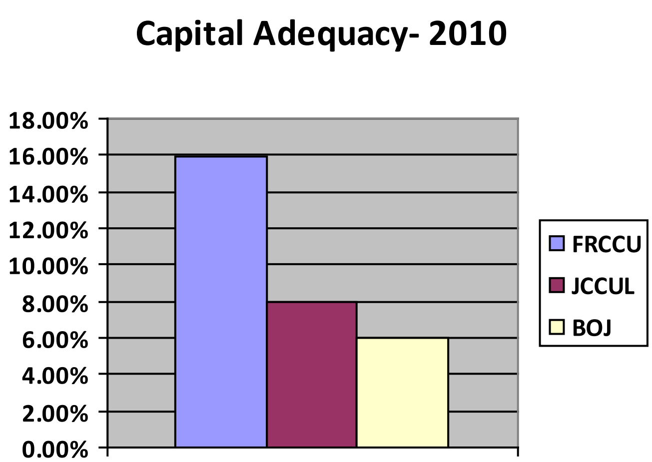
Members continue to demonstrate their loyalty to the Credit Union through their willingness to save. There was net growth in Members' Deposits and Voluntary Shares of 3% or $60 million from $1.74 billion in 2009 to $1.8 billion in 2010. The growth would have been higher had we not transferred funds from voluntary shares to fund the purchase of permanent shares. Members must be commended for their efforts to save in light of a worsening economy and the temptation to withdraw their available savings to satisfy other demands.

Figure 13.



Based on a Resolution passed at the Annual General Meeting held June 20, 2009 members were required to purchase a minimum of $400.00 in permanent shares within a stipulated period of six months. Some members did not purchase their Permanent Shares within the stipulated period. Therefore, the Credit Union transferred funds from voluntary shares to purchase Permanent Shares. As a result, Permanent Shares grew from $1 million in 2009 to $23.5 million at the end of the Year 2010.

Figure 14.



At end of 2010, the Credit Union met all of its capital requirements and achieved a capital adequacy ratio of 16% of Total Assets; twice the amount required by the Jamaica Co-operative Credit Union League and 2.7 times the amount required by the Bank of Jamaica.

In spite of the challenges which the Year 2010 brought us, your Credit Union was able to succeed. This success was due to the commitment of the Board of Directors, the hard working Management Team and staff, and you our valued members. If we are to continue to forge a successful future, then all of us as stakeholders **must** redouble our effort as the forecast for the immediate future and beyond promises to be very challenging. We must make every effort to keep our loan payments current, to save as much and to use the services offered by your Credit Union for each member is a part-owner and we can help each other to succeed.

Karl Fuller

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TREASURER