Table of Contents

Notice of Meeting / Agenda

Notice

A Special General Meeting of members of Churches Co-operative Credit Union Limited will be held on June 5, 2012 at the Wyndham Kingston Hotel commencing at 3pm to approve the following matters:

1) Merger Resolution in relation to the new Credit Union:

- Name
- Address
- Effective date of merger
- Rules

2) Financials in relation to 2011 performance of Churches Co-operative Credit Union Limited

- Treasurer's Report
- Financial Statements & Auditor's Report
- Distribution of Surplus

....

Gervaise McLeod (Mr)
Secretary, Board of Directors

Agenda for Special General Meeting, June 5, 2012.

Ascertainment of Quorum

Call to Order and Prayer

Chairman's Opening Remarks and Obituaries

Reading & Confirmation of the Minutes of the Special General Meeting held on July 19, 2011

- Matters Arising

Resolution in relation to the new Credit Union:

- Name
- Address
- Effective date of merger
- Rules

Reports in relation to Churches Co-operative Credit Union Limited's 2011 performance

- Treasurer's Report
- Financial Statements & Auditor's Report
- Distribution of Surplus

Vote of Thanks

Adjournment

Minutes of the Special General Meeting to consider merger between Churches Co-operative Credit Union Ltd. and GSB Co-operative Credit Union Ltd. held on Tuesday July 19, 2011 at 8-10 Eureka Road, Kingston 5.

Call to Order

Having ascertained that a quorum was present, the Chairman, Mr. Orville Hill called the meeting to order at 4:35 p.m. He welcomed everyone present including the Registrar of Dept of Co-operatives, Errol Gallimore, after which, he invited Mr. Balvin Vanriel to pray. Mr. Vanriel then offered a short prayer.

Apologies

No apologies were received for absence or lateness.

Introductions

The Chairman introduced the members of the Board, the CEO and the senior staff members to the audience, after which, he invited the Secretary, Mr. Gervaise McLeod to read the notice of the meeting. The notice of the meeting was then read by Mr. Mcleod.

Matter at Hand

The Chairman gave a synopsis of the events leading up to the matter of the merger between Churches Credit Union and GSB Credit Union. He reminded the members that a MOU was signed between the credit unions and that several Town meetings were held outlining the proposal for the merger. The Chairman further explained the purpose of the meeting to be that of voting on the proposal to merge. Mr. Hill re-iterated that both Credit Unions were strong in their own right and gave performance ratings for both Credit Unions for the past year. He further stated that this merger is strategic, where both organizations will experience synergies of values and development plans for the members. He expressed extreme appreciation to Mr. Errol Gallimore who had provided invaluable support in facilitating the process thus far. Mr. Hill then invited questions from the audience.

Miss. D. Francis asked whether it was possible for non-workers of the Government to be a member of the new entity, to which the Chairman answered positively. Mr. Lewis, asked another question of the possibility of a name change to which Mr. Hill confirmed same. Mr. Lewis also asked to clarify whether the merger meant that the Government would now be managing their funds, to which the Chairman replied to the members that this was not so. A member expressed some reservations regarding whether fees would be increased to which the President replied that the Board Of Directors and Management are mindful of the members regarding the setting of fees and the related costs of services to its members. Mr. Davis, a member, asked why the merger was necessary. Mr. Hill, in response, outlined the benefits to be derived, such as a larger pool of funds to meet the needs of its members, as well as the need to ensure that the credit union movement remains viable in the financial Sector.

Mr. Leach, a member, asked for a deeper rationale behind the merger and intimated that the only benefit would be for the members of the Boards and not the Members. The Chairman and a representative from the Board addressed the point and asked that the statement be withdrawn. Mr. Jarrett, another member, expressed concern that everyone's democratic right to speak must be exercised and no member should be silenced. He added further that he understood the nature of mergers but asked whether the percentage rates applied to loans would be affected and if so, in what way. Mr. Hill explained that the process would entail that both institutions would come together to determine the relevant interest rates taking into account the differences of each and create new rates to be applied for the new entity.

Minutes of the Special General Meeting to consider merger between Churches Co-operative Credit Union Ltd. and GSB Co-operative Credit Union Ltd. held on Tuesday July 19, 2011 at 8-10 Eureka Road, Kingston 5. Cont'd

Mr. Perryn Smith asked about the implication regarding branch locations and its effect on the staff complement. Mr. Hill emphasized that that our locations will remain in effect for the most part due to the fact that additional business will need to be facilitated at the different service areas; staffing will also be looked at to determine requirements.

At this point Mr. Hill welcomed 1st Vice President Mr. Johnathan Brown and introduced him also as President of the Jamaica Co-operative Credit Union League. A comment was made by a member that she desired to see more of the Board members and CEO within Branches. The President explained that due to the nature of the positions they hold, the Board of Directors would not be seen within Branches. He introduced the CEO to the members again, reminding the members that he is the person to be contacted regarding major concerns.

Mr. Hill then invited Mr. McLeod to read the Resolution. Mr. Mcleod read the Resolution as follows:

IT IS HEREBY RESOLVED that the Special General Meeting of the Churches Co-operative Credit Union Limited held on July 19, 2011 at 8-10 Eureka Road, Kingston 5 agrees to the amalgamation of the Churches Co-operative Credit Union Limited with the GSB Co-operative Credit Union Limited.

It is further agreed that:

1. The rules of the amalgamated society shall be the rules of the merged entity and shall be in keeping with the Co-operative Societies Act and Regulation.
2. All members of each amalgamating society, Churches Co-operative Credit Union Limited and GSB Co-operative Credit Union Limited where this resolution shall be members of the amalgamated society each of whom respectively shall have recorded in the books of the amalgamated society the like amount of shares, loans, deposit, dividend and interest as are shown in his or her account in the books of the society in which he or she is a member at the date of such registration.
3. The amalgamated society shall be credited with all the assets of the amalgamating society at the date of registration and shall undertake all the obligations affecting both of the said societies at such date.

The Registrar, Mr. Gallimore, was then invited to marshal the counting of votes. The motion was moved by Dwayne Lewis and seconded by Gavern Tate. The Chairman reminded the members that we need to have 75% of the members present and voting in favour of the resolution for it to be passed.

Voting Process

Mr. Gallimore confirmed that two other officers, Mr. Clarke and Ms. Little counted the number of members present to be 222. 167 persons were therefore needed to vote for the resolution for it to pass. He explained to the members how to complete the ballot papers. Ballot papers were collected thereafter. No abstentions were noted.

During the counting process, the Chairman invited Mr. Johnathan Brown to update the meeting on plans within the League and the League's perspective on the evening's proceedings.

Minutes of the Special General Meeting to consider merger between Churches Co-operative Credit Union Ltd. and GSB Co-operative Credit Union Ltd. held on Tuesday July 19, 2011 at 8-10 Eureka Road, Kingston 5. Cont'd

Mr. Brown spoke on the Bank of Jamaica's pending Credit Union regulations and that five issues still remained:

1. Inactive accounts over 15 years must be handed over to the Government
2. A new credit union must need to have start-up capital of $5M
3. A credit union must have a cash reserve ratio- with the Bank of Jamaica.
4. Unsecured credit- should not be more than 10% of the loan portfolio.
5. The time to meet the start- up capital should be 1-2 years instead of 4 years which was previously held.

At this point, the result for the ballot counting was ready. Mr. Gallimore reported the following:

- 2 spoilt ballots
- 36- No
- 272- Yes

With this result, the resolution to merge was passed.

The Chairman thanked Mr. Gallimore for the role he played and reminded the members that the members of GSB had received their approval from their members earlier that day, and as such, the process toward the merger was now underway. He thanked all for coming and taking the time out to participate in the process. He reminded all that the merger would place the credit unions in a better position to offer more affordable products and a wider range of services to the membership.

A motion for the adjournment was asked. Mr. Perryn Smith moved and Ms. Pearlita Barnaby seconded.

Adjournment

Meeting was adjourned by at 5:20 p.m.

CO-OPERATIVE SOCIETIES ACT
SPECIAL RESOLUTION FOR THE AMALGAMATION OF CHURCHES CO-OPERATIVE CREDIT UNION LIMITED AS A GROUP and GSB CO-OPERATIVE CREDIT UNION LIMITED IN ACCORDANCE WITH SECTION 53 OF THE ACT

It is hereby resolved that the Special General Meeting of Churches Co-operative Credit Union Limited held on July 19, 2011 at 8 – 10 Eureka Road, Kingston 5 having agreed to amalgamation of the Churches Co-operative Credit Union Limited as a Group with GSB Co-operative Credit Union Limited by Special Resolution, which has been duly accepted by the Registrar of Co-operative Societies in compliance with the Co-operative Societies Act, hereby agrees at this Special General Meeting on the 5th of June 2012, at the Wyndham Kingston, to the following final conditions to complete the Amalgamation process:

1. The name of the amalgamated Society shall be First Heritage Co-operative Credit Union Limited.

2. The Registered Head Office of the amalgamated Society shall be at 8 – 10 Eureka Road, Kinston 5 in the parish of St. Andrew.

3. The Rules of First Heritage Co-operative Credit Union Limited shall be as shown in the attachment and numbered 1-77.

4. The effective date of amalgamation and registration of the amalgamated Society shall be the 1st of August, 2012.

Moved By: ______________________________

Seconded By: ______________________________

Date:______________________________________

Treasurer's Report

I am pleased to present the Treasurer's Report to the Special General Meeting of the Churches Co-operative Credit Union Ltd. for the financial year ended December 31, 2011.

The financial year 2011 was earmarked as another year filled with many challenges for our economy, with the most significant impact being the effects of the global recession emanating from as far as 2008. There were increases in inflation rates, further increases in unemployment rates, rapid decline in interest rates (which was one of the mechanism utilized by the Bank of Jamaica to assist in regulating the economy).

These factors among others, led to heightened delinquency levels for our members as they were unable to maintain their loan obligations and reduction in investment income due to declining investment rates. There has also been a significant fall off in savings intake and loan demand for the last two years, as many members sought to make good their indebtedness with current savings, redundancy payments due to unemployment and increase inflation rates and a general contraction in the overall level of spending in the economy. However, we would like to remind you our members of the significant impact that past due loans has had on the Credit Union's performance and the effect on the returns we would like to offer you our members.

Impact on the Credit Union:

- Increased expenses for provision for bad loans
- Lower surpluses
- Lower dividend payments

Impact on our members:

- Penalty fees charges and other costs associated with past due accounts
- Loss of valuable assets (cash, real estate, motor vehicles, etc.) which you our members will never be able to replace.

We continue to appeal to our members to come in and talk to us as soon as you are experiencing problems in repaying your loans. We can find a beneficial solution in most cases as we strive to be the caring place to grow.

Amidst the many challenges faced by the financial sector in 2011, the Credit Union has once again seen another successful year in achieving a Consolidated Net Surplus of $113.27M compared to $116.73M (2010)

The Credit Union continues to identify and execute new strategies as measures in achieving its performance objectives. This was also done in an effort to achieve the institutions aim of excellence and a higher levels of customer satisfaction. We strive to improve and maintain our strategies to assist our members who experienced difficulties in servicing their loan payments, introduction of our on-line banking facility, closer monitoring and containment of our operating expenditure and closing the liquidity gap.

At the beginning of the fiscal year 2011, inflation rate was 11.7% closing the year at 6%. Average interest rate on repos invested commenced the year at an average rate of 7.33% and trended down to an average low of 6.4% at year end 2011. This was due to the intervention of the Central Bank, as a measure to regulate the economy and to improve GDP. The United States Dollar traded against the Jamaican dollar at $86.75 at year-end 2011 which was a 1.03% appreciation compared to the $85.86 traded at year end 2010.

The Net International Reserves at December 2011 was US$1.967B compared to $2.14B at December 2010; this reflected overall decline of 8.8% in the economy.

Treasurer's Report Cont'd

The Central Bank's position in assuming the role of supervisor of Credit Union Movement has still not been approved to date. The Bank of Jamaica continues its supervisory role by examining our financial reports and conducting periodic audit reviews to date. It is still anticipated that this will materialize in the very near future..

Over the years we have measured our performance against prudential financial standards for safety and soundness (PEARLS), which is currently monitored by the Jamaica Co-operative Credit Union League as well as other Bank of Jamaica's prudential requirements.

The Credit Union continues to formulate strategies to grow its Capital Base over the years. Approval by the membership to increase Permanent Share Capital for 2008-2009 and to forgo a dividend payment for 2009 in order to build the Capital base were among the strategies for increasing our Capital base plus an annual transfer of 30% of our Net Surplus.

The Credit Union's Institutional Capital to Total Asset - ratio was 14.4% at December 31, 2011 this was 14% at December 31, 2010.

FINANCIAL PERFORMANCE

Net Surplus for the year was $113.27M compared to $116.73M for 2010. This was $3.46M below the performance for 2010.

Interest Income grew by $14.27M, while there was savings in Interest expenses of $27.71M on account of a reduction in interest expenses due to falling interest rates. There was an increase in loan impairment provision of $5.91M on account of the challenges our members were faced with in making good their loan repayments. Non-Interest Income was $122.242M an increase of $39.06M over 2010 ($83.18M)

Operating expenses was $578.36M an increase of $49.44M or 9.3% over 2010 ($528.9M). The Credit Union continued to apply close monitoring and containment strategies in managing its operating expenses for 2011.

ASSETS

Total assets increased by $233.5M or 5.4%, moving from $4.3B to $4.54B at December 31, 2011. Major contributor to this increase was the growth in Loan portfolio of $346.24 or 11.6%.

Treasurer's Report Cont'd

The Credit Union's performance against the PEARLS Standard is set out below:

KEY AREAS	2011 $' Million	2010 $' Million	INC/DEC $' Million	INC/DEC %
Share Capital	1,420	1,407	13	(0)
Member Fixed Deposits	1,147	1,172	(25)	(2)
Member Other Deposits	772	674	98	15
Loans(net of provision)	3,326	2,979	347	12
Net Interest & Other Income	724	673	51	8
Interest on Members Loans	651	637	14	2
Interest earned on Other Investment	60	90	(30)	(33)
Interest paid on Fixed Deposits	53	86	40	47
Operating Expenses	578	528	50	9
Net Surplus	113	117	(4)	3
Total Assets	4,538	4,303	235	5
Total Liabilities –inc. Vol. Shares	3,620	3,503	117	3
Statutory Reserves	322	287	35	12

INSURANCE

For the year, the Credit Union maintained Fidelity and Life Saving and Loan Protection coverage with Cuna Mutual Insurance Company Limited at a cost of $2.46M and $21.6M respectively.

CONCLUSION

The Credit Union has proven its resilience in performing in challenging times for 2011. With the ever emerging strategies in place we are confident that the Credit Union is well aligned to forge ahead for the future irrespective of the challenges or opportunities that are ahead. We are confident that with the continued dedication, hard work and enthusiasm of our staff and volunteers and with the strategies in place we will be able to accomplish these goals and objectives.

ACKNOWLEDGEMENT

I am grateful to be afforded the opportunity to serve as Treasurer for yet another year. I wish to commend the hardworking and dedicated staff and volunteers for another year's commitment and hard work.

On behalf of the Board of Directors let me convey my sincere appreciation and gratitude to the management and staff in achieving the expectations of the Credit Union for the year 2011.. Thanks to my fellow Directors and Committee members who has sacrificed their unwavering time and expertise.

Appreciation to our Auditors PricewaterhouseCoopers, the Registrar of Cooperative Societies, Cuna Mutual Insurance Society, NUCS Co-operative and Insurance Society and the Jamaica Co-operative Credit Union League for their professional assistance and guidance provided throughout the year.

Finally, let me extend thanks to our membership for the considerable support and patronage given throughout the year. We stand resolute and committed to continue to embark on strategies and objectives in improving the level of service to you.

Mr. Balvin Vanriel
Treasurer

Treasurer's Report Cont'd

2011 $		2010 $	INCREASE (DECREASE) $	%
$' 000	**WE THE MEMBERS OWN**	**$' 000**	**$' 000**	
1,419,727	SHARES	1,407,376	12,351	**0**
7,440	INTEREST ACCRUED ON DEPOSITS	11,233	(3,793)	**(34)**
772,042	ORDINARY DEPOSITS	673,997	98,045	**15**
1,139,506	OTHER DEPOSITS	1,160,377	(20,871)	**2**
3,338,715		**3,252,983**	**85,732**	**3**
	WE ALSO OWN			
321,644	STATUTORY & LEGAL RESERVES	287,243	34,401	**12**
541,970	RETAINED EARNINGS & OTHER RESERVES	496,225	45,745	**9**
53,182	UNDISTRIBUTED SURPLUS	17,492	35,690	**204**
4,255,511	**MAKING THE GRAND TOTAL OWNED BY MEMBERS**	**4,053,943**	**201,568**	**5**
	WE USED THIS MONEY IN THE FOLLOWING MANNER			
3,325,566	LOANS TO US AS MEMBERS	2,979,309	346,257	**12**
68,406	OTHER RECEIVABLES	55,346	13,060	**24**
544,901	CASH IN HAND AND AT BANK	684,596	(139,695)	**(20)**
358,361	TO PURCHASE ASSETS	316,228	42,133	**13**
231,364	INVESTMENT IN OTHERS	262,292	(30,928)	**(12)**
6,244	TO PURCHASE INVENTORIES	5,298	946	**18**
4,534,842		**4,303,069**	**231,773**	**5**
279,331	LESS:AMOUNT WE OWED TO OTHERS AT YEAR END	249,126	(30,205)	**12**
4,255,511	**AGREEING OUR NET INVESTMENT WITH OUR GRAND TOTAL OWNED**	**4,053,943**	**201,568**	**5**

Treasurer's Report Cont'd

	CHURCHES CO-OPERATIVE CREDIT UNION LIMITED			
	TREASURERS REPORT			
	31 DECEMBER 2011			
2011	**OUR INCOME**	**2010**	**INCREASE (DECREASE)**	
$	**WAS EARNED FROM**	**$**	**$**	**%**
	INTEREST ON			
651,145	MEMBERS LOANS	596,235	54,910	9
	INTEREST ON			
54,378	OTHER INVESTMENTS	88,325	(33,947)	(38)
2,183	RENTAL INCOME	1,525	658	43
123,831	OTHER INCOME	123,368	463	0
831,537		**809,453**	**22,084**	3
	OUR COST TO OPERATE THE			
	CREDIT UNION WERE			
497,853	ADMINISTRATION	465,079	32,774	7
41,384	ESTABLISHMENT	34,665	6,719	19
109,435	FINANCIAL	137,151	(27,716)	(20)
32,586	PROVISION FOR LOAN LOSS	27,675	4,911	18
37,377	REPRESENTATION & AFFILIATION	28,222	9,155	32
718,635		**692,792**	**25,843**	4
112,902	**GIVING A NET SURPLUS OF**	**116,661**	**(3,759)**	(3)
	FROM WHICH WE SET ASIDE			
33,871	30% STATUTORY RESERVE	34,998	(1,128)	(3)
	OF CREDIT UNION'S SURPLUS			
79,031	**LEAVING A NET SURPLUS OF**	**81,663**	**(2,631)**	(3)
	TO WHICH WE ADD THE			
	PREVIOUS RESTATED UNDISTRIBUTED			
17,492	SURPLUS CARRIED OVER	98,155	(80,663)	(82)
(43,341)	LESS: TRANSFER TO RESERVES	(162,326)	118,985	(73)
	MAKING A GRAND TOTAL UNDISTRIBUTED SURPLUS AVAILABLE FOR DISTRIBUTION			
53,182	**BY MEMBERS IN THE AGM**	**17,492**	**35,690**	204

Proposal for Distribution of Surplus

The Board of Directors recommends that the surplus of $53,182,000 be distributed as follows:

	2011 $'000
10% - Permanent Share Dividend	7,762
Transfer to Permanent Share Reserve	500
Scholarship Fund	420
Eureka Charities	50
Oswald Thorbourne Scholarship	250
Spanish Town Charities	50
May Pen Charities	50
Mandeville Charities	50
Portmore Charities	50
Lawrence Tavern Charities	50
Montego Bay Charities	50
Best Care Foundation	50
St. Francis Primary & Infant School	50
St. Stephen's Church Clinic	50
Redeemer Moravian Church	50
Lyndhurst Methodist Church	50
Glen Vincent Clinic	50
Glen Hope Place of Safety (Maxfield Avenue)	50
Poly Ground Primary School	50

Proposal for Distribution of Surplus Cont'd

50 Basic School Charities	2,500
Caribbean Confederation of Credit Unions	87
All Saints Anglican	50
National Chest Hospital	0
Honoraria	1,000
International year of the Co-operatives	250
Miscellaneous Charities	500
Transferred to Retained Earning Reserves	39,113
	53,182

- A 2% Dividend payment on Ordinary Shares of $26,080,000 is also recommended for your approval.

Churches Co-operative Credit Union Limited

Financial Statements
31 December 2011

Churches Co-operative Credit Union Limited
Index
31 December 2011

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Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Churches Co-operative Credit Union Limited and its subsidiary (the Group), set out on pages 1 to 68, which comprise the consolidated and credit union statement of financial position as of 31 December 2011 and the consolidated and credit union 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 controls 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 controls 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 controls. 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.

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Registrar of Co-operative Societies
Re: Churches 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 Group and the credit union as of 31 December 2011, and of the financial performance and cash flows of the Group and the credit union for the year then ended, so far as concerns the members of the credit union, in accordance with International Financial Reporting Standards.

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 all purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our explanation 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.

PricewaterhouseCoopers

Chartered Accountants

30 March 2012
Kingston, Jamaica

DEPARTMENT OF CO-OPERATIVES & FRIENDLY SOCIETIES

(An Agency of the Ministry of Industry, Investment & Commerce)

2 MUSGRAVE AVENUE
KINGSTON 10

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

E-mail: dcfs@cwjamaica.com

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

S1
R428/-35/03/12

March 30, 2012

The Secretary
Churches Co-operative Credit Union Limited
8-10 Eureka Road
KINGSTON 5

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

Churches Co-operative Credit Union Limited

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	Reclassified 2010 $'000
Interest Income			
Loans and advances		651,145	636,878
Investments		60,446	90,463
		711,591	727,341
Interest Expense			
Savings deposit		66,649	101,513
External credit	5	16,706	9,309
Members' voluntary shares		26,080	26,329
		109,435	137,151
Net Interest Income		602,156	590,190
Loan impairment provision, net of recoveries	15	(32,586)	(27,675)
Net Interest Income after Impairment Losses on Loans		569,570	562,515
Non-interest Income			
Fee and commission income	6	99,408	74,824
Cambio operations		1,500	1,647
Dividend income from League shares		1,188	2,907
Other income	7	20,137	3,801
Net Interest and Other Income		691,803	645,694
Operating expenses	8	578,356	528,924
Surplus before Taxation		113,447	116,770
Taxation	10	(181)	(37)
Net Surplus for the Year		113,266	116,733
Other Comprehensive Income, net of taxation			
Unrealised fair value gains on available-for-sale investments		1,420	6,274
Total Comprehensive Income		114,686	123,007

Churches Co-operative Credit Union Limited

Consolidated Statement of Financial Position

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
ASSETS			
Earning Assets			
Liquid assets - deposits	11	124,795	69,464
Liquid assets – short-term investments	12	201,565	196,524
Reverse repurchase agreements	13	145,468	418,394
Financial investments	14	275,503	277,501
Loans to members	15	3,325,566	2,979,309
		4,072,897	3,941,192
Non-Earning Assets			
Cash in hand and at bank		87,564	36,930
Accounts receivable	16	54,104	42,485
Inventories		6,244	5,298
Assets held for sale	17	-	5,382
Withholding tax recoverable		8,750	6,921
		156,662	97,016
Property, plant and equipment	17	180,612	153,431
Retirement benefit asset	18	127,749	112,797
		465,023	363,244
		4,537,920	4,304,436

Churches Co-operative Credit Union Limited

Consolidated Statement of Financial Position (Continued)

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
LIABILITIES AND EQUITY			
Interest Bearing Liabilities			
External credit	19	248,230	195,165
Members' deposits	20	1,918,988	1,845,607
Voluntary shares	21	1,419,727	1,407,376
		3,586,945	3,448,148
Non-Interest Bearing Liabilities			
Accounts payable	22	31,246	52,922
Withholding tax		1,956	2,006
Deferred tax liability	23	326	134
		33,528	55,062
		3,620,473	3,503,210
Equity			
Institutional capital	24	655,253	602,418
Non-institutional capital	25	208,576	181,244
Accumulated surplus		53,618	17,564
		917,447	801,226
		4,537,920	4,304,436

Approved for issue by the Board of Directors on 30 March 2012 and signed on its behalf by:

Orville Hill Director

Balvin Vanriel Director

Churches Co-operative Credit Union Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Institutional Capital $'000	Non-Institutional Capital $'000	Accumulated Surplus $'000	Total $'000
Balance at 1 January 2010		468,082	111,610	98,155	677,847
Total comprehensive income		6,274	-	116,733	123,007
Transactions with owners					
Transfer of permanent share dividend		-	-	(4,710)	(4,710)
Appropriations from 2009 surplus					
Transfer from Accumulated Surplus	24	548	-	-	548
Issue of permanent shares	24	7,524	-	-	7,524
Transfer to reserves	24	84,992	-	(84,992)	-
Other transfers		-	-	(2,990)	(2,990)
Appropriations from 2010 surplus -					
Transfer to statutory reserves	24	34,998	-	(34,998)	-
Transfer to other reserves	25	-	69,634	(69,634)	-
Balance at 31 December 2010		602,418	181,244	17,564	801,226
Total comprehensive income		1,420	-	113,266	114,686
Transaction with owners					
Transfer of permanent share dividend		-	-	(6,772)	(6,772)
Transfer from Accumulated Surplus	24	758	-	(758)	-
Issue of permanent shares	24	8,307	-	-	8,307
Appropriations from 2010 surplus -					
Transfer to reserves	24	8,207	-	(8,207)	-
Appropriations from 2011 surplus -					
Transfer to statutory reserves	24	33,643	-	(33,643)	-
Transfer to other reserves	25	-	27,332	(27,332)	-
Permanent share reserve		500	-	(500)	-
Balance at 31 December 2011		655,253	208,576	53,618	917,447

Churches Co-operative Credit Union Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

					Institutional Capital				
	Note	Retained Earnings Reserve $'000	Permanent Shares $'000	Statutory Reserve $'000	Permanent Share Reserve $'000	Investment Reserve $'000	Capital Reserve $'000	Special Reserve $'000	Total $'000
Balance at 1 January 2010		114,165	67,173	251,697	-	20,500	14,222	325	468,082
Appropriations from 2009 surplus -									
Transfer of reserves		84,992	-	-	-	-	-	-	84,992
Increase in investment reserve		-	-	-	-	6,274	-	-	6,274
Appropriation from 2010 surplus -									
30% statutory reserve		-	-	34,998	-	-	-	-	34,998
Entrance fees		-	-	548	-	-	-	-	548
Increase in permanent shares		-	7,524	-	-	-	-	-	7,524
Balance at 31 December 2010	24	199,157	74,697	287,243	-	26,774	14,222	325	602,418
Appropriations from 2010 surplus -									
Transfer of reserves		8,207	-	-	-	-	-	-	8,207
Increase in investment reserve		-	-	-	-	1,420	-	-	1,420
Appropriation from 2011 surplus -									
30% statutory reserve		-	-	33,643	-	-	-	-	33,643
Entrance fees		-	-	758	-	-	-	-	758
Permanent share reserve		-	-	-	500	-	-	-	500
Increase in permanent shares		-	8,307	-	-	-	-	-	8,307
Balance at 31 December 2011	24	207,364	83,004	321,644	500	28,194	14,222	325	655,253

Churches Co-operative Credit Union Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Non-Institutional Capital		
		Retirement Benefit Asset Reserve	Loan Loss Reserve	Total
		$'000	$'000	$'000
Balance at 1 January 2010		76,607	35,003	111,610
Transfers from Accumulated Surplus –				
Increase in retirement benefits	25	36,190	-	36,190
Increase in loan loss reserve	25	-	33,444	33,444
		36,190	33,444	69,634
Balance at 31 December 2010		112,797	68,447	181,244
Transfers from Accumulated Surplus –				
Increase in retirement benefits	25	14,952	-	14,952
Increase in loan loss reserve	25	-	12,380	12,380
		14,952	12,380	27,332
Balance at 31 December 2011		127,749	80,827	208,576

Churches Co-operative Credit Union Limited

Consolidated Statement of Cash Flows
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Cash Flows from Operating Activities		
Interest received	709,926	751,448
Interest paid	(113,476)	(124,626)
Fee and commission income	99,408	74,824
Recoveries on impaired loans	(40,248)	(32,563)
Payment to employees and suppliers	(584,179)	(491,504)
Other income, net	15,785	33,878
	87,216	211,457
Changes in operating assets and liabilities -		
Loans	(329,682)	(257,629)
Other assets	(9,012)	(3,636)
Retirement benefit asset	(14,952)	(36,190)
Members' deposits	77,173	158,252
Voluntary shares	12,600	(17,511)
CuCash deposits	(27,291)	(4,365)
Other liabilities	7,425	162
Cash (used in)/provided by operating activities	(196,523)	50,540
Cash Flows from Investing Activities		
Short-term investments	(5,041)	26,332
Financial investments	2,417	3,309
Reverse repurchase agreements	339,181	(132,147)
Purchase of property, plant and equipment	(50,509)	(64,418)
Cash provided by/(used in) investing activities	286,048	(166,924)
Cash Flows from Financing Activities		
Share capital	2,955	(1,252)
External credit	53,065	142,489
Cash provided by financing activities	56,020	141,237
Effect of exchange rate changes on cash and cash equivalents	3,330	(22,237)
Increase in cash and cash equivalents	148,875	2,616
Cash and cash equivalents at beginning of year	37,650	35,034
Cash and Cash Equivalents at the End of the Year	186,525	37,650
Represented by:		
Cash in hand and at bank	87,564	36,930
Bank savings deposits (Note 11)	1,049	720
Fixed deposits (Note 11)	27,700	-
Repurchase agreements (less than 3 months)	70,212	-
	186,525	37,650

Churches Co-operative Credit Union Limited

Credit Union Statement of Comprehensive Income

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	Reclassified 2010 $'000
Interest Income			
Loans and advances		651,145	636,878
Investments		54,378	88,325
		705,523	725,203
Interest Expense			
Savings deposit		66,649	101,513
External credit	5	16,706	9,309
Members' voluntary shares		26,080	26,329
		109,435	137,151
Net Interest Income		596,088	588,052
Loan impairment provision, net of recoveries	15	(32,586)	(27,675)
Net Interest Income after Impairment Losses on Loans		563,502	560,377
Non-interest Income			
Fee and commission income	6	101,809	75,224
Cambio operations		1,500	1,647
Dividend income from League shares		1,188	2,907
Other income	7	21,517	4,472
Net Interest and Other Income		689,516	644,627
Operating expenses	8	576,614	527,966
Net Surplus		112,902	116,661
Other Comprehensive Income, net of taxation			
Unrealised fair value gains on available-for-sale investments		1,399	6,080
Total Comprehensive Income		114,301	122,741

Churches Co-operative Credit Union Limited

Credit Union Statement of Financial Position

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
ASSETS			
Earning Assets			
Liquid assets – deposits	11	97,095	69,464
Liquid assets – short-term investments	12	201,565	196,524
Reverse repurchase agreements	13	199,269	381,844
Financial investments	14	231,364	262,292
Loans to members	15	3,325,566	2,979,309
		4,054,859	3,889,433
Non-Earning Assets			
Cash in hand and at bank		46,972	36,764
Accounts receivable	16	61,383	43,583
Inventories		6,244	5,298
Asset held for sale	17	-	5,382
Withholding tax recoverable		7,023	6,381
		121,622	97,408
Property, plant and equipment	17	180,612	153,431
Investment in subsidiary		50,000	50,000
Retirement benefit asset	18	127,749	112,797
		479,983	413,636
		4,534,842	4,303,069

Churches Co-operative Credit Union Limited

Credit Union Statement of Financial Position (Continued)

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
LIABILITIES AND EQUITY			
Interest Bearing Liabilities			
External credit	19	248,230	195,165
Members' deposits	20	1,918,988	1,845,607
Voluntary shares	21	1,419,727	1,407,376
		3,586,945	3,448,148
Non-Interest Bearing Liabilities			
Accounts payable	22	29,145	51,955
Withholding tax		1,956	2,006
		31,101	53,961
		3,618,046	3,502,109
Equity			
Institutional capital	24	655,038	602,224
Non-institutional capital	25	208,576	181,244
Accumulated surplus		53,182	17,492
		916,796	800,960
		4,534,842	4,303,069

Approved for issue by the Board of Directors on 30 March 2012 and signed on its behalf by:

Orville Hill, Director

Balvin Vanriel, Director

Churches Co-operative Credit Union Limited

Credit Union Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Institutional Capital $'000	Non-Institutional Capital $'000	Accumulated Surplus $'000	Total $'000
Balance at 1 January 2010		468,082	111,610	98,155	677,847
Total comprehensive income		6,080	-	116,661	122,741
Transaction with owners -					
Transfer of permanent share dividend		-	-	(4,710)	(4,710)
Transfer from Accumulated Surplus	24	548	-	-	548
Issue of permanent shares	24	7,524	-	-	7,524
Appropriations from 2009 surplus -					
Transfer to reserves	24	84,992	-	(84,992)	-
Other transfers		-	-	(2,990)	(2,990)
Appropriations from 2010 surplus -					
Transfer to statutory reserves	24	34,998	-	(34,998)	-
Transfer to other reserves	25	-	69,634	(69,634)	-
Balance at 31 December 2010		602,224	181,244	17,492	800,960
Total comprehensive income		1,399	-	112,902	114,301
Transaction with owners -					
Transfer of permanent share dividend		-	-	(6,772)	(6,772)
Transfer from Accumulated Surplus	24	758	-	(758)	-
Issue of permanent shares	24	8,307	-	-	8,307
Appropriations from 2010 surplus -					
Transfer to reserves	24	8,207	-	(8,207)	-
Other transfers		-	-	-	-
Appropriations from 2011 surplus -					
Transfer to statutory reserves	24	33,643	-	(33,643)	-
Transfer to other reserves	25	-	27,332	(27,332)	-
Permanent share reserve		500	-	(500)	-
Balance at 31 December 2011		655,038	208,576	53,182	916,796

Churches Co-operative Credit Union Limited

Credit Union Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

		Institutional Capital							
	Note	Retained Earnings Reserve $'000	Permanent Shares $'000	Statutory Reserve $'000	Permanent Share Reserve $'000	Investment Reserve $'000	Capital Reserve $'000	Special Reserve $'000	Total $'000
Balance at 1 January 2010		114,165	67,173	251,697	-	20,500	14,222	325	468,082
Appropriations from 2009 surplus -									
Transfer of reserves		84,992	-	-	-	-	-	-	84,992
Increase in investment reserve		-	-	-	-	6,080	-	-	6,080
Appropriation from 2010 surplus -					-				
30% statutory reserve		-	-	34,998	-	-	-	-	34,998
Entrance fees		-	-	548	-	-	-	-	548
Increase in permanent shares		-	7,524	-	-	-	-	-	7,524
Balance at 31 December 2010	24	199,157	74,697	287,243	-	26,580	14,222	325	602,224
Appropriations from 2010 surplus -									
Transfer of reserves		8,207	-	-	-	-	-	-	8,207
Increase in investment reserve		-	-	-	-	1,399	-	-	1,399
Appropriation from 2011 surplus -									
30% statutory reserve		-	-	33,643	-	-	-	-	33,643
Entrance fees		-	-	758	-	-	-	-	758
Permanent share reserve		-	-	-	500	-	-	-	500
Increase in permanent shares		-	8,307	-	-	-	-	-	8,308
Balance at 31 December 2011	24	207,364	83,004	321,644	500	27,979	14,222	325	655,038

Churches Co-operative Credit Union Limited

Credit Union Statement of Changes in Equity

Year ended 31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

		Non-Institutional Capital		
	Note	Retirement Benefit Asset Reserve $'000	Loan Loss Reserve $'000	Total $'000
Balance at 1 January 2010		76,607	35,003	111,610
Transfers from Accumulated Surplus –				
Increase in retirement benefits	25	36,190	-	36,190
Increase in loan loss reserve	25	-	33,444	33,444
		36,190	33,444	69,634
Balance at 31 December 2010		112,797	68,447	181,244
Transfers from Accumulated Surplus –				
Increase in retirement benefits	25	14,952	-	14,952
Increase in loan loss reserve	25	-	12,380	12,380
		14,952	12,380	27,332
Balance at 31 December 2011		127,749	80,827	208,576

Churches Co-operative Credit Union Limited
Credit Union Statement of Cash Flows
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Cash Flows from Operating Activities		
Interest received	704,451	708,772
Interest paid	(113,476)	(124,626)
Fee and commission income	101,809	115,867
Recoveries on impaired loans	(40,248)	(32,563)
Payment to employees and suppliers	(567,492)	(490,946)
Other income, net	17,165	34,949
	102,209	211,453
Changes in operating assets and liabilities -		
Loans	(329,682)	(257,629)
Other assets	(14,006)	(3,096)
Retirement benefit asset	(14,952)	(36,190)
Members' deposits	77,173	158,252
Voluntary shares	12,600	(17,511)
CuCash deposits	(27,302)	(4,365)
Other liabilities	(8,654)	(1,903)
Cash (used in)/provided by operating activities	(202,614)	49,011
Cash Flows from Investing Activities		
Short-term investments	(5,041)	26,332
Financial investments	30,799	18,227
Reverse repurchase agreements	178,573	(95,702)
Investment in subsidiary	-	(50,000)
Purchase of property, plant and equipment	(50,509)	(64,418)
Cash provided by/(used in) investing activities	153,822	(165,561)
Cash Flows from Financing Activities		
Share capital	2,934	(1,252)
External credit	53,065	142,489
Cash provided by financing activities	55,999	141,237
Effect of exchange rate changes on **cash** and cash equivalents	3,330	(22,237)
Increase in cash and cash equivalents	10,537	2,450
Cash and cash equivalents at beginning of year	37,484	35,034
Cash and Cash Equivalents at the End of the Year	48,021	37,484
Represented by:		
Cash in hand and at bank	46,972	36,764
Bank savings deposits (Note 11)	1,049	720
	48,021	37,484

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

1. Identification and Activities

Churches 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 8 Eureka Road, Kingston, Jamaica.

Membership in the Credit Union is obtained by the holding of members' shares, which should be at least one voluntary share and one permanent share. Voluntary shares are deposits available for withdrawal on demand, while permanent shares are paid in cash and invested in risk capital, and are transferrable only to another member. Individual membership may not exceed 20% of the total of the members' shares of the Credit Union.

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 purpose at reasonable rates of interest.

The Co-operative Societies Act requires, amongst other provisions, that at least 20% of the net surplus made each year by the Credit Union be transferred annually to a reserve fund. Section 59 of the Act provides for the exemption from income tax and stamp duty for the Credit Union.

The Credit Union's operations are located in the parishes of Kingston, St. Andrew, Clarendon, St. Catherine, St. James and Manchester.

The Credit Union has a wholly-owned subsidiary, CCU Investments Limited which is incorporated and domiciled in Jamaica. Its principal activities include investment management services.

The Credit Union and its subsidiary, are collectively referred to as "the Group".

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 consistently applied 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 (IFRSs), have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets.

The preparation of financial statements in conformity with IFRSs 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 managements' best knowledge of current events and action, actual results could differ from those 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 3.

Churches Co-operative Credit Union Limited

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 effective in the current year

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new standards, interpretations and amendments and has put into effect 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 Group has elected to continue analysis of other comprehensive income in the statement of changes in equity.

IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after 1 January 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group does not include any government-related entities and is, therefore, not impacted by that aspect of the revision. The Group has adopted the revised standard from 1 January 2011, however there has been no significant impact on its related party disclosures.

IFRS 7, 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2011). This 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 quantitative and credit risk disclosures. The adoption of this amendment will result in changes in the presentation of credit risk disclosures.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Group.

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

The Group has concluded that the following standards which are published but not yet effective, are relevant to its operations, and will impact the Group's accounting policies and financial disclosures as discussed below. These pronouncements are effective for annual periods beginning on or after the dates noted, and will be applied by the Group as of those dates, unless otherwise noted.

IAS 1 (Amendment), 'Presentation of financial statements' (effective 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, and changes. 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 Group.

Churches Co-operative Credit Union Limited

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 (continued)

IAS 19 (Amendment), 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013). The impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group intends to adopt the amendments to IAS 19 no later than the accounting period beginning on or after 1 January 2013.

IFRS 9, 'Financial instruments' (effective 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 net surplus. 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 net surplus. There is to be no recycling of fair value gains and losses to net surplus. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in net surplus, as long as they represent a return on investment. While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted.

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 company is considering the implications of the standard, the impact on the financial statements and the timing of its adoption.

IFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. The standard defines the principle of control, and establishes controls as the basis for consolidation. It also sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee, and it sets out the accounting requirements for the preparation of consolidated financial statements.

Churches Co-operative Credit Union Limited

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 not yet effective* and have not been early adopted *(continued)

IFRS 13, 'Fair value measurement' (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards, for both financial instruments and non-financial instruments. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements. In general, the disclosure requirements of IFRS 13 are more extensive than those required in current standards. The Group anticipates that application will impact amounts reported in the financial statements, as well as result in extended disclosures. Management is assessing the impact of adoption on the Group.

(b) Basis of consolidation

Consolidation of subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquire either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) 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 treasury bills and other discounted instruments.

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 recoverable amount.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(d) Fee and commission income

Fee and commission income are recognised on an accrual 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 and shown with interest income earned on loans.

(e) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entities operate. The Group's primary economic environment is Jamaica, and as such, its functional currency which is also its presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in net surplus or deficit in the statement of comprehensive income.

(f) Taxation

Taxation expense in the statement of comprehensive income comprises current and deferred tax for the Group's subsidiary, CCU Investments Limited. Section 59 of the Co-operative Societies Act, which governs the operations of the Credit Union, provides for the exemption from income tax and stamp duty for the Credit Union.

Current and deferred taxes are recognised as income tax expense or benefit in net surplus except, where they relate to items recorded in other comprehensive income or directly in equity, in which case they are also charged or credited to other comprehensive income or equity. Taxation is based on profit for the year adjusted for taxation purposes at 33 1/3%.

(i) Current taxation
Current tax is the expected taxation payable on the taxable income for the year, using tax rates enacted at the year-end date, and any adjustment to tax payable and tax losses in respect of the previous years.

(ii) Deferred income taxes
Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Deferred tax assets and liabilities are offset when they arise from the same taxable entity, relate to the same tax authority and when the legal right of offset exists.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(g) Financial instruments

The Group allocates financial assets to the following IAS 39 categories: loans and receivables, available-for-sale and financial assets at fair value through profit or loss. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

(a) 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 Group:

(i) intends to sell immediately or in the short term , which are classified as held for trading, and those that the Group 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 rate method.

Interest on loans is included in the net surplus 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 net surplus as loan impairment provision.

At the year end date, the following items were classified as: loans and receivables: loans, reverse repurchase agreements, cash at bank and on hand and accounts receivable.

(b) Available-for-sale financial assets
Available-for-sale investments are non-derivative 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 other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. They are derecognised when the right to receive cash flows has expired or has been transferred, and the Group has transferred substantially all the risk and rewards of ownership.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss is recognised in the other comprehensive income. 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 other comprehensive income.

At the year end date, the following items were classified as available-for-sale: deposits, short-term investments and financial investments.

Fair value determination of financial investments is discussed in Note 4.

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(g) Financial instruments (continued)

Financial liabilities

The Group's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. At the year end date, the following items were classified as financial liabilities: bank overdraft, members' deposits, members' voluntary shares, external credit and accounts payable.

(h) Investment in subsidiary

Investment in subsidiary is stated at cost.

(i) Investments and deposits

The Group classifies its investments and deposits as available-for-sale financial assets. Purchases and sales of investments are recognised at trade date, which is the date that the Group commits to purchase or sell the asset.

Changes in the fair value of monetary available-for-sale financial assets are analysed between translation differences resulting in changes in amortised cost of the security and other changes. The translation differences are recognised in the net surplus in the statement of comprehensive income and other changes in the carrying amount are recognised in other comprehensive income in the statement of comprehensive income. Changes in the fair value of non-monetary available-for-sale investments are recognised in other comprehensive income in the statement of comprehensive income.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised in other comprehensive income are recycled to net surplus as gains and losses from investment securities. Interest on available-for-sale financial assets, calculated using the effective interest method, is recognised in net surplus. Dividends on available-for-sale financial assets are recognised in net surplus when the Group's right to receive payments is established.

At year end, the Group assesses whether there is objective evidence that an investment or group of investments is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss previously recognised in other comprehensive income, is removed from equity and recognised in net surplus. Impairment losses on equity instruments recognised in the statement of comprehensive income are not reversed through the net surplus or deficit in the statement of comprehensive income.

(j) Reverse repurchase agreements

Securities purchased under agreements to resell are recorded as collaterised financing transactions, and are classified as loans and receivables financial assets. 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.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(k) Loans

Loans are recognised when cash is advanced to borrowers and are classified as loans and receivables financial assets.

An allowance for impairment is established if there is objective evidence that the Group will not be able to collect all amounts outstanding according to the original contractual terms of the loan. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loans.

A loan is classified as impaired when, in management's opinion, there has been deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. 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 impaired loans, the accrual of interest income based on the original terms of the loan is discontinued. IFRS requires the increase in the present value of impaired loans due to the passage of time to be reported as interest income.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt-forgiveness. Write-offs are charged against previously established provisions for impairment losses and reduce the principal amount of the loan. Recoveries, in part or in full, of amounts previously written-off are credited to recoveries bad debt in net surplus.

The Group's impairment loss provision requirements as stipulated by the Jamaica Co-operative Credit Union League (JCCUL/the League), that exceed the IFRS impairment provision are dealt with in a non-distributable Loan Loss Reserve as an appropriation of Accumulated Surplus.

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost, and comprise cash in hand and in bank, and deposits not held to satisfy requirements of the League, net of bank overdraft, which is carried at amortised cost.

(m) Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

(n) Accounts receivable

Receivables 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.

(o) Inventories

Inventories are stated at the lower of cost and net realisable value, cost being determined on the first-in-first-out basis.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(p) Property, plant and equipment

Freehold land is stated at historical cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses.

Depreciation is calculated on the straight-line basis at rates estimated to write off the cost of the assets over their expected useful lives. Land is not depreciated. The expected useful lives of the other property, plant and equipment are as follows:

Buildings	40 years
Computer equipment	5 years
Furniture, fixtures and equipment	10 years
Motor vehicles	8 years

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

Gains and losses on disposal of property, plant and equipment are determined by reference to carrying amounts and are taken into account in determining net surplus.

Repairs and renewals expenses are charged to net surplus or deficit in the statement of comprehensive income when the expenditure is incurred.

(q) Employee benefits

Retirement benefits

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

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 in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the date of the statement of financial position and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses and past service costs. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or future reduction in future contributions to the plan. The pension plan costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to net surplus as to spread the regular cost of service over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plan every year. The pension obligation is measured at the present value of 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 liability. The pension plan assets are allocated based on the Group's obligation as a proportion of the total obligations of the plan.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

2. Summary of Significant Accounting Policies (Continued)

(q) Employee benefits (continued)

Retirement benefits (continued)

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 net surplus over the employees' expected average remaining working lives.

Leave accrual

The Group's vacation leave policy allows a maximum of six weeks unused vacation leave to be carried forward for all managerial staff and four weeks for non-managerial staff. The charge for all outstanding leave is recognised in the statement of comprehensive income in the period to which it relates.

(r) Members' shares

Permanent shares
Permanent shares may be transferred by members to another member but are not available for withdrawal. Permanent shares are classified as equity.

Voluntary shares
Members' voluntary shares represent deposit holdings of the Credit Union's members, to satisfy membership requirements and to facilitate eligibility for loans and other benefits. These shares are classified as financial liabilities. Dividends payable on these shares are determined at the discretion of the Credit Union and reported as interest expense in the statement of comprehensive income in the period in which they are approved.

(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.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

Judgements and estimates 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. In the process of applying the Group's accounting policies, management has made the following critical accounting estimates or judgements which it believes has a significant risk of causing a material misstatement in these financial statements.

Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, management has made no significant judgements on the amounts recognised in the financial statements.

Key source of estimation uncertainty

Impairment losses on loans to members

The Credit Union reviews its loan portfolio to assess impairment on a monthly 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 cash flow from the loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets in the Credit Union. 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 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.

Retirement benefit obligations

The cost of these benefits and the present value of the future obligations depend on a number of factors that are determined by actuaries using a number of assumptions. The assumptions used in determining the net periodic cost or income for retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of health benefits, the expected rate of increase in health costs. Any changes in these assumptions will impact the net periodic cost or income recorded for retirement benefits and may affect planned funding of the pension plan. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considered interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating the terms of the related obligations. The expected rate of increase of health costs has been determined by comparing the historical relationship of the actual health cost increases with the rate of inflation. Other key assumptions for the retirement benefits are based on current market conditions.

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management

Financial risk factors

The Group has exposure to credit, liquidity and market risk (including currency, fair value interest rate, cash flow interest rate and price risk) arising from its use of financial instruments throughout its operations. Taking risk is core to the financial business, and these risks are an inevitable consequence of being in business. The Group's aims are, therefore, to achieve an appropriate balance between risk and return, and to minimise potential adverse effects on the Group's financial performance.

The Group's overall risk management programme involves the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Group has established risk management policies designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of regularly generated reports. Risk management procedures are closely integrated into all key business processes. The Group regularly reviews its risk management policies, procedures and systems to reflect recommendations and best practice, as well as changes in markets and products.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. It defines the overall risk profile of the Group by approving its financial policies and guidelines, as well as maximum limits for exposure and individual loans.

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

(i) Supervisory and Conduct Committee

The Supervisory and Conduct Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Supervisory and Conduct 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 Supervisory and Conduct Committee.

(ii) Credit Committee

The Credit Committee oversees the approval and disbursements of credit facilities to members. It is also primarily responsible for monitoring the quality of the loan portfolio.

(iii) Treasury Committee

The Treasury Committee is responsible for monitoring the management of the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Group.

(iv) Finance Committee

The Finance Committee is responsible for monitoring and formulating investment portfolios and investment strategies for the Group which include the formulation of appropriate trading limits and reports and compliance controls to ensure that their mandate is properly followed. The Finance Committee has two sub-committees in that of Treasury and Delinquency. Treasury is responsible for monitoring the management of the Group's assets and liabilities and, by extension, the management of funding and liquidity risks. The Delinquency committee assesses the adequacy of provisions for non-performing loan facilities.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

These committees comprise persons independent of management and report to the Board on a monthly basis.

The business functions, Lending and Treasury, are responsible for managing risks assumed through their operations and for ensuring that an adequate return for the risks taken is achieved. Operations Risk & Compliance, Credit Administration and Internal Audit are independent from the departments carrying out the Group's business activities. Operations Risk & Compliance has the overall responsibility for identifying, assessing, monitoring and reporting all types of risk inherent in the Group's operations. Credit Administration is responsible for assessing and monitoring credit risk in the Group's lending operations and seek to ensure that credit proposals are in compliance with established limits and policies. Internal Audit provides an independent evaluation of the control and risk management processes. Based on regular reporting from these departments, the aforementioned committees supervise the Group's aggregate risk-taking.

There have been no significant changes to the Group's exposure to financial risks or the manner in which it manages and measures these risks.

(a) Credit risk

Credit risk is the most important risk for the Group's business. Credit risk is the risk that borrowers or other counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations, and that any collateral provided does not cover the Group's claims. As a consequence of the Group's mandate and resulting financial structure, this risk arises principally from the Group's lending activities.

For loans, credit decisions are primarily made by the Board of Directors, with some delegation of credit approval authority to the Credit Committee and certain members of executive management. The Group's credit policy forms the basis for all its lending operations. The policy aims at maintaining a high quality loan portfolio, as well as enhancing the Group's mission and strategy. The policy sets the basic criteria for acceptable risk and identifies risk areas that require special attention.

Additionally, the Group is exposed to credit risk in its treasury activities, arising from financial assets that the Group uses for investing its liquidity and managing currency and interest rate risks, as well as other market risks. There is also credit risk in financial instruments not carried on the statement of financial position, such as loan commitments.

Credit review process

The Group has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and capital repayment obligations.

Loans

The Group assesses the probability of default of individual borrowers using internal ratings. The Group assesses each borrower on four critical factors. These factors are the member's credit history, ability to pay linked to the industry benchmarked debt service ratio of 75%, character profile and the member's economic stability, based on employment and place of abode.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(a) Credit risk (continued)

Credit review process (continued)

Borrowers of the Credit Union are segmented into two rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Group's internal rating scale:

Group's rating	Description of the grade
1	Performing
2	Non –performing

The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action. Exposure to credit risk is managed, in part, by obtaining collateral, and corporate and personal guarantees.

Credit risk ratings also determine credit limits and collateral, and are systematically reassessed on an annual basis. Reassessment is based on the borrower's credit worthiness, and on any new information and events that may have an impact on the level of credit risk, whether these arise from the borrower's own circumstances or from the financial environment, in general.

Investments

The Group 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.

Credit limits

The Group manages concentrations of credit risk by placing limits on the amount of risk accepted in relation to a single borrower or groups of related borrowers, and to product segments. Borrowing limits are established by the use of the system described above, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. Limits on the level of credit risk by product categories, and for investment categories, are reviewed and approved bi-annually by the Board of Directors.

Collateral

The most widely used practice for mitigating credit risk is the taking of security in the form of physical assets, netting agreements and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the borrower. Guidelines are implemented regarding the acceptability of different types of collateral. The principal collateral types provided for loans and advances are charges over member balances, real property and motor vehicles.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(a) Credit risk (continued)

Credit review process (continued)

Impairment

The Group assesses on a monthly basis whether there is evidence of impairment in accordance with the general principles and methodology set out in IAS 39 and the relevant implementation guidance. These procedures include the following steps:

- Identification of events that provide objective evidence that a loan is impaired.
- Establishment of criteria for assessment on an individual or collective basis.
- Establishment of groups of assets with similar characteristics.
- Establishing methodology to be used in determining cash flows from impaired loans
- Determining interest income recognition.
- Recoveries

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 30 days based on the established PEARLS grid recommended by the League or based on any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances. The assessment applied to individually significant accounts normally encompasses collateral held and the anticipated receipts for that individual account. Collectively assessed allowances are determined through the application of PEARLS prescribed percentages to the aging profiles of the loan portfolio.

The internal rating system described above focuses more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and regulatory purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Credit Union:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower’s competitive position; and
- Deterioration in the value of collateral.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(a) Credit risk (continued)

Impairment (continued)

The impairment provision shown in the statement of financial position at year-end is derived from the two internal rating grades. However, the majority of the impairment provision comes from the non-performing rating class. The table below shows the Credit Union's loans and the associated impairment provision for each internal rating class:

	The Group & The Credit Union 2011		The Group & The Credit Union 2010	
	Loans $'000	Impairment provision $'000	Loans $'000	Impairment provision $'000
Performing	2,949,950	-	2,645,660	-
Non-performing	358,843	27,987	333,451	39,359
	3,308,793	27,987	2,979,111	39,359
Interest accrued	44,760	-	39,557	-
	3,353,553	27,987	3,018,668	39,359

Credit risk exposure

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

For items on 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 Group at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements.

	The Group		The Credit Union	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Item not on statement of financial position -				
Loan commitments	79,870	39,000	79,870	39,000

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(a) Credit risk (continued)

Loans

Credit quality of loans

Credit quality of loans is summarised as follows:

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Performing –		
Neither past due nor impaired	2,949,950	2,645,660
Non-performing –		
Past due but not impaired	304,289	273,807
Impaired	54,554	59,644
	358,843	333,451
	3,308,793	2,979,111
Less: Provision for credit losses	(27,987)	(39,359)
	3,280,806	2,939,752
Add: Interest accrued	44,760	39,557
	3,325,566	2,979,309

Aged analysis of past due but not impaired loans

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Less than 30 days	3,724	12,437
31 to 60 days	154,132	82,057
61 to 90 days	34,143	52,328
More than 90 days	112,290	126,985
	304,289	273,807

There are no financial assets other than loans that are past due.

Of the aggregate amount of gross past due but not impaired loans, the fair value of collateral that the Group held was $576,564,000 (2010 - $491,600,000). Management has assessed the collateral and determined that fair value obtained during loan origination is equal to the fair value at year end.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(a) Credit risk (continued)

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 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. The Group's renegotiated loans that would otherwise be past due or impaired totalled $14,793,600 (2010 - $37,046,000). There were no renegotiated loans which were deemed impaired.

Repossessed collateral

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

	Carrying Amount	
	2011	**2010**
	$'000	**$'000**
Motor vehicles and properties	276,374	92,382

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, the Group does not utilise repossessed properties for business use.

Debt securities

Debt securities are summarised as follows:

	The Group		The Credit Union	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Certificates of deposit	201,565	196,524	201,565	196,524
Benchmark investment notes	181,407	161,715	137,563	146,506
Securities purchased under agreements to resell	145,468	381,844	199,269	381,844
Other	123,746	68,744	96,046	68,744
	652,186	808,827	634,443	793,618

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(a) Credit risk (continued)

Concentration of risk

Loans

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

	The Group & The Credit Union	
	2011 **$'000**	**2010** **$'000**
Agriculture, fishing and mining	2,836	4,587
Construction and real estate	632,420	772,902
Debt financing	445,759	289,519
Distribution	27,138	23,722
Manufacturing	2,540	1,854
Micro loans	76,078	66,902
Personal	1,797,610	1,557,180
Professional and other services	68,145	52,738
Other	256,267	209,707
	3,308,793	2,979,111
Less: Provision for credit losses	(27,987)	(39,359)
	3,280,806	2,939,752
Interest receivable	44,760	39,557
	3,325,566	2,979,309

Debt securities

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

	The Group		The Credit Union	
	2011 **$'000**	**2010** **$'000**	**2011** **$'000**	**2010** **$'000**
Government of Jamaica	181,407	161,715	137,563	146,506
Jamaica Co-operative Credit Union League	297,611	265,268	297,611	265,268
Financial institutions	173,168	381,844	199,269	381,844
	652,186	808,827	634,443	793,618

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequences may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk management process

Liquidity risk management safeguards the ability of the Group to meet payment obligations as they fall due. The Group's policy is to maintain liquidity corresponding to its estimated net liquidity requirements for 12 months.

The Group's liquidity management process, as carried out within the Group by the Treasury Committee and monitored by the Finance Committee, includes:

(i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of the Group's source of funds which includes cash balances, bank balances, investment maturities in order to determine their ability to make supplier payments and commitments for loans;

(ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

(iii) Maintaining committed lines of credit with the League;

(iv) Optimising cash returns on investment;

(v) Monitoring the statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and

(vi) Managing the concentration and profile of debt maturities.

Monitoring and reporting takes the form of an analysis of the cash balances and expected investment maturity profiles for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for these projections is the generation of analyses of loan commitments and the examination of expired credit periods in comparison to the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for financial entities ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

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 Group and its exposure to changes in interest rates and exchange rates.

Financial liabilities and assets held for managing liquidity risk

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) of the Group and the Credit Union's financial liabilities based on contractual repayment obligations. The tables also reflect the expected maturities of the Group and Credit Union's financial assets and liabilities at the year end date. The Group expects that many members will not request repayment on the earliest date the Group could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(b) Liquidity risk (continued)

	The Group & The Credit Union					
	Within 1 Month	**2 to 3 Months**	**4 to 12 Months**	**2 to 5 Years**	**Over 5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
			2011			
Members' deposits	787,693	767,923	389,905	6,590	-	1,952,111
Members' voluntary shares	525,755	468,062	354,591	67,657	3,662	1,419,727
External credit	20,700	44,472	151,158	19,807	25,457	261,594
Total financial liabilities (contractual maturity dates)	1,334,148	1,280,457	895,654	94,054	29,119	3,633,432
Total financial liabilities (expected maturity dates)	1,071,062	1,509,259	941,290	261,698	28,719	3,812,029
Total financial assets (expected maturity dates)	1,228,879	1,682,877	1,024,639	747,936	863,536	5,547,867
			2010			
Members' deposits	760,131	736,803	359,669	5,978	-	1,862,581
Members' voluntary shares	531,292	474,639	352,222	45,916	3,307	1,407,376
External credit	16,570	35,599	121,000	15,855	20,378	209,402
Total financial liabilities (contractual maturity dates)	1,307,993	1,247,041	832,891	67,749	23,685	3,479,359
Total financial liabilities (expected maturity dates)	1,070,315	1,480,051	894,650	189,374	23,686	3,658,076
Total financial assets (expected maturity dates)	1,167,300	1,598,549	973,295	710,457	820,265	5,269,866

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, deposits, short-term investments, reverse repurchase agreements and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

The members' voluntary shares are contractually on call except in cases where these balances are held as security for loan facilities.

Items not carried on the statement of financial position

At 31 December 2011, the Credit Union's commitment to extend credit to its members, in respect of loans approved but not yet disbursed, amounted to $79,870,000 (2010 - $39,000,000).

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Finance Committee which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

Currency risk

Currency or foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates, and arises mainly from the Credit Union's cambio operations. The Group has no significant exposure to currency risk as less than half of a percent of net financial assets is maintained in foreign currencies at any given time during the year.

The Treasury Committee has approved limits on the level of exposure by currency and in aggregate. These limits may vary from time to time as determined by the Treasury Committee.

Interest rate risk

Interest rate risk is the risk that the value or 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 Group to cash flow interest risk, whereas fixed interest rate instruments expose the Credit Union to fair value interest risk.

The Group's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments as determined by the Finance committee. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Treasury department.

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

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	The Group						
	2011						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Earning assets –							
Deposits	97,095	27,700	-	-	-	-	124,795
Short-term investments	126,725	74,840	-	-	-	-	201,565
Reverse repurchase agreements	69,546	74,044	-	-	-	1,878	145,468
Loans, after provision for loan impairment	35,136	29,341	233,831	1,736,120	1,246,378	44,760	3,325,566
Financial investments	-	-	-	167,454	61,295	46,754	275,503
Non-earning assets	-	-	-	-	-	124,136	124,136
Total financial assets	328,502	205,925	233,831	1,903,574	1,307,673	217,528	4,197,033
Financial Liabilities							
Interest bearing liabilities –							
Members' deposits	767,597	757,202	380,127	5,720	-	8,342	1,918,988
Members' voluntary shares	515,798	459,616	348,193	66,436	3,604	26,080	1,419,727
External credit	-	-	1,567	246,663	-	-	248,230
Non-interest bearing liabilities	-	-	-	-	-	31,246	31,246
Total financial liabilities	1,283,395	1,216,818	729,887	318,819	3,604	65,668	3,618,191
Total Interest Rate Sensitivity Gap	(954,893)	(1,010,893)	(496,056)	1,584,755	1,304,069	151,860	578,842
Cumulative Gap	(954,893)	(1,965,786)	(2,461,842)	(877,087)	426,982	578,842	

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	The Group						
	2010						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Earning assets –							
Deposits	69,464	-	-	-	-	-	69,464
Short-term investments	45,201	86,471	64,852	-	-	-	196,524
Reverse repurchase agreements	-	412,559	-	-	-	5,835	418,394
Loans, after provision for loan impairment	10,475	26,864	277,003	1,554,612	1,070,798	39,557	2,979,309
Financial investments	-	14,201	-	149,933	71,406	41,961	277,501
Non-earning assets	-	-	-	-	-	59,047	59,047
Total financial assets	125,140	540,095	341,855	1,704,545	1,142,204	146,400	4,000,239
Financial Liabilities							
Interest bearing liabilities –							
Members' deposits	752,094	728,247	348,531	5,502	-	11,233	1,845,607
Members' voluntary shares	510,987	455,746	345,261	65,877	3,176	26,329	1,407,376
External credit	-	-	156,306	4,132	34,727	-	195,165
Non-interest bearing liabilities	-	-	-	-	-	52,922	52,922
Total financial liabilities	1,263,081	1,183,993	850,098	75,511	37,903	90,484	3,501,070
Total Interest Rate Sensitivity Gap	(1,137,941)	(643,898)	(508,243)	1,629,034	1,104,301	55,916	499,169
Cumulative Gap	(1,137,941)	(1,781,839)	(2,290,082)	(661,048)	443,253	499,169	

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	The Credit Union						
	2011						
	Within 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Earning assets –							
Deposits	97,095	-	-	-	-	-	97,095
Short-term investments	126,725	74,840	-	-	-	-	201,565
Reverse repurchase agreements	72,102	125,439	-	-	-	1,728	199,269
Loans, after provision for loan impairment	35,136	29,341	233,831	1,736,120	1,246,378	44,760	3,325,566
Financial investments	-	-	-	139,768	45,751	45,845	231,364
Non-earning assets	-	-	-	-	-	90,823	90,823
Total financial assets	331,058	229,620	233,831	1,875,888	1,292,129	183,156	4,145,682
Financial Liabilities							
Interest bearing liabilities –							
Members' deposits	767,597	757,202	380,127	5,720	-	8,342	1,918,988
Members' voluntary shares	515,798	459,616	348,193	66,436	3,604	26,080	1,419,727
External credit	-	-	1,567	246,663		-	248,230
Non-interest bearing liabilities	-	-	-	-	-	29,145	29,145
Total financial liabilities	1,283,395	1,216,818	729,887	318,819	3,604	63,567	3,616,090
Total Interest Rate Sensitivity Gap	(952,337)	(987,198)	(496,056)	1,557,069	1,288,525	119,589	529,592
Cumulative Gap	(952,337)	(1,939,535)	(2,435,591)	(878,522)	410,003	529,592	

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	The Credit Union						
	2010						
	Within 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets							
Earning assets –							
Deposits	69,464	-	-	-	-	-	69,464
Short-term investments	45,201	86,471	64,852	-	-	-	196,524
Reverse repurchase agreements	-	376,114	-	-	-	5,730	381,844
Loans, after provision for loan impairment	10,475	26,864	277,003	1,554,612	1,070,798	39,557	2,979,309
Financial investments	-	14,201	-	135,084	71,406	41,601	262,292
Non-earning assets	-	-	-	-	-	59,979	59,979
Total financial assets	125,140	503,650	341,855	1,689,696	1,142,204	146,867	3,949,412
Financial Liabilities							
Interest bearing liabilities –							
Members' deposits	752,094	728,247	348,531	5,502	-	11,233	1,845,607
Members' voluntary shares	510,987	455,746	345,261	65,877	3,176	26,329	1,407,376
External credit	-	-	156,306	4,132	34,727	-	195,165
Non-interest bearing liabilities	-	-	-	-	-	51,955	51,955
Total financial liabilities	1,263,081	1,183,993	850,098	75,511	37,903	89,517	3,500,103
Total Interest Rate Sensitivity Gap	(1,137,941)	(680,343)	(508,243)	1,614,185	1,104,301	57,350	449,309
Cumulative Gap	(1,137,941)	(1,818,284)	(2,326,527)	(712,342)	391,959	449,309	

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's net surplus and other components of equity.

The sensitivity of the net surplus is the effect of the assumed changes in interest rates on net surplus based on the floating rate financial assets and financial liabilities. The sensitivity of other components of equity 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 changes in each variable, variables had to be tested on an individual basis. It should be noted that movements in these variables are non-linear.

	The Group			
	Effect on Net Surplus	Effect on Other Components of Equity	Effect on Net Surplus	Effect on Other Components of Equity
	2011 $'000	2011 $'000	2010 $'000	2010 $'000
Change in basis points:				
-100 basis points (2010 – 200 basis points)	(2,632)	1,375	(1,720)	1,532
+100 basis points (2010 – 100 basis points)	2,632	(1,375)	860	(766)

	The Credit Union			
	Effect on Net Surplus	Effect on Other Components of Equity	Effect on Net Surplus	Effect on Other Components of Equity
	2011 $'000	2011 $'000	2010 $'000	2010 $'000
Change in basis points:				
-100 basis points (2010 – 200 basis points)	(1,992)	1,372	(1,228)	2,113
+100 basis points (2010 – 100 basis points)	1,992	(1,372)	614	(1,056)

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest rate risk

Average effective yields by earlier of the contractual re-pricing or maturity dates:

	The Group					
	Immediately rate sensitive	**Within 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Weighted Average**
	%	**%**	**%**	**%**	**%**	**%**
			2011			
Earning assets –						
Liquid assets	-	-	-	-	-	-
Deposits	4	-	-	-	-	4
Short-term investments	6	6	-	-	-	6
Reverse repurchase agreements	6	6	-	-	-	6
Loans (1)	19	19	19	16	18	19
Financial investments	7	7	7	17	7	7
Interest bearing liabilities –						
Members' deposits (2)	4	4	4	7	-	4
External credit (2)	-	-	11	7	-	8

	The Group					
	Immediately rate sensitive	**Within 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Weighted Average**
	%	**%**	**%**	**%**	**%**	**%**
			2010			
Earning assets –						
Liquid assets	-	-	-	-	-	-
Deposits	6	-	-	-	-	6
Short-term investments	-	6	5	-	-	6
Reverse repurchase agreements	-	7	5	5	4	5
Loans (1)	-	20	19	-	-	19
Financial investments	-	10	10	12	-	11
Interest bearing liabilities –						
Members' deposits (2)	-	4	4	-	-	4
External credit (2)	-	7	11	-	7	8

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Interest rate risk (continued)

	The Credit Union					
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Weighted Average
	%	%	%	%	%	%
			2011			
Earning assets –						
Liquid assets	-	-	-	-	-	-
Deposits	4	-	-	-	-	4
Short-term investments	6	6	-	-	-	6
Reverse repurchase agreements	6	6	-			6
Loans (1)	19	19	19	16	18	19
Financial investments	7	7	7	7	7	7
Interest bearing liabilities –						
Members' deposits (2)	4	4	4	7	-	4
External credit (2)	-	-	11	7	-	8

	The Credit Union					
	Immediately rate sensitive	Within 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Weighted Average
	%	%	%	%	%	%
			2010			
Earning assets –						
Liquid assets	-	-	-	-	-	-
Deposits	6	-	-	-	-	6
Short-term investments	6	6	5	-	-	6
Reverse repurchase agreements	-	6	-	-	-	6
Loans (1)	19	20	19	19	19	19
Financial investments	-	10	-	10	10	10
Interest bearing liabilities –						
Members' deposits (2)	4	4	4	4	-	4
External credit (2)	-	-	11	7	7	8

(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.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(c) Market risk (continued)

Other price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group has no significant exposure to other price risk.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide 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 and generally accepted standards of corporate behaviour.

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 senior management. This responsibility is supported by overall Credit Union standards for the management of operational risk in the following areas:

- Requirements for the periodic assessment of the operational risk faced, and the adequacy of the controls and procedures to address the risks identified.
- Requirements for the appropriate segregation of duties, including the independent authorisation of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- 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.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(e) Capital management

The Group's objectives when managing institutional capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

Credit Union

(i) To comply with the capital requirements set by the Jamaica Co-operative Credit Union League and the Bank of Jamaica for the financial sector in which the Credit Union operates;

(ii) To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns and benefits for members.

(iii) To maintain an 8% ratio of permanent capital to total assets;

(iv) To increase the permanent share capital as the main focus of building institutional capital; and

(v) To maintain a strong capital base to support the development of its business through the allocation of 30% of net surplus to institutional capital.

CCU Investments Limited

(i) To comply with the capital requirements set by the Financial Services Commission;

(ii) To maintain a capital to total assets ratio of 6% or greater;

(iii) To maintain a capital base to risk weighted assets ratio of 14% or greater.

Capital adequacy and the use of regulatory capital are monitored by the Group's management, based on the guidelines in its Capital Asset Management Policy.

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

(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%.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Financial risk factors (continued)

(f) Capital management

The table below summarises the composition of regulatory capital and the ratios of the Credit Union as at the statement of financial position dates. During the year, the Group complied with all externally imposed capital requirements to which they are subject.

	The Credit Union			
	Actual	**Required**	**Actual**	**Required**
	2011	**2011**	**2010**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Total regulatory capital	612,413	332,837	561,097	318,250
Risk-weighted assets:				
Total risk-weighted assets	4,160,461		3,978,122	
Total capital ratio	13%	10%	14%	10%
Permanent capital to total assets	13%	8%	14%	8%
Regulatory capital to total assets	14%	6%	13%	6%

	CCU Investments Limited			
	Actual	**Required**	**Actual**	**Required**
	2011	**2011**	**2010**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Total regulatory capital	50,651	3,058	-	-
Risk-weighted assets:				
Total risk-weighted assets	42,262		-	
Capital to total assets	99%	6%	-	-
Capital base to risk weighted assets	120%	14%	-	-

No capital management ratio has been included for the year ended 31 December 2010, as the subsidiary was not yet licensed as a securities dealer.

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Fair values of financial instruments
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.

The following table provides an analysis of financial instruments held as at 31 December 2011 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are grouped in Level 1;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices) The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

There were no transfers between levels during the year.

	The Group			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
		2011		
Available-for-sale investments -				
Quoted equities	10,652	-	-	10,652
Financial institutions	-	-	78,242	78,242
Issued by Government of Jamaica	-	181,407	-	181,407
	10,652	181,407	78,242	270,301
		2010		
Available-for-sale investments -				
Quoted equities	8,675	-	-	8,675
Financial institutions	-	-	78,903	78,903
Issued by Government of Jamaica	-	161,715	-	161,715
	8,675	161,715	78,903	249,293

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Fair values of financial instruments (continued)

	The Credit Union			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
		2011		
Available-for-sale investments -				
Quoted equities	10,357	-	-	10,357
Financial institutions	-	-	78,242	78,242
Issued by Government of Jamaica	-	137,563	-	137,563
	10,357	137,563	78,242	226,162
		2010		
Available-for-sale investments -				
Quoted equities	8,675			8,675
Financial institutions	-	-	78,903	78,903
Issued by Government of Jamaica	-	146,506	-	146,506
	8,675	146,506	78,903	234,084

Reconciliation of level 3 items -

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Balance at beginning of year	78,903	73,688
Total (loss)/gain – statement of comprehensive income	(661)	5,215
Balance at end of year	78,242	78,903

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

Fair values of financial instruments (continued)

The following methods and assumptions have been used in determining fair values for financial instruments:

(i) The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and liabilities;

(ii) The fair value of demand deposits with no specific maturity is assumed to be the amount payable on demand at the date of the statement of financial position;

(iii) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts;

(iv) The carrying value of external credit approximates its fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions;

(v) 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;

(vi) Unquoted equities classified as available-for-sale are measured at historical cost less impairment, as their fair values cannot be reliably determined.

(vii) The fair values of quoted investments are based on current bid prices. If there is no active market for investments, the Credit Union establishes fair value by using valuation techniques, such as reference to recent arm's length transactions, reference to other instruments that are substantially the same or amounts derived from discounted cash flow models, making maximum use of market inputs.

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

5. External Credit Interest Expense

	The Group & The Credit Union	
	2011 $'000	2010 $'000
Development Bank of Jamaica Limited	3,404	1,508
Jamaica Co-operative Credit Union League Limited	8,876	3,801
National Housing Trust	171	199
Pan Caribbean Financial Services	109	466
Jamaica Mortgage Bank	1,735	-
Other	2,411	3,335
	16,706	9,309

6. Fee and Commission Income

	The Group		The Credit Union	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Access Plus, Rule and Passbooks	788	2,275	788	2,275
Accounts maintenance	23,194	15,647	23,194	15,647
Loan processing	12,226	5,139	12,226	5,139
Loan service and protection	7,324	7,307	7,324	7,307
Late payment	33,017	24,520	33,017	24,520
Management	7,122	3,157	9,523	3,557
Standing orders	4,298	3,792	4,298	3,792
Statements and credit information	993	352	993	352
Other	10,446	12,635	10,446	12,635
	99,408	74,824	101,809	75,224

7. Other Income

	The Group		The Credit Union	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Foreign exchange trading	336	254	336	254
Gain on sale of non-current assets held for sale	8,932	-	8,932	-
Rental	2,183	1,525	2,183	1,525
GCT claims	3,805	-	3,805	-
Qnet dividend	2,507	-	2,507	-
Other	2,374	2,022	3,754	2,693
	20,137	3,801	21,517	4,472

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

8. Expenses by Nature

	The Group		The Credit Union	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Interest	109,435	137,151	109,435	137,151
Provision for loan impairment, net of recoveries (Note 15c))	(32,586)	(27,675)	(32,586)	(27,675)
Operating expenses –				
Audit fees	3,766	3,700	3,120	3,000
Data processing	6,700	6,074	6,700	6,074
Depreciation	23,328	18,814	23,328	18,814
Insurance	27,982	22,123	27,982	22,123
Legal and professional fees	1,784	3,295	1,784	3,295
Marketing and promotion	35,530	31,628	35,530	31,628
Operation of premises and equipment	41,384	34,665	40,883	34,540
Other administration	23,629	19,422	23,219	19,289
Representation and affiliation	37,377	28,222	37,192	28,222
Security	19,774	17,509	19,774	17,509
Stationery and printing supplies	8,957	5,899	8,957	5,899
Staff costs (Note 9)	332,699	322,618	332,699	322,618
Telecommunication and postage	15,446	14,955	15,446	14,955
	578,356	528,924	576,614	527,966
	655,205	638,400	653,463	637,442

9. Staff Costs

(a) Staff costs comprise:

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Salaries and wages	247,451	231,517
Statutory contributions	29,931	29,070
Pension (Note 18)	(1,289)	3,403
Other staff benefits	56,606	58,628
	332,699	322,618

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

9. Staff Costs (Continued)

(b) The number of employees at the end of the year was:

	The Group & The Credit Union	
	2011 No.	**2010 No.**
Full-time	121	121
Part-time	62	50
	183	171

10. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and comprises income tax at 33⅓%.

	The Group		The Credit Union	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Current income tax	-	-	-	-
Deferred taxation (Note 23)	181	37	-	-
	181	37	-	-

Reconciliation of applicable tax charge to effective tax charge:

	The Group		The Credit Union	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Profit before tax	112,689	116,770	112,144	116,661
Tax calculated at a tax rate of 33⅓%	37,563	38,924	37,382	38,887
Surplus of credit union and other income not subject to tax	(37,382)	(38,887)	(37,382)	(38,887)
	181	37	-	-

A charge for income tax arises on the income of the subsidiary. The Credit Union is exempt from tax under Section 59 (1) of the Co-operative Societies Act.

Subject to agreement with the Commissioner of the Taxpayer Administration Jamaica, losses available to be carried forward indefinitely for offset against future taxable profits of the subsidiary amount to approximately $403,000 (2010 – $355,000).

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

11. Deposits

	The Group		The Credit Union	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Bank savings deposits	1,049	720	1,049	720
Fixed deposits	27,700	-	-	-
Cucash	96,046	68,744	96,046	68,744
	124,795	69,464	97,095	69,464

Cucash deposits are cash management call accounts which are maintained with the League. The rules of the League stipulate that the Credit Union must invest a minimum of 2% of members' savings deposits in Cucash deposits.

12. Short-term investments

Short-term investments comprise term deposits held with Jamaica Co-operative Credit Union League Limited, and are classified as available-for-sale.

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 held in fixed deposits and 2% in Cucash deposits (Note 11).

13. Reverse Repurchase Agreements

The Group 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 fulfil its collateral obligations.

At 31 December 2011, the Group and Credit Union respectively, held securities totalling $145,468,000 and $197,641,000 (2010 - $418,394,000 and $381,844,000) representing Government of Jamaica debt securities, as collateral for reverse repurchase agreements.

The balance for reverse repurchase agreements at 31 December 2011 includes interest accrued totalling $1,878,000 and $1,728,000 (2010 - $5,835,000 and $5,730,000) for the Group and the Credit Union respectively.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

14. Financial Investments

	The Group		The Credit Union	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Available-for-sale, at fair value –				
Jamaica Co-operative Credit Union League Limited mortgage funds	37,751	64,682	37,751	64,682
Victoria Mutual Building Society and National Housing Trust deposits	14,795	14,221	14,795	14,221
Quoted equities	10,652	8,675	10,357	8,675
Government of Jamaica securities	181,407	161,715	137,563	146,506
	244,605	249,293	200,466	234,084
Available-for-sale, at historical cost –				
Unquoted equities	17,934	17,751	17,934	17,751
QNET deposit	12,964	10,457	12,964	10,457
	275,503	277,501	231,364	262,292

(a) 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.

(b) Victoria Mutual Building Society and National Housing Trust deposits represent funds held with these institutions to secure joint mortgage facilities, which are extended to the members of the Credit Union.

(c) Government of Jamaica securities include interest receivable amounting to $5,497,000 and $4,590,000 (2010 – $5,078,000 and $4,718,000) for the Group and Credit Union respectively.

(d) Unquoted equities represent shares held in the League. A minimum of 1,000,000 shares must be held with the League for the Credit Union to retain membership status. The equivalent of amounts held in the statutory reserve (Note 24(d)) must either be used to purchase League shares or placed in League term deposits (Note 12).

(e) The QNET deposit represents a 17.4% ownership investment by the Credit Union, which will provide information services to participating credit unions. In total, the participating credit unions will account for 80% of the cost of the project and the remaining 20% will be funded by the League.

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

15. Loans

(a) Movement in loans during the year:

	The Group & The Credit Union	
	2011 **$'000**	**2010** **$'000**
Balance at beginning of year	2,979,309	2,721,482
Add: Disbursements	2,056,759	1,749,521
	5,036,068	4,471,003
Less: Repayments	(1,727,275)	(1,491,892)
	3,308,793	2,979,111
Less: Allowance for loan impairment	(27,987)	(39,359)
	3,280,806	2,939,752
Add: Interest accrued	44,760	39,557
	3,325,566	2,979,309

(b) Delinquent loans

At 31 December 2011, there were 356 (2010 - 681) delinquent loans aged two months and over.

The total loan loss provision derived below is consistent with the loan loss provisioning rules of the League. The total provision for 2011 is in excess of the provision required under IFRS provisioning rules. The excess of the League's provision over the IFRS provision is dealt with through a transfer from Accumulated Surplus to a Loan Loss Reserve as indicated in Note 15 (c).

Delinquent loans are summarised as follows:

2011						
Months in Arrears	**Number of Loans**	**Total Loan Balance $'000**	**Savings Held $'000**	**Exposure $'000**	**Provision $'000**	**%**
2 - 2.9	117	55,576	4,704	50,872	5,558	10
3 – 5.9	144	54,526	1,531	53,432	16,358	30
6 – 11.9	51	36,444	2,148	33,860	21,866	60
>12	44	65,032	226	64,806	65,032	100
	356	211,578	8,609	202,970	108,814	

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

15. Loans (Continued)

(b) Delinquent loans (continued)

Delinquent loans are summarised as follows:

		2010				
Months in Arrears	**Number of Loans**	**Total Loan Balance $'000**	**Savings Held $'000**	**Exposure $'000**	**Provision $'000**	**%**
2 - 2.9	132	63,220	5,834	57,386	6,322	10
3 – 5.9	199	90,889	2,880	88,009	27,267	30
6 – 11.9	197	59,506	741	58,765	35,703	60
>12	153	38,514	346	38,168	38,514	100
	681	252,129	9,801	242,328	107,806	

The exposure disclosed above is before taking account of any collateral held in respect of these loans.

(c) Provision for impairment

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Provision for impairment at beginning of year (IFRS)	39,359	40,561
Additional amounts provided during the year	40,248	32,563
Bad debts written off	(51,620)	(33,765)
Provision for impairment at end of year (IFRS)	27,987	39,359
Additional provision through transfer from Accumulated Surplus to the loan loss reserve in non-institutional capital	80,827	68,447
	108,814	107,806

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Additional amounts provided during the year	40,248	32,563
Bad debts recovered	(7,662)	(4,888)
Charged to income during the year	32,586	27,675

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

16. Accounts Receivable

	The Group		The Credit Union	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Collectors' fees	11,681	6,731	11,681	6,731
CUETS security deposit	3,768	3,532	3,768	3,532
Prepayments	17,532	20,368	17,532	20,368
Remittance settlement	3,454	1,204	3,454	1,204
Rent receivable	3,328	4,236	3,328	4,236
Management fee - Pension	2,825	1,793	2,825	1,793
Other	11,516	4,621	18,795	5,719
	54,104	42,485	61,383	43,583

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

17. Property, Plant and Equipment

	The Group & The Credit Union					
	Freehold Land and Buildings $'000	**Computer Equipment $'000**	**Furniture, Fixtures & Equipment $'000**	**Motor Vehicles $'000**	**Capital Work in Progress $'000**	**Total $'000**
At Cost -						
At 1 January 2010	65,108	59,000	98,237	309	2,476	225,130
Additions	2,946	17,945	7,789	1,630	34,108	64,418
Transfers	501	1,462	-	-	(1,963)	-
Transferred to non-current assets held for sale*	(7,198)	-	-	-	-	(7,198)
At 31 December 2010	61,357	78,407	106,026	1,939	34,621	282,350
Additions	14,329	10,436	17,783	-	7,961	50,509
Transfers	22,096	172	1,737	-	(24,005)	-
At 31 December 2011	97,782	89,015	125,546	1,939	18,577	332,859
Depreciation -						
At 1 January 2010	13,246	41,924	56,652	99	-	111,921
Charge for the year	1,381	9,291	7,786	356	-	18,814
Transferred to non-current assets held for sale*	(1,816)	-	-	-	-	(1,816)
At 31 December 2010	12,811	51,215	64,438	455	-	128,919
Charge for the year	2,304	10,365	10,303	356	-	23,328
At 31 December 2011	15,115	61,580	74,741	811	-	152,247
Net Book Value -						
31 December 2011	82,667	27,435	50,805	1,128	18,577	180,612
31 December 2010	48,546	27,192	41,588	1,484	34,621	153,431

*As at 31 December 2010 the Group commenced the sale of property located at St. Jago Shopping Center. The sale of property was completed during the year and premises at Oasis Shopping Centre was subsequently acquired and renovated for use as a branch.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

18. Retirement Benefits

The Group 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.

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

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Fair value of plan assets	360,203	308,443
Present value of funded obligations	(258,803)	(203,962)
	101,400	104,481
Unrecognised actuarial losses	26,349	8,316
	127,749	112,797

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

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
Current service cost	(20,031)	(17,532)
Interest cost	(24,272)	(25,432)
Employee contributions	13,712	12,922
Expected return on plan assets	31,880	26,639
Total included in staff costs (Note 9)	1,289	(3,403)

The actual return on plan assets was $31,055,000 (2010 – $32,201,000).

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

18. Retirement Benefits (Continued)

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

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
At beginning of year	308,443	256,547
Expected return on plan assets	31,880	26,639
Actuarial (loss)/gain on plan assets	(826)	5,561
Contributions –		
Employer	13,663	12,894
Employee	13,712	12,922
Benefits paid	(6,669)	(6,120)
At end of year	360,203	308,443

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

	The Group & The Credit Union	
	2011 $'000	**2010 $'000**
At beginning of year	203,962	144,478
Current service cost	20,031	17,532
Interest cost	24,272	25,432
Actuarial losses on obligations	17,207	22,640
Benefits paid	(6,669)	(6,120)
At end of year	258,803	203,962

Expected contributions to the plan for the year ended 31 December 2012 amount to $13,190,000.

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 date of the statement of financial position. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

18. Retirement Benefits (Continued)

The pension plan assets are allocated based on the Group's obligation as a proportion of the total obligation of the plan. The distribution of plan assets was as follows:

	The Group & The Credit Union	
	2011	**2010**
	%	%
Quoted equities	4	3
Real estate	14	11
Government of Jamaica securities	41	51
Repurchase agreements	35	28
US$ Bonds	3	4
Other	3	3
	100	100

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	360,203	308,443	256,547	205,034	163,593
Defined benefit obligation	(258,803)	(203,962)	(144,478)	(67,340)	(77,051)
Surplus	101,400	104,481	112,069	137,694	86,542
Experience adjustments –					
Fair value of plan assets	(2,867)	(5,611)	(2,142)	(20,695)	(15,134)
Defined benefit obligation	(826)	7,976	27,183	13,080	5,723

The principal actuarial assumptions used were as follows:

	The Group & The Credit Union	
	2011	**2010**
Discount rate	10.0%	11.0%
Expected return on plan assets	9.00%	10.0%
Future salary increases	8.00%	13.5%
Expected average remaining working lives of employees (years)	27.9	28.5

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

19. External Credit

	The Group & The Credit Union	
	2011	**2010**
	$'000	**$'000**
(a) Development Bank of Jamaica Limited	104,817	12,880
(b) Jamaica Co-operative Credit Union League Limited	100,832	173,561
(c) National Housing Trust	2,264	2,545
(d) National Investment Fund	317	4,134
(e) PanCaribbean Bank Limited	-	2,045
(f) Jamaica Mortgage Bank	40,000	-
	248,230	195,165

(a) These funds are for on-lending to small and medium enterprises to promote entrepreneurship and also for lending to qualified sub-borrowers in the micro-finance sector. The payments for the funding to promote entrepreneurship are made on a monthly basis at rates ranging from 8% to 11%, and are secured by a hypothecated cash investment of $21,500,000 held at the Jamaica Co-operative Credit Union League (Note 14). The funds that are on-lending to qualified sub-borrowers in the micro-finance sector are paid on a quarterly basis at a rate of 10%, this facility is unsecured.

(b) This is comprised of a line of credit, a joint mortgage facility and a quick access bursary loan. The line of credit is for liquidity support and interest is charged at 10%; the joint mortgage and bursary facilities are for on-lending for home repairs, mortgages and educational purposes respectively and the interest rate charged for each facility is 8%. The quick access bursary is an unsecured facility whereas the line of credit is hypothecated by BOJ investments of $80,000,000. Payments on all facilities are made on a monthly basis.

(c) The represents an on-lending mortgage facility obtained from the National Housing Trust. The amounts accessed by members' are repayable over 162 months at an interest rate of 6%. For the first four months of the year the amounts were repayable at an interest rate of 8%, this was reduced to 7% in May 2011. This facility is secured by the loan recipient's property.

(d) These funds are for on-lending to small and medium enterprises to promote entrepreneurship. Repayments are made on a quarterly basis and interest is charged at 4%. These facilities are primarily unsecured.

(e) This represents a small business loan facility for on-lending to small and micro enterprises. Repayments are made on a quarterly basis and interest is charged at 9%. This facility is secured by the loan recipient's property. All amounts outstanding at the end of 2010 were repaid during 2011.

(f) This represents funds for on-lending to fund residential mortgage loans for the Group's members. The rate of interest payable on the loan is the weighted average yield of Bank of Jamaica 6 month Treasury Bill issued immediately prior to the disbursement of any tranche of the loan.

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

20. Members' Deposits

Movement on deposit balances during the year:

	The Group & The Credit Union	
	2011	**2010**
	$'000	**$'000**
Balance at beginning of the year	673,997	587,579
Add: Deposits and transfers	2,606,148	2,427,473
	3,280,145	3,015,052
Less: Withdrawals and transfers	(2,508,103)	(2,341,055)
	772,042	673,997
Special fixed deposit accounts	1,139,506	1,160,377
	1,911,548	1,834,374
Interest accrued	7,440	11,233
	1,918,988	1,845,607

21. Voluntary Shares

	The Group & The Credit Union	
	2011	**2010**
	$'000	**$'000**
Balance at the beginning of the year	1,407,376	1,398,558
Shares deposited	1,339,119	1,335,125
Shares withdrawn	(1,352,848)	(1,352,636)
	1,393,647	1,381,047
Add: Dividend accrued	26,080	26,329
	1,419,727	1,407,376

22. Accounts Payable

	The Group		The Credit Union	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Accruals	8,484	37,635	8,299	36,668
Other	22,762	15,287	20,846	15,287
	31,246	52,922	29,145	51,955

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

23. Deferred taxation

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33⅓%. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities.

The movement in the deferred income tax account is as follows:

	The Group		The Credit Union	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
At the beginning of the year	134	-	-	-
Charged to the net surplus or deficit in the statement of comprehensive income (Note 10)	181	37	-	-
Charged to other comprehensive income	11	97	-	-
	326	134	-	-

The deferred tax charged to other comprehensive income during the year arises on unrealised gains on available-for-sale investments.

Deferred tax assets and liabilities are attributable to the following items:

	The Group		The Credit Union	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Deferred tax assets				
Tax losses	(134)	(118)	-	-
Interest payable	(205)	-	-	-
Total deferred tax assets	(339)	(118)	-	-
Deferred tax liabilities				-
Fair value gains	107	97	-	-
Interest receivable	558	155	-	-
Total deferred tax liabilities	665	252		
Net deferred tax liabilities	326	134	-	-

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

24. Institutional Capital

	The Group		The Credit Union	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Retained earnings reserve	207,364	199,157	207,364	199,157
Permanent share reserve	500	-	500	-
Permanent shares	83,004	74,697	83,004	74,697
Statutory reserve	321,644	287,243	321,644	287,243
Investment reserve	28,194	26,774	27,979	26,580
Capital reserve	14,222	14,222	14,222	14,222
Special reserve	325	325	325	325
	655,253	602,418	655,038	602,224

(a) Retained earnings reserve
This reserve represents amounts transferred annually from Net Surplus and other appropriations are agreed upon by the members at the Annual General Meeting, in order to increase the institutional capital of the Credit Union.

(b) Permanent share reserve
This reserve represents a fund that can facilitate the transfer of members permanent share capital. An amount is set aside from the surplus each year to build this fund.

(c) Permanent shares
Permanent shares are paid in cash and are not redeemable, but may be transferred or sold to another member.

(d) Statutory reserve
As required by the Co-operative Societies Act and the rules of Churches Co-operative Credit Union Limited, a minimum of twenty percent (20%) of the annual surplus, and amounts collected for entrance fees must be transferred to this reserve. This minimum was, however, increased to 30% by resolution of the Board in 1998.

(e) Investment reserve
This reserve represents realised and unrealised gains on investments.

(f) Capital reserve
This reserve represents realised gains arising on the disposal of property, plant and equipment.

(g) Special reserve
The sum of members' dormant account balances with share capital less than one share of $20.00 is maintained in this reserve.

Churches Co-operative Credit Union Limited

Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

25. Non-Institutional Capital

	The Group & The Credit Union	
	2011 $'000	2010 $'000
Retirement benefit asset reserve	127,749	112,797
Loan loss reserve	80,827	68,447
	208,576	181,244

(a) Retirement benefit asset reserve
This reserve was created to match the value of 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 that which is required under IFRS. This amount is an appropriation from the Accumulated Surplus.

26. Related Party Transactions and Balances

At 31 December, Directors, Board Committee Members and Staff Members maintained the following balances with the Credit Union:

	The Group & The Credit Union	
	2011 $'000	2010 $'000
Directors and Committee Members -		
Shares and savings	12,778	16,686
Loans, including interest	22,890	48,551
Staff Members -		
Shares and savings	31,236	33,134
Loans, including interest	148,631	128,284

Churches Co-operative Credit Union Limited

Notes to the Financial Statements

31 December 2011

(expressed in Jamaican dollars unless otherwise indicated)

26. Related Party Transactions and Balances (Continued)

At 31 December 2011, all loans owing by Directors, Board Committee Members and Staff were being paid in accordance with their loan agreements.

Key management remuneration for the year was as follows:

	The Group & The Credit Union	
	2011	**2010**
	$'000	**$'000**
Salaries and wages	34,149	26,889
Statutory contributions	13,247	9,067
Other staff benefits	8,261	3,843

Key management comprises the Chief Executive Officer, the General Manager - Finance & Administration, the General Manager - Credit Administration & Loan Risk, the General Manager – Retail, Systems, Risk & Compliance and the General Manager – CCU Investments Limited.

Directors are appointed on a voluntary basis and are not remunerated.

27. Comparison of Ledger Balances

	The Group & The Credit Union		
	Shares	**Deposits**	**Loans**
	$'000	**$'000**	**$'000**
Balance as per General Ledger	1,419,727	772,042	3,308,793
Balance as per Members' Ledger	1,419,727	772,042	3,308,793
	-	-	-

28. Insurance

(a) Fidelity Insurance Coverage

During the year, the Credit Union had fidelity insurance coverage with Cuna Mutual Insurance Company Limited. The total premium for the year was $2,462,000 (2010 - $1,994,000).

(b) Life Savings and Loan Protection Coverage

During the year, the Credit Union had life savings and loan protection coverage with Cuna Mutual Insurance Company Limited. The total premium for the year was $21,603,000 (2010 - $16,284,000).

Churches Co-operative Credit Union Limited
Notes to the Financial Statements
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

29. Reclassifications

Certain loan processing fees have been reclassified from fee and commission income and have been included with the interest income from loans for the years ended 31 December 2011 and 2010. The reclassification of these loan processing fees did not have any effect on the surplus for the year, nor did it impact accumulated surplus.

Effect on the consolidated statement of comprehensive income for the year ended 31 December 2011

	As previously stated	Effect of Reclassification	As reclassified
	$'000	$'000	$'000
Interest income – Loans	614,036	37,109	651,145
Fee and commission income	136,517	(37,109)	99,408

Effect on the consolidated statement of comprehensive income for the year ended 31 December 2010

	As previously stated	Effect of Reclassification	As reclassified
	$'000	$'000	$'000
Interest income – Loans	596,235	40,643	636,878
Fee and commission income	115,467	(40,643)	74,824

Effect on the credit union's statement of comprehensive income for the year ended 31 December 2011

	As previously stated	Effect of Reclassification	As reclassified
	$'000	$'000	$'000
Interest income – Loans	614,036	37,109	651,145
Fee and commission income	38,160	(37,109)	101,809

Effect on the credit union's statement of comprehensive income for the year ended 31 December 2010

	As previously stated	Effect of Reclassification	As reclassified
	$'000	$'000	$'000
Interest income – Loans	596,235	40,643	636,878
Fee and commission income	115,867	(40,643)	75,224

Notes

Notes